

**COVER
OREGON™**

**OREGON HEALTH INSURANCE EXCHANGE
CORPORATION**

**FINANCIAL STATEMENTS and COMPLIANCE REPORTING
for the period ended June 30, 2015 (final reporting period)**

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THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

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INDEPENDENT AUDITOR'S REPORT

Department of Consumer and Business Services,
State of Oregon
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Salem, Oregon

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of the Oregon Health Insurance Exchange Corporation, dba Cover Oregon (Cover Oregon), which comprise the Statement of Net Position as of June 30, 2015, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the six month period ended June 30, 2015 (final reporting period), and the related notes to the financial statements, which collectively comprise Cover Oregon's basic 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 (U.S. GAAP); 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 these financial statements based on conducting the 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

The State of Oregon's Public Employee Retirement System did not allocate the proportionate share of the Oregon Public Employee Retirement Pension Plan (OPERS) net pension asset, related deferred outflows and inflows of resources, or pension expense required for reporting due to the impending dissolution of Cover Oregon; therefore, Cover Oregon was unable to report pension related amounts and disclosures in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. As a result of this matter, we were unable to determine the adjustments necessary to report GASB Statement No. 68 related pension amounts in the basic financial statements, including relevant disclosures.

INDEPENDENT AUDITOR'S REPORT

Department of Consumer and Business Services,
State of Oregon
Oregon Health Insurance Exchange Corporation
dba Cover Oregon

BASIS FOR DISCLAIMER OF OPINION (Continued)

Upon dissolution of Cover Oregon and transfer of operations to the Department of Consumer and Business Services, State of Oregon, payroll information within the electronic timekeeping system provided by a third party payroll provider was deactivated. We were unable to satisfy ourselves by other auditing procedures as to the completeness and accuracy of reporting of payroll expense for the period ended June 30, 2015. As a result of this matter, we were unable to perform audit procedures over payroll sufficient to form an opinion on the basic financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements, or the notes to the financial statements.

EMPHASIS OF MATTER

As described in Note 1 of the Notes to the Basic Financial Statements, the Oregon Legislature approved a plan of dissolution of Cover Oregon on March 6, 2015, and Cover Oregon ceased operations as of June 30, 2015.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted required supplementary information consisting of the Schedule of Cover Oregon's Proportionate Share of Net Pension (Asset)/Liability, Schedule of Cover Oregon's Pension Plan Contributions, and related notes to the required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

INDEPENDENT AUDITOR'S REPORT

Department of Consumer and Business Services,
State of Oregon
Oregon Health Insurance Exchange Corporation
dba Cover Oregon

OTHER MATTERS (Continued)

Other Information

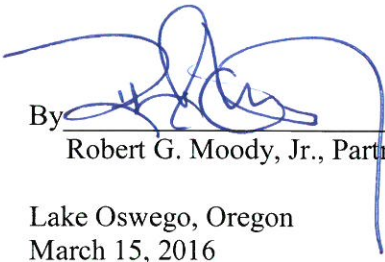
We were engaged to conduct an audit for the purpose of forming an opinion on the financial statements that collectively comprise Cover Oregon's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Transfers on Dissolution are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards or on the Schedule of Transfers on Dissolution.

REPORTS ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016 on our consideration of Cover Oregon'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 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 Cover Oregon's internal control over financial reporting and compliance.

TALBOT, KORVOLA & WARWICK, LLP

By 
Robert G. Moody, Jr., Partner

Lake Oswego, Oregon
March 15, 2016

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THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Period Ended June 30, 2015 (final reporting period)

This Management's Discussion and Analysis provides an overview of the financial activities for the Oregon Health Insurance Exchange Corporation (Cover Oregon) for the six-month period ended June 30, 2015. The information focuses on current period activities, resulting changes, and currently known facts; and the information should be read in conjunction with Cover Oregon's financial statements (beginning on page 10). Management prepared the Management's Discussion and Analysis to assist the reader; and the basic financial statements and compliance section were designed to provide readers with a general overview of Cover Oregon's finances and to reflect financial accountability and transparency relating to funds received and expended.

Questions about this report should be directed to the State of Oregon's Department of Consumer and Business Services (see Change in Business Organization below). Contact information for the Department of Consumer and Business Services may be found at www.oregon.gov.

USING THIS REPORT

This report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements include a series of financial statements:

- 1) Statement of Net Position (page 10)
- 2) Statement of Revenues, Expenses, and Changes in Net Position (page 11), and
- 3) Statement of Cash Flows (page 12)

The Notes to the Financial Statements (pages 13-20) are referenced throughout Management's Discussion and Analysis and are part of the basic financial statements, providing the reader with several important disclosures including a summary of significant accounting policies that were used by Cover Oregon.

CHANGE IN BUSINESS ORGANIZATION

In February 2015, the Oregon Legislature passed Senate Bill 1, which was signed into law on March 6, 2015, by the Governor of Oregon. Senate Bill 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 agency within the State of Oregon. Once signed by the Governor of Oregon, the powers, rights, obligations and liabilities of Cover Oregon transferred to the Director of DCBS; and, the duties and functions of Cover Oregon including all existing funds, property, equipment, documents, records, etc., transferred to DCBS on June 30, 2015 (see Note 1, Senate Bill 1). In accordance with Senate Bill 1, all assets and liabilities of Cover Oregon transferred to DCBS as of the close of business on June 30, 2015. Consequently, no balances are reported on the Statement of Net Position as of June 30, 2015.

FINANCIAL HIGHLIGHTS

- Cover Oregon received \$9.7 million in Federal grant funds for operational expenditures in 2015.
- Assessments of \$5.0 million were billed to participating insurers through June 30, 2015.
- Cost allocation charges of \$5.7 million were billed to the Oregon Health Authority for benefited Medicare programs as required under the Federal grant.
- Net position decreased \$3.3 million to \$17.4 million, prior to the transfer to DCBS.

BASIC FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about Cover Oregon's activities to provide the reader with insight into the financial health of the organization. These statements utilize the accrual basis of accounting (see Note 2).

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Period Ended June 30, 2015 (final reporting period)

BASIC FINANCIAL STATEMENTS (Continued)

The Statement of Net Position reports net position as the difference between assets and liabilities, and is one way to measure the financial position of Cover Oregon; however, some operating expenses that affect the net position are non-cash expenses (such as depreciation). Over time, increases or decreases that occur in net position may be an indicator of whether the financial health is improving or deteriorating. Certain other nonfinancial factors may also need consideration to assess the overall financial position of Cover Oregon, such as changes in the regulatory, political, and business environments (see Note 1).

The Statement of Revenues, Expenses, and Changes in Net Position report the activities for the period in various revenue and expense categories. This information, along with the Statement of Cash Flows, reflects where Cover Oregon utilized funds received throughout the period in support of operating a state-based marketplace.

STATEMENT OF NET POSITION

Current assets decreased \$1.2 million to \$11.0 million at June 30, 2015 immediately preceding transfer to DCBS, as a result of multiple activities. Cover Oregon began charging, in January 2014, an assessment to participating insurers for the purpose of establishing a cash reserve to fund future operations. In 2014, nearly \$6.6 million of assessments were collected; and for the period ended June 30, 2015, Cover Oregon collected an additional \$5.0 million in carrier assessments. However, cash was reduced as Cover Oregon prepaid \$7.9 million of software licenses and support through the end of the contracts ending primarily in early 2016. At June 30, 2015 immediately preceding transfer to DCBS, these prepaid amounts totaled \$6 million. Cost allocation charges of \$5.7 million were billed to the Oregon Health Authority (OHA) for benefited Medicare programs as required under the Federal grant, and were reflected in current assets as interagency receivables for amounts outstanding. At June 30, 2015 immediately preceding transfer to DCBS, these interagency and unbilled interagency receivables totaled \$2.9 million.

Cover Oregon also administered an agent program in support of the 2014 plan year, whereby certified agents would be compensated for plans sold through the marketplace via established carrier commission rates (see Note 1, Business Operations). As 2014 plans were sold and consumers paid premiums to carriers, carriers paid commissions to Cover Oregon, the agent of record, who then passed-through payments to certified agents. Due to the timing of consumer payments, Cover Oregon received in 2015 pass-through commission payments from participating carriers relating to 2014 plans. However, at June 30, 2015, Cover Oregon had completed its reconciliation and payments of commissions associated with the 2014 plan year, and there were no pass-through commissions reflected in cash nor were there any commissions reflected in accounts payable. For the 2015 plan year, the agent program was direct with carriers at established carrier commission rates who paid certified agents directly.

