



**COVER
OREGON™**

**OREGON HEALTH INSURANCE EXCHANGE
CORPORATION**

FINANCIAL STATEMENTS and COMPLIANCE REPORTING
for the fiscal years ended December 31, 2014 and 2013

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

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INDEPENDENT AUDITOR'S REPORT

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 years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Cover Oregon's basic financial statements as listed in the Table of Contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on 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.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon

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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As described in Note 3 of the Notes to the Basic Financial Statements, Cover Oregon recorded an impairment loss on a portion of capital assets related to the core IT system and supporting infrastructure that was not fully functional. Our opinion is not modified with respect to this matter.

As described in Note 11 of the Notes to the Basic Financial Statements, there is substantial doubt about Cover Oregon's ability to continue as a going concern. The Oregon Legislature approved a plan of dissolution of Cover Oregon on March 6, 2015, and Cover Oregon will cease operations as of June 30, 2015. The accompanying financial statements have been prepared assuming that Cover Oregon will continue until June 30, 2015. The basic financial statements do not include any adjustments resulting from this plan of dissolution. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to 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 an opinion on the financial statements that collectively comprise Cover Oregon's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is 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.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Health Insurance Exchange Corporation
dba Cover Oregon

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 26, 2015 on our consideration of Cover Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cover Oregon's internal control over financial reporting and compliance.

TALBOT, KORVOLA & WARWICK, LLP

By 

Robert G. Moody, Jr., Partner

Lake Oswego, Oregon
March 26, 2015

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THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Years Ended December 31, 2014 and December 31, 2013

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, 2014, and 2013. The information focuses on current year's activities, resulting changes, and currently known facts; and the information should be read in conjunction with Cover Oregon's financial statements (beginning on page 11). Management prepares the Management's Discussion and Analysis to assist the reader.

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:

- 1) Statements of Net Position (page 11)
- 2) Statements of Revenues, Expenses, and Changes in Net Position (page 12), and
- 3) Statements of Cash Flows (page 13)

The Notes to the Financial Statements (pages 14-23) are referenced throughout Management's Discussion and Analysis and are part of the basic financial statements, providing the reader with several important disclosures including a summary of significant accounting policies used by Cover Oregon.

FINANCIAL HIGHLIGHTS

- A no-cost extension for the Level 2 Federal Cooperative Agreement to Support Establishment of the Affordable Care Act's Health Insurance Exchange grant was awarded on November 11, 2014, extending the expiration date of the grant to December 31, 2015.
- Cover Oregon received \$79.5 million in Federal grant funds for operational expenditures in 2014.
- Net capital assets decreased \$69.7 million as Information Technology (IT) development costs were depreciated for their anticipated useful life after impairment of the assets for lack of functionality.
- Net position decreased \$63.2 million compared to 2013 primarily due to \$78 million of an extraordinary item, impairment of capital assets.
- Administrative charges of \$6.6 million were billed to participating insurers throughout 2014 to build a beginning reserve balance for 2015 expenditures.

BASIC FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about Cover Oregon activities to provide the reader with insight into the financial health of the organization. These statements include all assets, liabilities, revenues, and expenses utilizing the accrual basis of accounting (see Note 2).

The Statement of Net Position reports net position as the difference between assets and liabilities and is one way to measure the financial position of Cover Oregon; however, some operating expenses that affect the net position are non-cash expenses (such as depreciation). Over time, increases or decreases that occur in net position may be an indicator of whether the financial health is improving or deteriorating. Certain other nonfinancial factors may also need consideration to assess the overall financial position of Cover Oregon, such as changes in the regulatory, political, and/or business environments (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 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, 2014 and December 31, 2013

STATEMENTS OF NET POSITION

Beginning in January 2014, Cover Oregon began charging participating insurers an administrative charge to fund future operations. Cover Oregon collected nearly \$6.6 million of administrative charges for the purpose of establishing a cash reserve, which primarily reflects the \$7.1 million increase in cash to \$7.6 million as of December 31, 2014, up from \$0.49 million and \$0.50 million as of December 31, 2013, and 2012, respectively. In support of the 2014 plan year, Cover Oregon administered an agent program whereby certified agents would be compensated for plans sold through the marketplace via established carrier commission rates. As plans were sold, carriers paid Cover Oregon, the agent of record, who then passed-through payments to the certified agents. At year end December 31, 2014, pass-through commissions reflected in cash were \$0.57 million, and were offset by accounts payable. There were no pass-through commissions in cash as of December 31, 2013, or 2012.

For the year ended December 31, 2013, Cover Oregon fully expended the Level 1 Federal grant and began using the Level 2 Federal grant, which totals \$226.4 million and was awarded for the period of January 16, 2013, to December 31, 2014; and for 2014, operational costs were funded by the Level 2 Federal grant. In 2014, Cover Oregon extended the Level 2 Federal grant through December 31, 2015, utilizing a no-cost extension process whereby no additional funds were requested, only time to spend remaining funds. The increase in Federal grants receivable from \$2.2 million as of the year ended December 31, 2012, to \$43.9 million at December 31, 2013, was mostly offset by increased accounts payables relating to IT professional services (see the discussion on current liabilities below). As of year end December 31, 2014, Federal grants receivable decreased from \$43.9 million at December 31, 2013, to \$4.3 million, reflecting a decrease in accounts payable as invoices were paid. Federal grants receivable reflect Cover Oregon’s continued reliance on Federal funds for operational costs in the short-term (see Notes 1, 2, and 8).

