

Oregon Health Insurance Marketplace

FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017



Department of Consumer and Business Services
350 Winter Street NE
Salem, OR 97309

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Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
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Independent Auditor's Report

The Honorable Kate Brown
Governor of Oregon

Cameron Smith, Director
Oregon Department of Consumer and Business Services

Report on the Financial Statements

We have audited the accompanying financial statements of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, are intended to present the financial position and the changes in financial position of only that portion of the Department of Consumer and Business Services that is attributable to the transactions of the Oregon Health Insurance Marketplace. They do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of Consumer and Business Services as of June 30, 2017, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, on our consideration of the Oregon Health Insurance Marketplace's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health Insurance Marketplace's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oregon Health Insurance Marketplace's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
January 24, 2018

THE OREGON HEALTH INSURANCE MARKETPLACE
The MARKETPLACE

Balance Sheet
Governmental Fund
 June 30, 2017

ASSETS	<u>2017</u>
Cash and Cash Equivalents	\$ 15,138,589
Accounts Receivable	306,260
Due from Other Funds (Note 6)	1,149,064
Other Receivables, Net	<u>46,501</u>
Total Assets	\$ <u>16,640,414</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 9,215
Due to Other Funds (Note 6)	90,922
Other Current Liabilities	<u>539,022</u>
Total Liabilities	<u>639,159</u>
Deferred Inflows of Resources	
Unavailable Revenue	<u>16,605</u>
Total Deferred Inflows of Resources	<u>16,605</u>
Fund Balance:	
Restricted for Health Insurance Marketplace	<u>15,984,650</u>
Total Fund Balance	<u>15,984,650</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ <u>16,640,414</u>

The notes to the financial statements are an integral part of this statement.

THE OREGON HEALTH INSURANCE MARKETPLACE
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Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund

For the Year Ended June 30, 2017

Revenues:	<u>2017</u>
Assessments	\$ 11,773,642
Interest and Investments	151,387
Other Revenue	<u>356,163</u>
Total Revenues	<u>12,281,192</u>
Expenditures:	
Salaries and Wages	1,864,352
Services and Supplies	6,378,542
Capital Outlay	23,714
Special Payments	<u>544,843</u>
Total Expenditures	<u>8,811,451</u>
Excess (Deficiency) of Revenues Over (Under)	
Expenditures	<u>3,469,741</u>
Net Change in Fund Balance	<u>3,469,741</u>
Fund Balances - Beginning	12,296,503
Prior Period Adjustment (Note 5)	<u>218,406</u>
Fund Balances - Beginning - Adjusted	<u>12,514,909</u>
Fund Balances - Ending	<u>\$ 15,984,650</u>

The notes to the financial statements are an integral part of this statement.

THE OREGON HEALTH INSURANCE MARKETPLACE

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Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies

A - Purpose of Organization

The Affordable Care Act of 2010 (ACA) required each state to establish a health insurance marketplace, which is an online marketplace that enables individuals and employers to shop, compare plans, and access financial assistance to help pay for insurance coverage. States were permitted to implement their own marketplaces (referred to as state-based marketplaces or SBMs) or states could elect to participate in the federal marketplace (referred to as the federally facilitated marketplace or FFM). The State of Oregon elected to implement a SBM to meet the unique needs of Oregonians and its insurance market.

In 2011, Senate Bill (SB) 99 established the Oregon Health Insurance Exchange Corporation (Cover Oregon) as a public corporation to be governed by a board of directors. Upon implementation, Cover Oregon was fully dependent on federal grant funding for its operational expenditures through December 31, 2014, and partially thereafter.

In 2015, SB 1 abolished Cover Oregon and its board of directors, and transferred its duties, functions, and powers to the Department of Consumer and Business Services (DCBS), an existing state agency. The SBM, within DCBS, the Oregon Health Insurance Marketplace (Marketplace), currently is fully self-funded, using per-member-per-month (PMPM) assessments for operations. These financial statements are representative of the Marketplace only, a program within DCBS.

SB 1 also established the Health Insurance Exchange Fund (Marketplace Fund). Oregon Revised Statute 741 restricts the use of these funds to the operation of the Marketplace. The Marketplace Fund is a special revenue fund which is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The activities of this fund are rolled up into the Consumer Protection special revenue fund for the statewide financial reporting purposes.

B - Basis of Accounting

The accompanying financial statements of the Marketplace are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America for governmental funds.

Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal year. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. Revenues for the Marketplace come from PMPM assessments from insurance

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Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

carriers that participate in the Marketplace program.

Accordingly, revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of when cash was received or paid.

C - Deposits and Investments

Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents consist of cash and investments held by the office of the State Treasurer in the Oregon Short Term Fund (OSTF). Additional information about the OSTF can be found in the OSTF financial statements at:

[http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

D – Receivables & Payables

Receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectable accounts. Payables consist of amounts owed to vendors for operational expenditures and other state agencies for services received.

