



**COVER
OREGON™**

**OREGON HEALTH INSURANCE EXCHANGE
CORPORATION**

FINANCIAL STATEMENTS and COMPLIANCE REPORTING
for the fiscal years ended December 31, 2013 and 2012

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

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INDEPENDENT AUDITOR'S REPORT

March 25, 2014

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Durham, Oregon

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Oregon Health Insurance Exchange Corporation, dba Cover Oregon (Cover Oregon), as of and for the year ended December 31, 2013, and the related notes to 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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
March 25, 2014
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OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cover Oregon as of December 31, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with U.S. GAAP.

EMPHASIS OF MATTER

The accompanying financial statements have been prepared assuming that Cover Oregon will continue as a going concern. As discussed in Note 11 of the Notes to the Financial Statements, Cover Oregon has exposure to litigation, enrollment risks, legislative actions, and dependence upon contractors for delivering certain services that could raise substantial doubt about its ability to continue as a going concern. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

OTHER MATTERS

The financial statements of Cover Oregon, as of and for the year ended December 31, 2012, were audited by other auditors whose report dated April 1, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

U.S. GAAP requires 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 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.

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 25, 2014, 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
March 25, 2014
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TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By


Robert G. Moody, Jr., Partner

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Years Ended December 31, 2013 and December 31, 2012

This Management's Discussion and Analysis provides an overview of the financial activities for the Oregon Health Insurance Exchange Corporation (Cover Oregon) for the fiscal years ended December 31, 2013, and 2012. This information primarily focuses on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with Cover Oregon's financial statements beginning on page 9. Management prepares this Management's Discussion and Analysis to assist the reader of these financial statements.

USING THIS REPORT

This report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements as follows: 1) the Statements of Net Position on page 9; 2) the Statements of Revenues, Expenses, and Changes in Net Position on page 10; 3) the Statements of Cash Flows on page 11. The Notes to the Financial Statements (on pages 12 - 21) referenced throughout this Management's Discussion and Analysis are attached to the basic financial statements and provide the reader with several important disclosures, including a summary of the significant accounting policies used by Cover Oregon.

FINANCIAL HIGHLIGHTS

- The Level 1 (Tier 1 & Tier 2) Cooperative Agreements to Support Establishment of State Operated Health Insurance Exchanges grant were fully expended (\$5.7 million combined for 2013).
- A Level 2 Federal Cooperative Agreement to Support Establishment of the Affordable Care Act's Health Insurance Exchange grant was awarded for \$226.4 million in January 2013.
- The \$499,000 of start-up funds from the Oregon Health Authority (OHA) was fully repaid in June 2013.
- Cover Oregon received a combined \$99.6 million in federal funds for operational expenditures in 2013.
- Capital assets increased \$86.5 million as Information Technology (IT) development costs were included in construction in progress.
- Staffing costs increased \$8.3 million over the prior year as budgeted positions were filled in preparation for open enrollment and operations.

THE STATEMENT OF NET POSITION

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 health of the organization. These statements include all assets and liabilities using the accrual basis of accounting (see Note 2), which is similar to the accounting used by the most private-sector companies.

The Statement of Net Position reports net positions and changes thereto. Think of the net position (the difference between assets and liabilities) as one way to measure the financial health or financial position of Cover Oregon. 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 health of Cover Oregon, such as changes in the regulatory and/or business environment (see Notes 1 and 12).

The Statement of Revenues, Expenses, and Changes in Net Position reports the activities for the year in various revenue and expense categories. This information along with the Statement of Cash Flows reflects where Cover Oregon utilized the grant funds received throughout the year in support of its operational and capital activities.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Management’s Discussion & Analysis

For the Years Ended December 31, 2013 and December 31, 2012

ASSETS AND LIABILITIES

The \$499,000 loan from the OHA enabled Cover Oregon to begin start-up activities and seek Federal grant funding (see Note 3). Cover Oregon secured an initial Federal grant of \$8.9 million to cover start-up activities, and subsequently secured an increase of \$2.1 million and an extension of time. Cover Oregon also secured a Level 1 Tier 2 Federal grant of \$6.7 million to cover operational activities through May 2013, which was later extended for time to ensure full expenditure of the funds. In January 2013, Cover Oregon secured a Level 2 Federal grant for \$226.4 million to fund operations through December 31, 2014 (see Note 8).

As of year-end December 31, 2013, Federal grants receivable increased from \$2.2 million at December 31, 2012, to \$43.9 million, to some extent offsetting increased accounts payables (see the discussion on current liabilities below). The Federal grants receivable reflects Cover Oregon’s reliance on Federal funds for operational costs (see Notes 1, 2, and 8).

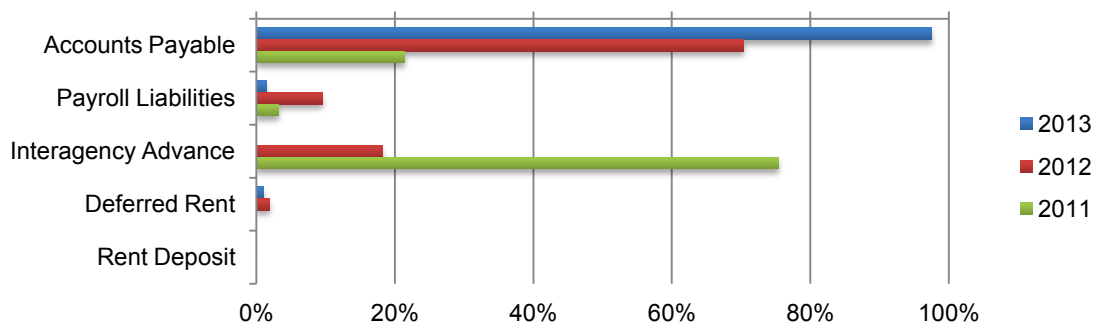
Federal Grant Receivable

(in millions)

	2013	2012	2011
Federal Grant Receivable	\$ 43.9	\$ 2.2	\$ 0.1

Current liabilities for the year ended December 31, 2013, were \$45.0 million compared to \$2.7 million for the year ended December 31, 2012. Accounts payable comprises 98.5% of current liabilities for 2013 versus 71.7% for the year ended December 31, 2012. The increase directly relates to IT professional services of \$39 million accrued at year-end in accounts payable.

Liabilities to Total Liabilities



The Statement of Net Position presents information on all of Cover Oregon’s assets and liabilities, with the difference between the two reported as Net Position. Cover Oregon’s increase in Net Position from \$2.5 million for the year ended December 31, 2012, to \$81.7 million for the year ended December 31, 2013, reflects the increase in net capital assets as previously discussed.

THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended December 31, 2013, Cover Oregon’s revenues consisted of Federal grants provided under Cooperative Agreements to Support Establishment of the Affordable Care Act’s Health Insurance Exchange (see Note 8). Cover Oregon recognized \$141.2 million in revenues from Federal grants for the year ended December 31, 2013, an increase from \$11 million for the year ended December 31, 2012. This increase in Federal funds represents a continued focus on start-up activity costs primarily associated the development of the web portal and supporting infrastructure.

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

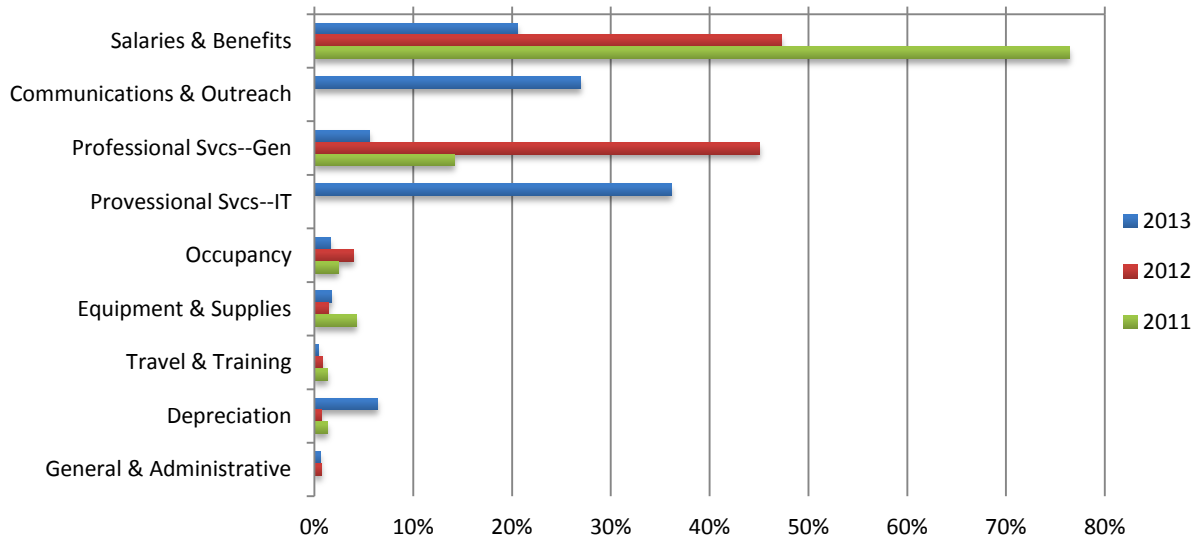
For the Years Ended December 31, 2013 and December 31, 2012

Revenues
(in millions)

	2013	2012	2011
Federal Grants	\$ 141.2	\$ 11.0	\$ 1.1

After capitalization of assets as per policy (see Note 2), operating expenses for the year ended December 31, 2013, totaled \$59.5 million as compared to \$8.5 million for the year ended December 31, 2012. Consistent with prior years, the two largest expense categories were salaries (and associated benefits) and professional services, specifically general professional services in 2012 and IT professional services in 2013 (see Note 9). The shift from expenses consisting mostly of salaries and benefits in 2011 to professional services for the year ended December 31, 2013, reflects the progression from operational planning to development of Cover Oregon’s website and technology infrastructure and operational support.

Expenses to Total Expenses



For the year ended December 2013, salaries and benefits totaled \$12.3 million (20.6% of expenses) compared to \$4.0 million (47.3% of expenses) for the year ended December 31, 2012. The increase in 2013 staffing costs is attributable to filling budgeted positions in the customer service center in preparation for open enrollment and filling corporate positions in support of general operations.

Staffing Levels

	2013	2012	2011
Employees	165	47	21

Cover Oregon launched a Communications and Outreach plan in 2013 to increase consumer awareness, and to provide consumers with information and resources regarding open enrollment. The communications plan included paid media (radio, TV, social media, etc.) that totaled \$12.2 million for the year ended December 31, 2013. In addition to paid media, Cover Oregon spent \$3.8 million to engage Community Partners, Agents, and Tribes to reach consumers throughout Oregon and to assist them with the application process.

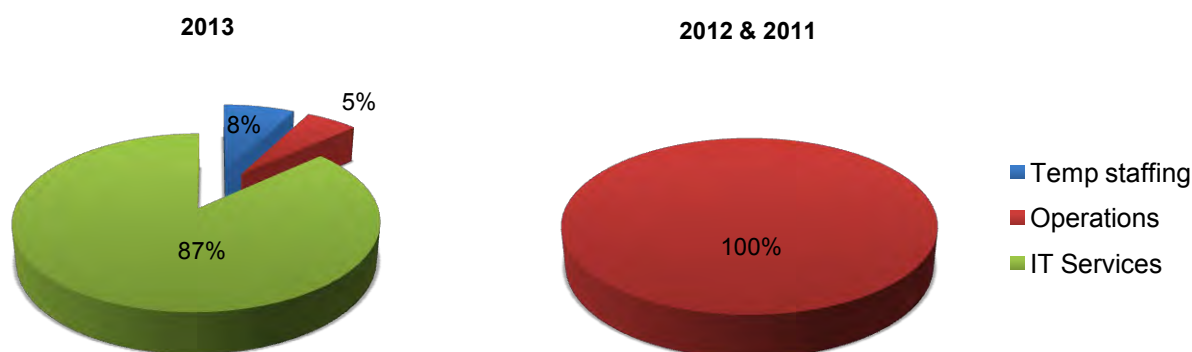
THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Management's Discussion & Analysis

For the Years Ended December 31, 2013 and December 31, 2012

The increase in professional services to \$24.8 million (general and IT combined) for the year ended December 31, 2013, from \$3.8 million for the year ended December 31, 2012, primarily reflects the increased focus on development of Cover Oregon's website and technology infrastructure. For 2013, \$21.5 million of professional services were IT related and highly concentrated with a single vendor (see Note 9), with no comparable IT costs for the year ended December 31, 2012. General professional services for 2013 included \$1.9 million of temporary staffing costs associated with the customer service center's support of open enrollment starting in October 2013, and \$1.4 million for professional services related to operational support, as compared to \$3.8 million for professional services related to operational support for the year ended December 31, 2012.

Professional Services



CAPITAL ASSET ADMINISTRATION

Net capital assets increased from approximately \$2.56 million for the year ended December 31, 2012, to \$85.3 million as of December 31, 2013 (see Note 3). The large increase is directly proportional to IT professional services related to the development of the web portal; however, since the web portal was not fully functional, the assets are reflected in CIP (construction in progress) and will be moved to the Software & Software Development category at such time as the web portal is deemed fully functional. Cover Oregon is working with the primary contractor to remedy the web portal issues, and may not fully realize all costs incurred to date (see Notes 9 and 12). Future capital asset additions should be less than historical additions as Cover Oregon moves from start-up to fully operational.