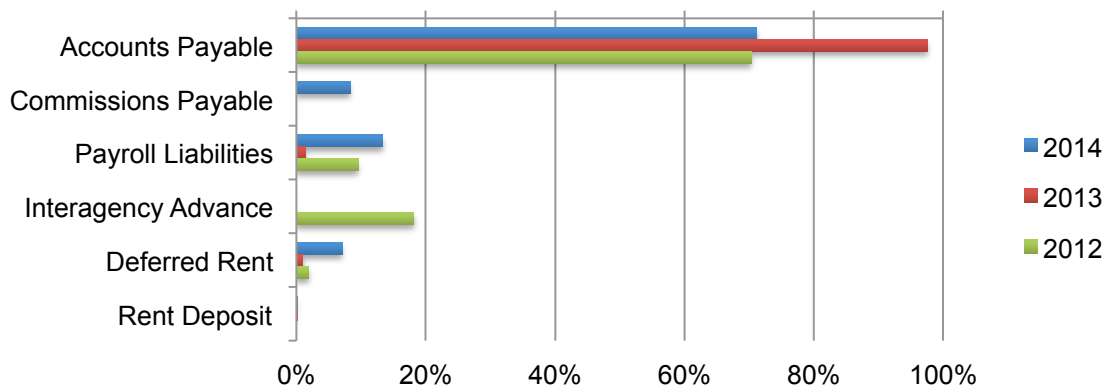
Federal Grants Receivable

(in millions)

	2014	2013	2012
Federal Grant Receivable	\$ 4.3	\$ 43.9	\$ 2.2

Current liabilities for the year ended December 31, 2014, were \$6.3 million compared to \$45.0 million for the year ended December 31, 2013. The decrease relates to less IT professional services in accounts payable at year-end 2014 as compared to year-end 2013. For the year ended December 31, 2013, current liabilities of \$45.0 million, as compared to \$2.7 million for the year ended December 31, 2012, were the result of IT professional services of \$39 million accrued at year-end in accounts payable (see note 2 accounts payable and note 9). Commissions payable to agents as of December 31, 2014, were \$0.57 million, reflecting funds received from carriers but not yet passed-through to agents. Accounts payable, including retainage, comprised 76.7% of current liabilities for 2014 versus 98.5% and 71.7% for the year ended December 31, 2013, and 2012, respectively.

Liabilities to Total Liabilities



THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

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Management's Discussion & Analysis

For the Years Ended December 31, 2014 and December 31, 2013

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 decrease in net position from \$84.3 million for the year ended December 31, 2013, to \$21.1 million for the year ended December 31, 2014, reflects the decrease in net capital assets as discussed in the section below labeled Capital Asset Administration. Cover Oregon's increase in net position from \$2.6 million for the year ended December 31, 2012, to \$84.3 million for the year ended December 31, 2013, reflected the increase in net capital assets as discussed below.

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

For the year ended December 31, 2014, and 2013, Cover Oregon's revenues consisted of Federal grants provided under the Cooperative Agreements to Support Establishment of the Affordable Care Act's Health Insurance Exchange (see Note 8); and at December 31, 2014, also consisted of administrative charges on participating carriers (see Note 1). Cover Oregon recognized \$79.5 million in revenues from Federal grants for the year ended December 31, 2014, which represents a decrease in grant revenues of \$61.8 million when compared to the year ended December 31, 2013. This decrease in Federal funds is directly related to the reduction in IT professional services as Cover Oregon shifted from development in 2013 to its first year of business operations in 2014.

The \$130 million increase in grant funds for the year ended December 31, 2013, as compared to the year ended December 31, 2012, reflects the focus on start-up costs primarily associated with the development of the core IT system and supporting infrastructure throughout 2013. As previously stated, 2014 marked the first year of operating revenues from administrative charges on carriers participating in the insurance marketplace. Total administrative charges for 2014 totaled \$6.6 million.

	<u>Revenues</u> (in millions)		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal Grants	\$ 79.5	\$ 141.2	\$ 11.0
Administrative Charges	6.6	-	-

After capitalization of assets as per policy (see Note 2), operating expenses for the year ended December 31, 2014, totaled \$71.2 million as compared to \$59.5 million for the year ended December 31, 2013. For the year ended December 31, 2012, operating expenses totaled \$8.5 million, reflecting mostly operational planning activities. Professional services IT represented the largest expense category (36% of total expenses) for the year ended December 31, 2014, and 2013, as Cover Oregon incurred costs associated with the core IT system and supporting infrastructure. For the year ended December 31, 2012, salaries and benefits presented the largest expense category (47% of total expenses), reflecting a focus on start-up planning activities.

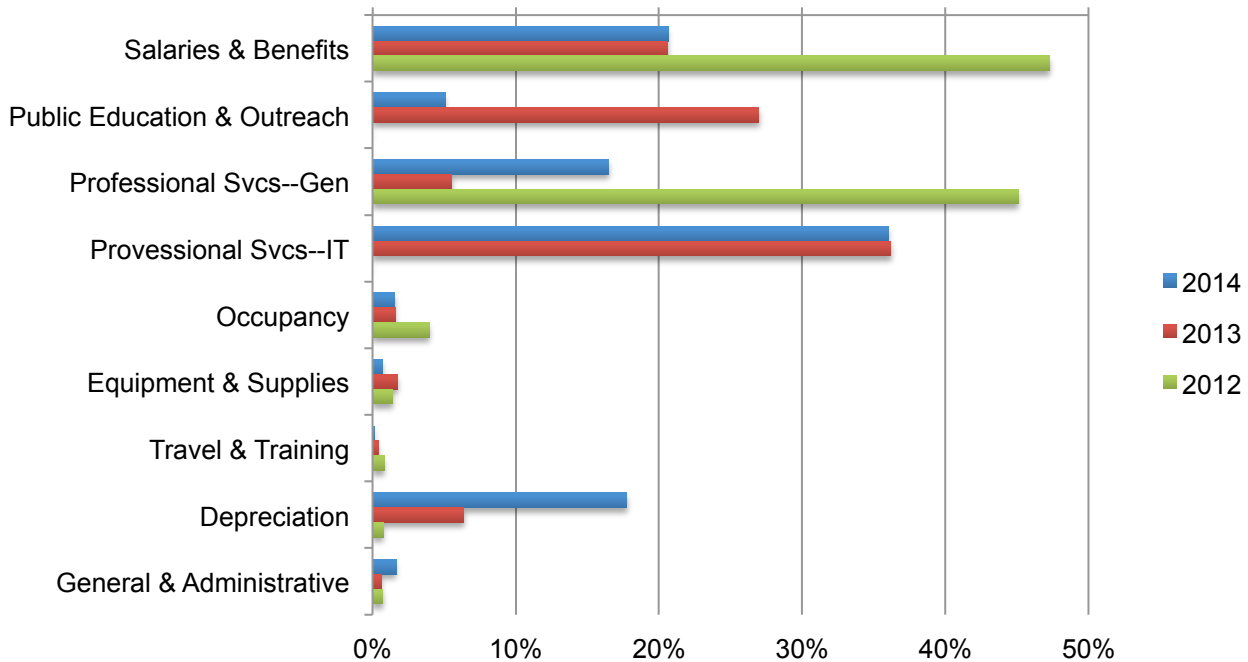
Consistent with prior years, major expense categories for 2014 included salaries and associated benefits (21% of total expenses) and professional services, IT and general combined, represented 52% of total expenses. The shift from expenses consisting mostly of a combination of salaries and benefits and professional services general for the year ended December 31, 2012, to professional services IT and consumer education and outreach for the year ended December 31, 2013, reflects the progression from operational planning to development of Cover Oregon's core IT system and technology infrastructure and consumer education and outreach efforts in preparation for the 2014 open enrollment. The following chart represents the year-over-year changes in the relationship of individual expenses to total expenses for the year ended December 31, 2012, to the year ended December 31, 2014.

