

Oregon Health Insurance Marketplace

FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018



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

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Office of the Secretary of State

Dennis Richardson
Secretary of State

Leslie Cummings, Ph.D.
Deputy Secretary of State



Audits Division

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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Cameron Smith, Director, Oregon Department of Consumer and Business Services

Report on the Financial Statements

We have audited the accompanying financial statements of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Oregon Health Insurance Marketplace, a program of the Department of Consumer and Business Services, State of Oregon, are intended to present the financial position and the changes in financial position of only that portion of the Department of Consumer and Business Services that is attributable to the transactions of the Oregon Health Insurance Marketplace. They do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of Consumer and Business Services as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018, on our consideration of the Oregon Health Insurance Marketplace'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 solely 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 the effectiveness of the Oregon Health Insurance Marketplace's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oregon Health Insurance Marketplace's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
November 7, 2018

THE OREGON HEALTH INSURANCE MARKETPLACE
The OHIM

Balance Sheet
Governmental Fund
June 30, 2018

ASSETS	<u>2018</u>
Cash and Cash Equivalents	\$ 5,629,309
Accounts Receivable	556,928
Other Receivables, Net	<u>16,605</u>
Total Assets	\$ <u>6,202,842</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 1,600
Due to Other Funds	33,101
Other Current Liabilities	<u>76,334</u>
Total Liabilities	<u>111,035</u>
Deferred Inflows of Resources	
Unavailable Revenue	<u>16,605</u>
Total Deferred Inflows of Resources	<u>16,605</u>
Fund Balance:	
Restricted for Health Insurance Marketplace	<u>6,075,202</u>
Total Fund Balance	<u>6,075,202</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ <u>6,202,842</u>

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

THE OREGON HEALTH INSURANCE MARKETPLACE
The OHIM

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund

For the Year Ended June 30, 2018

Revenues:	<u>2018</u>
Assessments	\$ 9,418,889
Interest and Investments	141,570
Other Revenue	<u>7,286</u>
Total Revenues	<u>9,567,745</u>
Expenditures:	
Current:	
Salaries and Wages	1,961,365
Services and Supplies	3,657,021
Special Payments	656,401
Capital Outlay	<u>1,750</u>
Total Expenditures	<u>6,276,537</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,291,208</u>
Other Financing Sources (Uses):	
Intra-entity Transfer-Transfer Out to Reinsurance Fund (Note 6)	<u>(13,200,656)</u>
Total Other Financing Sources (Uses)	<u>(13,200,656)</u>
Net Change in Fund Balance	(9,909,448)
Fund Balances - Beginning	<u>15,984,650</u>
Fund Balances - Ending	<u>\$ 6,075,202</u>

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

THE OREGON HEALTH INSURANCE MARKETPLACE

The OHIM

Notes to the Basic Financial Statements

For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

A – Purpose of Organization

The Patient Protection and Affordable Care Act (ACA) of 2010 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). Oregon elected to implement a state-based marketplace to meet the unique needs of Oregonians and its insurance market.

In 2011, Senate Bill 99 established the Oregon Health Insurance Exchange Corporation (Cover Oregon) as a public corporation to be governed by a board of directors. Upon implementation, Cover Oregon was fully dependent on federal grant funding for its operational expenditures through Dec. 31, 2014, and partially thereafter.

In 2015, SB 1 abolished Cover Oregon and its board of directors, and transferred its duties, functions, and powers to the Department of Consumer and Business Services (DCBS), an existing state agency. The SBM, within DCBS – Oregon Health Insurance Marketplace (OHIM) – currently is fully self-funded, using per-member-per-month (PMPM) assessments for operations. These financial statements are representative of OHIM only, a program within DCBS.

SB 1 also established the Health Insurance Exchange Fund, also known as the Marketplace Fund. Oregon Revised Statute 741 restricts the use of these funds to the operation of OHIM. The Marketplace Fund is a special revenue fund that is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The activities of this fund are rolled up into the Consumer Protection special revenue fund for the statewide financial reporting purposes.

B – Basis of Accounting

The accompanying financial statements of the Oregon Health Insurance Marketplace are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America for governmental funds.

Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, revenues are considered available if they are collected within 90 days of the end of the current fiscal year. Expenditures generally are recognized when a liability is incurred, as under accrual accounting.

THE OREGON HEALTH INSURANCE MARKETPLACE

The OHIM

Notes to the Basic Financial Statements

For the Year Ended June 30, 2018

Revenues for OHIM come from PMPM assessments from insurance carriers that participate in the OHIM program.

Accordingly, revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of when cash was received or paid.

C – Deposits and Investments

Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents consist of cash and investments held by the office of the State Treasurer in the Oregon Short Term Fund (OSTF). Additional information about the OSTF can be found in the OSTF financial statements at

[http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

D – Receivables & Payables

Receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectable accounts. Payables consist of amounts owed to vendors for operational expenditures and other state agencies for services received.

E – Use of Estimates

OHIM used estimates and assumptions in preparing financial statements in accordance with GAAP. The preparation of the financial statements required management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. As such, actual results could differ from the estimates included in the accompanying financial statements.

F – Fund Balance

The difference between assets and liabilities, plus deferred inflows of resources, is labeled “Fund Balance” on the financial statements. The Health Insurance Exchange Fund balance is restricted. Restricted fund balances are the result of constraints imposed by the law through constitutional provisions or enabling legislation or by parties outside state government, such as creditors, grantors, contributions, or laws or regulations of other governments.

