



**OREGON HEALTH INSURANCE  
EXCHANGE CORPORATION DBA COVER  
OREGON**

**Financial Statements and Grant Compliance**

*As of and for the year ended December 31, 2012*



# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Financial Statements and Grant Compliance

As of and for the year ended December 31, 2012

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Oregon Health Insurance Exchange Corporation dba Cover Oregon  
Portland, Oregon

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Oregon Health Insurance Exchange Corporation dba Cover Oregon, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the Corporation'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; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities, of the Oregon Health Insurance Exchange Corporation dba Cover Oregon, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 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 the required supplementary information 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.

**Other Information**

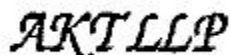
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oregon Health Insurance Exchange Corporation dba Cover Oregon's basic financial statements. The schedule of expenditures of federal awards presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2013 on our consideration of the Oregon Health Insurance Exchange Corporation dba 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 Oregon Health Insurance Exchange Corporation dba Cover Oregon's Internal control over financial reporting and compliance.

The logo for AKT LLP is written in a stylized, bold, serif font. The letters are slightly slanted and have a textured, almost hand-drawn appearance.

Salem, Oregon  
April 1, 2013

# THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Management's Discussion and Analysis

For the Year Ended December 31, 2012

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The Oregon Health Insurance Exchange Corporation dba Cover Oregon (Cover Oregon) financial statements – including the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows – are designed to provide an overview of Cover Oregon's financial position and activities. Management prepares this Discussion and Analysis to assist the reader of these financial statements.

The Oregon Legislature passed Senate Bill 99 (SB99) in June 2011, which created the Oregon Health Insurance Exchange Corporation as a public corporation to implement a central marketplace for individuals and small employers to shop for health insurance and access federal tax credits pursuant the Federal Patient Protection and Affordable Care Act (ACA) of 2010. Cover Oregon is not funded by the state but rather through Federal grants that fund start-up costs and provide funding through the first year of operations in 2014. SB99 enables Cover Oregon to charge participating insurers and state programs an administrative charge based on a percentage of premium for enrollees that enroll through Cover Oregon. This administrative charge is used to cover operating costs and to build an operating reserve. Beginning in 2015, Cover Oregon must be financially self-sustaining though the administrative charge.

### Financial Statements

Cover Oregon began operations in September 2011, and received initial operating funds totaling \$499,000 from the Oregon Health Authority (OHA), who had already obtained Federal grant funding relating to central marketplaces. Cover Oregon then secured an initial Federal grant of \$8.9 million to cover start-up activities through August 2012, and subsequently secured an increase of \$2.1 million and an extension through August 2013 for the grant (collectively, Level 1 Tier 1). In May 2012, Cover Oregon secured a Level 1 Tier 2 Federal grant of \$6.68 million to cover operational activities through May 2013. In November 2012, Cover Oregon submitted a Level 2 Federal grant of \$226 million to fund operations through 2014, and subsequently received approval in January 2013. Both the Level 1 and Level 2 grants are disbursed upon Cover Oregon's submission of an advance request for costs incurred.

As reflected in the attached Statement of Revenues, Expenses and Changes in Net Position for the year ended December 21, 2012, Cover Oregon recognized approximately \$11 million in operating revenues from Federal grants compared to approximately \$1.1 million for the four-months ended December 31, 2011. This increase in Federal funds represents a continued increase in start-up activity initiated by Cover Oregon during 2012. Operating expenses incurred by Cover Oregon for 2012 totaled approximately \$8.5 million compared to approximately \$997,000 for the four-months ended December 31, 2011. Consistent with 2011 operating expenses, the two largest expense categories were salaries and associated benefits, and professional services (relating to software development of the central marketplace). These two categories represented 71% of operating expenses for 2012 and 83% for the four-months ended December 31, 2011, with the decrease in percentage due to additional facility costs in 2012. For 2012, staff salaries and benefits were approximately \$4 million (37% of operating expenses) as compared to approximately \$762,000 (70% of operating expenses) for the four-months ended December 31, 2011. Salaries and associated benefits reflect additional hires throughout 2012, with year-end staffing level at 47 compared to 21 at year-end 2011. Professional services increased from 13% of operating expenses for the four-months ended December 31, 2011, to approximately 35% for year-end 2012, reflecting an increased focus on the development of Cover Oregon's information technology systems which will provide a central marketplace for Oregonians beginning October 2013.

