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To Management and the Board of Directors of
Colorado Health Benefit Exchange:

In planning and performing our audit of the financial statements of Colorado Health Benefit Exchange (COHBE) for the period from July 11, 2011 to June 30, 2012, in accordance with U.S. generally accepted auditing standards, we considered COHBE's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of COHBE's internal control. Accordingly, we do not express an opinion on the effectiveness of COHBE's internal control.

During our audit we became aware of several matters that are opportunities for enhancing operating efficiency but are not internal control deficiencies required to be reported under Statement of Auditing Standards (SAS) No. 115. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters.

This report is intended solely for the information and use of management, the board of directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

KUNDINGER, CORDER & ENGLE, P.C.

October 2, 2012

Colorado Health Benefit Exchange
Operational Matters
October 2, 2012

- 1) COHBE's policies allow for any one of the authorized account signatories to sign on checks up to \$25,000. Meanwhile, disbursements over \$25,000 require two authorized signatures on checks issued. During our testing of grant disbursements, we examined certain cancelled checks, noting two checks issued over \$25,000 did not have the required second signature. Furthermore, one check issued for less than \$25,000 lacked an authorized signature. We recommend that COHBE adhere to its policy and obtain all required signatures before a check is issued.
- 2) As a result of our audit, an adjusting entry was made totaling \$38,000 to correct the amortization period of a prepaid contract. Furthermore, an adjusting entry was made totaling \$410,000 to capitalize a perpetual software license that was incorrectly being expensed. This entry also resulted in the recognition of \$410,000 in revenue that was being deferred into future periods. COHBE enters into many complex contracts relating to the development of the Exchange that were being properly reviewed by COHBE's Contract Accountant. When reviewing these contracts, accounting standards relating to the capitalization of website development and related software costs should be properly applied when determining the accounting treatment of these contracts.
- 3) COHBE's policies require all employees to complete a conflict of interest disclosure. However, for the period ended June 30, 2012, the Executive Director did not complete a conflict of interest disclosure. Because the Executive Director can independently approve contracts up to \$150,000, it is important that the Executive Director complete a conflict of interest disclosure on an annual basis. We recommend that COHBE adhere to its policy, requiring all employees to complete a conflict of interest disclosure on an annual basis.
- 4) During the period ended June 30, 2012, COHBE's Contract Accountant was responsible for reviewing the Executive Director's expense reimbursements. Although no problems were noted in our testing, there is an inherent difficulty in having a client's expenditures reviewed by a vendor, particularly when decisions relate to the appropriateness of the expenditures. We recommend that the Board Chair or Treasurer review the Executive Director's expense reimbursements on a regular basis to determine the appropriateness of amounts charged to COHBE. This review can be performed after the fact rather than prior to payment, but done on a timely basis. Proper documentation supporting the expenditures should be attached to each expense reimbursement to verify that all charges are reasonable and appropriate.

This recommendation was addressed with management during the audit. As a result, management obtained approval of the CEO's expense reimbursements from the Board Chair, retroactively, to the beginning of COHBE's operations.