Since January 2013, Cover Oregon utilized the Level 2 Federal grant, which totaled \$226.4 million and was originally awarded for the period of January 16, 2013, to December 31, 2014, to fund operational costs. At December 31, 2013, federal grants receivable was largely offset by accounts payables relating to IT professional services that were subsequently paid in 2014. In 2014, Cover Oregon extended the Level 2 Federal grant through December 31, 2015, utilizing a no-cost extension process whereby no additional funds were requested, only time to spend remaining funds. In 2015, Cover Oregon began charging OHA certain costs, as required under the Federal grant, which benefited Medicare programs. Cover Oregon billed these costs to OHA and funds received were credited to the Level 2 Federal grant. However, Cover Oregon's transition to reliance on carrier assessments for self-sufficiency (see Notes 1, 2, and 7) was reflective as no Federal grants receivable existed at June 30, 2015.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Management's Discussion & Analysis

For the Period Ended June 30, 2015 (final reporting period)

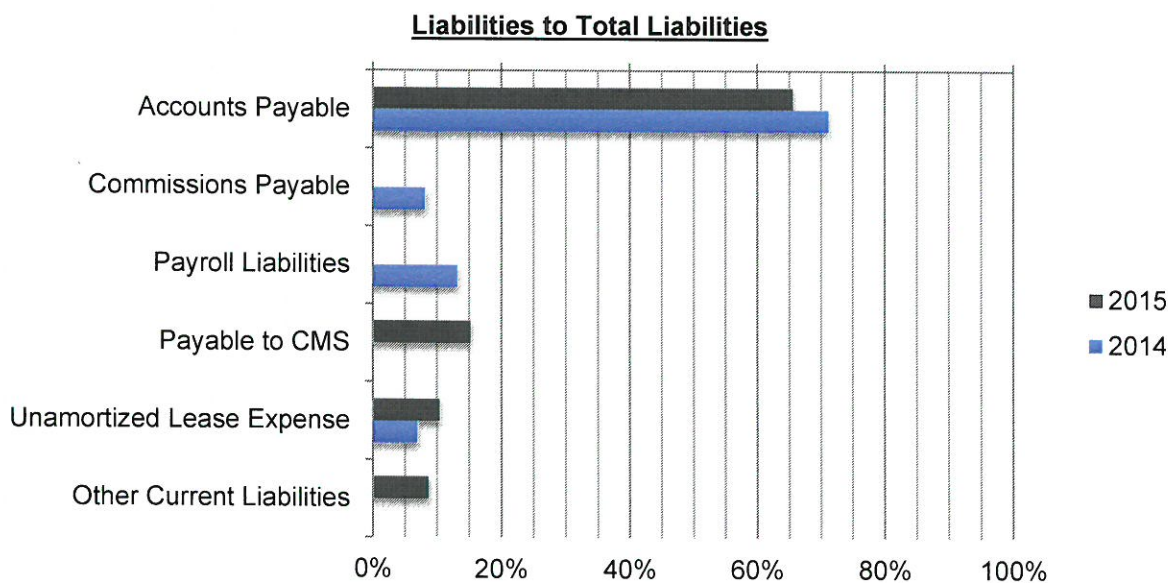
STATEMENT OF NET POSITION (Continued)

Federal Grants Receivable
(in millions)

	2015	2014
Federal Grants Receivable	\$ -	\$ 4.3

Current liabilities decreased by \$3.7 million to \$2.6 million at June 30, 2015 immediately preceding transfer to DCBS. The decrease primarily reflects the transition to healthcare.gov for 2015 plan year enrollments and thus less reliance on professional services that resulted in less accounts payable at June 30, 2015. Accounts payable, including retainage, was \$1.9 million (65.6% of total liabilities) at June 30, 2015 immediately preceding transfer to DCBS, as compared to \$4.9 million (71.1% of total liabilities) at December 31, 2014. As a result of \$39 million of accrued IT professional services, accounts payable including retainage was \$44.4 million (97.6% of total liabilities) at December 31, 2013.

There were no pass-through commissions payable at June 30, 2015, as compared to \$0.57 million (8.3% of total liabilities) at December 31, 2014, reflecting funds received from carriers that had not yet been passed-through to agents (see Note 1, Business Operations). Reflecting no remaining staff due to the business transition (see Staffing Levels on page 8), no payroll liabilities were reported at June 30, 2015, as compared to payroll liabilities of \$0.9 million (13.3% of total liabilities) at December 31, 2014. In 2015, Cover Oregon recorded a liability of \$.4 million payable to the Centers for Medicare and Medicaid Services (CMS) for certain tenant improvement costs incurred in 2013 related to its call center that were not permissible under the grant. Unamortized lease expense was \$0.3 million (10.4% of total liabilities) at June 30, 2015 immediately preceding transfer to DCBS, as compared to \$0.5 million (7.1% of total liabilities) at December 31, 2014. The change in unamortized lease expense was a result of the net change in lease costs attributable to the cancellation of the service center lease and the extension of the Durham office lease (see Note 5).



The Statement of Net Position presents information on all of Cover Oregon's assets and liabilities resources with the difference reported as net position. Cover Oregon reported a \$3.3 million decrease in net position immediately preceding transfer to DCBS for the period ended June 30, 2015.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Period Ended June 30, 2015 (final reporting period)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the period ended June 30, 2015, Cover Oregon's revenues consisted of Federal grants provided under the Cooperative Agreements to Support Establishment of the Affordable Care Act's Health Insurance Exchange and of assessments on participating carriers (see Note 1, Federal Grant Funding and Self-sufficiency, and Note 7). Cover Oregon recognized \$9.7 million in revenues from its Federal level two grant for the period ended June 30, 2015, as compared to \$79.5 million for the year ended December 30, 2014. The reduction in Federal grant revenues for the period ended June 30, 2015, is a reflection of the transition to healthcare.gov for 2015 plan year enrollments, less reliance on general and IT professional services, and initiation of reliance on assessments for self-sufficiency.

In 2015, Cover Oregon began charging certain costs which benefited Medicare programs to OHA. These costs were part of Cover Oregon's cost allocation plan as required under the Level 2 Federal grant. As Cover Oregon incurred applicable costs (salaries and benefits, professional services IT, etc.), the portion attributable to the benefiting programs accumulated until Cover Oregon billed OHA. Once billed to OHA and Cover Oregon received funds from OHA, Cover Oregon reduced amounts that would normally have been applied toward a federal grant drawdown. For the period ended June 30, 2015, the total amount Cover Oregon billed to OHA was \$5.7 million.

Cover Oregon recognized \$5.0 million in revenues from its assessments on participating insurers for the six-month period ended June 30, 2015, as compared to \$6.6 million for the year ended December 31, 2014 (see Note 1, Self-sufficiency). In compliance with Senate Bill 99, Cover Oregon began charging an assessment on commercial insurers in 2014 for the purpose of establishing up to a six-month operating reserve by the end of 2014 (see Note 1, Senate Bill 99 and Self-sufficiency). Assessments were based on enrollments facilitated through Cover Oregon and were expressed as a per-member-per-month figure charged to the participating insurer based upon the customer's plan selection. As customers added or changed coverage throughout the plan year, Cover Oregon would adjust the enrollment numbers charged to the participating carrier, thus assessments were constantly changing throughout the plan year and across plan years, due to payment grace periods and retroactive coverage periods as applicable under the Affordable Care Act.