The December 31, 2012, Statement of Net Position for Cover Oregon reflects approximately \$504,000 in cash and \$2.2 million receivable from Federal grants compared to approximately \$555,000 in cash and \$107,000 receivable from the Federal grant for the four-months ended December 31, 2011. This increase in Federal grants receivable reflects the growing operational activity for Cover Oregon and reliance on Federal funds for start-up operations (see Note 2, Federal Grants Receivable, and Note 7, Revenue Concentration, of the financial statements for more information). Net capital assets increased from approximately \$85,000 for the four-months ended December 31, 2011, to approximately \$2.6 million as of December 31, 2012. Approximately \$1.4 million of the increase relates to software and software development of the central marketplace (see Note 3 of the financial statements for additional information relating to capitalized expenses). Current liabilities for December 31, 2012, are approximately \$2.7 million compared to approximately \$163,000 for the four-months ending December 31,

# **THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON**

## **Management's Discussion and Analysis**

For the Year Ended December 31, 2012

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2011. Accounts payable comprise 72% of current liabilities for 2012 versus 17% for the four-months ending December 31, 2011, and reflects an increase in demand for professional services for software development (see Note 3, 5, and 6 of the financial statements for more information). The increase in Net Position from approximately \$85,000 for the four-months ended December 31, 2011, to approximately \$2.5 million for the year-ended December 31, 2012, reflects the increase in net capital assets as previously discussed.

The notes attached to the financial statements provide the reader with several important disclosures, including a summary of the significant accounting practices used by Cover Oregon. For 2012, a comparative analysis is not provided as 2011 represented only four months of operations; however, a comparative analysis will be provided in future years.

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Statement of Net Position

As of December 31, 2012

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### ASSETS

Current Assets:

Cash	\$ 504,278
Federal grants receivable	2,187,692
Prepaid rent	<u>16,481</u>

Total Current Assets 2,708,451

Lease Deposit 53,023

Capital Assets:

IT equipment	249,234
Software & software development	1,407,981
Leasehold improvements	235,777
Furniture and equipment	<u>732,521</u>
	2,625,513

Less accumulated depreciation (66,491)

Capital assets, net 2,559,022

Total Assets \$ 5,320,496

### LIABILITIES AND FUND NET POSITION

Current Liabilities:

Accounts payable	\$ 1,930,687
Payroll liabilities	262,283
Interagency advance	<u>499,000</u>

Total Current Liabilities 2,691,970

Deferred Rent 53,121

Total Liabilities 2,745,091

Net Position:

Net invested in capital assets	2,559,022
Restricted for other purposes	69,504
Unrestricted (deficit) fund net assets	<u>(53,121)</u>
	2,575,405

Total Liabilities and Net Position \$ 5,320,496

**OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON**

**Statement of Revenues, Expenses, and Changes in Net Position**

For the year ended December 31, 2012

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Operating Revenues:

Federal grants \$ 10,957,734

Operating Expenses:

Salaries, payroll taxes, and benefits 4,001,768

Professional services 3,815,651

Occupancy 335,692

Equipment and supplies 120,455

Training 70,089

Depreciation 62,453

Other 61,714

Total Operating Expenses 8,467,822

Increase in Net Position 2,489,912

Net Position - Beginning of Period 85,493

Net Position - End of Period \$ 2,575,405



# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Statement of Cash Flows

For the year ended December 31, 2012

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### Cash Flows from Operating Activities:

Federal grants received	\$ 8,876,605
Cash paid for materials and services	(2,630,730)
Cash paid to employees and for taxes and benefits	<u>(3,760,787)</u>
Net Cash Provided by Operating Activities	<u>2,485,088</u>

### Cash Flows used in Capital and Related Financing Activities:

Acquisition of capital assets	<u>(2,535,983)</u>
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Net Decrease in Cash (50,895)

Cash - beginning 555,173

Cash - ending \$ 504,278

### Reconciliation of Increase in Net Position to Net

#### Cash Provided by Operating Activities:

Increase in fund equity	\$ 2,489,912
Adjustments to reconcile increase in fund equity income to net cash provided by operating activities	
Depreciation	62,453
Changes in assets and liabilities:	
Accounts receivable	(2,081,129)
Prepaid rent	(16,481)
Lease deposit	(53,023)
Accounts payable	1,789,254
Payroll liabilities	240,981
Deferred rent	<u>53,121</u>
Net Cash Provided by Operating Activities	\$ <u><u>2,485,088</u></u>

