

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE COLORADO HEALTH INSURANCE
MARKETPLACE'S FINANCIAL
MANAGEMENT SYSTEM DID NOT
ALWAYS COMPLY WITH
FEDERAL REQUIREMENTS**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: July 2018

Report No. A-07-17-02808

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

The Patient Protection and Affordable Care Act (ACA) established health insurance exchanges (commonly referred to as “marketplaces”) to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia. The ACA provided grants to States for planning, establishing, and early operation of marketplaces.

This review is part of a series of reviews of establishment grants for State marketplaces across the Nation, including several reviews of the Colorado marketplace.

Our objective was to determine whether the Colorado marketplace’s financial management system for the administration of its establishment grant funds complied with Federal requirements.

How OIG Did This Review

We reviewed \$183.7 million that the Centers for Medicare & Medicaid Services (CMS) awarded to the Colorado marketplace from Federal fiscal year (FY) 2012 through the third quarter of FY 2016. We focused on cost transfers, payments made outside of the grant period, and aspects of the Colorado marketplace’s financial management procedures and practices.

The Colorado Health Insurance Marketplace’s Financial Management System Did Not Always Comply With Federal Requirements

What OIG Found

The Colorado marketplace’s administration of its financial management system for the establishment grant funds did not always comply with Federal requirements. Specifically, the marketplace improperly transferred grants costs totaling almost \$2 million that included 62 separate expenditures. The Colorado marketplace also transferred costs between grants totaling \$3.2 million that included 352 other expenditures and that may not have been allowable, in part, due to a lack of certifications that the new charges were correct. In addition, the Colorado marketplace made 65 other payments totaling \$568,987 that were unallowable because the marketplace used grant funds from its first two grants that it had not previously obligated within those grant periods to pay for expenditures outside of those grant periods. The Colorado marketplace also engaged in a number of financial management procedures and practices that did not provide for effective control over and accountability for establishment grant funds.

What OIG Recommends

We recommend that the Colorado marketplace refund to the Federal Government the \$2 million in improperly transferred costs and the \$568,987 in payments related to obligations that were not incurred during the grant period. We also recommend that the marketplace work with CMS to certify the cost transfers associated with the remaining 352 expenditures totaling \$3.2 million, ensure that each expenditure transferred was allowable, and refund any unallowable expenditures to the Federal Government. We made an additional, procedural recommendation regarding the development and implementation of written policies and procedures for the administration of its financial management system.

The Colorado marketplace said that it reviewed the transactions for which we are recommending a refund and did not agree that these costs should be refunded. The marketplace also said that it would be able to provide evidence that the 352 expenditures (in our second recommendation) were allowable, and it agreed to work with CMS to certify the allowability of these expenditures. The marketplace agreed with the third recommendation. We maintain that all of our findings and recommendations remain valid. The marketplace did not provide any additional documentation for us to consider.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA)¹ established health insurance exchanges (commonly referred to as “marketplaces”) to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia. The ACA provided grants² to States for planning, establishing, and the early operation of marketplaces.

Connect for Health Colorado (Colorado marketplace) is a quasi-governmental agency that administers the State’s establishment grants and is responsible for complying with applicable Federal grant requirements.

This review is part of a series of reviews of establishment grants for State marketplaces across the Nation. We selected the individual State marketplaces to cover States in different parts of the country. This is the third of three reports³ conveying the results of our reviews of various aspects of the Colorado marketplace’s operations. See “Affordable Care Act Reviews” on the Office of Inspector General (OIG) website for a list of related OIG reports on marketplace operations.⁴

OBJECTIVE

Our objective was to determine whether the Colorado marketplace’s administration of its financial management system for the establishment grant funds complied with Federal requirements.

¹ P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), collectively referred to as “ACA.”

² Under section 1311(a) of the ACA, the Centers for Medicare & Medicaid Services (CMS) provided several different funding opportunities available to States, including Early Innovator Cooperative Agreements, Planning and Establishment Grants, and Establishment Cooperative Agreements. See Appendix B for more detailed information about the types of grants and cooperative agreements available to States related to the establishment of a marketplace.