Capital Assets
(in millions)

	2013	2012	2011
Leasehold improvements	\$ 0.33	\$ 0.24	\$ 0.02
Furniture & equipment	1.35	0.73	-
IT equipment	11.59	0.25	0.07
Software & development	7.60	1.41	-
Construction in progress	68.29	-	-
Total capital assets	<u>89.16</u>	<u>2.63</u>	<u>0.09</u>
Accumulated depreciation	<u>(3.86)</u>	<u>(0.07)</u>	<u>(0.00)</u>
Total capital assets, net	<u>\$ 85.30</u>	<u>\$ 2.56</u>	<u>\$ 0.09</u>

**THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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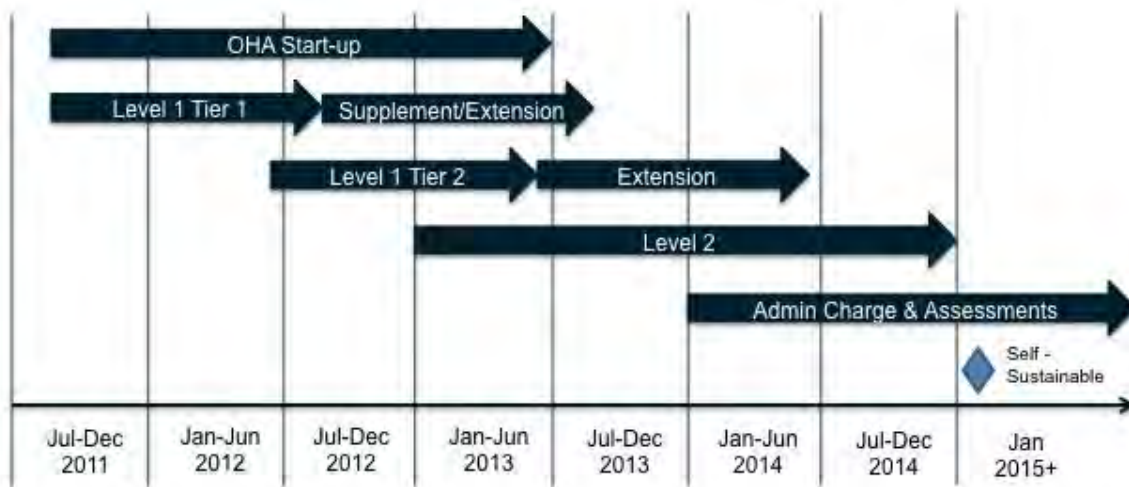
Management’s Discussion & Analysis

For the Years Ended December 31, 2013 and December 31, 2012

CURRENTLY KNOWN FACTS AND CONDITIONS

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 central marketplaces (see Note 3). Since its formation and continuing through the first year of operations ending December 31, 2014, Cover Oregon is funded through Federal grants (see Note 8). In planning for long-term self-sufficiency, Senate Bill 99 (see Note 1) enables Cover Oregon to begin charging, in 2014, an administrative charge on commercial insurance carriers and an assessment on state programs for the purpose of establishing up to a six-month operating reserve by December 31, 2014. Beginning in January 2015, Cover Oregon must be financially self-sustaining through the administrative charge and assessment.

Funding Overview



CONTACTING COVER OREGON’S FINANCIAL MANAGEMENT

This Management’s Discussion and Analysis, the accompanying financial statements, the notes to the financial statements, and the single audit section are designed to provide readers with a general overview of Cover Oregon’s finances and to reflect accountability and financial transparency relating to funds received and expenditures of those funds. If you have questions about this report or need additional financial information, please contact Cover Oregon’s financial management team at our corporate offices. Contact information may be found on our website at www.coveroregon.com.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statements of Net Position
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 492,752	\$ 504,278
Federal grants receivable	43,877,022	2,187,692
Prepaid expenses	<u>10,300</u>	<u>16,481</u>
Total Current Assets	<u>44,380,074</u>	<u>2,708,451</u>
Lease Deposit	53,023	53,023
Capital Assets, net	<u>85,304,557</u>	<u>2,559,022</u>
Total Assets	<u>\$ 129,737,654</u>	<u>\$ 5,320,496</u>
 LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 44,361,009	\$ 1,930,687
Payroll liabilities	634,232	262,283
Interagency advance	<u>-</u>	<u>499,000</u>
Total Current Liabilities	<u>44,995,241</u>	<u>2,691,970</u>
Deferred Rent	455,569	53,121
Rent Deposit	<u>13,806</u>	<u>-</u>
Total Liabilities	<u>45,464,616</u>	<u>2,745,091</u>
Net Position:		
Net invested in capital assets	46,307,178	2,559,022
Restricted	-	69,504
Unrestricted	<u>37,965,860</u>	<u>(53,121)</u>
	<u>84,273,038</u>	<u>2,575,405</u>
Total Liabilities and Net Position	<u>\$ 129,737,654</u>	<u>\$ 5,320,496</u>

See accompanying notes to financial statements

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2013 and December 31, 2012

	2013	2012
Operating Revenues:		
Federal grants	\$ <u>141,245,220</u>	\$ <u>10,957,734</u>
Operating Expenses:		
Salaries, payroll taxes, & benefits	12,273,628	4,001,768
Communication & outreach	16,059,871	-
Professional services - General	3,302,041	3,815,651
Professional services - IT	21,542,288	-
Occupancy	947,570	335,692
Equipment & supplies	1,033,650	120,455
Travel & training	229,467	70,089
Depreciation	3,792,292	62,453
General & administrative expense	<u>366,780</u>	<u>61,714</u>
Total Operating Expenses	<u>59,547,587</u>	<u>8,467,822</u>
Increase in Net Position	81,697,633	2,489,912
Net Position - Beginning of year	<u>2,575,405</u>	<u>85,493</u>
Net Position - End of year	\$ <u><u>84,273,038</u></u>	\$ <u><u>2,575,405</u></u>