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Notes to Financial Statements

December 31, 2012

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### Note 1 - Description of the Business & Regulatory Environment

The Oregon Health Insurance Exchange Corporation dba Cover Oregon (Cover Oregon) is a central marketplace where consumers and small employers can shop for health insurance plans and find help paying for coverage. Starting in October of 2013 (for coverage effective January 2014), Oregonians will be able to easily compare plans, determine if they are eligible for tax credits and other financial assistance, and enroll for health insurance coverage through the Cover Oregon website. In 2011, the Oregon Legislature passed Senate Bill 99 which created a public corporation to operate Cover Oregon in the public interest for the benefit of the people and businesses that obtain health insurance coverage for themselves, their families, and their employees through Cover Oregon. Cover Oregon began operations in September 2011. Cover Oregon is governed by a Board of Directors whose members are appointed by the Governor and confirmed by the Senate. Although independent of state government, Cover Oregon is required to provide regular updated status reports to the Oregon legislature and meets regularly with a Legislative Oversight Committee.

Federal grant funding finances the start-up phase and the first year of operations through 2014; however, in 2015, Cover Oregon must be financially self-sustaining. SB99 directs Cover Oregon to establish an administrative charge that will be collected from insurance carriers and state programs to fund the operations of Cover Oregon. The administrative charge is based on enrollees through Cover Oregon in Qualified Health Plans (QHPs) and state programs. SB 99 sets the maximum administrative charge between 3 and 5 percent of the premium depending on enrollment. Cover Oregon expresses the administrative charge as a per member per month figure; yet as a percent of total premiums of all Cover Oregon enrollees, the annual aggregate administrative charge assessed by Cover Oregon must meet the limitations stated in SB 99. For the first year of operations (2014), Cover Oregon has established, through a rule making process, an administrative charge assessed to commercial insurance carriers. The state program charge is still under review. SB 99 further stipulates that administrative charges collected in excess of what is necessary to fund operations and to build a maximum six month operating reserve, will be used to reduce the administrative cost of Cover Oregon. Cover Oregon plans to reduce the costs by refunding any excess reserve to participating insurance carriers and state programs.

### Note 2 - Summary of Significant Accounting Policies

#### Basis of Accounting

Cover Oregon's financial statements are presented on the economic resources measurement focus and the accrual basis of accounting, and conform to accounting principles generally accepted in the United States of America for proprietary (enterprise) funds. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred. Cover Oregon complies with all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) codification as applied on or before November 30, 1989, unless those contradict GASB pronouncements. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, Cover Oregon only follows Statements of Financial Accounting Standards Board issues prior to November 30, 1989.

#### Cash

Cover Oregon considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents. The Corporation maintains its cash in bank deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. At December 31, 2012, Cover Oregon had no uninsured cash.

Subsequent to year end the FDIC's temporary liquidity program, which fully insured non-interest bearing accounts as provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act, expired. Therefore, at January 1, 2013, Cover Oregon had uninsured cash of \$418,271.

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Notes to Financial Statements

December 31, 2012

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### Note 2 - Summary of Significant Accounting Policies, continued

#### Cash, continued

Cover Oregon has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

For purposes of the statement of cash flows, Cover Oregon considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash.

#### Federal Grants Receivable

Federal Grants Receivable represents unreimbursed federal grant funds as of December 31, 2012 for both the Level 1 Tier 1 and Tier 2 Establishment Grants. Management believes this amount is fully collectible, as such no allowance for uncollectible receivables has been established. The total Level 1 Tier 1 grant award is \$11,164,600 which expires in August 2013. The Level 1 Tier 2 grant award is \$6,682,701 which expires in May 2013.

#### Fair Value of Financial Instruments

Cover Oregon's financial instruments, none of which are held for trading purposes, include cash, receivables, and accounts payable. Cover Oregon estimates that the fair value of all these non-derivative financial instruments at December 31, 2012 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet.