	<u>Revenues</u> (in millions)	
	Six-month Period ended June 30, 2015	Year ended December 31, 2014
Federal Grants	\$ 9.7	\$ 79.5
OHA Revenue	5.7	-
Assessments	5.0	6.6

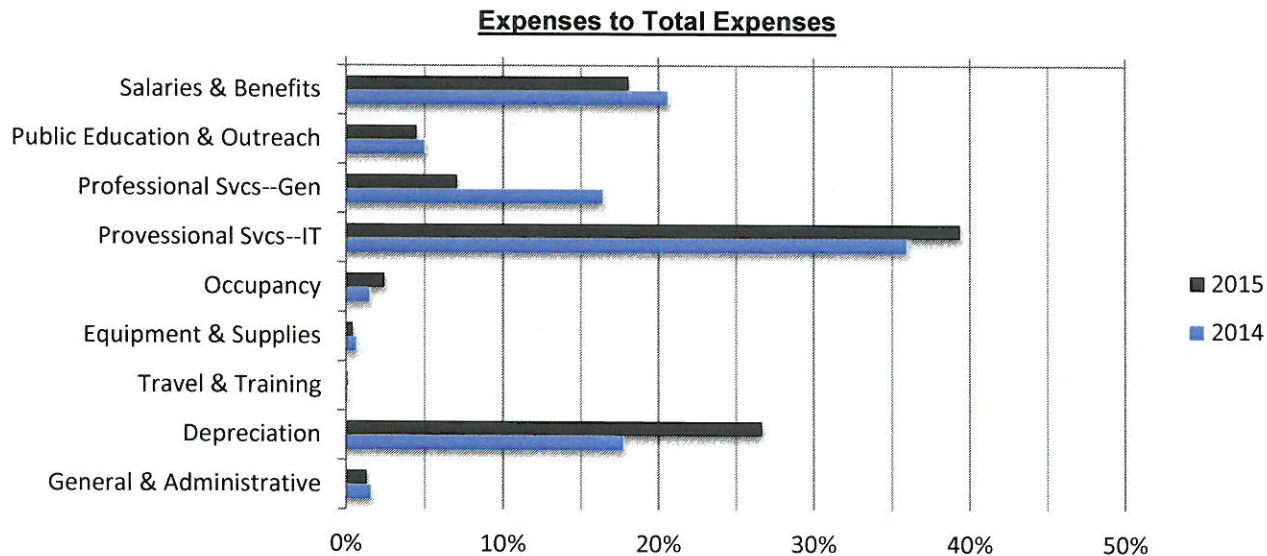
After capitalization of assets as per policy (see Note 2), operating expenses for the period ended June 30, 2015, totaled \$23.7 million compared to \$71.2 million for the year ended December 31, 2014. Consistent with prior years, salaries and associated benefits (18% of total expenses) and professional services IT and general combined (46.5% of total expenses) were major cost categories. Depreciation (26.7% of total expenses) increased substantially from prior years as a percentage of total expenses. The following chart represents the relationship of individual expenses to total expenses for the period specified.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Management's Discussion & Analysis

For the Period Ended June 30, 2015 (final reporting period)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)



For the period ended June 30, 2015, salaries and associated benefits totaled \$4.3 million (18% of expenses) compared to \$14.7 million (20.6% of expenses) for the year ended December 31, 2014. As part of its self-sufficiency planning for 2015 and in anticipation of reduced call volumes at the service center due the decision to transition to healthcare.gov to facilitate 2015 plan year enrollments, Cover Oregon initiated a workforce reduction plan. In March and April 2015, Cover Oregon reduced service center and corporate staff as part of its workforce reduction plan. Furthermore, with the passage of Senate Bill 1 (see Note 1, Senate Bill 1), all remaining Cover Oregon staff were eliminated as of June 30, 2015. Some service center and policy staff (approximately a dozen combined) were hired by the DCBS to facilitate certain ongoing state-based marketplace operations.

With the decision in 2014 to transition to healthcare.gov to facilitate 2015 plan year enrollments, staffing levels began dropping mid-year 2014 as staff left to pursue other opportunities, thus resulting in reduced year-end 2014 staffing levels.

Staffing Levels

	June 30, 2015	December 31, 2014
Employees	0	127

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

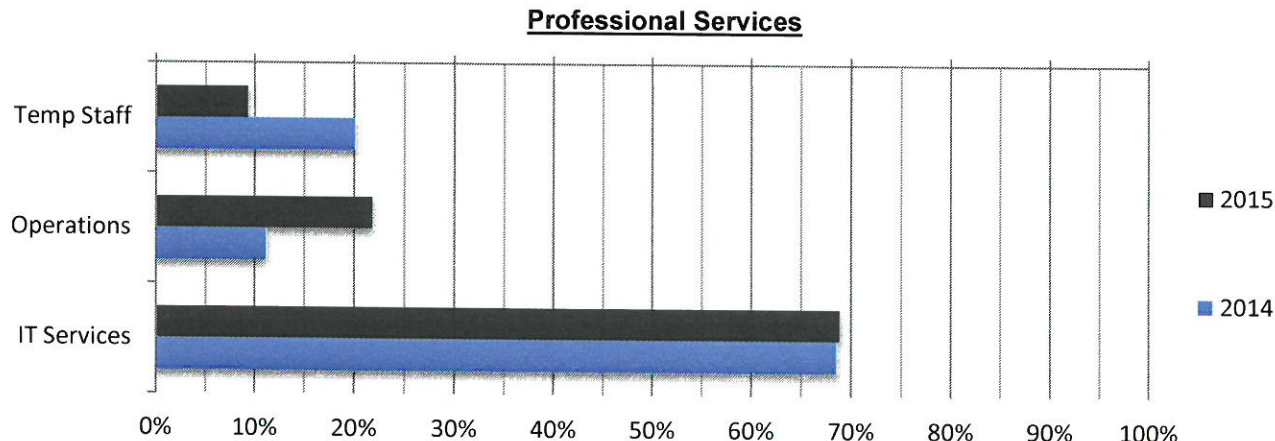
For the Period Ended June 30, 2015 (final reporting period)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)

Reflecting ongoing support of 2015 plan year enrollments through healthcare.gov, public education and outreach decreased to \$1.1 million (4.5% of total expenses) for the year ended June 30, 2015, compared to \$3.6 million (5.1% of total expenses) for the year ended December 31, 2014.

General professional services decreased to \$1.7 million (7.1% of total expenses) for the period ended June 30, 2015, compared to \$11.7 million (16.5% of total expenses) for the year ended December 31, 2014. The decrease in professional services largely reflected reduced use of temporary staff in support of 2014 enrollment changes that occurred in 2015 due to grace periods and retroactivity periods under the Affordable Care Act. General professional services for 2015 included \$0.5 million of temporary staffing costs as compared to \$7.5 million for the year ended December 31, 2014.

After capitalization of assets as per policy (see Note 2), IT professional services for the period ended June 30, 2015, decreased to \$9.3 million (39.4% of total expenses) compared to \$25.6 million (36.0% of total expenses) for the year ended December 31, 2014. The \$16.3 million decrease in 2015 costs as compared to 2014 costs largely reflected the transition to healthcare.gov for 2015 enrollments as compared to development and attempted repairs of the core IT system and technology infrastructure that occurred in 2014. Consistent with the year ended December 31, 2014, professional services IT for the period ended June 30, 2015, were highly concentrated with a single vendor (see Note 8).



REQUESTS FOR INFORMATION

Cover Oregon's financial statements are designed to provide the citizens, taxpayers, and other agencies with a general overview of Cover Oregon's finances and to demonstrate Cover Oregon's accountability of the resources it received and expended. If you have questions about this report, or need additional information, contact the Department of Consumer and Business Services, 350 Winter Street NE, P.O. Box 14480, Salem, OR 97309-0405.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statement of Net Position

As of June 30, 2015

ASSETS

Current Assets:

Cash	\$	-
Assessments receivable		-
Interagency receivable - OHA		-
Unbilled interagency receivable - OHA		-
Other receivable		-
Prepaid expense		-
Total Current Assets		-
Lease Deposit		-
Capital Assets, net		-
Total Assets		-

LIABILITIES

Current Liabilities:

Accounts payable	-
Retainage payable	-
Other current liabilities	-
Payable to CMS	-
Total Current Liabilities	-
Unamortized Lease Expense	-
Total Liabilities	-

NET POSITION

Net investment in capital assets	-
Unrestricted	-
Total Net Position	\$ -

See accompanying notes to the financial statements.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statement of Revenues, Expenses, and Changes in Net Position
For the Period Ended June 30, 2015 (final reporting period)

Operating Revenues:

Federal grants	\$	9,709,292
OHA revenue		5,713,739
Assessments		<u>5,045,464</u>
Total Revenue		20,468,495

Operating Expenses:

Salaries, payroll taxes, and benefits	4,269,452
Public education and outreach	1,058,996
Professional services - general	1,677,382
Professional services - IT	9,312,075
Occupancy	589,052
Equipment and supplies	103,338
Travel and training	20,525
Depreciation	6,311,279
General and administrative	<u>314,397</u>
Total Operating Expenses	<u>23,656,496</u>
Operating Loss	<u>(3,188,001)</u>

Non-operating Income (Expense):

Rental income	84,771
Rental expense	(84,771)
Loss on capital assets	<u>(79,002)</u>
Total Non-operating Income (Expense):	<u>(79,002)</u>

