

Oregon Health Insurance Marketplace

FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016



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

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Office of the Secretary of State

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Secretary of State

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Independent Auditor's Report

The Honorable Kate Brown
Governor of Oregon

Patrick Allen, 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, 2016, 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, 2016, 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 2, 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 as of June 30, 2016, and 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 February 22, 2017, on our consideration of the Department of Consumer and Business Services' internal control over financial reporting for the Oregon Health Insurance Marketplace 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 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 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 department's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
February 22, 2017

THE OREGON HEALTH INSURANCE MARKETPLACE
The MARKETPLACE

Balance Sheet
Governmental Fund
June 30, 2016

ASSETS

Cash and Cash Equivalents	\$	8,978,005
Accounts Receivable		457,780
Due from Other Funds		3,630,379
Other Receivables		29,896
Total Assets	\$	<u>13,096,060</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$	532,329
Due to Other Funds		48,421
Other Current Liabilities		218,807
Total Liabilities		<u>799,557</u>

Fund Balances:

Restricted by Enabling Legislation		<u>12,296,503</u>
Total Fund Balances		<u>12,296,503</u>
Total Liabilities and Fund Balance	\$	<u>13,096,060</u>

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

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Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2016

Revenues:

Assessments	\$	12,660,842
Interest and Investments		36,128
Other Revenue		5,205,659
Total Revenue	\$	<u>17,902,629</u>

Expenditures:

Salaries and Wages		2,335,785
Services and Supplies		11,578,619
Capital Outlay		8,095
Special Payments		456,628
Total Expenditures		<u>14,379,127</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures 3,523,502

Other Financial Sources (Uses)

Transfers to Other Funds		<u>(522,687)</u>
Total Other Financial Sources (Uses)		<u>(522,687)</u>
Net Change in Fund Balance		<u>3,000,815</u>

Fund Balance - Beginning		0
Cumulative Effect of Change in Reporting Entity		<u>9,295,688</u>
Fund Balances - Beginning - As Restated		<u>9,295,688</u>
Fund Balance - Ending	\$	<u><u>12,296,503</u></u>

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

THE OREGON HEALTH INSURANCE MARKETPLACE

The MARKETPLACE

Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

Note 1 – Purpose of Organization

Affordable Care Act of 2010

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 self-funded, using per-member-per-month (PMPM) assessments for operations. No federal grant moneys were used by the Marketplace during the period ending June 30, 2016. Revenues from Oregon Health Authority (OHA) come from Oregon's continued use of Information Technology (IT) contracts that benefit Medicaid programs.

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 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Marketplace Fund 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

THE OREGON HEALTH INSURANCE MARKETPLACE

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Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

accounting. Revenues for the Marketplace fund come from PMPM assessments from insurance carriers that participate in the Marketplace program. The revenues from Oregon Health Authority (OHA) come from Oregon's continued use of Information Technology (IT) contracts that benefit Medicaid programs.

Accordingly, revenues were recorded when earned, and expenses were recorded when a liability was incurred, regardless of when cash was received or paid.

Cash and Cash Equivalents

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)

Receivables and 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.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds."

Interest (Investment) Income

The Marketplace Fund earns interest income, which contributes to the ending fund balance and is expected to be received on an ongoing basis.

Use of Estimates

The Marketplace Fund 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, disclosure of contingent 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.

THE OREGON HEALTH INSURANCE MARKETPLACE
The MARKETPLACE

Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

Note 3 – Subsequent Event

Litigation

As of June 30, 2016, the State of Oregon was party to legal proceedings. Subsequent to the date of the financial statements, settlement of all claims and lawsuits between Oregon and Oracle were closed. Therefore, based upon current knowledge of existing claims and lawsuits, no liability was recorded as of the period ended June 30, 2016 for the Marketplace.

Note 4 - Risk Management

The Marketplace was subject to the risk of loss from various events, including, but not limited to, natural disasters and destruction of assets, errors, and omission, and injuries to employees. To mitigate the risk of loss from various events, 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 Risk Management Division. As such, Marketplace was responsible to provide updated property, equipment, and fixtures values to the Risk Management Division.

Note 5 – Merger Cover Oregon with DCBS

In accordance with GASB Statement 69 *Government Combinations and Disposals of Government Operations*, accounting guidance for government combinations and mergers, the transfer of Cover Oregon to DCBS is considered a government merger. The assets, liabilities, and net position of Cover Oregon was recognized and measured in DCBS' balance sheet at their "carrying value" as of July 1, 2015 (the date DCBS took over operations).