#### Capital Assets

Purchased capital assets are reported at cost. No estimates were made for historic costs and no assets were donated which would require an estimate of fair market value at the date received. Cover Oregon's capitalization levels are \$5,000 for tangible personal property and leasehold improvements. There are no acquisitions of land or other real property.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Leasehold improvements	5
Furniture and equipment	3
Office furniture	7

#### Net Position

Net Position comprises the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net position is classified in the following three categories:

- Net invested in capital assets – consists of all capital assets, net of accumulated depreciation
- Restricted for other purposes – consists of all prepaid expenditures
- Unrestricted (deficit) fund net assets – consists of all other fund net assets that are not included in the other categories previously mentioned

#### Operating Revenue and Expense

Cover Oregon distinguishes operating revenues and expenses from non-operating items. Operating revenues include federal grant funds received and requested. Operating expenses include all expenses directly and indirectly related to establishing and running a health insurance marketplace. There were no non-operating items in the period ended December 31, 2012.

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Notes to Financial Statements

December 31, 2012

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### Note 2 - Summary of Significant Accounting Policies, continued

#### Risk Management

Cover Oregon is subject to the risk of loss from various events, including, but not limited to, natural disasters and destruction of assets. Cover Oregon is currently covered under the State of Oregon's self-insurance and commercial insurance program, administered by the Department of Administrative Services, Risk Management Division.

#### Estimates

Cover Oregon uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements require management to make 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Subsequent Events

Cover Oregon has evaluated subsequent events through April 1, 2013, which is the date the financial statements were available to be issued. In January 2013, Cover Oregon was approved for a \$226,442,074 grant from the Department of Health and Human Services, which expires December 2014.

### Note 3 - Capital Assets

Capital assets consist of the following as of December 31, 2012:

	Beginning of period	Additions	Retirements	End of period
IT equipment	\$ 66,392	\$ 182,842	\$ -	\$ 249,234
Software & software development	-	1,407,981	-	1,407,981
Leasehold improvements	23,138	212,639	-	235,777
Furniture and equipment	-	732,521	-	732,521
Total capital assets	<u>89,530</u>	<u>2,535,983</u>	<u>-</u>	<u>2,625,513</u>
Accumulated depreciation	<u>(4,038)</u>	<u>(62,453)</u>	<u>-</u>	<u>(66,491)</u>
Total capital assets, net	<u>\$ 85,492</u>	<u>\$ 2,473,530</u>	<u>\$ -</u>	<u>\$ 2,559,022</u>

### Note 4 - Pension Plan

#### Defined Benefit Plan - Plan Description

Cover Oregon participates in the Oregon Public Employees Retirement System (PERS), an agent multiple-employer defined benefit pension plan and the Oregon Public Service Retirement Plan (OPSRP), an agent multiple-employer hybrid pension plan. Both PERS and OPSRP are governed by the Public Employees' Retirement Board (PERB) under the provisions of Oregon Revised Statute 238. PERS provides benefits under a variety of benefit options, as selected by retiring employees, and provides death and disability benefits. OPSRP provides a combination of retirement benefits under a defined pension plan and individual account program (IAP), the balance of which will be paid out in either a lump sum or over a 5, 10, 15, or 20-year period. Employees hired on or after August 29, 2003 participate only in OPSRP. Beginning January 1, 2004, active PERS members hired before August 29, 2003 became members of IAP of OPSRP. These members retain their existing PERS account however; any future member contributions will be placed in the OPSRP IAP. Exchange employees are eligible to participate after completing six months of service, unless the employee had previously participated in PERS or OPSRP, in which case, participating is not delayed.

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Notes to Financial Statements

December 31, 2012

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### Note 4 - Pension Plan, continued

#### Defined Benefit Plan - Plan Description, continued

For the period ended December 31, 2012, Cover Oregon's total covered payroll amounted to \$2,787,046. Covered payroll refers to all compensation paid by Cover Oregon to active employees and covered by PERS and OPSRP on which contributions are based.

A copy of the Oregon Public Employees' Retirement System annual financial report may be obtained by writing to Public Employees' Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377 or at [www.oregon.gov/PERS](http://www.oregon.gov/PERS).

#### Funding Policy

Cover Oregon's contribution rate for members is set by state statute. Covered employees are required by state statute to contribute 6% of their annual salary to the system. Cover Oregon has chosen to pay the employee contribution. The contribution rate for Cover Oregon is set by the PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits. Cover Oregon's 2012 contribution rate as a percentage of member salaries for PERS and OPSRP was 9.55%.

#### Annual Pension Cost

Total contributions, including member and employer contributions, paid by Cover Oregon for 2012 were \$323,700. Annual pension costs equaled the annual required contributions.