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

For the Years Ended December 31, 2014 and December 31, 2013

Expenses to Total Expenses



For the year ended December 31, 2014, salaries and benefits totaled \$14.7 million (21% of expenses) compared to \$12.3 million (21% of expenses) for the year ended December 31, 2013, and \$4.0 million (47% of expenses) for the year ended December 31, 2012. The increase in staffing costs from 2012 to 2013 represents the increase in positions filled at the service center and corporate operations in support of open enrollment and general operations that occurred in 2013. However, due to the decision in early 2014 to transition to healthcare.gov to facilitate enrollments beginning with the 2015 plan year, Cover Oregon’s 2014 staffing levels began dropping mid-year as staff left to pursue other opportunities, and 2014 year-end staffing levels fell below 2013 year-end levels.

Year-end Staffing Levels

	2014	2013	2012
Employees	127	165	47

The \$12.5 million decrease in public education and outreach, for the year ended December 31, 2014, as compared to December 31, 2013, reflects a shift from an extensive consumer awareness and education campaign for a new marketplace in preparation for 2014 open enrollment to a targeted marketing campaign and regional consumer enrollment events for the 2015 open enrollment process via healthcare.gov. In 2013, Cover Oregon launched a \$12.2 million public education and outreach campaign (via TV, radio, digital, and social media) to increase consumer awareness of the new insurance marketplace and to provide consumers with open enrollment information and resources. In addition to the public education and outreach campaign, Cover Oregon also spent \$3.8 million to engage community partners, agents, and tribes to reach consumers throughout Oregon and to assist them with the application process. For 2014, Cover Oregon limited spending to \$3.6 million for targeted education and outreach that included in-person enrollment events, TV, radio, digital, and targeted mailings to consumers.

The increase in general professional services to \$11.7 million for the year ended December 31, 2014, from \$3.3 million for the year ended December 31, 2013, primarily reflects the increased use of temporary staff needed for

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

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Management's Discussion & Analysis

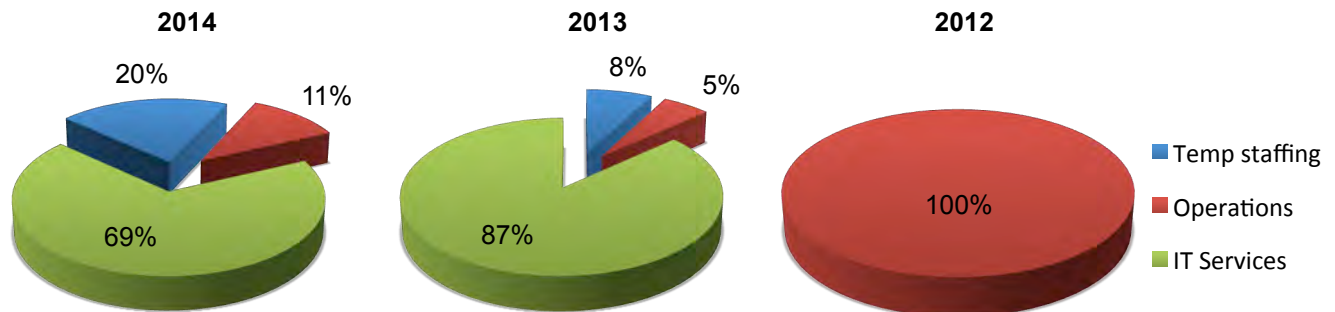
For the Years Ended December 31, 2014 and December 31, 2013

the hybrid enrollment processes associated with IT technology challenges during the first year of operations in 2014. General professional services for 2014 included \$7.5 million of temporary staffing costs as compared to \$1.9 million for the year ended December 31, 2013. For the year ended December 31, 2012, general professional services of \$3.8 million related to operational planning activities in preparation for launching a state-based marketplace that began with open enrollment in late 2013.

The \$4.1 million increase in professional services IT costs as of December 31, 2014, as compared to 2013, reflects an early-year shift from development of Cover Oregon's core IT system and technology infrastructure to analysis and repairs related to the technology and costs associated with the transition to using healthcare.gov for future open enrollments. Professional services IT costs (after capitalization of assets as per policy, see Note 2) for the year ended December 31, 2014, totaled \$25.6 million as compared to \$21.5 million for the year ended December 31, 2013. There were no comparable IT costs for the year ended December 31, 2012.

For the year ended December 31, 2013, professional services were \$24.8 million (general and IT combined) as compared to \$3.8 million (general only) for the year ended December 31, 2012, reflecting the increased focus on development of Cover Oregon's core IT system and associated technology infrastructure that occurred in 2013. Consistent with the year ended December 31, 2013, professional services IT for the year ended December 31, 2014, were highly concentrated with a single vendor (see Note 9).

Professional Services



CAPITAL ASSET ADMINISTRATION

Net capital assets increased from \$2.56 million for the year ended December 31, 2012, to \$85.3 million for the year ended December 31, 2013, primarily as a reflection of costs associated with the development of the core IT system and associated technology infrastructure. With the technology not fully functional at December 31, 2013, IT professional services related to the development of the core IT system and associated technology infrastructure were reflected in construction in progress (see Note 3 and 9). For the first part of 2014, Cover Oregon continued to work with the primary contractor to remedy the technology issues, while service center staff utilized the partially functioning system and a hybrid manual process to facilitate 2014 enrollment activity. For the year ended December 31, 2014, the core IT system was deemed impaired. Cover Oregon also decided to utilize healthcare.gov for future enrollments beginning with the 2015 plan year, and to record an extraordinary item, impairment of capital assets in the amount of \$78 million (see Note 3).