	The Marketplace	Cover Oregon	Total	Debit Adjustment	Credit Adjustment	Total
Assets						
Current Assets	\$ -	\$ 11,051,526	\$ 11,051,526	\$ 53,023	\$ -	\$ 11,104,549
Other Assets	-	53,023	53,023	-	53,023	-
Total Assets	-	11,104,549	11,104,549	53,023	53,023	11,104,549
Liabilities						
Current Liabilities	-	1,500,455	1,500,455	-	308,406	1,808,861
Noncurrent Liabilities	-	308,406	308,406	308,406	-	-
Total Liabilities	-	1,808,861	1,808,861	308,406	308,406	1,808,861
Equity						
Fund Balance						
Restricted	-	-	-	-	9,295,688	9,295,688
Total Fund Balance	-	-	-	-	9,295,688	9,295,688
Net Position						
Unrestricted	-	9,295,688	9,295,688	9,295,688	-	-
Total Net Position	-	9,295,688	9,295,688	9,295,688	-	-
Total Equity	\$ -	\$ 9,295,688	\$ 9,295,688	\$ 9,295,688	\$ 9,295,688	\$ 9,295,688

THE OREGON HEALTH INSURANCE MARKETPLACE
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Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

Adjustments to the Cover Oregon balances merged into the Marketplace were made to report all the assets and liabilities as current and to report the fund balance as restricted by enabling legislation, consistent with The Marketplace's utilization of the assets and liabilities and legislation imposing constraints upon the use of the fund balance.

Cover Oregon has transferred the following capital asset to DCBS and not the Marketplace:

Leasehold Improvements	211,431
Furniture & Equipment	1,323,488
IT Equipment	11,479,478
Software & Software Development	18,877,428
Total Capital Assets	<u>31,891,825</u>
Accumulated Depreciation	<u>(22,683,354)</u>
Net Capital Assets	<u><u>9,208,471</u></u>

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Audits Division

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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

Patrick Allen, 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, a program of the Department of Consumer and Business Services, State of Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Oregon Health Insurance Marketplace basic financial statements, and have issued our report thereon dated February 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Consumer and Business Services' internal control over financial reporting (internal control) for the Oregon Health Insurance 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 of Consumer and Business Services' 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 the following deficiency in internal control that we consider to be a significant deficiency.

Knowledge, Skills and Abilities Necessary to Prepare Financial Statements that are Compliant with GAAP Require Improvement

The passage of Oregon Senate Bill 1 abolished Cover Oregon and transferred the operation and management of the Oregon Health Insurance Marketplace to the Department of Consumer and Business Services (department) as of July 1, 2015. The Oregon Health Insurance Marketplace (Marketplace) is an online marketplace that enables individuals and employers to shop, compare plans, and access financial assistance to help pay for insurance coverage. Oregon statutes require the department to keep accurate accounting of the operation and all activities, receipts and expenditures of the department with respect to the Marketplace, and requires an annual financial audit of the financial accounts and reporting in accordance with generally accepted accounting principles.

We engaged with department management in April of 2016 to begin the audit of the financial statements for the fiscal year ended June 30, 2016. During the course of the audit, we became concerned about the ability of department accounting personnel to properly interpret applicable accounting standards and prepare financial statements of the Marketplace that comply with generally accepted government accounting standards. We received an auditable draft of the statements on January 30, 2017.

The department is required to submit audit reports to Centers for Medicare & Medicaid Services (CMS). The CMS reporting requirements provide a due date of April 1; however, the Marketplace operates on a fiscal year that ends on June 30 of each year, three months after the report is due for the reporting period.

We recommend department management seek training to ensure adequate knowledge, skills, and abilities exist within the department to prepare proper financial statements and we recommend department management seek permanent clarification on the reporting periods and due dates to meet CMS requirements.

Department of Consumer and Business Services (DCBS) response:

DCBS agrees with the findings as stated by the Secretary of State Audits Division. DCBS will work with the Statewide Accounting and Reporting Services Unit of the Department of Administrative Services on the training needs for the Agency. Jason Robinson will track the progress of the training and report to Agency CFO, Carolina Marquette.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Health Insurance Marketplace 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*.

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 results 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
February 22, 2017