Employer contribution rates for the two-year-period ended June 30, 2013 are based on the actuarial valuation dated December 31, 2009. The fair market value method is used to determine the actuarial value of the plan's assets. The actuarial assumptions include:

- Investment return of 8%, net of investment expenses
- Postretirement benefit increases of 2%
- Projected salary increases of 3.75%
- Inflation rate of 2.75%

Employer contribution rates are set using the entry age actuarial cost method. This method produces an employer contribution rate consisting of:

- An amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year)
- An amount for amortization of the unfunded actuarial accrued liability, if any, over a period of 30 years
- An actuarially determined amount for funding post-employment healthcare subsidies

An expected value of assets is projected using the assumed rate of investment yield, currently.

#### Deferred Compensation Plan

Cover Oregon has a deferred compensation plan (the Plan) created in accordance with the Internal Revenue Code Section 457, as amended. The Plan is administered by the independent plan administrators Oregon Savings Growth Program and ING. The Plan is available to all employees of Cover Oregon. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

The Plan's assets are held in a custodial account for the exclusive benefit of participants and beneficiaries and are not subject to the claims of Cover Oregon's creditors, nor can they be used by Cover Oregon for any purpose other than the payments of benefits to the Plan's participants.

# OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

## Notes to Financial Statements

December 31, 2012

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### Note 5 - Interagency Advance

In 2011 Cover Oregon entered into an intergovernmental agreement with the Oregon Health Authority to provide an advance of funds for initial operating and start-up costs prior to the receipt of federal grant funds. The initial agreement was amended in October 2011 increasing the amount of the advance to \$499,000. The entire amount of operating capital advanced under this agreement is due no later than June 30, 2013.

### Note 6 - Leases

During 2012 Cover Oregon was under contract for three separate leases for office space in Portland, Salem, and Durham, OR. These leases vary in length from 17 to 60 months. Lease expenses for the year ended December 31, 2012, including amounts paid for real estate taxes, parking, and operating expenses, was \$298,097.

Future minimum payments under all operating leases are as follows:

Summary Year ending December 31,	Amount
2013	\$ 452,442
2014	685,846
2015	701,252
2016	701,958
2017	554,433
2018-2022	1,408,559

### Note 7 - Revenue Concentration

Cover Oregon is currently 100% dependent on Federal grant funding for its operations. If a material change in the level of support provided by the U.S. Federal Government occurs, it would have a material effect on Cover Oregon's operations until self-sufficiency is established. Oregon Health Authority, (OHA) also received a Federal grant to help establish Cover Oregon's information technology (IT) infrastructure that currently covers specific IT costs related to Cover Oregon. The OHA grant is not reflected in Note 2.

## **GRANT COMPLIANCE**



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**INDEPENDENT AUDITORS' 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**

To the Board of Directors  
Oregon Health Insurance Exchange Corporation dba Cover Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Oregon Health Insurance Exchange Corporation dba Cover Oregon (Cover Oregon) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Cover Oregon's basic financial statements, and have issued our report thereon dated April 1, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 opinions 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs that we consider to be significant deficiencies as items 2012-1 and 2012-2.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cover Oregon's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2012-3, 2012-4, and 2012-5.

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AKT LLP

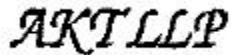


**Cover Oregon's Response to Findings**

Cover Oregon's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Cover Oregon's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

**Purpose of this Report**

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

The logo for AKT LLP, featuring the letters 'AKT' in a large, stylized, serif font, followed by 'LLP' in a smaller, similar font.

Salem, Oregon  
April 1, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Oregon Health Insurance Exchange Corporation dba Cover Oregon

**Compliance**

We have audited 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 each of the Cover Oregon's major federal programs for the year ended December 31, 2012. Cover Oregon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cover Oregon's management. Our responsibility is to express an opinion on Cover Oregon's compliance based on our audit.

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 could have occurred and could have a direct and material effect on a major federal program. 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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cover Oregon's compliance with those requirements.

As described in items 2012-3 and 2012-4 in the accompanying schedule of findings and questioned costs, the Cover Oregon did not comply with requirements regarding Reporting that are applicable to its State planning and establishment for the affordable care act exchanges. Compliance with such requirements is necessary, in our opinion, for Cover Oregon to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Cover Oregon complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

**Internal Control Over Compliance**

Management of Cover Oregon is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cover Oregon's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-3 and 2012-5 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-4 to be a significant deficiency.