³ We previously issued *Colorado Did Not Correctly Expend Establishment Grant Funds for Establishing a Health Insurance Marketplace*, A-07-14-02801, Dec. 27, 2016, and *Colorado Did Not Always Comply With Federal Requirements When Expending Federal Establishment Grant Funds Allocated For Its Shared Eligibility System Costs*, A-07-16-02804, Apr. 18, 2018. Available online at <https://oig.hhs.gov/oas/reports/region7/71402801.asp> and <https://oig.hhs.gov/oas/reports/region7/71602804.asp>, respectively.

⁴ Available online at <http://oig.hhs.gov/reports-and-publications/aca/>.

BACKGROUND

Patient Protection and Affordable Care Act

Within the Department of Health and Human Services' (HHS) CMS, the Center for Consumer Information and Insurance Oversight (CCIIO)⁵ is responsible for implementing many of the requirements of the ACA, including overseeing the implementation of provisions related to the marketplaces and the private health insurance plans offered through the marketplaces. These plans are known as qualified health plans (QHPs).

A marketplace performs many functions, such as certifying QHPs; determining eligibility for premium tax credits and cost-sharing reductions; responding to consumer requests for assistance; and providing a website and written materials that individuals can use to assess their eligibility, evaluate health insurance coverage options, and enroll in selected QHPs (ACA § 1311(d)(4)). Additionally, a marketplace helps a State to coordinate eligibility for and enrollment in other State-based public health care programs, such as Medicaid and the Children's Health Insurance Program (CHIP).

Health Insurance Marketplace Programs

The ACA provided for funding assistance⁶ to a State for the planning and establishment of a marketplace that incorporates eligibility determination and enrollment functions for all consumers of participating programs, such as Medicaid and private health insurance offered through a marketplace (ACA § 1311). CCIIO uses the Payment Management System (PMS) to manage grant payment requests, funds drawdowns, and disbursement reporting activities.

See Appendix B for details on the Federal assistance available to States to establish marketplaces.

Federal Requirements for Financial Management of Federal Grant Funds

Grantees must maintain financial management systems that contain accurate, current, and complete disclosure of the results of financially assisted activities for determining the reasonableness, allocability, and allowability of costs (45 CFR § 92.20).

⁵ To implement and oversee the ACA's marketplace and private health insurance requirements, HHS established the Office of Consumer Information and Insurance Oversight (OCIIO) in April 2010 as part of the HHS Office of the Secretary. In January 2011, OCIIO was transferred to CMS under a new center named CCIIO (76 Fed. Reg. 4703 (Jan. 26, 2011)). In this report, we use "CCIIO" to refer to both OCIIO and CCIIO.

⁶ Projects and programs are carried out under a variety of types of grants, including the use of a specific type of grant known as a cooperative agreement. When a Federal agency expects to be substantially involved in carrying out the project or program, it awards a cooperative agreement (*HHS Grants Policy Statement*, p. ii).

For a cost to be allowable, it must be allocable to a Federal award (2 CFR part 225, Appendix A, § C.1).⁷ A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received (2 CFR part 225, Appendix A, § C.3).

A recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period (45 CFR § 92.23).

The *HHS Grants Policy Statement* provides the general terms and conditions of awards for HHS discretionary grants and cooperative agreements. HHS grant awards generally are made to organizations, which are legally accountable for the performance of the award and the expenditure of funds. Grant recipients agree to comply with the requirements of the *HHS Grants Policy Statement* as part of the terms and conditions of the award. Grant recipients must use financial management systems that enable the recipients to maintain records that adequately identify assets, liabilities, and expenditures. Accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, and time and attendance records.

The *HHS Grants Policy Statement* also states that “[C]ost transfers by a recipient between grants . . . generally are unallowable; however, cost transfers by recipients . . . may sometimes be necessary to correct bookkeeping or clerical errors. . . . Permissible cost transfers should be made promptly after the error occurs but no later than 90 days following occurrence unless a longer period is approved in advance by the GMO [grants management officer]” (*HHS Grants Policy Statement, Part II: Terms and Conditions of HHS Grant Awards, “Cost Transfers,”* page II-43).