See accompanying notes to financial statements

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statements of Cash Flows

For the Years Ended December 31, 2013 and December 31, 2012

	2013	2012
Cash Flows from Operating Activities:		
Federal grants received	\$ 99,555,890	\$ 8,876,605
Cash paid for materials and services	(39,503,501)	(2,630,730)
Cash paid to employees and for taxes and benefits	(11,901,681)	(3,760,787)
Cash paid for grants to sub-recipients	<u>(122,786)</u>	<u>-</u>
Net Cash Flows from Operating Activities	48,027,922	2,485,088
Cash Flows from Capital and Related Financing Activities:		
Repayment of interagency advance	(499,000)	-
Acquisition of capital assets	<u>(47,540,448)</u>	<u>(2,535,983)</u>
Net Cash Flows from Capital and Related Financing Activities	(48,039,448)	(2,535,983)
Change in Cash	<u>(11,526)</u>	<u>(50,895)</u>
Cash - beginning of year	<u>504,278</u>	<u>555,173</u>
Cash - ending of year	<u>\$ 492,752</u>	<u>\$ 504,278</u>
Reconciliation of Change in Net Position to Net		
Cash Flows from Operating Activities:		
Increase in net position	\$ 81,697,633	\$ 2,489,912
Adjustments to reconcile increase in net position to net cash provided by operating activities		
Depreciation	3,792,292	62,453
Changes in Assets and Liabilities:		
Federal grants receivable	(41,689,330)	(2,081,129)
Prepaid expenses	6,181	(16,481)
Lease deposit	-	(53,023)
Accounts payable	42,430,322	1,789,254
Amounts in accounts payable related to construction in progress	(38,997,379)	-
Payroll liabilities	371,949	240,981
Deferred rent	402,448	53,121
Rent deposit	<u>13,806</u>	<u>-</u>
Net Cash Flows from Operating Activities	<u>\$ 48,027,922</u>	<u>\$ 2,485,088</u>

Schedule of non-cash capital and related financing activities:

Purchase of capital assets through accounts payable \$38,997,379.

See accompanying notes to financial statements

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

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.

Senate Bill 99

In July 2011 the Oregon Legislature passed Senate Bill 99 creating the Oregon Health Insurance Exchange (Cover Oregon). Cover Oregon is regulated by the ACA, state law, and is a governmental entity having the authority to perform governmental functions and exercise governmental powers. Although Cover Oregon is a governmental entity, it is 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 operates 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.

Board of Directors

Cover Oregon began in September 2011, and is governed by a nine-member board of directors, each of whom is appointed by the Governor and confirmed by the Oregon Senate. The board is supported by committees (Consumer Advisory Committee, Finance & Audit Committee, and Personnel Committee), appoints Cover Oregon's executive director, and delegates operational authority of Cover Oregon to the executive director. Cover Oregon is also guided by a bipartisan Legislative Oversight and Advisory Committee. Although independent of state government, Cover Oregon is required, under Senate Bill 99, to provide quarterly status reports, an annual report, and audit reports to the Oregon legislature.

Federal Grant Funding

Cover Oregon secured federal grant funding for start-up costs beginning in 2011 and is reliant upon grant funding through December 2014. The Federal grant funds Cover Oregon received, formally called the Cooperative Agreements to Support Establishment of the Affordable Care Act's Health Insurance Exchanges, are administered by CCIO, which is part of the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services. Each grant has specific operational activities, budget items, and terms and conditions that Cover Oregon must satisfy. Cover Oregon must also report progress on its activities and expenditures regularly to CCIO, with the frequency of such reports on a monthly, quarterly, or semi-annual basis, depending upon the type of report.

Self-sufficiency

In planning for self-sufficiency, Senate Bill 99 enables Cover Oregon to begin charging, in 2014, an administrative charge 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 are based on enrollments facilitated through Cover Oregon and expressed as a per-member-per-month (PMPM) figure. Beginning in 2015, and as specified by Senate Bill 99, Cover Oregon must be financially self-sustaining through the administrative charges on commercial insurers and the assessments on state programs. Senate Bill 99 also specifies that the annual aggregate amount of administrative charges cannot exceed five (5) percent of premiums. Should the charges collected exceed what is necessary to fund operations or to build a maximum six-month operating reserve, Senate Bill 99 mandates that the excess be used to reduce or offset the future costs of Cover Oregon or to refund the excess to participating insurers or state programs. For 2014, Cover Oregon established, through public rule making process, an administrative charge on commercial insurers at \$9.38 PMPM.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Office of Federal Financial Management

With Cover Oregon's reliance upon Federal grant funding and in accordance with the terms and conditions of the grants, Cover Oregon must comply with the Office of Federal Financial Management's requirements of an annual audit. The annual audit is 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 are expended properly. Since its first year of operations in 2011, Cover Oregon has elected to have the OMB A-133 audit performed by an independent third-party accounting firm.

Business Operations

Cover Oregon began serving individuals and families in October 2013 and providing a place for insurance agents and community partners to assist those seeking insurance through Cover Oregon. Individuals who do not have access to affordable coverage at work may use Cover Oregon to compare health insurance plans and costs, and to determine if they are eligible for financial assistance to help pay for coverage. Through a single application process, individuals may enroll in commercial insurance plans or state programs, such as Healthy Kids or the Oregon Health Plan. Under current regulations, Cover Oregon may also begin serving employers in 2014 to provide health plan options for their employees. For example, under a defined contribution model, employers could contribute a set amount to premiums and allow their employees to select plans offered through Cover Oregon. Cover Oregon will provide value to employers by consolidating insurance premiums into a single invoice, and value to commercial insurers by collecting and consolidating employer premiums, and remitting those premiums to the participating insurers.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

Cover Oregon's financial statements are presented on the flow of economic resources measurement focus and the accrual basis of accounting, and conform to Generally Accepted Accounting Principles (GAAP) 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, regardless of when cash is received or paid.

Federal Grants Receivable

Federal grants receivable represents unreimbursed federal grant funds as of December 31, 2013, for the Level 2 Establishment Grant. The receivables amount for 2013 includes an estimated \$12.7 million for unbilled time associated with the development of the web portal (see Note 9). Since Cover Oregon believes the entire receivables amount is collectible under the terms of the grant, no allowance for uncollectible receivables has been established. The Level 2 Establishment expires on December 31, 2014.

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 per unit for tangible personal property and leasehold improvements. As of December 31, 2013 and 2012, there have been no acquisitions of land or other real property.

Any costs incurred for repairs and maintenance of assets are expensed as incurred. Costs of assets sold or retired (and any 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 Cover Oregon. As of December 31, 2013 and 2012, there were no assets sold, retired, or disposed.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Depreciation on all Cover Oregon assets is calculated using the straight-line basis over the estimated useful lives (in years) as follows:

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

Net Position

Net Position presents information on all of Cover Oregon's assets and liabilities, with the difference between the two reported as net position.

Operating Revenue and Expense

Cover Oregon distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues include Federal grant funds received, requested, or funds expected to be received (related to accrued expenses). Operating expenses include all expenses that are directly and indirectly related to establishing and running a state-based health insurance marketplace. As of December 31, 2013 and 2012, Cover Oregon had no non-operating revenues or expenses represented in the accompanying financial statements.