Cover Oregon's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Cover Oregon's response and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**AKT LLP**

Salem, Oregon  
April 1, 2013

**OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON**

**Schedule of Expenditures of Federal Awards**

For the year ended December 31, 2012

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<u>Federal Grantor/ Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<b><i>Department of Health and Human Services</i></b>			
<u>Centers for Medicare and Medicaid Services</u>			
State Planning and Establishment Grants for the Affordable Care Act Exchanges	93.525	HBEIE110069-01-01	\$ 6,900,109
	93.525	HBEIE110069-01-00	<u>4,057,625</u>
Total			<u>\$ 10,957,734</u>

## **OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON**

### **Notes to the Schedule of Expenditures of Federal Awards**

For the year ended December 31, 2012

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#### **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 modified 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 Organizations*.

#### **Note 2 - Sub-recipients**

Cover Oregon provided \$72,195 of federal awards to sub-recipients to support the program within the Centers for Medicaid and Medicare Services.

**OREGON HEALTH INSURANCE EXCHANGE dba COVER OREGON**  
**Schedule of Findings and Questioned Costs**  
For the year ended December 31, 2012

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**Section I - Summary of Auditors' Results**

Basic Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Significant deficiencies identified?  X  yes   no  
Material weakness identified?   yes  X  no

Noncompliance material to financial statements noted?   yes  X  no

Federal Awards

Internal control over major programs:

Significant deficiencies identified?  X  yes   no  
Material weakness identified?  X  yes   no

Type of auditors' report issued on compliance for major programs: Modified

Any audit findings disclosed that are required to be reported in accordance with *Circular A-133*, Section .510(a)?  X  yes   no

Identification of major programs:

<u>CFDA or Grantor Number</u>	<u>Name of Federal Program or Cluster</u>
<b>93.525</b>	<b>State Planning and Establishment Grants for the Affordable Care Act Exchanges</b>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low risk auditee Under OMB Circular A-133, Section 530? No

# OREGON HEALTH INSURANCE EXCHANGE dba COVER OREGON

## Schedule of Findings and Questioned Costs

For the year ended December 31, 2012

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### Section II - Financial Statement Findings

#### 2012 - 1 (Significant Deficiency)

*Criteria:* Internal Control over Personnel Files

*Condition:* We found that multiple personnel files did not have an employment agreement which agreed to the actual wages paid. In addition, there were several incomplete employment forms, and lack of documentation of employee approving and accepting pay rates.

*Cause:* Inadequate resources dedicated to the Human Resources Function.

*Effect:* Due to lack of internal controls, material misstatements could occur and not be detected.

*Recommendation:* Procedures should be implemented to provide for complete and accurate payroll files.

#### *Management*

*Response:* Management concurs with the cause and recommendation, and has put measures in place to mitigate the risk of a material misstatement by employing additional resources (e.g., recruiting personnel, Business Administrative Manager, Human Resource (HR) generalist) which will enable the HR functions greater segregation of duties thus increasing internal control as multiple reviews and approvals of offer letters, new hire paperwork, and personnel files are required.

#### 2012 - 2 (Significant Deficiency)

*Criteria:* Internal Control over Director's Expenses

*Condition:* We found that the chairperson of the Finance and Audit Committee has volunteered to review the Executive Director's expense reports. Upon review of the Executive Director's expense reports, we found the Chief Operating Officer was signing off as the reviewer, not a representative from the Committee.

*Cause:* Inadequate controls over Executive Director's Expenses.

*Effect:* Due to lack of internal controls, material misstatement could occur and not be detected.

*Recommendation:* Procedures should be followed to ensure that proper approval channels are followed.

#### *Management*

*Response:* Management acknowledges that, although the Executive Director's expenses were independently reviewed and approved, the review and approval was not in alignment with the understanding of the Committee. To mitigate the risk of non-compliance, the chairperson of the Committee will review for approval all past Executive Director's expenses not previously reviewed or approved by the chairperson. All future Executive Director's expenses will be reviewed and approved by the chairperson (or other person as designated by the Committee) prior to reimbursement to the Executive Director.