At December 31, 2014, net capital assets decreased from \$85.3 million for the year ended December 31, 2013, to \$15.6 million as of December 31, 2014 (see Note 3). The large decrease is directly related to the impairment.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION

dba COVER OREGON

Management's Discussion & Analysis

For the Years Ended December 31, 2014 and December 31, 2013

Future IT development asset additions should be less than historical additions since the decision was made in early 2014 to utilize healthcare.gov to facilitate future enrollments beginning with the 2015 plan year. The decision in 2014 to use healthcare.gov for future plan enrollments combined with the passage of Senate Bill 1 in March 2015 (see Note 12, Senate Bill 1) necessitates the reduction in the estimated useful life of the core IT system's software and development assets to be fully depreciated by June 30, 2015.

Capital Assets (in millions)

	2014	2013	2012
Leasehold improvements	\$ 0.33	\$ 0.33	\$ 0.24
Furniture & equipment	1.32	1.35	0.73
IT Equipment	11.55	11.59	0.25
Software & development	18.88	7.60	1.41
Construction in progress	-	68.30	-
Total capital assets	<u>32.08</u>	<u>89.17</u>	<u>2.63</u>
Accumulated depreciation	(16.48)	(3.86)	(0.07)
Total capital assets, net	<u>\$ 15.60</u>	<u>\$ 85.31</u>	<u>\$ 2.56</u>

CHANGE IN BUSINESS ORGANIZATION

In February 2015, the Oregon Legislature passed Senate Bill 1, which was signed into law on March 6, 2015, by the Governor of Oregon. Senate Bill 1 abolishes Cover Oregon and its board of directors, and transfers its duties, functions, and powers to the Department of Consumer and Business Services (DCBS), an existing agency within the State of Oregon. Once signed by the Governor of Oregon, the powers, rights, obligations and liabilities of Cover Oregon's board of directors and its Executive Director transfer to the Director of DCBS; and, the duties and functions of the corporation including all existing funds, property, equipment, documents, records, etc., transfer to DCBS on June 30, 2015 (see Note 11, Going Concern and Note 12, Senate Bill 1).

CONTACTING FINANCIAL MANAGEMENT

This Management's Discussion and Analysis, the accompanying basic financial statements, and the compliance 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 expended. If you have questions about this report, please contact the financial management team at Cover Oregon's corporate offices. Contact information may be found at www.coveroregon.com. After June 30, 2015, questions about this report should be directed to the offices of DCBS. Contact information for DCBS may be found at www.oregon.gov.

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statements of Net Position

As of December 31, 2014 and December 31, 2013

	2014	2013
ASSETS		
Current Assets:		
Cash	\$ 7,590,305	\$ 492,752
Federal grants receivable	4,349,664	43,877,022
Assessments receivable	22,975	-
Other receivable	195,789	-
Prepaid expenses	88,885	10,300
Total Current Assets	<u>12,247,618</u>	<u>44,380,074</u>
Lease Deposit	53,023	53,023
Capital Assets, net	15,598,752	85,304,557
Total Assets	<u>\$ 27,899,393</u>	<u>\$ 129,737,654</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 3,707,494	\$ 41,993,928
Retainage payable	1,143,292	2,367,081
Commissions payable	565,418	-
Payroll liabilities	908,782	634,232
Total Current Liabilities	<u>6,324,986</u>	<u>44,995,241</u>
Deferred Rent	484,651	455,569
Rent Deposit	13,806	13,806
Total Liabilities	<u>6,823,443</u>	<u>45,464,616</u>
Net Position:		
Net investment in capital assets	14,455,460	46,307,178
Unrestricted	6,620,490	37,965,860
	<u>21,075,950</u>	<u>84,273,038</u>
Total Liabilities and Net Position	<u>\$ 27,899,393</u>	<u>\$ 129,737,654</u>

See accompanying notes to financial statements

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2014 and December 31, 2013

	2014	2013
Operating Revenues:		
Federal grants	\$ 79,464,987	\$ 141,245,220
Assessments	<u>6,567,283</u>	<u>-</u>
Total Revenue	86,032,270	141,245,220
Operating Expenses:		
Salaries, payroll taxes, and benefits	14,685,870	12,273,628
Public education and outreach	3,607,794	16,059,871
Professional services - general	11,730,076	3,302,041
Professional services - IT	25,623,170	21,542,288
Occupancy	1,115,968	947,570
Equipment and supplies	502,398	1,033,650
Travel and training	103,220	229,467
Depreciation	12,641,039	3,792,292
General and administrative expense	<u>1,170,584</u>	<u>366,780</u>
Total Operating Expenses	<u>71,180,119</u>	<u>59,547,587</u>
Operating Income	<u>14,852,151</u>	<u>81,697,633</u>
Non-operating Income (Expense):		
Rental income	110,770	-
Rental expense	(110,770)	-
Loss on capital assets	<u>(49,239)</u>	<u>-</u>
Total Non-operating Income (Expense):	<u>(49,239)</u>	<u>-</u>
Extraordinary Item – Impairment of capital assets	<u>(78,000,000)</u>	<u>-</u>
Increase (decrease) in Net Position	(63,197,088)	81,697,633
Net Position - Beginning of Year	<u>84,273,038</u>	<u>2,575,405</u>
Net Position - End of Year	\$ <u>21,075,950</u>	\$ <u>84,273,038</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, 2014 and December 31, 2013