E - Use of Estimates

The Marketplace used estimates and assumptions in preparing financial statements in accordance with GAAP. The preparation of the financial statements required management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. As such, actual results could differ from the estimates included in the accompanying financial statements.

F - Fund Balance

The difference between assets and liabilities, plus deferred inflows of resources, is labeled “Fund Balance” on the financial statements. The Health Insurance Exchange Fund balance is restricted. Restricted fund balances are the result of constraints imposed by the law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributions, or laws or regulations of other governments.

Note 2 – Deposits and Investments

Marketplace Participation in the Oregon Short Term Fund Held at Treasury

The State Treasury maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by the Marketplace Fund. Because the pool operates as a demand deposit account, the Marketplace Fund portion of the OSTF is classified on the

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Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

financial statements as cash and cash equivalents.

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the Marketplace will not be able to recover deposits that are in the possession of an outside party. The Marketplace does not hold any deposits or investments outside of the state Treasury. Deposits held by the State Treasury are either insured, or collateralized under the Public Funds Collateralization Program. For more information, refer to the Oregon State Treasury financial statements at: <http://www.oregon.gov/treasury/Reports/Pages/default.aspx>. Banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

The Marketplace bank balance at the Treasury was \$14,459,063 as of June 30, 2017.

Investments

The Marketplace only has investments in OSTF held by the State Treasury.

Note 3 – Receivables and Payables

Receivables

The following table disaggregates receivable balances reported in the financial statements as accounts and other receivables at June 30, 2017.

Receivables		Accounts	Other	
Governmental Activities		Receivable	Receivable	Total
Insurer assessment receivable	\$	282,953	166,046	448,999
Refund from community partner		23,307		23,307
Insurance carrier commission			29,896	29,896
Gross Receivable		306,260	195,942	502,202
Allowance for doubtful accounts			(149,441)	(149,441)
Total Receivable, net	\$	306,260	46,501	352,761

Payables

The following table disaggregates payable balances reported in the financial statements as accounts payable and other current liabilities at June 30, 2017.

Payables		Accounts	Other Current	
Governmental Activities		Payable	Liabilities	Total
General Operation	\$	2,693	510,815	513,508
Special Payment		6,522	28,207	34,729
Total Payable	\$	9,215	539,022	548,237

THE OREGON HEALTH INSURANCE MARKETPLACE
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Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

Note 4 - Risk Management

The Marketplace was subject to the risk of loss from various events, including, but not limited to, natural disasters, destruction of assets, errors, omission, and injuries to employees. To mitigate the risk of loss from various events, the Marketplace participated in and was covered under the State of Oregon's self-insurance and commercial insurance program as administered by the Department of Administration Services (DAS) Enterprise Goods and Services Division, Risk Management Section (Risk Management). As such, the Marketplace was responsible to provide updated property, equipment, and fixture values to DAS Risk Management.

Note 5– Settlement Agreement – Prior Period Adjustment

On September 15, 2016, the State of Oregon has reached an agreement with Oracle America, Inc. (Oracle) and Mythics, Inc. (Mythics). As part of the agreement, each party unconditionally releases, acquits, and forever discharges the other parties of all debts and liabilities. The liabilities were assumed by DCBS, not the Marketplace. Also, the amounts previously recorded as expenses by the Marketplace are included as a prior period adjustment.

Note 6 – Interfund Balances

The following are Interfund balances reported on the Balance Sheet in the financial statements as of June 30, 2017:

Due from Other Funds:

\$ 1,149,064 Quarterly payments from Oregon Health Authority (OHA) for shared IT services

Due to Other Funds:

\$ 54,041 Revenue transfer to support DCBS Central Services business operations

\$ 3,779 The Marketplace's portion of costs for the OregonBuys procurement software project

\$ 33,102 Reimbursement for personal service costs to the Compact of Free Association (COFA) program

\$ 90,922

Interfund balances result from the time lag between the date a transaction for interfund goods and services or reimbursable expenditures/expenses is recorded and the date the payment between funds is made.

THE OREGON HEALTH INSURANCE MARKETPLACE
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Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

Note 7 – Subsequent Event

2017 House Bill (HB) 2391 established the Oregon Reinsurance Program and designates the DCBS as the administrator of the program. This program is partially funded as described in section 42 of this bill by the unexpended balance of the Marketplace fund that equals the difference between the balance in the fund and the projected expenditures from the Marketplace during the next six months. DCBS executed the funding requirement of HB 2391 and transferred \$13,200,656 to the Health System fund on November 3, 2017.

Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Kate Brown
Governor of Oregon

Cameron Smith, Director
Oregon Department of Consumer and Business Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oregon Health Insurance Marketplace (the Marketplace), a program of the Department of Consumer and Business Services (department), State of Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marketplace's basic financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the department's internal control over financial reporting (internal control) for the Marketplace to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two deficiencies in internal control, described below, that we consider to be significant deficiencies.