THE OREGON HEALTH INSURANCE MARKETPLACE

The OHIM

Notes to the Basic Financial Statements

For the Year Ended June 30, 2018

Note 2 – Deposits and Investments

OHIM Participation in the Oregon Short Term Fund Held at Treasury

The Oregon State Treasury maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by the Marketplace Fund. Because the pool operates as a demand deposit account, the Marketplace Fund portion of the OSTF is classified on the financial statements as cash and cash equivalents.

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, OHIM will not be able to recover deposits that are in the possession of an outside party. OHIM does not hold any deposits or investments outside of the Oregon State Treasury. Deposits held by the Oregon State Treasury are either insured or collateralized under the Public Funds Collateralization Program. For more information, refer to the Oregon State Treasury financial statements at <http://www.oregon.gov/treasury/Reports/Pages/default.aspx>. Banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

The OHIM bank balance at the Oregon State Treasury was \$5,393,514 as of June 30, 2018.

Investments

OHIM has investments only in OSTF held by the Oregon State Treasury.

Note 3 – Receivables and Payables

Receivables

The following table disaggregates receivable balances reported in the financial statements as accounts and other receivables at June 30, 2018.

Receivables		Accounts Receivable	Other Receivable	Total
Governmental Activities				
Insurer assessment receivable	\$	556,928	166,046	722,974
Allowance for doubtful accounts			(149,441)	(149,441)
Total Receivable, net	\$	556,928	16,605	573,533

THE OREGON HEALTH INSURANCE MARKETPLACE
The OHIM

Notes to the Basic Financial Statements

For the Year Ended June 30, 2018

Payables

The following table disaggregates payable balances reported in the financial statements as accounts payable and other current liabilities at June 30, 2018.

Payables		Accounts Payable	Other Current Liabilities	Total
Governmental Activities				
General Operation	\$	1,600	49,015	50,615
Special Payment		-	27,319	27,319
Total Payable	\$	1,600	76,334	77,934

Note 4 – Risk Management

The Oregon Health Insurance Marketplace was subject to the risk of loss from various events, including, but not limited to, natural disasters, destruction of assets, errors, omission, and injuries to employees. To mitigate the risk of loss from various events, OHIM participated in and was covered under the State of Oregon’s self-insurance and commercial insurance program as administered by the Department of Administration Services (DAS) Enterprise Goods and Services Division, Risk Management Section. As such, OHIM was responsible to provide updated property, equipment, and fixture values to DAS Risk Management.

Note 5 – Assessment Revenue

Each year by March 31, the per-member-per-month medical and dental assessment rates need to be set for qualified health plans sold through the federal exchange. The rates are set to cover OHIM’s planned expenditures for that plan year. There is a risk to assessment revenues from federal or legal actions that may reduce enrollment in qualified health plans. In calendar year 2016, the medical and dental rates were \$9.66 and 97 cents, respectively. In calendar year 2017, the medical and dental rates have been reduced to \$6.00 and 57 cents, respectively, due to reductions in expenditures. The 2018 calendar rate has not been changed.

Note 6 – Intra-entity Transfer

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use the resources for a specific purpose or purposes established in the provider's enabling legislation.

House Bill 2391 (2017) established the Oregon Reinsurance Program and designates DCBS as the administrator of the program. This program is partially funded as described in section 42 of this bill by the unexpended balance of the Marketplace Fund that equals the difference between the balance in the fund and the six months’ projected expenditures from OHIM. DCBS executed the funding requirement of HB 2391 and transferred \$13,200,656 to the Health System fund on Nov. 3, 2017.

Office of the Secretary of State

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Director

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Kate Brown, Governor of Oregon
Cameron Smith, Director, Oregon Department of Consumer and Business Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oregon Health Insurance Marketplace (OHIM), a program of the Department of Consumer and Business Services (the department), State of Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise OHIM's basic financial statements, and have issued our report thereon dated November 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the department's internal control over financial reporting (internal control) for OHIM to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given

these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

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

During the audits for fiscal years 2016 and 2017, auditors noted concerns about the department's ability to interpret applicable accounting standards and prepare financial statements of OHIM that comply with generally accepted government accounting standards. We recommended department management develop written procedures or checklists for financial statement preparation, and to seek training to ensure adequate knowledge, skills, and abilities exist within the department to prepare proper financial statements.

During fiscal year 2018, the department continued to improve in this area. The department prepared a working trial balance and auditable financial statement drafts, consulted with agency partners, and developed a written year-end closing procedure and financial statement checklist.

While progress has been made, the initial financial statement draft was missing a material disclosure and required adjustments and reclassifications to ensure the financial report was accurate and presented in accordance with generally accepted accounting principles. These errors may partially be due to an incomplete working trial balance that did not include financial statement adjustments and did not reconcile ending balances with financial statement balances.

We recommend department management continue using and refining the year-end procedures and checklist to ensure they aid in complying with generally accepted accounting principles when preparing OHIM's financial statements. As part of this process, department management should ensure the working trial balance includes year-end adjustments and reconciles ending balances to financial statement balances.

Agency Response and Planned Corrective Action

The Department of Consumer and Business Services (DCBS) agrees with the recommendation. DCBS has been working on and will continue refining the year-end procedures and checklist, and the working trial balance. DCBS will also seek to improve and continue to refine the review process for these statements.

In November 2018, the accounting manager and senior accountant will attend a governmental accounting training at Willamette University. DCBS will continue to identify and engage in other available trainings for accounting staff involved in preparing financial statements. Finally, DCBS will connect with those in other state agencies involved in financial statement preparation and seek their input and feedback on our process.

The department's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OHIM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Office of the Secretary of State, Audits Division

State of Oregon
November 7, 2018