The Colorado Marketplace⁸

The Colorado General Assembly passed legislation in May 2011 creating the Colorado marketplace (originally called COHBE) as a “non-profit, unincorporated public entity” that is an “instrumentality of the state” but is not a State agency.⁹ This legislation includes a provision for the appointment and a listing of the duties of a Board of Directors (Board) of the marketplace.

⁷ 2 CFR part 225 was made applicable by 45 CFR § 92.22(b).

⁸ Documents relevant to and cited in this report use these terms interchangeably: Connect for Health Colorado, C4HCO, Colorado Health Benefit Exchange, the Colorado Health Benefit Exchange (COHBE), Colorado Exchange, and Colorado marketplace. In some places, this report will use one of these other terms to refer to the Colorado marketplace.

⁹ Colorado Senate Bill 11-200, signed June 1, 2011.

The Colorado marketplace provides eligibility determination and enrollment services for QHPs using the Shared Eligibility System (SES), an automated system developed and maintained by the Colorado Department of Health Care Policy & Financing (HCPF), the agency that administers the Medicaid program in Colorado. The SES thus supports the business functions of the Colorado marketplace, including application and enrollment, plan management, and consumer assistance; among other things, it determines whether enrollees qualify for Medicaid or a QHP.¹⁰

As of December 31, 2014, CCIIO had awarded the Colorado marketplace three establishment grants and a post-award amendment to the third of the three grants, which together totaled \$183.7 million.¹¹ CCIIO categorized the first two establishment grants as Level One grants; the Colorado marketplace designated these as the 1L1 grant and the 2L1 grant. CCIIO categorized the third establishment grant as Level Two; the marketplace designated this as the L2 grant.

On July 1, 2013, the Colorado marketplace converted its accounting system software. We refer to the original software, used for the 1L1 and 2L1 grants, as Software A and the replacement software, used for all three establishment grants, as Software B.

See Appendix B for details about grants awarded for planning, establishing, and early operation of the Colorado marketplace as of December 31, 2014.

Colorado Marketplace Executive Staff

The executive staff of the Colorado marketplace underwent significant turnover during the period covered by this review. Specifically, the original Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Chief Operating Officer (COO) all left the Colorado marketplace within 4 months of our July 2014 initial site visit.

HOW WE CONDUCTED THIS REVIEW

As we did in our previous related reviews of the Colorado marketplace's operations (footnote 3), we reviewed the Notices of Grant Awards (NGAs) associated with the \$183.7 million that CCIIO awarded to the Colorado marketplace—three establishment grants and a post-award amendment to the third of the three grants—beginning in Federal fiscal year (FY) 2012 and extending through the third quarter of FY 2016 (February 22, 2012, through

¹⁰ The SES did not become operational until Colorado's second enrollment period (November 1, 2014, through February 28, 2015).

¹¹ CCIIO had awarded a planning grant to the Executive Office of the State of Colorado that, with a subsequent supplemental grant award, totaled \$1.2 million. The Colorado marketplace had not been established at the time of these planning-grant awards. Because our objective was limited to reviewing expenditures by the Colorado marketplace, we did not review the \$1.2 million.

June 30, 2016). Because CMS permitted States to request No-Cost Extensions (NCEs) for the use of establishment grant funds after December 31, 2014, for activities not related to the operational costs of their marketplaces and because the Colorado marketplace requested and received an NCE for the third establishment grant (Appendix C),¹² we extended our audit period to June 30, 2016. We reviewed internal controls over the financial management system to the extent necessary to achieve our objective.