Use of Estimates

Cover Oregon uses estimates and assumptions in preparing financial statements in accordance with GAAP. The preparation of the financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. As such, actual results could differ from the estimates included in the accompanying financial statements. The largest estimate at December 31, 2013, includes \$12.7 million for unbilled time associated with the development of the web portal (see Note 9).

Note 3 – Detail of Accounts

Cash

Cover Oregon 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 insured by the FDIC up to a limit of \$250,000. On December 31, 2012, the unlimited insurance coverage for noninterest-bearing accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired. Deposits now held in noninterest-bearing transaction account are aggregated with any interest-bearing deposits held in the same ownership category, and the combined total is insured by the FDIC up to at least \$250,000. At December 31, 2013 and 2012, Cover Oregon had cash uninsured by the FDIC of \$340,557 and \$418,271, respectively.

However, as a public corporation established by the State of Oregon, Cover Oregon's cash is considered public funds as specified by House Bill 4164, which references Oregon Revised Statue (ORS) 295. Under ORS 295.022, any public fund deposits that exceed 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 is listed as a qualified depository under the PFCP.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Under the PFCP, Cover Oregon's 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 it may have in its possession. The percentage of funds is set per statute by the Oregon State Treasury and generally within a range of 10-110 percent of the uninsured public funds deposits. These securities then comprise the asset pool available to the PFCP to reimburse local governments, state agencies, and Cover Oregon in the event our banking institution experiences a failure or loss event. Although this pooled liability structure does not guarantee 100 percent protection against loss in all situations, it does provides an increased protection level for Cover Oregon's funds.

Capital Assets

Capital asset activity consisted of the following as of December 31, 2013:

	<u>Dec 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec 31,</u> <u>2013</u>
Leasehold improvements	\$ 235,777	\$ 98,647	\$ -	\$ 334,424
Furniture & equipment	732,521	616,141	-	1,348,662
IT Equipment	249,234	11,336,709	-	11,585,943
Software & development	1,407,981	6,187,845	-	7,595,826
Construction in progress	-	68,298,485	-	68,298,485
Total capital assets	<u>2,625,513</u>	<u>86,537,827</u>	<u>-</u>	<u>89,163,340</u>
Accumulated depreciation	<u>(66,491)</u>	<u>(3,792,292)</u>	<u>-</u>	<u>(3,858,783)</u>
Total capital assets, net	<u>\$ 2,559,022</u>	<u>\$ 82,745,535</u>	<u>\$ -</u>	<u>\$ 85,304,557</u>

Capital asset activity consisted of the following as of December 31, 2012:

	<u>Dec 31,</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec 31,</u> <u>2012</u>
Leasehold improvements	\$ 23,138	\$ 212,639	\$ -	\$ 235,777
Furniture & equipment	-	732,521	-	732,521
IT Equipment	66,392	182,842	-	249,234
Software & development	-	1,407,981	-	1,407,981
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>

Accounts Payable

The amounts in accounts payable include trade accounts payables and accruals for goods and services received prior to year-end 2013, and amounts accrued for unbilled charges for IT development.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Interagency Advance

Cover Oregon entered into an intergovernmental agreement in 2011 with the Oregon Health Authority to provide 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 by the end of 2011. Repayment of the entire amount of the advance was due no later than June 30, 2013. Cover Oregon repaid the \$499,000 in full in June 2013.

Note 4 - Pension Plan

Defined Benefit Plan - Plan Description

Cover Oregon participates in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan, and the Oregon Public Service Retirement Plan (OPSRP), a cost-sharing multiple-employer hybrid pension plan. Under the provisions of Oregon Revised Statutes 238, the Public Employees' Retirement Board (PERB) governs both PERS and OPSRP. PERS provides 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 IAP of OPSRP. Cover Oregon employees are eligible to participate after completing six months of service, unless the employee had previously participated in PERS or OPSRP, in which case, participation is not delayed.

Cover Oregon's total covered payroll was \$5.7 million for the year ended December 31, 2013, and \$2.8 million for the year ended December 31, 2012. 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.

Funding Policy

Cover Oregon's contribution rate for members is set by state statute, which requires covered employees to contribute 6% of their annual salary. Cover Oregon has chosen to pay the employee's contribution. The contribution rate that Cover Oregon pays 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 2013 contribution rate as a percentage of member salaries for PERS and OPSRP was 8.80% and 7.44%, respectively, for the first six months and 13.40% and 11.85%, respectively, for the last six months compared to 8.80% and 7.44%, respectively, for all of 2012. Effective July 1, 2013, the contribution rate as a percentage of member salaries for PERS and OPSRP was updated from 8.80% to 13.40% and 7.44% to 11.85%, respectively, based on the December 31, 2011 valuation.

Annual Pension Cost

Total contributions, including member and employer contributions, paid by Cover Oregon for 2013 were \$803 thousand compared to \$324 thousand for 2012. Annual pension costs have equaled the annual required contributions.

Due to changes in 2013 by the Oregon Legislature under Senate Bills 822 and 861, some PERS benefit payments were lowered, as reflected below. Employer contribution rates schedules were also changed to the two-year period ending June 30, 2015, and based on the December 31, 2011, actuarial valuation. To determine the actuarial value of the plan's assets, the fair market value method is used. The revised actual assumptions include:

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

	<u>First Six Months 2013</u>	<u>Last Six Months 2013</u>
Assumed investment return	8.0%	8.0%
Projected salary increases	3.75%	3.75%
Inflation rate	2.75%	2.75%
Healthcare cost inflation rate	7.0%	6.9%

Employer contribution rates are set using the Projected Unit Credit (PUC) cost method. Utilizing this method produces an employer contribution rate consisting of the following liabilities:

- An amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year). Some aspects that are taken into consideration with the normal cost are service retirement, withdrawals, duty disability, non-duty disability, and death.
- An amount for amortization of the unfunded actuarial accrued liability, if any, over a period of 20 or 30 years, depending upon pension plan
- An actuarially determined amount for funding post-employment healthcare subsidies
- An expected value of assets is projected using the assumed rate of investment yield

Note 5 – 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 Oregon Savings Growth Program and ING, as independent plan administrators, are responsible for administering the Plan. The Plan is available to all employees of Cover Oregon, and employees may 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.