# OREGON HEALTH INSURANCE EXCHANGE dba COVER OREGON

## Schedule of Findings and Questioned Costs

For the year ended December 31, 2012

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### Section III - Federal Award Findings and Questioned Costs

#### 2012 - 3 (Material Weakness, Material Non-Compliance)

Federal Program: US HHS; CCIO: Cooperative Agreement to Support the Establishment of State Operated Health Insurance Exchanges

Federal Agency: Department of Health and Human Services

Award Year: 2011-2013

Pass Through  
Entity: None

Condition: Cover Oregon submitted their federal census reporting package 39 days after receiving the audit report.

Likely Questioned  
Costs: \$0

Context: OMB A-133 requires that the federal census reporting package be submitted to the federal single audit clearinghouse within 30 days of the report release date.

Effect: Cover Oregon is not in compliance with federal reporting requirements.

Cause: Cover Oregon does not have effective internal controls over federal reporting requirements.

Recommendation: Cover Oregon should develop and implement internal controls over federal reporting requirements.

Response and  
Corrective Action: Management acknowledges the report was filed late, and will ensure future reports are in compliance through the use of a federal reporting requirements checklist which identifies (at a minimum) the reporting requirement, due date, location (e.g. website, address, etc.), and personnel responsible for completing the reporting activity.

#### 2012-4 (Significant Deficiency, Non-Compliance)

Federal Program: US HHS; CCIO: Cooperative Agreement to Support the Establishment of State Operated Health Insurance Exchanges

Federal Agency: Department of Health and Human Services

Award Year: 2011-2013

Pass Through  
Entity: None

Condition: Cover Oregon does not follow sub award and executive compensation reporting as required by the Federal Funding Accountability and Transparency Act of 2006.



# OREGON HEALTH INSURANCE EXCHANGE dba COVER OREGON

## Schedule of Findings and Questioned Costs

For the year ended December 31, 2012

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### 2012-4 (Significant Deficiency, Non-Compliance) Continued

#### Likely Questioned

Costs: \$72,195

Context: The Federal Funding Accountability and Transparency Act of 2006 requires that all first tier grant recipients report sub awards greater than \$25,000 and the compensation of the five highest compensated employees. We found a sub award recipient to have received a total of \$72,195 in FY2012. Per review of the reporting site [www.usaspending.gov](http://www.usaspending.gov), it shows that Cover Oregon has not reported the \$72,195 sub award nor have they reported the five highest compensated employees.

Effect: Cover Oregon is not in compliance with Federal Funding Accountability and Transparency Act of 2006.

Cause: Cover Oregon does not have effective internal controls over compliance with the Federal Funding Accountability and Transparency Act of 2006.

Recommendation: Cover Oregon should develop and implement internal controls over compliance with the Federal Funding Accountability and Transparency Act of 2006.

#### Response and

Corrective Action: Management concurs with the cause and recommendation and will correct any non-compliance and be compliant with the Federal Funding Accountability and Transparency Act of 2006 (FFATA) as specified in the grant award document. To mitigate non-compliance, applicable procedures will be established and specified personnel will be responsible for required FFATA reporting.

### 2012-5 (Material Weakness)

Federal Program: US HHS; CCIO: Cooperative Agreement to Support the Establishment of State Operated Health Insurance Exchanges

Federal Agency: Department of Health and Human Services

Award Year: 2011-2013

#### Pass Through

Entity: None

Condition: Cover Oregon does not have controls in place over Cash Management compliance.

#### Likely Questioned

Costs: \$0

Context: Entities in receipt of federal funds are required to implement internal controls over each respective compliance requirement. As Cover Oregon's current working capital levels are inadequate to meet the needs of the organization's plan for growth, the inherent risk for material non-compliance is high.

**OREGON HEALTH INSURANCE EXCHANGE dba COVER OREGON**

**Schedule of Findings and Questioned Costs**

For the year ended December 31, 2012

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*2012-5 (Material Weakness) continued*

Effect: If adequate internal controls are not in place over Cash Management compliance, Cover Oregon risks material non-compliance with Cash Management compliance.

Cause: Cover Oregon does not have effective internal controls over compliance with Cash Management compliance requirements.

Recommendation: Cover Oregon should develop and implement internal controls surrounding cash management compliance areas to ensure all requirements are met.

Response and

Corrective Action: Management concurs with the recommendation, and to mitigate the risk of non-compliance, has procedures in place and additional resources planned (i.e., dedicated accounts payable, dedicated treasury) that enable the Cash Management functions greater segregation of duties and internal controls regarding funds.

**Section IV - Schedule of Prior Federal Award Findings and Questioned Costs**

None