We previously reported on the Colorado marketplace's expenditure of establishment grant funds and on the SES cost allocation methodology (footnote 3).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

The Colorado marketplace's administration of its financial management system for the establishment grant funds did not always comply with Federal requirements. Specifically, the Colorado marketplace:

- improperly transferred between grants costs totaling \$1,998,617, which included 62 separate expenditures, that were unallowable because the cost transfers took place outside the 90-day timeframe provided in the *HHS Grants Policy Statement* and because the Colorado marketplace did not obtain the necessary advance approval to extend that timeframe from the GMO;
- transferred costs between grants totaling \$3,177,310, which included 352 other expenditures, that occurred within the 90-day timeframe provided in the *HHS Grants Policy Statement* but that may have been unallowable because the marketplace did not document that these transfers were performed to correct bookkeeping or clerical errors, did not explain how the errors occurred, and did not have a responsible Colorado marketplace official's certifications that the new charges were correct;
- made 65 payments to contractors, vendors, and contract employees, totaling \$568,987, that were unallowable because the marketplace used grant funds from its first two

¹² CMS, *FAQs on the Use of 1311 Funds and No-Cost Extensions* (issued Mar. 2014). CMS approved the Colorado marketplace's request for an NCE in November 2014.

grants that it had not previously obligated within those grant periods to pay for expenditures outside of those grant periods; and

- engaged in a number of financial management procedures and practices that, contrary to Federal requirements and cost principles, did not provide for effective control over and accountability for establishment grant funds.

These findings occurred because the Colorado marketplace had not developed and implemented policies and procedures to ensure that its financial management system accurately accounted for establishment grant funds that the marketplace expended. The original executive staff did not place enough emphasis on ensuring that the Colorado marketplace's internal controls related to the administration of its financial management system complied with Federal requirements.

GENERAL FEDERAL REQUIREMENTS FOR THE ADMINISTRATION OF A FINANCIAL MANAGEMENT SYSTEM

Federal regulations require grantees to have financial management systems that provide for the accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant (45 CFR § 92.20(b)).

According to the *HHS Grants Policy Statement*, "The adequacy of the financial management system is integral to the ability of the recipient to account for the expenditure of grant funds." This guidance adds that recipients must use financial systems that enable the recipient to provide accurate, current, and complete financial information about Federal awards; maintain effective control over and accountability for all cash, real and personal property, and other assets under the award; adequately safeguard those assets; and ensure that they are used only for authorized purposes. Recipients must also notify the Grants Management Officer when financial management problems are discovered. (*HHS Grants Policy Statement, Part II: Terms and Conditions of HHS Grant Awards, "Financial Management System,"* pages II-59 – II-60.)

THE COLORADO MARKETPLACE IMPROPERLY TRANSFERRED COSTS FROM ONE ESTABLISHMENT GRANT TO ANOTHER

Federal Requirements

For a cost to be allowable, it must be allocable. "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received" (2 CFR part 225, App. A, § (C)(3)(a)).

Cost transfers by a recipient between grants are generally unallowable; however, the transfers may sometimes be necessary to correct bookkeeping or clerical errors. Permissible cost

transfers should be made within 90 days following the occurrence unless a longer period is approved in advance by the GMO. The transfer must be supported by documentation, pursuant to 45 CFR § 92.42, that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible official of the recipient. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient, as HHS has made clear: “Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both” (*HHS Grants Policy Statement, Part II: Terms and Conditions of HHS Grant Awards*, “Cost Transfers,” page II-43).

Costs Improperly Transferred From One Establishment Grant to Another

We identified 43 cost transfers,¹³ with 414 associated expenditures, that the Colorado marketplace performed from February 22, 2012 (the effective date of the 1L1 grant period) to October 31, 2014. For 19 of the 43 cost transfers, we found 62 separate expenditures totaling \$1,998,617 for which the Colorado marketplace improperly transferred costs between grants. Specifically:

- the Colorado marketplace performed 16 separate cost transfers between grants, which included 50 separate expenditures that we are questioning in their entirety, and
- the Colorado marketplace performed 3 other cost transfers between grants, a portion of which (12 of 21 expenditures) we are questioning.¹⁴

Thus, we are questioning a total of 62 expenditures (50 + 12) with \$1,998,617 in associated costs that were improper because the cost transfers exceeded the 90-day timeframe provided in the *HHS Grants Policy Statement* and because the Colorado marketplace did not obtain advance approval from the GMO to extend that timeframe.