Note 6 - Leases

For the period ending December 31, 2013, Cover Oregon was under contract for three separate leases for office space in Salem and Durham, Oregon. These leases vary in length up to 90 months, each lease having a different start and end date. In accordance with GAAP, lease expense in the accompanying financial statements are recorded on the straight-line method for the life of the lease term for each lease respectively. Total lease expense for the years ended December 31, 2013 and 2012 including amounts incurred for real estate taxes, parking, operating expenses, and associated tenant costs was \$947,570 and \$335,692, respectively. Future minimum payments under all non-cancelable operating leases are as follows:

<u>Year ending December 31</u>	
2014	\$ 1,097,725
2015	1,197,426
2016	1,209,982
2017	1,074,552
2018	1,098,423
<u>2019-2020</u>	<u>1,731,294</u>
<u>Total</u>	<u>\$ 7,409,402</u>

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

In October 2013, Cover Oregon entered into an Assignment and Assumption of Lease Agreement for one of its Salem office leases. The lease term coincides with Cover Oregon’s lease on the property that expires on November 30, 2016. The agreement specified a lease deposit be collected from the tenant, and the amount of the lease deposit is reflected in the accompanying Statement of Net Position. Future payments received from the tenant will be considered non-operating income and reflected in the applicable sections of the Statement of Revenues, Expenses, and Changes in Net Position. Other than the lease deposit, no lease payments were due or paid by the tenant as of December 31, 2013. Future minimum non-operating income under the agreement is as follows:

Year ending December 31	
2014	\$ 110,770
2015	169,873
2016	159,052
<u>Total</u>	<u>\$ 439,695</u>

Note 7 – 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, errors and omission, and injuries to employees. To mitigate the risk of loss from events, Cover Oregon participates in and is covered under the State of Oregon’s self-insurance and commercial insurance program that is administered by the Department of Administrative Services Risk Management Division. As such, Cover Oregon is responsible to provide updated property, equipment, and fixtures values regularly to the Risk Management Division. Since no claims have been incurred, settled claims have not exceeded coverage for any of the past three fiscal years.

Note 8 - Revenue Concentration

Cover Oregon is currently dependent on Federal grant funding for its operational expenditures through December 31, 2014. If a material change in the level of support provided by the U.S. Federal Government occurs, such change would have a material effect on Cover Oregon’s operations until self-sufficiency is established starting in January 2015.

The Oregon Health Authority (OHA) also received a Federal grant to help establish the State of Oregon’s IT infrastructure, and a portion of the OHA grant was specifically allocated to IT costs related to Cover Oregon. Since the Federal grant was awarded to OHA, the associated reporting is the responsibility of OHA, and OHA directly paid associated costs to vendors, the OHA grant is not reflected in the accompanying financial statements. As of December 31, 2013, the balances on Federal grants that Cover Oregon has received are reflected.

Grant funds are disbursed to Cover Oregon upon submission of a request for costs incurred.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Grant Balances

	<u>Total Funds</u>	<u>Total Expenditures</u>	<u>Balance Remaining</u>	<u>Expiration Date</u>
Level 1, Tier 1	\$ 11,164,600	\$ 11,164,600	\$ -	Aug 13, 2013
Level 1, Tier 2	6,682,701	6,682,701	-	May 15, 2014
Level 2	<u>226,442,074</u>	<u>135,936,689</u>	<u>90,505,385</u>	Dec 31, 2014
Total	<u>\$ 244,289,375</u>	<u>\$ 153,783,990</u>	<u>\$ 90,505,385</u>	

Note 9 – Information Technology Vendor Concentration

Cover Oregon has contracted with and is dependent upon several IT consultants and companies to develop its web portal and corresponding IT infrastructure. Certain 2013 costs relating to the development of Cover Oregon's IT systems are reflected in the Statement of Net Position as CIP (construction in progress) since the web portal was not fully functional at December 31, 2013. Of those costs, a large concentration exists with a single company. If a material change in the level of support provided by the company occurs, such change could have a material effect on Cover Oregon's continued development of its IT systems until a suitable replacement is secured. For the year ended December 31, 2013, this company represented 92% of the CIP and 88% of accounts payable. There were no costs incurred or amounts payable to this vendor as of December 31, 2012.

Note 10 – Commitments

Cover Oregon has entered into various purchase commitments (e.g., operations and maintenance, software licensing, program management, etc.) to facilitate the operations of the IT infrastructure and development and to support operations. These contracts carry terms ranging from 12 months to 36 months, with options to renew up to 60 months. IT development commitments as of year-end December 31, 2013, and as amended by subsequent contacts through the date of this report total \$7.2 million.

Note 11 – Contingencies

Litigation

Various claims and lawsuits against Cover Oregon may arise in the normal course of business. These claims are either covered by insurance or are the type that is normal in view of Cover Oregon's operations. Management believes the total amount of liability, if any, which may arise from such claims and lawsuits beyond that which is covered by insurance would not have a material effect on Cover Oregon's financial condition or its ability to carry on its activities substantially as now conducted.

Going Concern

The accompanying basic financial statements have been prepared under the assumption that Cover Oregon will continue as a going concern. As discussed in the notes to the financial statements, Cover Oregon has exposure to litigation (Note 11), enrollment risks (Note 12, Affordable Care Act of 2010 Extension), legislative actions (Note 12, State Legislation), and dependence upon contractors for delivering certain services (Note 9) that could raise doubt about its ability to continue as a going concern. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Note 12 – Subsequent Events

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-compliance 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 enables 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; however, the state has not yet made a determination on the extension to 2016. The impact of such extensions on 2014-2016 enrollments as relating to Cover Oregon's self-sufficiency has not been finalized as of the date of this report (see Notes 1 and 11).

State Legislation

In February 2014, the Oregon Legislative Assembly passed several bills that directly impact Cover Oregon.

Senate Bill 1562 – Requires all state agencies to provide Cover Oregon's Executive Director with reports or findings from independent reviews, investigations, or audits of Cover Oregon that occur on or after October 1, 2013. Cover Oregon is required to make those reports, as well as similar reports paid for by Cover Oregon, publicly available and available upon request. The Executive Director is also required to appear before the House and Senate health policy committees at the first committee meeting after the 2014 Legislative session ends to present an updated business plan. The business plan must include demographic information, the number of enrollees in qualified health plans who have paid premiums, and any adjustments of the administrative charges.

House Bill 4122 – Requires state agencies or public corporations (like Cover Oregon) that implement technology initiatives exceeding \$5 million or that meet standards set by the State Chief Information Office to obtain quality management services. This bill also requires state agencies or public corporations to consult with the Director of the Department of Administrative Services (DAS) and to follow DAS policies to determine the extent of quality management services needed. The quality management services contractor is required to provide reports to several different organizations or individuals.

House Bill 4135 – Requires the State Chief Information Officer (CIO) to advise the executive staff members of state agencies, boards (like Cover Oregon), or commissions on specified IT trends and resources. The State CIO will also: 1) identify IT initiatives that involve more than one state agency, board, or commission; 2) form governance structures to plan and implement IT initiatives; 3) ensure that individual state agency, board, or commission IT plans align with and conform to the Enterprise Information Resources Management Strategy; 4) review IT budget proposals; and 5) evaluate and recommend adjustments to IT plans, policies, and budgets of state agencies, boards, or commissions.

