

Oregon Health Insurance Marketplace

FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019



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

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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Lou Savage, Interim 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, 2019, 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, 2019, 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, 2019, 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 February 10, 2020, 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
February 10, 2020

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Balance Sheet
Governmental Fund
June 30, 2019

ASSETS		<u>2019</u>
Cash and Cash Equivalents	\$	8,621,819
Accounts Receivable		375,565
Other Receivables, Net		<u>16,605</u>
Total Assets	\$	<u><u>9,013,989</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts Payable	\$	3,044
Due to Other Funds		181,811
Other Current Liabilities		<u>385,738</u>
Total Liabilities		<u>570,593</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>8,426,791</u>
Total Fund Balance		<u>8,426,791</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$	<u><u>9,013,989</u></u>

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

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

For the Year Ended June 30, 2019

Revenues:	<u>2019</u>
Assessments	\$ 9,220,796
Interest and Investments	192,311
Other Revenue	<u>188</u>
Total Revenues	<u>9,413,295</u>
 Expenditures:	
Current:	
Salaries and Wages	2,255,655
Services and Supplies	3,915,098
Special Payments	874,510
Capital Outlay	<u>3,765</u>
Total Expenditures	<u>7,049,028</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,364,267</u>
 Net Change in Fund Balance	<u>2,364,267</u>
 Fund Balances - Beginning	6,075,202
 Prior Period Adjustment (Note 7)	<u>(12,678)</u>
Fund Balances - Beginning - Adjusted	<u>6,062,524</u>
Fund Balances - Ending	<u>\$ 8,426,791</u>

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

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2019

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, 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), choose to have a hybrid marketplace (referred to as state-based marketplaces using the federal platform or SBM-FPs), or states could elect to participate in the federal marketplace (referred to as the federally facilitated marketplace or FFM). Oregon first elected to implement a state-based marketplace to meet the unique needs of Oregonians and its insurance market. In late 2014, Oregon transitioned into a SBM-FP.

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-FP, 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 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

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2019

generally are recognized when a liability is incurred, as under accrual accounting. 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

<https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.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 (OHIM)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2019

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 <https://www.oregon.gov/treasury/news-data/pages/treasury-news-reports.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 \$8,106,473 as of June 30, 2019.

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, 2019.

Receivables		Accounts Receivable	Other Receivable	Total
Governmental Activities				
Insurer assessment receivable	\$	368,565	166,046	534,611
Allowance for doubtful accounts			(149,441)	(149,441)
McGuireWoods Reimbursement		7,000		7,000
Total Receivable, net	\$	375,565	16,605	392,170

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2019

Payables

The following table disaggregates payable balances reported in the financial statements as accounts payable and other current liabilities at June 30, 2019.

Payables		Accounts Payable	Other Current Liabilities	Total
Governmental Activities				
General Operation	\$	3,044	182,113	185,157
Special Payment		-	203,625	203,625
Total Payable	\$	3,044	385,738	388,782

Note 4 – Risk Management

The OHIM is 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 participates in and is 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 is 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 were reduced to \$6.00 and 57 cents, respectively, due to reductions in expenditures. For calendar years 2018 and 2019, the rates remained the same at \$6.00 and 57 cents. For calendar year 2020, the rates will be reduced to \$5.50 for medical and 36 cents for dental.

Note 6 – Insurance Providers Rebate

Oregon Revised Statute (ORS) 741.105(3)(b) limits OHIM's fund balance to six months of expenditures. Anything beyond six months of expenditures will be credited to insurers in a manner described in Oregon Administrative Rule (OAR) 945-030-0020. The distribution of the credit is based on the billing date and billed amounts during the 2017-19 biennium for firms that were offering plans through the end of the biennium. The monthly credit is the total rebate, per insurer, divided over 12 months. The 2019-21 biennium total credit for insurance providers is \$4,163,014.75.

THE OREGON HEALTH INSURANCE MARKETPLACE (OHIM)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2019

Note 7 – Chargeback – Prior Period Adjustment

OHIM did not have budget limitation to complete an accrual for fourth (4th) Quarter fiscal year 2018 chargeback expenditures. OHIM received additional chargeback limitation for the 17 – 19 biennium, per 2019 House Bill 5011. Because no accrual was recorded for fourth (4th) Quarter fiscal year 2018 chargeback expenditures, they were considered prior period adjustments for fiscal year 2019.

Expenditure adjustments were made as part of the OHIM chargeback in fiscal year 2019. Some of the adjustments were for fiscal year 2018 chargeback expenditures—these were considered prior period adjustments for fiscal year 2019.

Chargeback Correction	216,096
FY18 Chargeback recorded in FY19	(228,774)
Total Prior Period Adj for Chargeback	(12,678)



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
Lou Savage, Interim 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, 2019, and the related notes to the financial statements, which collectively comprise OHIM's basic financial statements, and have issued our report thereon dated February 10, 2020.

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. 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 the following deficiency in internal control that we consider to be a significant deficiency.

Inaccurate Financial Reporting

The OHIM 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 expenditures for OHIM. During the year, the Oregon Health Authority (OHA) contracted with OHIM to leverage OHIM's preexisting outreach marketing campaign to reach as many Oregonians as possible during the health insurance open enrollment period.

OHIM incorrectly included OHA transactions related to the marketing campaign in the OHIM program financial statements, resulting in overstatements of \$852,000 in expenditures and payables.

We recommend department management ensure financial reporting processes and controls are sufficiently designed and implemented to report only OHIM related transactions in the program's year-end financial statements.

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
February 10, 2020