Decrease in Net Position	<u>(3,267,003)</u>
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Net Position - Beginning of Period, as Previously Reported	21,075,950
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Net Position - Restatement, Note 10	<u>(448,080)</u>
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Net Position - Beginning of Period, as Restated	<u>20,627,870</u>
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Net Position - Before Transfer to DCBS	17,360,867
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Transfer to DCBS	<u>(17,360,867)</u>
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Net Position - End of Period	<u>\$ -</u>
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See accompanying notes to the financial statements.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statement of Cash Flows

For the Period Ended June 30, 2015 (final reporting period)

Cash Flows from Operating Activities:

Federal grants received	\$ 14,058,956
OHA revenue received	3,015,916
Assessments received	4,647,855
Cash paid for materials and services	(22,570,541)
Cash paid to employees and for taxes and benefits	<u>(5,067,287)</u>
Net Cash Flows From Operating Activities	(5,915,101)

Change in Cash	<u>(5,915,101)</u>
Cash - beginning of period	7,590,305
Transfer to DCBS	<u>(1,675,204)</u>
Cash - end of period	<u><u>\$ -</u></u>

Reconciliation of Operating Loss to Net

Cash Flows from Operating Activities:

Operating loss	\$ (3,188,001)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	6,311,279
Changes in Assets and Liabilities:	
Federal grants receivable	4,349,664
Assessments receivable	(397,609)
Interagency receivable - OHA	(1,533,983)
Unbilled interagency receivable - OHA	(1,163,840)
Other receivable	(46,787)
Prepaid expenses	(5,926,454)
Accounts payable	(2,913,757)
Commissions payable	(565,418)
Payroll liabilities	(908,782)
Other current liabilities	258,638
Deferred rent	(176,245)
Rent deposit	<u>(13,806)</u>
Net Cash Flows From Operating Activities	<u><u>\$ (5,915,101)</u></u>

See accompanying notes to the financial statements.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 1 - Description of the Business & Regulatory Environment

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 state-based marketplace to meet the unique needs of Oregonians and its insurance market.

Affordable Care Act of 2010 Extensions

In November 2013, the Centers for Medicare & Medicaid Services (CMS) issued a notice authorizing states to allow health insurers the option to extend individuals and small business existing coverage that may have otherwise been non-compliant under the provisions of the Affordable Care Act if certain conditions were met. In follow-up to the November notice, CMS issued a notice in March 2014 that further enabled states the option to extend such policy renewals for an additional two years (through October 1, 2016). In response to the CMS notices, the State of Oregon elected to allow health insurers to extend coverage up to December 31, 2014, if certain conditions were met.

State Legislation

The Oregon Legislative Assembly has passed several bills that directly affected Cover Oregon, including the following:

Senate Bill 99 – In July 2011, the Oregon Legislature passed Senate Bill 99 creating the Oregon Health Insurance Exchange (Cover Oregon). Cover Oregon was regulated by the ACA, state law, and was a governmental entity having the authority to perform governmental functions and exercise governmental powers. Although Cover Oregon was a governmental entity, it was not considered a unit of local or municipal government or a state agency for purposes of state statutes or constitutional provisions. Established as an independent public corporation by the State, Cover Oregon operated with a statewide purpose and mission to serve the public's interest for the benefit of the consumers and employers that access insurance through Cover Oregon.

Senate Bill 1 – In February 2015, both the Oregon Senate and House passed Senate Bill 1 and the Governor of Oregon signed the bill into law on March 6, 2015. Senate Bill 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 agency within the State of Oregon. Upon signing the bill by the Governor of Oregon, the powers, rights, obligations and liabilities of Cover Oregon transferred to the Director of DCBS. The duties and functions of Cover Oregon including all existing funds, property, equipment, documents, records, etc., transferred to DCBS on June 30, 2015. Provisions within Senate Bill 1 aligned with Senate Bill 99 provisions of a state-based marketplace, but also revised some Oregon Revised Statutes. Senate Bill 1 also created the Health Insurance Exchange Advisory Committee to advise the Director of DCBS on policies and procedures, establishment of assessments, development of an employer enrollment program, and other matters related to a state-based marketplace.

Board of Directors

Cover Oregon began in September 2011, and was governed by a nine-member Board of Directors, each of whom was appointed by the Governor and confirmed by the Oregon Senate. The Board was supported by committees (Individual and Employer Consumer Advisory Committee, Finance & Audit Committee, Board Development, and Personnel and Compensation Committee), appointed Cover Oregon's Executive Director(s), and delegated operational authority of Cover Oregon to the Executive Director. Cover Oregon was also guided by a bipartisan Legislative Oversight and Advisory Committee from inception through mid-2014. Although independent of state government, Cover Oregon was required, under Senate Bill 99, to provide quarterly status reports, an annual report, and audit reports to the Oregon Legislature. Cover Oregon's Board was abolished and its Executive Director's tenure ceased under Senate Bill 1 (see Note 1, Senate Bill 1).

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 1 - Description of the Business & Regulatory Environment (Continued)

Self-sufficiency

In planning for self-sufficiency, Senate Bill 99 enabled Cover Oregon to begin charging, in 2014, an assessment on commercial insurers and an assessment on state programs for the purpose of establishing up to a six-month operating reserve by the end of 2014. The self-sufficiency charges were based on enrollments facilitated through Cover Oregon and were expressed as a per-member-per-month (PMPM) figure. Beginning in 2015, and as specified by Senate Bill 99, Cover Oregon was to be financially self-sustaining through the assessments on commercial insurers and the assessments on state programs. Senate Bill 99 also specified that the annual aggregate amount of assessments could not exceed five (5) percent of premiums. Should the charges collected exceed what was necessary to fund operations or to build a maximum six-month operating reserve, Senate Bill 99 mandated that the excess charges be used to reduce or offset the future costs of Cover Oregon or to refund the excess to participating insurers or state programs.

The 2015 assessment for qualified health plans was established through public rule making process at \$9.66 PMPM and \$0.97 PMPM for standalone dental plans. No assessments were established on state programs for 2015.

Federal Grant Funding

Cover Oregon's cash was initially funded through a loan from the Oregon Health Authority (OHA), who had already obtained a Federal grant to fund work relating to marketplaces. Cover Oregon secured Federal grant funding for start-up costs beginning in 2011 and was fully reliant upon grant funding through December 31, 2014. The Federal grant funds that Cover Oregon received, formally called the Cooperative Agreements to Support Establishment of the Affordable Care Act's Health Insurance Exchanges, were administered by the Center for Consumer Information and Insurance Oversight (CCIIO), which is part of the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services. Each grant had specific operational activities, budget items, and terms and conditions. Cover Oregon also had to report progress on its activities and expenditures regularly to CCIIO, with the frequency of such reports occurring on a monthly, quarterly, semi-annual, or annual basis, depending upon the type of report. Grant funds were issued to Cover Oregon on an advanced basis and were required to be disbursed by the close of the next business day after Cover Oregon received the funds.

Office of Federal Financial Management

With Cover Oregon's use of Federal grant funding, Cover Oregon was required to comply with the Office of Federal Financial Management's requirements of an annual audit in accordance with the terms and conditions of the grant. The annual audit was conducted in accordance with the Single Audit Act of 1984 (with amendments in 1996), and the Office of Management and Budget (OMB) Circular A-133 ("Audits of State, Local Governments, and Non-Profit Organizations") to assure that the grant funds were expended properly. Since its first year of operations in 2011, Cover Oregon elected to have the OMB A-133 audit performed by an independent third-party accounting firm. In accordance with Senate Bill 99, the Secretary of State began to oversee audits beginning with the year-ended December 31, 2014; and for the period ended June 30, 2015, the Secretary of State extended its 2014 contract with a third-party accounting firm to conduct the audit.