House Bill 4154 – Requires Cover Oregon to request federal agencies to allow individuals and businesses to qualify for premium tax credits, cost-sharing reductions and business tax relief, if individuals and businesses enrolled in qualified health plans directly with insurers. This bill also makes Cover Oregon employees subject to state whistleblower protections; and the bill allows the Governor to replace all the non ex officio members of the board after a public hearing (after July 1, 2015, this section reverts back to original statutory language which prohibits the Governor from removing more than three members in a four-year period).

Information Technology Vendor Payment

In late February 2014, Cover Oregon and its primary IT vendor entered into agreements that specified Cover Oregon would pay certain amounts represented in accounts payable, and that Cover Oregon would make a partial payment for ongoing services. In accordance with the agreements, Cover Oregon paid, in March 2014, \$24 million (or 54% of the amounts represented in accounts payable) and \$19.9 million for ongoing services.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Notes to the Financial Statements

For the Years Ended December 31, 2013 and December 31, 2012

Government Accountability Office

The U.S. Government Accountability Office (GAO) issued, in March 2014, a response to several congressional committees and members who had requested a review of Cover Oregon's website. The GAO's response indicated the review was within the scope and their authority, and that the GAO would include Cover Oregon in a broader review planned for state-based health exchange websites.



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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

March 25, 2014

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Durham, 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 Oregon Health Insurance Exchange Corporation, dba Cover Oregon (Cover Oregon), as of and for the year ended December 31, 2013, and the related notes to financial statements, which collectively comprise Cover Oregon's basic financial statements, and have issued our report thereon dated March 25, 2014.

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 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.

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. 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.

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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 (Continued)**

INDEPENDENT AUDITOR'S REPORT (Continued)

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cover Oregon's internal control or on compliance. This report is an integral part of an audit performed 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.



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

INDEPENDENT AUDITOR'S REPORT

March 25, 2014

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon
Durham, Oregon

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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 Cover Oregon's major federal program for the year ended December 31, 2013. 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.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Cover Oregon's compliance.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

OPINION ON MAJOR FEDERAL PROGRAM

In our opinion, Cover Oregon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

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 as items 2013-02 and 2013-04. Our opinion on the major federal program is not modified with respect to these matters.

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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

REPORT ON INTERNAL CONTROL OVER COMPLIANCE (Continued)

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 items 2013-01, 2013-02, 2013-03, 2013-04, and 2013-05 to be significant deficiencies.

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.

**REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

We have audited the financial statements of Cover Oregon as of and for the year ended December 31, 2013, and have issued our report thereon dated March 25, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 Expenditure of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.



Certified Public Accountants

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

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>2013 Federal Expenditures</u>
Direct:	93.525	HBEIE110069	\$ 3,178,418
State Planning and Establishment Grants for the Affordable Care Act Exchanges	93.525	HBEIE120120	2,625,076
	93.525	HBEIE130144	<u>135,936,689</u>
Total U.S. Department of Health & Human Services			\$ <u><u>141,740,183</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 Year Ended December 31, 2013

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 Organization*. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 – Sub-recipients

Cover Oregon entered into agreements with several entities as part of its Communication and Outreach to increase consumer awareness, and to provide consumers with information and resources regarding open enrollment. The following information represents the totals for amounts awarded to entities considered subrecipients under the terms and conditions of the Federal grants.

	<u>Award Amount</u>	<u>2013 Funds Disbursed</u>	<u>Balance Remaining</u>
Amounts paid to sub-recipients	<u>\$ 884,000</u>	<u>\$ 122,786</u>	<u>\$ 761,260</u>

**THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Schedule of Findings and Questioned Costs

Year Ended December 31, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be material weakness(es)? No

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be material weakness(es) Yes

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of *Circular A-133* 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? No

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Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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: 2011, 2012, 2013

Criteria: 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 other than personal services expenditures that could have a material effect on each of its federal programs.

Condition: Costs charged to the federal program resulted from transactions that were initiated and approved by a single individual.

Questioned Costs: There are no questioned costs noted as the other than personal services expenditures tested were found to be materially correct and accurate.

Context: All expenditures charged to the federal program must be initiated and approved in accordance with Cover Oregon's policies and procedures to ensure expenditures are allowable costs to the grant.

Out of 63 items tested, four items in the combined amount of \$2,099 were identified in which the expenditure was initiated and approved by the same individual.

Cause: The lack of effective implementation of internal controls appears to be an oversight by management, compounded by changes in personnel.

Effect: The lack of sufficient documentation in support of effective internal controls may result in inappropriate charges against federal programs.

Recommendation: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective review and approval over the check detail report for other than personal services expenditures.

Views of Responsible
Official:

Cover Oregon understands and concurs with the finding.

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

Year Ended December 31, 2013

Finding 2013-02

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: 2011, 2012, 2013

Criteria: As provided in 2 CFR part 170 as a prime recipient of federal funding, Cover Oregon is required to comply with requirements of the Federal Funding Accountability and Transparency Act, which requires Cover Oregon to report details of first-tier subcontracts that are greater than \$25,000 no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made on the FFATA Subaward Reporting System (FSRS).

Condition: Cover Oregon failed to properly report subawards under the Federal Funding Accountability and Transparency Act no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made.

Questioned Costs: The total amount of the subaward was \$280,000.

Context: A subaward in the amount of \$280,000 that was signed in July 2013 with the subrecipient was reported by Cover Oregon in November 2013 on the FSRS reporting website. This exceeded the reporting requirement to report by no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made.

Cause: The described non-compliance appears to result from a misinterpretation of the Federal Funding Accountability and Transparency Act reporting requirements.

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

Recommendation: We recommend management develop and implement policies and procedures to ensure timely reporting of subawards in accordance with the Federal Funding Accountability and Transparency Act reporting requirements.

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

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

Year Ended December 31, 2013

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: 2011, 2012, 2013

Criteria: 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.

Condition: Cover Oregon's controls did not provide for proper review of the submitted claim for reimbursement of payroll expenditures requested under this federal program.

Questioned Costs: None noted as payroll expenditures appeared to be allowable costs.

Context: Out of the 18 reimbursement reports tested in our sample, two of the reports in the combined amount of \$1,849,385 for payroll expenditures did not display evidence of supervisory review.

Cause: The lack of effective implementation of internal controls appears to be an oversight by management.

Effect: The lack of review of reimbursement requests may result in inaccurate, incomplete, or untimely requests filed.

Recommendation: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective review and approval over reimbursement request reporting.

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

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2013

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: 2011, 2012, 2013

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 does not require timecards or periodic certifications for salaried employees working under the federal program.

