

# Financial Audit Requirements

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## Goals & Objectives

- a. The Colorado Health Benefit Exchange's financial audit requirements ensure compliance with best practices for the entity and stakeholders according to GAAS (Generally Accepted Auditing Standards), GAGAS (Generally Accepted Government Accounting Standards), and Federal guidelines under the Cooperative Agreement awarded by the Department of Health & Human Services (HHS).
- b. To assure the financial integrity of the organization by working with an independent CPA firm who will provide audit oversight and monitoring of the financial policies & procedures.

## Background

In May 2011, the Colorado General Assembly passed Senate Bill 11-200, which establishes the Colorado Health Benefit Exchange (COHBE), a public entity governed by a Board of Directors.

## Current Audit Practices

A Financial Audit and Federal Single Audit (OMB Circular A-133) to monitor and insure financial integrity of the Exchange is conducted annually. Additionally, outlined in the *Requirements* section of this document is financial guidance and current practices, set forth to ensure adherence to specific state and federal requirements, as well as best practices according to GAAP (Generally Accepted Accounting Principles) and GAAS.

## Requirements

### State Level

#### Senate Bill 11-200

- a. **SB 11-200 Section 10-22-105 (4)(b)** – The Board shall report all money's received for the Exchange to the Legislative Audit Committee
  - **Current Practice: COHBE will provide interim and audited financial statements to the Legislative Audit Committee as required under Section 10-22-106 (below). Monthly financial statements are prepared and provided to the finance committee for their review and presentation to the COHBE Board of Directors.**

### Federal Level

#### Affordable Care Act

- a. **Affordable Care Act Section 1313 – (a)(1)** – The Exchange shall keep an accurate accounting of all activities, receipts, and expenditures, and shall annually submit to the Health and Human Services (HHS) Secretary a report concerning such accountings.

- **Current Practice: All financial activities are entered into the Exchange's accounting system, monitored and controlled by the Chief Financial Officer and audited by an independent CPA, according to Board approved financial policies and procedures.**
- b. **Affordable Care Act Section 1313 – (a)(2)** – The HHS Secretary, in coordination with the Inspector General of the Department of Health and Human Services, may investigate the affairs of an Exchange, may examine the properties and records of an Exchange, and may require periodic reports in relation to activities undertaken by an Exchange. An Exchange shall fully cooperate in any investigation conducted under this paragraph.
- **Current Practice: HHS via the Cooperative Agreement and Grants Policy Statement set forth financial and reporting requirements. COHBE's annual Federal Single Audit (A-133) will verify the organization is accounting and maintaining its financial records in a compliant manner.**
- c. **Affordable Care Act Section 1313 – (a)(3)** – The Exchange shall be subject to annual audits by the HHS Secretary.
- **Current Practice: Through the practice of COHBE's established financial policies & procedures that have been approved by the Board, the Exchange is appropriately prepared for its financial and A-133 audits as well as any additional audits required.**
- d. **Affordable Care Act Section 1313 – (b)** - Not later than 5 years after the first date on which Exchanges are required to be operational under this title, the Comptroller General (GAO) shall conduct an ongoing study of Exchange activities and enrollees in qualified health plans offered through Exchanges. Such study shall review--
- (1) the operations and administration of Exchanges, including surveys and reports of qualified health plans offered through Exchanges and on the experience of such plans (including data on enrollees in Exchanges and individuals purchasing health insurance coverage outside of Exchanges), the expenses of Exchanges, claims statistics relating to qualified health plans, complaints data relating to such plans, and the manner in which Exchanges meet their goals;
  - (2) any significant observations regarding the utilization and adoption of Exchanges;
  - (3) where appropriate, recommendations for improvements in the operations or policies of Exchanges; and
  - (4) how many physicians, by area and specialty, are not taking or accepting new patients enrolled in Federal Government health care programs, and the adequacy of provider networks of Federal Government health care programs.

- **Current Practice: In the event GAO or any other Federal and/or State regulators are studying activities of the Exchange, COHBE will be prepared to provide requested information.**

#### **HHS Final Rules on Establishment of Exchanges 155.200**

- a. Requires the Exchange to perform functions related to oversight and financial integrity
  - **Current Practice: Board approved financial policies, internal financial procedures and controls, and financial audits ensure compliance under this regulation.**

#### **HHS Notice of Award**

- a. **HHS Grants Policy Statement (HHS GPS)** – The Cooperative Agreement COHBE has been awarded is subject to the requirements of the HHS GPS (Grants Policy Statement). The GPS outlines all Federal requirements for financial management and audit under the Federal award.
  - **Current Practice: COHBE has established policies compliant under the GPS and is prepared for A-133 audits; the first of which is scheduled for late August 2012.**
- b. **Cost Principles for Non-Profit Organizations (OMB Circular A-122)** – COHBE will monitor four tests in determining the allowability of costs: reasonableness, allocability, consistency, and conformance.
  - **Current Practice: All financial transactions of the Exchange are reviewed for compliance under OMB A-122; the A-133 Audit performed annually includes testing of these transactions.**

#### **Best Practices**

- a. **Non-Profit Entity** – Aside from any Federal Audit or State Reporting requirements, it is recommended by accounting and audit professionals that all non-profits of considerable size [in excess of \$250,000 of revenue, cited by Board Source] obtain annual financial audits performed by an independent CPA firm.
  - **Current Practice: COHBE has established Board approved policies, which require a financial audit separate from any Federal requirements.**

## Recommendations

It is recommended COHBE continue with its current methods to be compliant under State reporting, Federal regulations, and to follow industry best practices. This recommendation includes performance of a Financial and Single Federal (A-133) audit for the years the Exchange is federally funded, and an independent financial audit once the organization is self-sustaining. It is further recommended that after the A-133 audit is no longer required, COHBE continue with an annual financial audit of its records by an independent CPA firm with expertise in non-profit auditing. This CPA firm would be Board approved at the recommendation of the Finance Committee or approved by the Finance Committee if the Board delegates its authority in this matter.