Business Operations

In October 2013, Cover Oregon began serving individuals and families and providing a place for insurance agents and community partners to assist those seeking insurance. Individuals without access to affordable coverage at work were able to use Cover Oregon to compare health insurance plans and costs, and to determine if they were eligible for financial assistance to help pay for coverage. Through a single application process, individuals could enroll in commercial insurance plans or state programs, such as the Oregon Health Plan or Healthy Kids. However, due to IT technology challenges during its first year of operations in 2014, Cover Oregon hired temporary staff and engaged the Oregon Health Authority, in addition to Cover Oregon's full-time staff, to facilitate a hybrid process utilizing paper applications and its partially functioning core IT system to facilitate 2014 plan year enrollments. In early 2014, the decision was made to utilize healthcare.gov for enrollments beginning with the 2015 plan year.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 1 - Description of the Business & Regulatory Environment (Continued)

Business Operations (Continued)

In support of the 2014 plan year, Cover Oregon administered an agent program whereby certified agents would be compensated for plans sold through the marketplace via established carrier commission rates. As plans were sold, carriers would pay commissions to Cover Oregon, as the agent of record, who would then pass-through the payments to certified agents. Beginning in 2015, carriers would issue payments directly to certified and affiliated agents for 2015 commissionable plans sold through healthcare.gov.

Cover Oregon was also authorized under regulations to begin serving employers in 2014 to provide health plan options for their employees through the Small Employer Health Options Program. As of the period ended June 30, 2015, Cover Oregon had not launched this option for employers, and instead, had supported direct enrollment with insurance carriers so that small employers could access tax credits. In 2015, Cover Oregon focused heavily on closing out 2014 activities for enrollments, pass-through commissions, and carrier assessments.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

Cover Oregon's financial statements were presented on the flow of economic resources measurement focus and the accrual basis of accounting, and conformed to accounting principles generally accepted in the United States of America (GAAP) for proprietary (enterprise) funds. Accordingly, revenues were recorded when earned, and expenses were recorded when a liability was incurred, regardless of when cash was received or paid.

Federal Grants Receivable

The Level 2 Establishment grant expired December 31, 2015. Federal grants receivable represented unreimbursed Federal grant funds collectible under the terms of the grant. As of June 30, 2015 immediately preceding transfer to DCBS, there was no Federal grants receivable as all allowable expenses had already been funded.

Prepaid Expense

Cover Oregon prepaid, to the primary IT contractor (see Note 8), \$7.9 million of software licenses and support for the core IT system and associated technology infrastructure. The prepaid amounts represented estimated software and licenses and support costs through the end of the contracts ending primarily in early 2016.

Capital Assets

Purchased capital assets were reported at cost. No estimates were made for historic costs and no assets were donated which would have required an estimate of fair market value at the date received. Cover Oregon's capitalization levels were \$5,000 per unit for tangible personal property and leasehold improvements. During the period ended June 30, 2015, there were no acquisitions of land or other real property. Any costs incurred for repairs and maintenance of capital assets were expensed as incurred. Costs of assets sold or retired (and any related amounts of accumulated depreciation) were eliminated from the accounts in the year of sale or retirement, and the resulting loss was included in the operating statement of Cover Oregon.

Depreciation on all Cover Oregon assets was calculated using the straight-line basis over the estimated useful lives as follows:

Leasehold improvements	5-7 years
Furniture & equipment	3-7 years
IT equipment	3-7 years
Software & software development	18 months

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 2 - Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expense

Cover Oregon distinguished operating revenues and expenses from non-operating revenues and expenses. Operating revenues included Federal grant funds received, cost allocation charges to OHA, and assessments on commercial insurers. All expenses that are directly and indirectly related to establishing and running a state-based health insurance marketplace were reported as operating expenses, including accrued expenses. All revenues and expenses not meeting these descriptions were reported as non-operating revenues and expenses.

Use of Estimates

Cover Oregon 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.

Note 3 – Detail of Accounts

Cash

Cover Oregon's cash was comprised of bank demand deposits with a single financial institution. Deposits held in noninterest-bearing transaction accounts were aggregated with any interest-bearing deposits held with the same financial institution, and the combined total was insured by the FDIC up to a limit of \$250,000. During the period ended June 30, 2015, Cover Oregon at times had cash balances which exceeded the FDIC limit. However, as a public corporation established by the State of Oregon, Cover Oregon's cash was considered public funds as specified by House Bill 4164, which referenced Oregon Revised Statute (ORS) 295.

Under ORS 295.022, any public fund deposits that exceeded the FDIC insurance limits must be held in a qualified depository as specified by the Oregon Public Funds Collateralization Program (PFCP). Cover Oregon's banking institution was listed as a qualified depository under the PFCP. Under the PFCP, the banking institution deposits authorized securities with the PFCP's Custodian Bank equal to a percentage of the combined uninsured public funds deposits of Cover Oregon and other State of Oregon public funds in its possession. The Oregon State Treasury sets the percentage of funds, generally within a range of 10-110 percent of the uninsured public funds deposits. These securities then comprised the asset pool available to the PFCP to reimburse local governments, state agencies, and Cover Oregon in the event the banking institution experienced a failure or loss event. Although this pooled liability structure did not guarantee 100 percent protection against loss in all situations, it did provide an increased protection level for Cover Oregon's funds.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 3 – Detail of Accounts (Continued)

Capital Assets

Capital asset activity consisted of the following for the period ended June 30, 2015:

	<u>December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer to DCBS</u>	<u>June 30, 2015</u>
Leasehold improvements	\$ 333,216	\$ -	\$ (121,785)	\$ (211,431)	\$ -
Furniture & equipment	1,323,488	-	-	(1,323,488)	-
IT equipment	11,545,870	-	(66,392)	(11,479,478)	-
Software & software development	18,877,428	-	-	(18,877,428)	-
Total capital assets	<u>32,080,002</u>	<u>-</u>	<u>(188,177)</u>	<u>(31,891,825)</u>	<u>-</u>
Accumulated depreciation	<u>(16,481,250)</u>	<u>(6,311,279)</u>	<u>109,175</u>	<u>22,683,354</u>	<u>-</u>
Total capital assets, net	<u>\$ 15,598,752</u>	<u>\$ (6,311,279)</u>	<u>\$ (79,002)</u>	<u>\$ (9,208,471)</u>	<u>\$ -</u>

In alignment with Senate Bill 1 (see Note 1, Senate Bill 1), the capital assets reflected above transferred on June 30, 2015, at their "carrying value" to DCBS for their use in operating a state-based marketplace.

Note 4 – Deferred Compensation Plan

Cover Oregon had a deferred compensation plan (the Plan) created in accordance with the Internal Revenue Code Section 457, as amended. The Oregon Savings Growth Program and ING, as independent plan administrators, were responsible for administering the Plan. The Plan was available to all employees of Cover Oregon, and employees could defer a portion of their salary until future years. Deferred compensation was not available to employees until termination, retirement, death, or financial hardship. The Plan's assets were held in a custodial account for the exclusive benefit of participants and beneficiaries and were not subject to the claims of Cover Oregon's creditors, nor could they be used by Cover Oregon for any purpose other than the payments of benefits to the Plan's participants. Since the Plan is independently administered by the Oregon Savings Growth Program and ING, Plan assets survive the transition of Cover Oregon to DCBS (see Note 1, Senate Bill 1). Prior Cover Oregon employees with funds in the Plan may contact the plan administrators directly.

Note 5 – Leases

For the period ended June 30, 2015, Cover Oregon was under contract for two separate leases in Salem and one lease in Durham, Oregon. These leases varied in length, each lease having a different start and end date. In October 2013, Cover Oregon entered into an Assignment and Assumption of Lease Agreement for its Salem office lease, with the Assignment and Assumption of Lease Agreement coinciding with Cover Oregon's lease term on the property. Payments made by the tenant were payable directly to the landlord and not to Cover Oregon; as such, Cover Oregon recognized and reflected the non-operating income and expense in the applicable section of the Statement of Revenues, Expenses, and Changes in Net Position. In planning for the transition of operations under Senate Bill 1 (see Note 1, Senate Bill 1), Cover Oregon terminated the Assignment and Assumption of Lease Agreement, effective as of June 30, 2015, with the tenant and landlord and terminated Cover Oregon's lease with the landlord for its Salem office lease.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 5 – Leases (Continued)

As part of its self-sufficiency plan and in anticipation of reduced call volumes at the service center due to future enrollments facilitated through healthcare.gov, Cover Oregon initiated a lease termination agreement for its Salem service center lease in January 2015. Under the terms of the agreement, Cover Oregon paid \$0.33 million, representing mostly unamortized tenant improvement allowance costs and a lesser termination fee. The lease term was changed from June 30, 2020, to March 31, 2015. The lease was terminated as of that date.

In planning for the transition of operations under Senate Bill 1 (see Note 1, Senate Bill 1), DCBS entered into lease negotiations with the landlord of Cover Oregon's Durham office facility. The lease negotiations represented the State of Oregon's need for additional office facilities and the opportunity to change the lease for the benefit of the State and DCBS. Under the lease negotiations, tenant improvements costs were allowed and the lease term was changed from April 30, 2020, to April 30, 2027, and assumed by DCBS.