	2014	2013
Cash Flows from Operating Activities:		
Federal grants received	\$ 118,796,556	\$ 99,555,890
Assessments received	6,544,308	-
Cash paid for materials and services	(82,347,302)	(39,536,892)
Cash paid to employees and for taxes and benefits	(14,411,318)	(11,901,681)
Cash paid for grants to sub-recipients	<u>(500,218)</u>	<u>(89,395)</u>
Net Cash Provided by Operating Activities	28,082,026	48,027,922
Cash Flows from Capital and Related Financing Activities:		
Repayment of interagency advance	-	(499,000)
Acquisition of capital assets	<u>(20,984,473)</u>	<u>(47,540,448)</u>
Net Cash Provided by Capital and Related Financing Activities	(20,984,473)	(48,039,448)
Change in Cash	<u>7,097,553</u>	<u>(11,526)</u>
Cash - beginning of year	<u>492,752</u>	<u>504,278</u>
Cash - ending of year	<u>\$ 7,590,305</u>	<u>\$ 492,752</u>
Reconciliation of Operating Income to Net		
Cash Flows from Operating Activities:		
Operating income	\$ 14,852,151	\$ 81,697,633
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	12,641,039	3,792,292
Changes in Assets and Liabilities:		
Federal grants receivable	39,527,358	(41,689,330)
Assessments receivable	(22,975)	-
Other receivable	(195,789)	-
Prepaid expenses	(78,585)	6,181
Accounts payable	(38,286,434)	40,063,241
Retainage payable	(1,223,789)	2,367,081
Commissions payable	565,418	-
Amounts in accounts payable related to construction in progress	-	(38,997,379)
Payroll liabilities	274,550	371,949
Deferred rent	29,082	402,448
Rent deposit	<u>-</u>	<u>13,806</u>
Net Cash Provided by Operating Activities	<u>\$ 28,082,026</u>	<u>\$ 48,027,922</u>

Schedule of non-cash capital and related financing activities:

Purchase of 2013 capital assets through 2013 accounts payable \$38,997,979.

See accompanying notes to the basic financial statements

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION dba COVER OREGON

Notes to the Basic Financial Statements

For the Years Ended December 31, 2014 and December 31, 2013

Note 1 - Description of the Business & Regulatory Environment

Affordable Care Act of 2010

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

Affordable Care Act of 2010 Extensions

In November 2013, the Centers for Medicare & Medicaid Services (CMS) issued a notice authorizing states to allow health insurers the option to extend individuals and small business existing coverage that may have otherwise been non-compliant under the provisions of the Affordable Care Act if certain conditions were met. In follow-up to the November notice, CMS issued a notice in March 2014 that further 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 12).

State Legislation

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.

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)

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For the Years Ended December 31, 2014 and December 31, 2013

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 are 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).

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 (Individual and Employer Consumer Advisory Committee, Finance & Audit Committee, Board Development, and Personnel and Compensation Committee), appoints Cover Oregon's executive director, and delegates operational authority of Cover Oregon to the executive director. Cover Oregon was also guided by a bipartisan Legislative Oversight and Advisory Committee from inception through mid-2014. Although independent of state government, Cover Oregon 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's cash was initially funded through a loan from the Oregon Health Authority (OHA), who had already obtained a Federal grant to fund work relating to marketplaces. Cover Oregon secured Federal grant funding for start-up costs beginning in 2011 and was reliant upon grant funding through December 31, 2014. The Federal grant funds that Cover Oregon received, formally called the Cooperative Agreements to Support Establishment of the Affordable Care Act's Health Insurance Exchanges, are administered by the Center for Consumer Information and Insurance Oversight (CCIIO), which is part of the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services. Each grant 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 CCIIO, with the frequency of such reports on a monthly, quarterly, semi-annual, or annual basis, depending upon the type of report. Grant funds are issued to Cover Oregon on an advanced basis. Funds advanced to Cover Oregon are required to be disbursed by the close of the next business day after receipt of the funds by Cover Oregon.

Self-sufficiency

In planning for self-sufficiency, Senate Bill 99 enabled 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 for qualified health plans, and \$0.93 PMPM for stand alone dental plans. The 2015 administrative charge for qualified health plans was established at \$9.66 PMPM and \$0.97 PMPM for stand alone dental plans. Due to the State's assistance with the hybrid application process utilized for 2014 plan year enrollments (see Note 1, Business Operations), no assessments were established on state programs for 2014; and, with the decision to utilize healthcare.gov for the 2015 plan year, no assessments were established on state programs for 2105.

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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. In accordance with Senate Bill 99, the Secretary of State must oversee the audit for the year-ended December 31, 2014. The Secretary of State completed a Request for Proposal process, conducted the reviews, and selected and contracted with a third-party accounting firm to conduct the audit.

Business Operations

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

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

Cover Oregon was also authorized under regulations to begin serving employers in 2014 to provide health plan options for their employees through the Small Employer Health Options Program. As of the year ended December 31, 2014, Cover Oregon has not launched this option for employers and does not anticipate its launch in 2015. Instead, Cover Oregon has supported direct enrollment with insurance carriers so that small employers can access tax credits.

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, 2014, and 2013. The receivables amount for 2013 includes an estimated \$12.7 million for unbilled time associated with the development of the core IT system and associated technology infrastructure. There were no such amounts included in the receivables amount as of December 31, 2014. The Level 2 Establishment grant expires December 31, 2015. Since Cover Oregon believes the entire receivables amount is collectible under the terms of the grant, no allowance for uncollectible receivables has been established.

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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, 2014, and 2013, 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.

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

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

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) and administrative charges on commercial insurers and assessments on state programs. Operating expenses include all expenses that are directly and indirectly related to establishing and running a state-based health insurance marketplace. All revenues and expenses not meeting these descriptions are reported as non-operating revenues and expenses.

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 core IT system and corresponding technology infrastructure (see Note 9). There is no estimate for unbilled time associated with the development of the core IT system and corresponding and technology infrastructure as of December 31, 2014.

Note 3 – Detail of Accounts

Cash

Cover Oregon's cash is comprised of bank demand deposits with a financial institution. Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits held with the same financial institution, and the combined total is insured by the FDIC up to a limit of \$250,000. At December 31, 2014 and 2013, Cover Oregon had cash uninsured by the FDIC of \$7,368,023 and \$340,557, 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 Statute (ORS) 295.

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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. 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 provide an increased protection level for Cover Oregon's funds.

Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2014:

	<u>December 31, 2013</u>		<u>Additions</u>		<u>Deletions</u>		<u>Transfers</u>		<u>December 31, 2014</u>
Leasehold improvements	\$ 334,424	\$	-	\$	(1,208)	\$	-	\$	333,216
Furniture & equipment	1,348,662		-		(25,174)		-		1,323,488
IT equipment	11,585,943		-		(40,073)		-		11,545,870
Software & software development	7,595,826		-		(1,356)		11,282,958		18,877,428
Construction in progress	68,298,485		20,984,473		(78,000,000)		(11,282,958)		-
Total capital assets	<u>89,163,340</u>		<u>20,984,473</u>		<u>(78,067,811)</u>		<u>-</u>		<u>32,080,002</u>
Accumulated depreciation	<u>(3,858,783)</u>		<u>(12,641,039)</u>		<u>18,572</u>		<u>-</u>		<u>(16,481,250)</u>
Total capital assets, net	<u>\$ 85,304,557</u>	\$	<u>8,343,434</u>	\$	<u>(78,049,239)</u>	\$	<u>-</u>	\$	<u>15,598,752</u>

Capital asset activity consisted of the following for the year ended December 31, 2013:

	<u>December 31, 2012</u>		<u>Additions</u>		<u>Deletions</u>		<u>Transfers</u>		<u>December 31, 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 & 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>-</u>		<u>89,163,340</u>
Accumulated depreciation	<u>(66,491)</u>		<u>(3,792,292)</u>		<u>-</u>		<u>-</u>		<u>(3,858,783)</u>
Total capital assets, net	<u>\$ 2,559,022</u>	\$	<u>82,745,532</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>85,304,557</u>

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Management has determined that some of the assets in construction in process relating to the development of the core IT system were impaired as of December 31, 2014. The deletion of \$78 million from construction in progress relates to the extraordinary item, impairment of capital assets.

Accounts Payable

The amounts in accounts payable include trade accounts payable and accruals for goods and services received prior to year-end. The amounts in the 2013 accounts payable include an estimated \$12.7 million for unbilled time associated with the development of the core IT system and corresponding technology infrastructure. There is no estimate for costs associated with the development of the core IT system and corresponding technology infrastructure in the December 31, 2014, accounts payable amounts.

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 \$10.4 million for the year ended December 31, 2014, and \$5.7 million for the year ended December 31, 2013. 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 the Public Employees' Retirement System at P.O. Box 23700, Tigard, OR 97281-3700, or by calling (503) 598-7377, or online 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; however, Cover Oregon has elected 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.

The 2014 contribution rates as a percentage of member salaries for PERS and OPSRP were 13.40% and 11.85%, respectively. The 2013 contribution rates as a percentage of member salaries for PERS and OPSRP were 8.80% and 7.44%, respectively, for the first six months and 13.40% and 11.85%, respectively, for the last six months. Effective July 1, 2013, the contribution rates as a percentage of member salaries for PERS and OPSRP were updated from 8.80% to 13.40% and 7.44% to 11.85%, respectively, based on the December 31, 2011, valuation and the contractual contribution rates are effective through June 30, 2015.

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Participating employers may also elect separate rates, as detailed above, or have the default, blended rate apply to contributions. Cover Oregon has elected the default, blended rate for both 2014 and 2013. The default blended for 2014 and 2013 was 9.86% for PERS and 8.14% for OPSRP.

Annual Pension Cost

Total contributions, including member and employer contributions, paid by Cover Oregon for 2014 were \$1.1 million compared to \$0.80 million for 2013. Annual pension costs have equaled the annual required contributions. Employer contribution rate schedules for the two-year period ending June 30, 2015, are based on the December 31, 2011, actuarial valuation as modified by Senate Bill 822 that was passed in May 2013 by the Oregon Legislature. To determine the actuarial value of the plan's assets, the fair market value method is used. The actuarial assumptions, based on the December 31, 2011, actuarial valuation, include:

	2014	Last Six Months 2013	First Six Months 2013
Assumed investment return	8.0%	8.0%	8.0%
Projected salary increases	3.75%	3.75%	3.75%
Inflation rate	2.75%	2.75%	2.75%
Healthcare cost inflation rate	6.9%	6.9%	7.0%

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 year ended December 31, 2014, 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 is 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, 2014, and 2013 including amounts incurred for real estate taxes, parking, operating expenses, and associated tenant costs was \$1,115,968 and \$947,570, respectively. Future minimum payments under all non-cancelable operating leases are as follows:

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Year ending December 31	
2015	\$1,027,553
2016	1,050,931
2017	1,074,552
2018	1,098,423
2019	1,186,110
2020	545,184
<u>Total</u>	<u>\$5,982,753</u>

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 made by the tenant are payable directly to the landlord and not to Cover Oregon; as such, Cover Oregon recognizes and reflects the non-operating income and expense in the applicable sections of the Statement of Revenues, Expenses, and Changes in Net Position. Other than the lease deposit received from the tenant as of December 31, 2013, no payments were received by Cover Oregon from the tenant as of December 31, 2014. Future minimum non-operating income under the agreement is as follows:

Year ending December 31	
2015	\$ 169,873
2016	159,052
<u>Total</u>	<u>\$ 328,925</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. As of December 31, 2014, one claim was incurred; however, settled claims have not exceeded coverage for any of the past three fiscal years.

Note 8 - Revenue Concentration

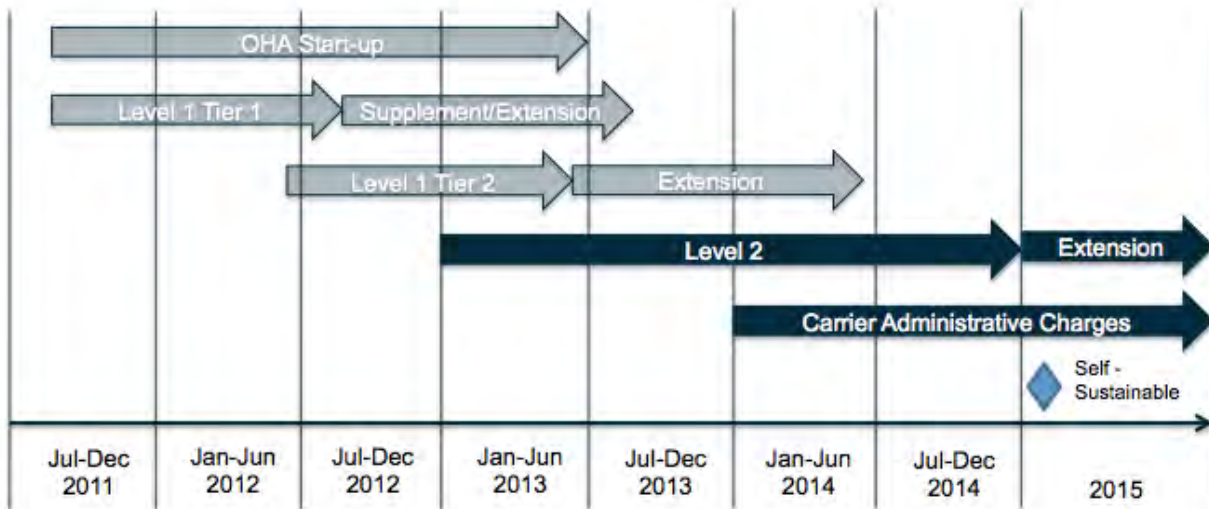
Cover Oregon is currently dependent on Federal grant funding for its operational expenditures through December 31, 2014, and for the short-term thereafter due to the no-cost extension of the grant through December 31, 2015. If a material change in the level of support provided by the U.S. Federal Government occurs, such a change could have a material effect on Cover Oregon's operations. However, in 2014, Cover Oregon also began charging an administrative charge on commercial insurers for the purpose of establishing up to a six-month operating reserve by the end of 2014 (see note 1, Self-sufficiency). While such charges have been collected and will continue to be charged in 2015, inherent risks in enrollment volatility and operational expenditures could impact long-term self-sufficiency.