Questioned Costs: None noted as payroll expenditures appeared to be allowable costs.

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. The population was all payroll expenditures charged to the federal program in the amount of \$12,273,628. Of the 60 employees tested, six hourly employees were found to have timesheets where either a portion or none of their time was approved by a supervisor, and no salaried employees were found to have after the fact certifications.

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 develop and implement 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.

Views of Responsible
Official:

Cover Oregon understands and concurs with the finding.

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

Year Ended December 31, 2013

Finding 2013-05 (Repeat of Finding 2012-01)

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: 2011, 2012, 2013

Criteria: 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 payroll expenditures that could have a material effect on each of its federal programs.

Condition: Cover Oregon's personnel files lack physical evidence of approval and acceptance of employee's compensation rates by the Executive Director and employee.

Questioned Costs: None noted as payroll expenditures appeared in compliance with allowable costs.

Context: Payroll expenditures are charged to the federal program on a monthly basis in accordance with Cover Oregon's policies and procedures. Sufficient documentation did not exist to evidence approval of the employee's compensation rate. Out of 60 salaried employees tested in our sample, four employees' personnel files did not contain official offer letters noting approval by the executive director and employee.

Cause: The lack of documentation supporting effective approval and acceptance of employee's compensation rates by the Executive Director and employee appears to result from inadequate resources dedicated to the Human Resource function.

Effect: The lack of sufficient documentation in support of effective internal controls may question the actual application of those controls to ensure compliance with stated requirements.

Recommendation: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective approval of compensation rates in employee personal files.

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

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

Year Ended December 31, 2013

Finding 2012-01:

Audit Finding: 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.

There were inadequate resources dedicated to the human resources functions.

Corrective Action Taken: Since the finding, Cover Oregon hired additional human resource and payroll staff to review and sign-off on files at various stages of the process, thus creating sufficient controls. The use of checklists, approvals, and segregation of duties are utilized to ensure compliance with policy and to keep employee related information complete and secure.

Finding 2012-02:

Audit Finding: The chairperson of the Finance and Audit Committee volunteered to review the Executive Director's expense reports. Upon review of the Executive Director's expense reports, it was discovered that the Chief Operating Officer was signing off as the reviewer, not a representative from the Committee.

There were inadequate controls over the Executive Director's expenses.

Corrective Action Taken: Subsequent to the finding, the chairperson of the Finance and Audit Committee signs the expense reports; and policy was revised to reflect that Executive Director expense reports be signed by a member of the Finance and Audit Committee prior to reimbursement to the Executive Director.

Finding 2012-03:

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

Audit Finding: OMB Circular A-133 requires that the federal census reporting package be submitted to the Federal Audit Clearinghouse within 30 days of the report release date.

Cover Oregon's federal census reporting package was submitted 39 days after receiving the audit report.

Corrective Action Taken: To remedy the finding, a policy was written to include compliance with timely audit report filings. For the fiscal year 2012 report, the process was completed within five days (upload by audit firm, certification by Cover Oregon, and submission by audit firm).

**THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Summary of Prior Year Audit Findings (Continued)

Year Ended December 31, 2013

Finding 2012-04:

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

Audit Finding: The Federal Funding Accountability and Transparency Act requires that all first tier grant recipients report sub awards greater than \$25,000 and the compensation of the five highest compensated employees. A sub award recipient received a total of \$72,195 in fiscal year 2012. Per review of the reporting site www.usaspending.gov, it showed that Cover Oregon had not reported the \$72,195 sub award nor did they report the five highest compensated employees.

Cover Oregon did not follow sub award and executive compensation reporting as required by the Federal Funding Accountability and Transparency Act.

Corrective Action Taken: Since the finding, the sub-recipient submitted the required information to Cover Oregon and Cover Oregon reported the information. To remedy the finding, policy and procedures were developed to require timely reporting, and contract procedures were revised related to sub-recipients of grant funds.

Finding 2012-05:

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

Audit Finding: 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.

Cover Oregon did not have effective internal controls over compliance with Cash Management compliance requirements.

Corrective Action Taken: Subsequent to the finding, policy was finalized that specified increased controls for cash management, and procedures developed that include the use of a sign-off sheet for staff to use for the various funds disbursement processes.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Audit Findings Corrective Action Plan

For the Year Ended December 31, 2013

Audit Finding 2013-01: Transactions initiated and approved by a single individual

Recommendations: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective review and approval over the accounts payable approval form detail for other than personal services expenditures.

Response and Corrective Action: Management concurs with the condition and recommendation, and assures that existing policies and procedures for accounts payable approvals exist, and with additional staff now on-hand that effective controls will exist to ensure accounts payable approvals are adequately reviewed for dual signatures.

Audit Finding 2013-02: Federal Funding Accountability and Transparency Act reporting requirements

Recommendations: We recommend management develop and implement policies and procedures to ensure timely reporting of subawards in accordance with the Federal Funding Accountability and Transparency Act reporting requirements.

Response and Corrective Action: Management concurs with the condition, cause, and recommendation, and assures that the existing policy for FFATA reporting for subawards \$25,000 and greater is sufficient controls. The context relates to the first sub award reported under the existing policy, and all eight subawards were subsequently reported timely.

Audit Finding 2013-03: Lack of supervisory review of submitted claim for payroll

Recommendations: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective review and approval over reimbursement request reporting.

Response and Corrective Action: Management concurs with the condition and recommendation, and subsequent to the context of the finding, management changed policies and procedures that will provide for effective review of payroll expenditures.

Audit Finding 2013-04: Lack of effective review over payroll expenditures and semi-annual review of salaried employee timecards

Recommendation: We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective review and approval of payroll expenditures. We also recommend that Cover Oregon develop and implement policies and procedures such that

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
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Audit Findings Corrective Action Plan

For the Year Ended December 31, 2013

all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.

*Response and
Corrective Action:*

Management understands and concurs with the cause and recommendation, and will implement options within the time keeping system for effective time card review and approval of hourly staff by supervisors, and will develop quarterly reporting for supervisors to review and approve of salaried staff's time. Employees and supervisors will be trained on system changes, and policies and procedures modified as applicable to reflect effective time card review and approval. As additional assurance, management will have the internal controls function perform a review of compliance with existing policy on a quarterly basis.

Audit Finding 2013-05: Physical evidence of approval and acceptance of employee's compensation

Recommendations:

We recommend management develop and implement policies and procedures to provide appropriate documentation supporting effective approval of compensation rates in employee personal files.

*Response and
Corrective Action:*

Management concurs with the condition and recommendation, and assures that the existing policy for employee compensation rates will provide for effective review of such rates. As additional assurance, management will have the internal controls function perform a review of compliance with existing policy on a quarterly basis.