In accordance with GAAP, lease expense in the accompanying financial statements was recorded on the straight-line method for the life of the lease term for each lease respectively. Total lease expense for the period ended June 30, 2015, including amounts incurred for real estate taxes, parking, operating expenses, and associated tenant costs was \$589,052.

Note 6 – Risk Management

Cover Oregon 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, Cover Oregon participated in and was covered under the State of Oregon's self-insurance and commercial insurance program as administered by the Department of Administrative Services Risk Management Division. As such, Cover Oregon was responsible to provide updated property, equipment, and fixtures values to the Risk Management Division. For the period ended June 30, 2015, management was not aware of any claims; and settled claims had not exceeded coverage for the past three fiscal years.

Note 7 – Revenue Concentration

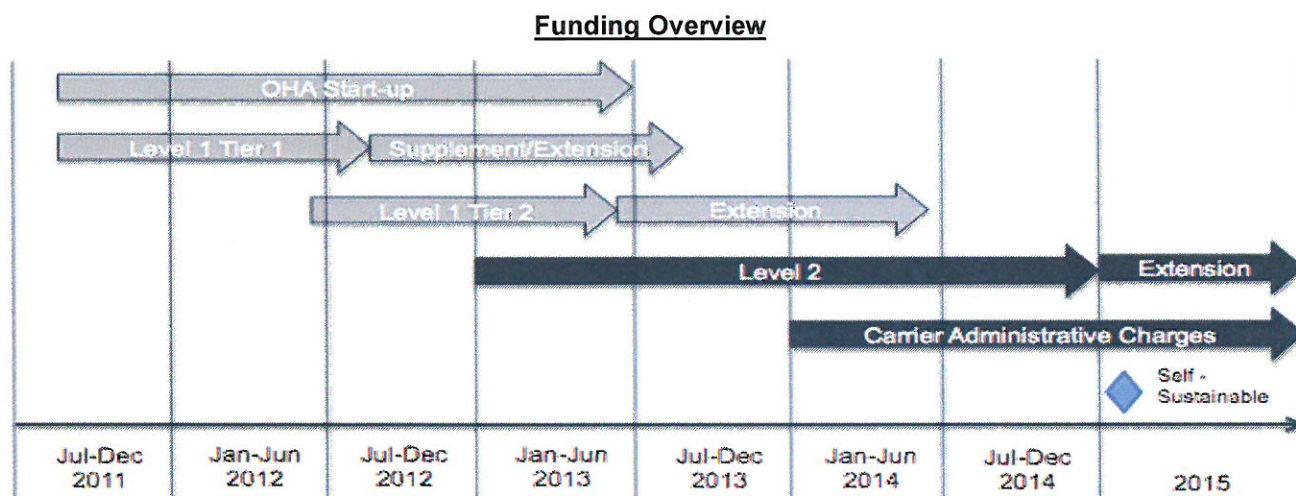
Cover Oregon was fully dependent on Federal grant funding for its operational expenditures through December 31, 2014, and partially thereafter under the no-cost grant extension through December 31, 2015. In 2014, Cover Oregon began charging an assessment on commercial insurers for the purpose of establishing up to a six-month operating reserve by the end of 2014 (see Note 1, Self-sufficiency) and continued to charge and collect such charges through the period ended June 30, 2015. While such charges were collected and were established by Oregon statute (see Note 1), there were inherent risks in enrollment volatility and operational expenditures that could have affected the amount of operating reserves in any given year.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 7 – Revenue Concentration (Continued)



Federal grant funds were issued to Cover Oregon on an advanced basis and were required to be disbursed by the close of the next business day after Cover Oregon received the funds. However, with the transition to using healthcare.gov for 2015 enrollments, assessment revenues that were generated and received, and with the passage of Senate Bill 1 (see Note 1), Cover Oregon did not fully expend the Level 2 grant. The table below reflects balances on all Federal grants awarded to Cover Oregon for the period ended June 30, 2015.

	<u>Grant Balances</u>			
	Total Funds	Total Expenditures	Balance Unexpended	Expiration Date
Level 1, Tier 1	\$ 11,164,600	\$ 11,164,600	\$ -	August 13, 2013
Level 1, Tier 2	6,682,701	6,682,701	-	May 15, 2014
Level 2	226,442,074	224,611,968	1,830,106	December 31, 2015
Total	<u>\$ 244,289,375</u>	<u>\$ 242,459,269</u>	<u>\$ 1,830,106</u>	

Note 8 – Information Technology Vendor Concentration

Cover Oregon contracted with and was dependent upon several IT consultants and companies to develop its core IT systems including but not limited to a web portal, enrollment and eligibility system, and corresponding IT infrastructure. Of those costs incurred, a large concentration existed with a single company that represented 100% of retainage payable and 28% of accounts payables as of June 30, 2015, immediately preceding transfer to DCBS.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Basic Financial Statements

For the Period Ended June 30, 2015 (final reporting period)

Note 9 – Contingencies

Litigation

Various claims and lawsuits against Cover Oregon have arisen in the course of business. As of June 30, 2015, Cover Oregon was party to legal proceedings. Such claims and lawsuits have uncertainties and an unfavorable resolution or other events could occur. As such, an unfavorable resolution or settlement for one or more matters could have a substantial financial impact or negatively affect the ability to conduct business activities of a state-based marketplace. However, Cover Oregon did not reach this conclusion regarding any particular matter. The claims and lawsuits Cover Oregon was party to included speculative or indeterminate amounts of damages, if any. Therefore, based upon current knowledge of existing claims and lawsuits, no liability was recorded as of June 30, 2015 immediately preceding transfer to DCBS.

Note 10 – Restatement

In May 2015, the Centers for Medicare and Medicaid Services (CMS) completed a site visit review of Cover Oregon's operations and reported that \$448,080 of tenant improvement costs that were incurred in fiscal year 2013 were unallowable costs under the federal grant. Consequently, a liability for amounts to be repaid to CMS of \$448,080 has been recognized as of the beginning of the period.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

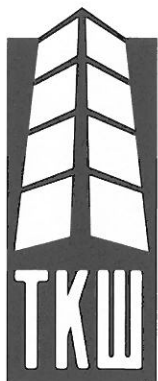
OTHER SUPPLEMENTARY INFORMATION

Schedule of Transfers on Dissolution

	Immediately Preceding Transfer to DCBS	Transfer to DCBS	Statement of Net Position as of June 30, 2015
ASSETS			
Current Assets:			
Cash	\$ 1,675,204	\$ (1,675,204)	\$ -
Assessments receivable	420,584	(420,584)	-
Interagency receivable - OHA	1,729,772	(1,729,772)	-
Unbilled interagency receivable - OHA	1,163,840	(1,163,840)	-
Other receivable	46,787	(46,787)	-
Prepaid expense	6,015,339	(6,015,339)	-
Total Current Assets	11,051,526	(11,051,526)	-
Lease Deposit	53,023	(53,023)	-
Capital Assets, net	9,208,471	(9,208,471)	-
Total Assets	20,313,020	(20,313,020)	-
LIABILITIES			
Current Liabilities:			
Accounts payable	793,737	(793,737)	-
Retainage payable	1,143,292	(1,143,292)	-
Other current liabilities	258,638	(258,638)	-
Payable to CMS	448,080	(448,080)	-
Total Current Liabilities	2,643,747	(2,643,747)	-
Unamortized Lease Expense	308,406	(308,406)	-
Total Liabilities	2,952,153	(2,952,153)	-
NET POSITION			
Net investment in capital assets	8,065,179	(8,065,179)	-
Unrestricted	9,295,688	(9,295,688)	-
Total Net Position	\$ 17,360,867	\$ (17,360,867)	\$ -

In accordance with Senate Bill 1, all powers, rights, obligations, liabilities, functions, and duties of the Oregon Health Insurance Exchange Corporation dba Cover Oregon were transferred to the Department of Consumer and Business Services as of the close of business on June 30, 2015.