Moreover, 30 of the 62 expenditures were also improper because the dates of the expenditures did not fall within the period of the grants to which those costs were transferred.

Transferred Costs That May Have Been Unallowable

Of the 43 cost transfers that we identified, 27 cost transfers, with 352 other associated expenditures, occurred within the 90-day timeframe provided in the *HHS Grants Policy Statement* but may, for other reasons, have been unallowable. Specifically:

¹³ As explained later in “Transferred Costs That May Have Been Unallowable,” three of the cost transfers we identified included both expenditures that we are questioning and other expenditures that we are setting aside.

¹⁴ As discussed below, we are setting aside for CMS’s adjudication the remaining portion (nine expenditures) of the three other cost transfers.

- the Colorado marketplace performed 24 separate cost transfers between grants, which included 343 separate expenditures that we are setting aside in their entirety, and
- the Colorado marketplace performed 3 other cost transfers between grants, a portion of which we questioned above and the remaining portion of which (9 of 21 expenditures, footnote 14) we are setting aside.

Thus, we are setting aside a total of 352 expenditures (343 + 9) with \$3,177,310 in associated costs for adjudication by CMS. The costs associated with these 352 expenditures may have been unallowable because:

- the Colorado marketplace could provide no documentation that the cost transfers resulted from bookkeeping or clerical errors,
- the cost transfers were not supported by documentation that fully explained how the errors occurred, and
- none of the cost transfers included a responsible Colorado marketplace official's certifications that the new charges were correct.

THE COLORADO MARKETPLACE CHARGED COSTS THAT DID NOT RESULT FROM OBLIGATIONS OF THE FUNDING PERIOD

The Colorado marketplace charged costs to the establishment grants that were related to contractors, vendors, and contract employees, totaling \$568,987, that were unallowable because they resulted from obligations outside the funding period.¹⁵

Federal Requirements

Federal regulations state: "Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period" (45 CFR § 92.23(a)).

Unallowable Payments Made Outside the Funding Period

The Colorado marketplace obligated grant funds from outside the funding period to pay 65 expenditures. Specifically, the marketplace used grant funds from its first two grants that it had not previously obligated within those grant periods to pay for expenditures outside of those grant periods. The obligations occurred between June 8, 2012, and March 30, 2014, for grant periods of February 22, 2012 (the start date of the first establishment grant), and January 15,

¹⁵ For this report, the terms "grant period" and "funding period" may be regarded as synonymous.

2014 (the end date of the second establishment grant). Two of the 3 establishment grants were charged for 65 unallowable payments that were made to 10 unique payees. For 2 of these 65 payments, we identified a difference when comparing amounts of the payments as they were recorded in the pooled cash account¹⁶ to the amounts as they were recorded in the payroll cash general ledger account. In addition, the same two payments in the pooled cash account were charged to a different grant than the grant to which the two payments in the payroll cash general ledger account were charged.

As a result, grant funds totaling \$568,987 were used to pay expenditures outside of the grant period that did not result from an obligation incurred during that grant period. Additionally, a difference of \$6,474 was identified when comparing how the two payments were recorded in the pooled cash account versus the payroll cash general ledger account.

THE COLORADO MARKETPLACE DID NOT PROVIDE EFFECTIVE CONTROL OVER AND ACCOUNTABILITY FOR ESTABLISHMENT GRANT FUNDS

Federal Requirements

Federal regulations require grantees to have financial management systems that provide for the accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant” (45 CFR § 92.20(b)).

Additional guidance about the requirements for grant recipients’ financial management system appear in the *HHS Grants Policy Statement*. (See “Federal Requirements for a Financial Management System” earlier in this report.)

Cash Transactions Not Accurately Tracked in the Colorado Marketplace’s Pooled Cash Account

Federal regulations state that recipients’ financial management systems shall provide for, among other things, “records which identify adequately the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income” (45 CFR § 92.20(b)(2)).