Improve Knowledge, Skills and Abilities Necessary to Prepare Financial Statements in Compliance with Generally Accepted Accounting Principles (GAAP)

Oregon statutes require the department to keep an accurate accounting of all activities, receipts, and expenditures of the department with respect to the Marketplace, and require an annual financial audit of the financial accounts and financial reporting in accordance with GAAP.

During the fiscal year 2016 audit, which was the department's first year in preparing financial statements for the Marketplace, auditors became concerned about the ability of department accounting personnel to properly interpret applicable accounting standards and prepare financial statements that comply with GAAP. We recommended department management seek training to ensure adequate knowledge, skills, and abilities exist within the department to prepare proper financial statements.

While the department has made progress in this area and provided an auditable draft of the 2017 financial statements, we identified several adjustments, reclassifications, and additional note disclosures that were needed to ensure the 2017 financial statements complied with GAAP.

We recommend department management develop written procedures or checklists to assist in preparing the Marketplace financial statements. Procedures should include the preparation of a working trial balance to better assist in identifying and documenting year-end adjustments and assist in a more effective review of the financial statements and related disclosures. Management should also consider whether continued training is needed to ensure adequate knowledge, skills, and abilities exist within the department to prepare and review financial statements that comply with GAAP.

Agency Response and Planned Corrective Action

DCBS agrees with the recommendation and appreciates the Secretary of State's advice. DCBS is working on and will complete the following:

1. Developing a written year-end closing procedure. The procedure will include, but is not limited to:
 - a. Disclosure and financial statement check-list
 - b. Creation of a trial balance
 - c. Year-end adjustments, including the calculation of accruals
 - d. Process for periodic review of the procedure

2. Connecting with other agency partners to collaborate and incorporate best practices.

DCBS will continue to identify and engage in other available trainings for accounting staff members involved in financial statement preparation.

Strengthen Expenditure Approval and Review Process

Management is responsible for designing and implementing internal controls sufficient to ensure only accurate, appropriate, and authorized payments are made with Marketplace funds. Further, the Oregon Accounting Manual requires all recorded transactions to provide clear evidence of proper authorization.

Department management has not ensured that an effective review and approval of charges to the Marketplace occurs consistently. We found invoices containing errors not caught during review, invoices lacking evidence of approval, and monthly central services charges that were not reviewed or approved prior to payment. Without consistent and effective reviews, the Marketplace is at risk for making inaccurate or inappropriate payments. Further, due to a lack of review we noted the Marketplace was overcharged about \$4,500 for department allocated central service costs.

We recommend department management document and implement effective review procedures designed to ensure appropriate and accurate payments are charged to the Marketplace. Management should also ensure staff are adequately trained and adhere to documentation requirements and review procedures.

Agency Response and Planned Corrective Action

DCBS agrees with the recommendation. DCBS is committed to the standards set forth in the Oregon Accounting Manual and our responsibility for designing and implementing effective internal controls while delivering excellent customer service.

To this end, during the period represented in this audit, DCBS made changes within Financial Services to improve the effectiveness of our review process:

- In April 2017, an accountant from another unit within Financial Services was permanently assigned, trained, and dedicated to reviewing all accounts payable batches. Since fall 2017, this position has also been assigned to support the chargeback process to ensure separation of duties between the individuals creating and releasing the transaction.
- In addition, DCBS has expanded the Oregon Health Insurance Marketplace pre-authorization process to mirror the process authorizations of other DCBS programs. This change streamlined the process, increasing communication with the program and allowing Accounts Payable staff to clearly document approval of planned and fixed expenses for the Marketplace.

Beginning in late fall 2017, additional measures were taken to ensure that Financial Services staff members understand Accounting's roles and responsibilities for implementing effective internal controls and providing an in-depth discussion of the

standards and principals behind best practices within Accounting. These measures included:

- Developing of a series of trainings for Accounting, Budget, and Policy staff members. Our first training was held Jan. 12, 2018, and focused on the importance of internal controls, separation of duties, standard procedures, and the value of peer review.
- Developing a formalized training plan for Accounts Payable staff to ensure the completeness of staff training in conjunction with formal check-ins with the Accounting manager to confirm their understanding.

Next steps, DCBS is currently working to implement the following:

1. Developing individual desk manuals that incorporate concepts covered during trainings, including procedures for auditing an invoice for payment.
2. Six-Step Problem Solving events with formal facilitators trained in the process to create an agency wide process map for paying an invoice. This process includes identifying the current state, defining our desired future state, and developing a plan to achieve the desired outcome.
3. Continuing to evaluate training and knowledge gaps within Accounting and developing procedures and training to mitigate associated risks.

DCBS acknowledges the \$4,500 overcharge to the Marketplace for shared services costs that would have been distributed to other DCBS programs. This amount represents less than 1 percent of the overall cost for shared services and less than a tenth of 1 percent (0.1%) of the total Marketplace costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Health Insurance Marketplace's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Consumer and Business Services' Response to Findings

The department's responses to the findings identified in our audit are included with the findings. The department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Secretary of State, Audits Division

State of Oregon
January 24, 2018