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**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**

INDEPENDENT AUDITOR'S REPORT

Department of Consumer and Business Services
State of Oregon
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Salem, Oregon

We were engaged to 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, the financial statements of the Oregon Health Insurance Exchange Corporation, dba Cover Oregon (Cover Oregon), which comprise the Statement of Net Position as of June 30, 2015, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the six month period ended June 30, 2015 (final reporting period), and the related notes to the financial statements, which collectively comprise Cover Oregon's basic financial statements, and have issued our report thereon dated March 15, 2016. Our report disclaims an opinion on the basic financial statements because of certain scope limitations as described in the Independent Auditor's Report.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of Cover Oregon, we considered Cover Oregon's internal control over financial reporting (internal control) 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 Cover Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of Cover Oregon's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2015-001, 2015-002, and 2015-003 to be material weaknesses.

**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* (Continued)**

INDEPENDENT AUDITOR'S REPORT (Continued)

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of Cover Oregon, 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 engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as finding number 2015-003. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES' RESPONSE TO FINDINGS

The Department of Consumer and Business Services' (DCBS), as the successor agency to Cover Oregon, response to the findings identified in our engagement is described in the accompanying Schedule of Findings and Questioned Costs. DCBS' response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

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 Cover Oregon's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering Cover Oregon's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lake Oswego, Oregon
March 15, 2016



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**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Department of Consumer and Business Services
State of Oregon
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Salem, Oregon

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM

We were engaged to audit the Oregon Health Insurance Exchange Corporation, dba Cover Oregon's (Cover Oregon) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Cover Oregon's major federal program for the six month period ended June 30, 2015 (final reporting period). Cover Oregon's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for Cover Oregon's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cover Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Our audit does not provide a legal determination of Cover Oregon's compliance.

BASIS FOR DISCLAIMER OF OPINION

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of Cover Oregon with CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges as described in finding numbers 2015-004 for Allowable Costs/Cost Principles related to payroll costs, consequently we were unable to determine whether Cover Oregon complied with those requirements applicable to that program.

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (Continued)**

INDEPENDENT AUDITOR'S REPORT (Continued)

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on compliance. Accordingly, we do not express an opinion on Cover Oregon's compliance with the specific program compliance requirements referred to in the first paragraph.

OTHER MATTERS

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs in finding numbers 2015-004, 2015-005, and 2015-006.

The Department of Consumer and Business Services' (DCBS), as successor agency to Cover Oregon, responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Cover Oregon's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Cover Oregon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cover Oregon's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cover Oregon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2015-004, 2015-005, and 2015-006 that we consider to be material weaknesses.

DCBS' responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. DCBS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (Continued)**

INDEPENDENT AUDITOR'S REPORT (Continued)

REPORT ON INTERNAL CONTROL OVER COMPLIANCE (Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "J. K. - L. W. - L. W.", is written over the printed text.

Lake Oswego, Oregon
March 15, 2016

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Expenditures of Federal Awards

For the Period Ended June 30, 2015 (final reporting period)

Federal Grantor / Program or Cluster Title

U.S. Department of Health & Human Services:
Centers for Medicare & Medicaid Services:
Office of Acquisitions and Grants Management

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>2015 Federal Expenditures</u>
Direct:			
State Planning and Establishment Grants for the Affordable Care Act Exchanges	93.525	HBEIE130144	\$ <u>9,210,292</u>
			\$ <u><u>9,210,292</u></u>

See notes to Schedule of Expenditures of Federal Awards

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Notes to Schedule of Expenditures of Federal Awards

For the Period Ended June 30, 2015 (final reporting period)

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Oregon Health Insurance Exchange Corporation dba Cover Oregon (Cover Oregon), a public corporation, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organization*.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Schedule of Findings and Questioned Costs
Period Ended June 30, 2015 (final reporting period)

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Disclaimer of opinion
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs	Disclaimer of opinion
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of <i>Circular A-133</i>	Yes
Identification of major program:	
CFDA No. 93.525	State Planning and Establishment Grants for the Affordable Care Act Exchanges
Dollar threshold used to distinguish between type A and B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2015-001 (repeat of finding 2014-001)

Criteria:	Cover Oregon should have maintained a system of internal controls such that misstatements of the accounting records and annual financial statement reporting would be prevented, or detected and corrected by management or employees in the normal course of their duties. Duties should be segregated to the extent possible in order to separate the initiation, authorization and review of transactions.
Condition:	An adjustment to the trial balance and annual financial statements was made during audit fieldwork to correct a material misstatement therein.
Context:	During the review of the accounting records and annual financial statements a reclassification adjustment was recorded in the amount of \$5,713,739 to properly present cost reimbursements from the Oregon Health Authority as revenue instead of the net presentation within expenses.
Cause:	In accordance with common accounting in state agencies, inter-agency cost reimbursements are often offset against expenditures. However, as Cover Oregon is presented as an independent public corporation, cost reimbursements from the Oregon Health Authority should be reported as revenue, and expenses should not be presented net of the reimbursements.
Effect:	Revenues and expenses were each understated by \$5,713,739. A reclassification entry in the amount of \$5,713,739 was needed to present the Statement of Revenues, Expenses, and Changes in Net Position in accordance with accounting principles generally accepted in the United States of America (U.S.GAAP).
Recommendation:	Not applicable as Cover Oregon ceased operations as of June 30, 2015.
View of Responsible Official:	DCBS understands and concurs with the finding.

Finding 2015-002

Criteria:	The Governmental Accounting Standards Board (GASB) issued Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i> , effective for fiscal years beginning after June 15, 2014. This Statement applies to all state and local governmental entities.
Condition:	Cover Oregon was unable to report pension related amounts and disclosures in accordance with GASB Statement No. 68.
Context:	The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. As Cover Oregon offers pension benefits to employees, it is subject to GASB Statement No. 68.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-002 (Continued)

Cause: The State of Oregon's Public Employee Retirement System did not allocate the proportionate share of the Oregon Public Employee Retirement Pension Plan (OPERS) net pension asset, related deferred outflows and inflows of resources, or pension expense required for reporting due to the impending dissolution of Cover Oregon; therefore, information required for proper presentation and disclosure in accordance with GASB Statement No. 68 was not available.

Effect: The financial statements as presented do not comply with U.S. GAAP. The overall impact on the financial statements as a result of the omitted presentation and disclosure is unknown but deemed material.

Recommendation: Not applicable as Cover Oregon ceased operations as of June 30, 2015.

View of Responsible Official: DCBS understands and concurs with the finding.

Finding 2015-003

Criteria: Cover Oregon should maintain evidence supporting amounts reported in the financial statements, and evidence of a system of internal controls over payroll to ensure complete and accurate reporting of amounts reported in the financial statements.

Condition: Cover Oregon was unable to provide documentation supporting payroll expense reported in the financial statements.

Context: Payroll expenses of \$2,678,057 as reported within the financial statements were funded through a federal grant program. As such, if Cover Oregon or DCBS, as the successor agency to Cover Oregon, were required to repay the granting agency this amount, the impact would be material to the financial statements as reported.

Cause: The electronic timekeeping system provided by a third party payroll provider was deactivated upon dissolution of Cover Oregon.

Effect: Without evidence of internal controls over payroll and approval by employee and employer of time worked, we were unable to determine completeness or accuracy of payroll records or the ultimate effect on the financial statements.

Recommendation: Not applicable as Cover Oregon ceased operations as of June 30, 2015.

View of Responsible Official: DCBS understands and concurs with the finding.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 2015-004

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2015

Criteria: In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.

Condition: Cover Oregon did not require or maintain timecards or periodic certifications for salaried employees, and Cover Oregon was unable to provide evidence of timecards and periodic certifications for hourly employees working under the federal program for the period January 1, 2015 through June 30, 2015.

Questioned Costs: Questioned costs are comprised of all payroll-related charges to the grant totaling \$2,678,057.

Context: Timecards or after-the-fact certifications were not prepared by Cover Oregon for salaried employees. This is a repeat finding of 2014-002.

Evidence of timecards or after-the-fact certifications for hourly employees could not be provided.

Of a sample of 60 employees selected in varying pay periods, all 60 employees selected lacked employee certification of time worked, and 17 employees selected lacked evidence of supervisory review of time worked.

Cause: During the six month period of January 1, 2015 through June 30, 2015, Cover Oregon did not require timecards or after-the-fact certifications for salaried employees.

The electronic timekeeping system provided by a third party payroll provider was deactivated upon dissolution of Cover Oregon thereby preventing access to timecards for hourly employees.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding 2015-004 (Continued)

Effect: Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Without appropriate documentation of timecards and/or appropriate supervisory review, there is the risk that federal funds may have been misapplied under the grant.

Recommendation: Not applicable as Cover Oregon and expenditures under this grant do not continue beyond the final reporting period of June 30, 2015.