The Colorado marketplace’s financial management system did not accurately track the marketplace’s cash transactions. Specifically, the Colorado marketplace’s pooled cash account, which included both Federal grant funds and non-Federal funds, had a significant number of

¹⁶ A pooled cash account is a cash general ledger account that includes both Federal grant funds and non-Federal funds.

cash transactions (556, which amounted to more than 6 percent of all transactions in this account for our audit period) that lacked identifiers.¹⁷ Without an identifier, Federal grant funds and non-Federal funds are effectively commingled, and it is therefore not possible to identify adequately the source and application of funds used in those cash transactions.

Table 1 shows the differences between the amounts of each grant award and the PMS drawdowns recorded in the pooled cash account with identifiers. Although we were able to verify that all of the \$183.7 million in establishment grant funds drawn down was recorded in the pooled cash account, we also determined that over \$24.3 million of those grant funds lacked identifiers and therefore could not be identified as to a grant-related or non-grant-related application.

Table 1: Comparison of Grant Awards to the Pooled Cash Account

	1L1	2L1	L2	Total
Grant Award Amount	\$17,951,000	\$43,486,747	\$122,301,350	\$183,739,097
PMS Drawdowns Recorded in the Pooled Cash Account With an Identifier	15,935,372	30,667,868	112,829,114	159,432,354
Difference	\$2,015,628	\$12,818,879	\$9,472,236	\$24,306,743

Because more than \$24.3 million of establishment grant funds were entered into the pooled cash account without identifiers, there was an increased risk that Federal grant funds could have been expended for non-grant-related purposes.

Moreover, the Colorado marketplace tracked its cash transaction activity in the pooled cash account and in the cash-operating account in each grant’s general ledger. The specific grant’s cash activity in one of the two accounts should always mirror the cash activity in the other. The deficiencies we identified in the pooled cash account are further illustrated by the fact that cash transaction activity in the cash-operating account in each grant’s general ledger did not mirror cash transaction activity in the pooled cash account. In addition, the cash-operating account in each grant’s general ledger did not accurately track cash. For example:

- 1L1 and 2L1 grants: There were 76 PMS drawdowns that were recorded as debit entries in Software A’s cash-operating account that were never transferred over to the cash-operating account in either the 1L1 or the 2L1 Software B general ledgers at the July 1, 2013, software conversion.¹⁸

¹⁷ Identifiers are used to distinguish between a specific Federal grant or non-Federal source of funds.

¹⁸ We refer to the original general ledger software, used for the 1L1 and 2L1 grants, as Software A and the replacement software, used for all three establishment grants, as Software B.

- 2L1 grant: There were three PMS drawdowns that were recorded as debit entries in Software A’s cash-operating account, but an incorrect amount was transferred over (at conversion) to the cash-operating account in the 2L1 Software B general ledger.

Cash is at greater risk of loss when an entity’s general ledger does not adequately identify the source and application of the cash transactions.

Trial Balances for General Ledger Accounts Were Not Always in Balance

Federal regulations require grantees to have financial management systems that provide for the accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant (45 CFR § 92.20(b)).

We determined that the Colorado marketplace’s three establishment grant general ledgers were not reliable because at two different points in time during the grant periods, six trial balances¹⁹ were not in balance.²⁰ We reviewed three trial balances dated June 30, 2014, and three other trial balances dated April 30, 2015. The variances ranged from a low of \$7,272,809 (June 30, 2014, cash-based trial balance for the L2 grant) to a high of \$17,511,690 (April 30, 2015, accrual-based trial balance for the 1L1 grant).

We identified a number of factors that potentially contributed to the variances we identified, including:

- many general ledger accounts that had open balances but should have had zero balances,
- cash-based trial balances that incorrectly included accrual accounts,
- a revenue general ledger account that should have had a zero balance but instead showed a \$551,000 credit balance,
- the lack of a general ledger expense account corresponding to any of five prepaid expense accounts,
- grant revenues for one grant period that were incorrectly tracked in the general ledger for a different grant, and

¹⁹ The trial balance is an accounting report in which the balances of all general ledger accounts are compiled into debit and credit columns. The total of each of these two columns should be identical. The general purpose of a trial balance is to ensure that the entries in an accounting system are mathematically correct.