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Funding Overview



Federal grant funds are issued to Cover Oregon on an advanced basis upon submission of a request for costs. Funds advanced to Cover Oregon are required to be disbursed by the close of the next business day after receipt of the funds. As of December 31, 2014, the balances on Federal grants are reflected below.

	Grant Balances			
	Total Funds	Total Expenditures	Balance Remaining	Expiration Date
Level 1, Tier 1	\$ 11,164,600	\$ 11,164,600	\$ -	August 13, 2013
Level 1, Tier 2	6,682,701	6,682,701	-	May 15, 2014
Level 2	226,442,074	215,401,676	11,040,398	December 31, 2015
Total	\$ 244,289,375	\$ 233,248,977	\$ 11,040,398	

Note 9 – Information Technology Vendor Concentration

Cover Oregon has contracted with and is dependent upon several IT consultants and companies to develop its core IT systems including but not limited to a web portal, enrollment and eligibility system, and corresponding IT infrastructure. Certain costs in 2013 relating to the development of Cover Oregon’s core IT systems are reflected in the Statement of Net Position as construction in progress since the core IT system and corresponding infrastructure were not fully functional at December 31, 2013 (see Management’s Discussion & Analysis, Capital Asset Administration section). Of those costs, a large concentration existed with a single company. This company represented 92% of the CIP and 88% of accounts payable as of the year ended December 31, 2013. As of the year ended December 31, 2014, this company represented 70% of accounts payable.

Note 10 – Commitments

Cover Oregon has entered into various purchase commitments (IT development, operations and maintenance, software licensing, etc.) to facilitate the operations of the core IT systems that support operations. These contracts may carry terms ranging from 12 to 36 months. IT development commitments as of the year ended December 31, 2013, totaled \$7.2 million and no IT development commitments existed as of December 31, 2014.

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Note 11 – Contingencies

Litigation

Various claims and/or lawsuits against Cover Oregon may arise in the normal course of business that are either covered by insurance or are typical in view of Cover Oregon's operations. As of December 31, 2014, Cover Oregon is party to legal proceedings. Such claims and lawsuits have uncertainties and an unfavorable resolution or other events could occur. As such, an unfavorable resolution or settlement for one or more matters could have a substantial financial impact or negatively impact Cover Oregon's ability to conduct business activities. However, Cover Oregon has not reached this conclusion regarding any particular matter at this time. Cover Oregon only records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. The claims and/or lawsuits Cover Oregon is party to include speculative or indeterminate amounts of damages, if any. Therefore, based upon current knowledge of existing claims and/or lawsuits, no liability has been recorded as of December 31, 2014.

Going Concern

The Oregon Legislature approved a bill of dissolution in February 2015 and the Governor of Oregon signed the bill into law in March 2015, which would cease Cover Oregon operations as of June 30, 2015, and transfer its functions, powers, obligations, and liabilities to the Department of Consumer and Business Services. Thereafter, Oregon's state-based marketplace will operate as a division within the DCBS. The accompanying basic financial statements do not include any adjustments as a result from this bill of dissolution (see Note 12, Senate Bill 1).

Note 12 – Subsequent Events

Workforce Reduction

As part of its self-sufficiency planning and in anticipation of reduced call volumes at the service center due to the shift to using healthcare.gov for eligibility and enrollments for the 2015 plan year, Cover Oregon plans to initiate a workforce reduction that includes reduction dates of March 10 and April 24. Staff affected includes both corporate and service center staff.

Leases

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

Senate Bill 1

In February 2015, both the Oregon Senate and House passed Senate Bill 1 and the Governor of Oregon signed the bill into law on March 6, 2015. Senate Bill 1 abolishes Cover Oregon and its board of directors, and transfers its duties, functions, and powers to the Department of Consumer and Business Services (DCBS), an existing agency within the State of Oregon. Upon passage of the bill by the Governor of Oregon, the powers, rights, obligations and liabilities of Cover Oregon's board of directors and its Executive Director transfer to the Director of DCBS. The duties and functions of the corporation including all existing funds, property, equipment, documents, records, etc., transfer to DCBS on June 30, 2015. Provisions within the existing bill align with Senate Bill 99's provisions of a state-based marketplace, but also revise some Oregon Revised Statutes. Senate Bill 1 also creates the Health Insurance Exchange Advisory Committee to advise the Director of DCBS on policies and procedures, establishment of administrative charges, development of an employer enrollment program, and other matters relating to a state-based marketplace.



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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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oregon Health Insurance Exchange Corporation, dba Cover Oregon (Cover Oregon), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Cover Oregon's basic financial statements, and have issued our report thereon dated March 26, 2015.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been 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 a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 that we consider to be a significant deficiency.

**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

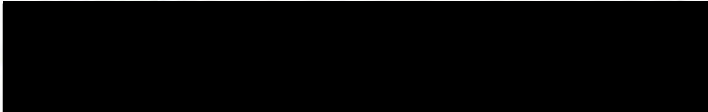
As part of obtaining reasonable assurance about whether Cover Oregon's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

COVER OREGON'S RESPONSE TO FINDINGS

Cover Oregon's response to the finding identified in our audit is 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 it.