Views of Responsible
Official: DCBS understands and concurs with the finding.

Finding 2015-005

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2015

Criteria: Per OMB Circular A-87, Attachment A, para. C.3, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Additionally, per OMB Circular A-133 §____.300 (c), Cover Oregon should have a system of internal control that ensures compliance with laws, regulations, and the provisions of contracts or grant agreements related to its Federal programs.

Condition: During the period of January 2015 through May 2015, Cover Oregon submitted requests for reimbursement of material amounts under the Federal grant that were later reimbursed by the Oregon Health Authority (OHA) as allowable under the terms of its cost-sharing arrangement with OHA. As Cover Oregon charged 100 percent of its costs to the Federal program during this time period without regard to the benefit received by OHA for those same costs, Cover Oregon appears to have initially overcharged the Federal program during this five-month period.

Questioned Costs: There appears to be no questioned costs as Cover Oregon corrected the overbilling under the Federal grant by reducing subsequent drawdown requests by the amount it had previously overcharged the Federal grant.

Context: During the period of January 2015 through May 2015, Cover Oregon submitted requests for reimbursement under the Federal program for 100 percent of its costs. Cover Oregon later determined that a portion of the costs should instead have been submitted to OHA under the terms of its cost-sharing agreement with OHA. After identifying the error, Cover Oregon sought to correct the overbilling by reducing amounts requested for reimbursement from the Federal program during

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding 2015-005 (Continued)

the period from May 27, 2015 through June 18, 2015 for amounts that should have been charged to OHA during the period from January 2015 through May 2015.

Cause: Changes in personnel, roles, and responsibilities within the six month period of January 1, 2015 through June 30, 2015 exposed Cover Oregon to gaps in internal control and compliance.

Effect: During the period of January 2015 through May 2015, Cover Oregon submitted requests for reimbursement under the Federal program for costs that were eligible to have been reimbursed under its agreement with OHA. Before operations of Cover Oregon ceased, Cover Oregon worked to ensure that all costs charged under the Federal program were allowable by reconciling amounts charged under the Federal program and the OHA cost sharing arrangement.

Recommendation: Not applicable as Cover Oregon and expenditures under this grant do not continue beyond the final reporting period of June 30, 2015.

Views of Responsible
Official:

DCBS understands and concurs with the finding.

Finding 2015-006

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services (HHS)

Award Year: 2013

Criteria: In accordance with HHS Grants Policy Statement, when using Section 1311 funding for Marketplace construction and renovation activities, all construction and/or major alteration and renovation costs are unallowable, unless preapproved.

Condition: In FY13, Cover Oregon spent \$448,080 for tenant improvements at their Salem service center location. Federal funds were used to increase the value and useful life of leased real property. Cover Oregon is unable to locate evidence of preapproval or statutory authority given by CMS prior to these expenditures occurring.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Findings and Questioned Costs (Continued)

Period Ended June 30, 2015 (final reporting period)

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding 2015-006 (Continued)

Questioned Costs: Known and likely questioned costs are \$448,080, the amount of identified tenant improvement costs not previously approved by CMS and deemed unallowable costs.

Context: The Centers for Medicare and Medicaid Services (CMS) through their site visit review have reported that \$448,080 of tenant improvement costs were unallowable costs under Section 1311 of the grant.

Cause: The use of grant funding without preapproval appears to have been an oversight.

Effect: Unallowable costs totaling \$448,080 were charged to the grant.

Recommendation: DCBS return \$448,080 to CMS in fiscal year 2016.

Views of Responsible
Official: DCBS understands and concurs with this finding.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Summary Schedule of Prior Year Audit Findings

Period Ended June 30, 2015 (final reporting period)

Finding 2014-001 (repeated as finding 2015-001)

Criteria:	Cover Oregon should have a system of internal controls such that misstatements of the accounting records and annual financial statement reporting would be prevented, or detected and corrected by management or employees in the normal course of their duties. Duties should be segregated to the extent possible in order to separate the initiation, authorization and review of transactions.
Condition:	Adjustments to the trial balance and annual financial statements were made during audit fieldwork.
Context:	During the review of the accounting records and annual financial statements while performing fieldwork, adjustments were recorded related to capital asset dispositions in the amount of \$67,810, deferred rent in the amount of \$88,887, retention payable in the amount of \$229,115, sublease income and expense in the offsetting amount of \$110,770, and incorrect presentation of the cash flow statement.
Cause:	Cover Oregon experienced attrition within the entity, including the finance department, which contributed to insufficient resources for a thorough review of the accounting records and annual financial statements before the audit commenced.
Effect:	The lack of sufficient resources exposes Cover Oregon to risk of errors or misstatements in the annual financial report. The adjustments, while not quantitatively material, were not effectively prevented, detected, or corrected prior to commencement of the audit.
Recommendation:	We recommend that management consider implementing controls and processes for reviewing the accounting records and annual financial report in its entirety before the audit begins.
Corrective Action Taken:	Management planned to review and allocate resources necessary to close the financial records and reviewed the accounting records and annual financial report.

Finding 2014-002 (repeated as finding 2015-004; repeat of finding 2013-04)

Federal Program:	CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges
Federal Agency:	U.S. Department of Health and Human Services
Award Year:	2014
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee,

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Summary Schedule of Prior Year Audit Findings (Continued)

Period Ended June 30, 2015 (final reporting period)

Finding 2014-002 (repeated as finding 2015-004; repeat of finding 2013-04)

they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.

Condition: Cover Oregon did not require timecards or periodic certifications for salaried employees working under the federal program for the period January 1, 2014 through June 30, 2014.

Questioned Costs: None noted as the payroll expenditures as sampled appear to be allowable under the grant.

Context: Timecards or semi-annual after-the-fact certifications were not prepared by employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant for the period January 1, 2014 through June 30, 2014. The population for testing compliance was January 1, 2014 through December 31, 2014. Out of a sample of 60, no known or likely questioned costs were identified.

Cause: The scheduled implementation of management's corrective action plan from 2013 provided exposure for non-review and authorization of charges for the first part of 2014, and was compounded by changes in personnel.

Effect: Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates that the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.

Recommendation: We recommend that Cover Oregon continue developing and implementing policies and procedures such that all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.

Corrective Action Taken: Management developed and implemented processes and procedures for the review and approval of staff time by supervisors; however, evidence to support this review was not accessible in the payroll timekeeping system.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Summary Schedule of Prior Year Audit Findings (Continued)

Period Ended June 30, 2015 (final reporting period)

Finding 2014-003 (repeat of finding 2013-01)

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2014

Audit Finding: OMB Circular A 133 Subpart C, Section __.300 requires federal award recipients to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements including those associated with allowable costs and activities that could have a material effect on each of its federal programs. Out of 65 items tested, three items in the combined amount of \$18,865 were identified in which the expenditure was initiated and approved by the same individual. All three transactions we found to be allowable activities and allowable costs under the grant.

Corrective Action

Taken: Management created a plan, schedule, and added an approval line to the accounts payable approval form to allow for effective review of expenditures charged to the grant.

Finding 2014-004 (repeat of finding 2013-03)

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2014

Audit Finding: OMB Circular A 133 Subpart C, Section __.300 requires federal award recipients to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements including those associated with cash management requirements that could have a material effect on each of its federal programs. Cover Oregon submitted 77 requests for reimbursement of expenditures under the federal program. Out of the 11 reimbursement reports tested in our sample, one of the reports in the amount of \$948,664 for payroll expenditures did not display evidence of supervisory review.

Corrective Action

Taken: Management implemented a new payroll drawdown process involving drawdowns to be submitted by the payroll manager to the Controller or Chief Financial Officer for review and approval.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Summary Schedule of Prior Year Audit Findings (Continued)

Period Ended June 30, 2015 (final reporting period)

Finding 2014-005

Federal Program: CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2014

Audit Finding: OMB Circular A 133 Subpart C, Section .300 requires Federal award recipients to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements including those associated with suspension and debarment requirements that could have a material effect on each of its federal programs. Cover Oregon entered into one contract exceeding the threshold of \$25,000 which was not verified against the excluded parties list for suspension and debarment.

Corrective Action Taken: In addition to existing procurement and contracting policies and procedures, which specify debarment and suspension language, management ensured that any new contracts also have legal sufficiency review by the State of Oregon's Department of Justice. The combination of existing policies and procedures and new actions provided for effective review of required checks for suspension and debarment for contracts under federal programs.