PURPOSE OF THIS REPORT

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



Lake Oswego, Oregon
March 26, 2015



**Talbot, Korvola
& Warwick, LLP**

Certified Public Accountants
& Consultants

ACHIEVE MORE

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

INDEPENDENT AUDITOR'S REPORT

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, 2014. 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.

OPINION ON EACH 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, 2014.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

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 2014-002 and 2014-005. Our opinion on the major federal program is not modified with respect to these matters.

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

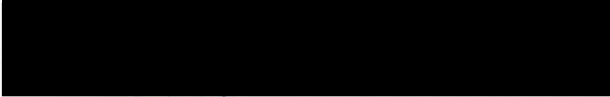
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003, 2014-004, and 2014-005, that we consider to be significant deficiencies.

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

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



Lake Oswego, Oregon
March 26, 2015

THE OREGON HEALTH INSURANCE EXCHANGE CORPORATION
dba COVER OREGON

Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2014

Federal Grantor / Program or Cluster Title

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

Federal Program Title	CFDA Number	Award Number	2014 Federal Expenditures
Direct:			
State Planning and Establishment Grants for the Affordable Care Act Exchanges	93.525	HBEIE130144	\$ <u>79,464,987</u>
			\$ <u>79,464,987</u>

See notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

Note 1 – Basis of Presentation

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

Note 2 – Sub-recipients

Cover Oregon has entered into agreements with selected community partners and tribal organizations as part of its public education and outreach to increase consumer awareness and to provide consumers with information and resources regarding open enrollment. The following information represents the total awarded to entities considered subrecipients under the terms and conditions of the Federal grants, and the amounts disbursed in 2014. As of December 31, 2014, all agreements have either been canceled or have expired.

	<u>Total Award</u>	<u>2014 Funds Disbursed</u>
Sub-recipient information	\$ <u>884,000</u>	\$ <u>500,218</u>

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

Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

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)?	Yes
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 <i>Circular A-133</i>	Yes
Identification of major program:	
CFDA No. 93.525	State Planning and Establishment Grants for the Affordable Care Act Exchanges
Dollar threshold used to distinguish between type A and B programs	\$2,383,950
Auditee qualified as low-risk auditee?	No

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

Summary of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2014-001

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

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 2014-002 (repeat of finding 2013-04)

Federal Program:	CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act Exchanges
Federal Agency:	U.S. Department of Health and Human Services
Award Year:	2014
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees

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

Summary of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

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

Finding 2014-002 (repeat of finding 2013-04) (Continued)

work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.

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

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

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

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

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

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

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

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

Summary of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

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

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

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

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

Award Year: 2014

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 allowable costs and activities 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: None noted as the expenditures appear to be allowable under the grant.

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 65 items tested, three items in the combined amount of \$18,865 were identified in which the expenditure was initiated and approved by the same individual. All three transactions we found to be allowable activities and allowable costs under the grant.

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 continue developing and implementing policies and procedures to provide appropriate documentation supporting effective review for expenditures charged to the federal grant.

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

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

Summary of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

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

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

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

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

Award Year: 2014

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: Cover Oregon submitted 77 requests for reimbursement of expenditures under the federal program. Out of the 11 reimbursement reports tested in our sample, one of the reports in the amount of \$948,664 for payroll expenditures did not display evidence of supervisory review.

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 continue developing and implementing 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**

Summary of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

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

Finding 2014-005

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

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

Award Year: 2014

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 suspension and debarment requirements that could have a material effect on each of its federal programs.

Condition: Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principal(s) are suspended or debarred. Cover Oregon did not verify with the excluded parties list for suspension and debarment before entering into a contract exceeding \$25,000.

Questioned Costs: None noted as the contract tested was found to not include a suspended and debarred party.

Context: Cover Oregon entered into one contract exceeding the threshold of \$25,000 which was not verified against the excluded parties list for suspension and debarment.

Cause: The lack of review for suspension and debarment resulted from the contract not following standard procurement procedures of Cover Oregon.

Effect: Failure to verify suspension and debarment for covered transactions could result in entering into agreements with parties who are suspended or debarred.

Recommendation: We recommend management continue developing and implementing policies and procedures to ensure all contracts are reviewed by the contracts department to provide for documentation supporting the effective review of required checks for suspension and debarment for contracts under federal programs.

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

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

Summary of Prior Year Audit Findings
Year Ended December 31, 2014

Finding 2013-01 (repeated as finding 2014-003)

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.
Corrective Action:	Management will ensure that accounts payable approvals are adequately reviewed for authorized signatures.

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

Summary of Prior Year Audit Findings (Continued)

Year Ended December 31, 2014

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

Audit Finding: 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). 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.

Corrective Action: Management developed and implemented policies and procedures to ensure timely reporting of subawards in accordance with Federal Funding Accountability and Transparency Act reporting requirements.

Finding 2013-03 (repeated as finding 2014-004)

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

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

Award Year: 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.

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

Summary of Prior Year Audit Findings (Continued)
Year Ended December 31, 2014

Finding 2013-03 (repeated as finding 2014-004) (Continued)

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.

Corrective Action: Management changed policies and procedures to provide for effective review of reimbursement of payroll expenditures.

Finding 2013-04 (repeated as finding 2014-002)

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.

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

Summary of Prior Year Audit Findings (Continued)
Year Ended December 31, 2014

Finding 2013-04 (repeated as finding 2014-002) (Continued)

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.

Corrective Action: Management implemented options within the time keeping system for effective time card review and approval of hourly staff by supervisors, and developed monthly reporting for supervisors to review and approve salaried staff's time as of July 1, 2014. Employees and supervisors were trained on system changes, and policies and procedures were modified to reflect effective time card review and approval.

Finding 2013-05

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

Award Year: 2011, 2012, 2013

Audit Finding: OMB Circular A 133 Subpart C, Section_.300 requires federal award recipients to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements including those associated with payroll expenditures that could have a material effect on each of its federal programs. Cover Oregon's personnel files lack physical evidence of approval and acceptance of employee's compensation rates by the Executive Director and employee.

Corrective Action: Management developed and implemented policies and procedures to provide appropriate documentation supporting effective approval of compensation rates in employee personnel files. In addition, management performed an internal review for compliance with existing policy on a quarterly basis.