²⁰ The term “not in balance” in this context means that the sum of each grant general ledger’s accounts with *debit* balances did not equal the sum of that grant general ledger’s accounts with *credit* balances.

- various accounts that had credit balances where we expected to see debit balances, and vice versa.

See Appendix E for additional details about these and related discrepancies that we identified for the six trial balances.

After the dates of these six trial balances and after we had made Colorado marketplace officials aware of these discrepancies, the marketplace attempted to adjust the general ledger for each establishment grant in an effort to produce a trial balance that balanced for each grant. The adjusting effort lasted at least 4 months; after the adjustments were completed, the trial balances, according to the Colorado marketplace, balanced.²¹

Although the Colorado marketplace worked to adjust its general ledgers, the integrity of the three establishment grant general ledgers was compromised on at least two different points in time during the grant period. Also, because the general ledgers lacked integrity on at least two different points in time, the marketplace's financial statements (which were based on the general ledgers) were unreliable, which in turn could have negatively affected management decisions.

Payment Management System Drawdowns Did Not Reconcile With the Grants' General Ledgers

The Colorado marketplace's PMS drawdowns did not reconcile with the grants' general ledgers because of errors that occurred as the result of a conversion in accounting software that the marketplace executed during the grant period (on July 1, 2013).

All PMS drawdowns from March 22, 2012, through December 31, 2015 (which drew down all but approximately \$220,000 of the approximately \$183.7 million in awarded grant funds), reconciled with the bank statements for the Colorado marketplace's operating checking account and to the pooled cash account. However, these drawdowns did not reconcile with the cash-operating account in the marketplace's grant general ledgers (Software B). Specifically, we identified 76 instances in which a PMS drawdown had been recorded as a debit entry in the cash-operating account of the Software A general ledger but was never transferred over to any of the three Software B grant general ledgers when the Colorado marketplace converted its accounting software on July 1, 2013. We identified three other instances in which the amounts of grant funds drawn down and reflected in the cash-operating account of the Software A general ledger did not match the amounts transferred over to, and recorded in, any of the three Software B grant general ledgers.

²¹ We were provided 12 adjusted trial balances. Six were dated June 30, 2015, and six were dated June 30, 2016. The six adjusted trial balances on each date consisted of a cash-based trial balance and an accrual-based trial balance for each of the three establishment grants.

Furthermore, the activity in the cash-operating accounts in the Software B grant general ledgers should have reflected the same cash transaction activity found in the Software B general ledger's pooled cash account with an identifier for that particular grant.

The Colorado marketplace's Software B grant general ledgers did not account for PMS drawdowns totaling \$41,777,517. Because we were able to reconcile the PMS drawdowns with the marketplace's bank statements, we are assured all PMS drawdowns were deposited into the marketplace's bank account. However, the \$41,777,517 was never properly accounted for in the Software B grant general ledgers, and was therefore at risk of being used for purposes not related to the purposes of the establishment grants (Appendix B).

ABSENCE OF POLICIES AND PROCEDURES

These findings were caused by an absence of policies and procedures to ensure that its financial management system accurately accounted for establishment grant funds that the marketplace expended. This occurred because the original executive staff did not place enough emphasis on ensuring that the Colorado marketplace's internal controls related to the administration of its financial management system complied with Federal requirements.

The absence of financial management policies and procedures was reflected in the fact that the grant general ledgers were unreliable on at least two different points in time after the July 1, 2013, conversion of the Software A general ledger to three Software B general ledgers. After that conversion, the six trial balances discussed earlier were not in balance; consequently, the Software B grant general ledgers could not be regarded as reliable.

After the software conversion of the Colorado marketplace's general ledgers, marketplace staff began to recognize that not all of the financial data in the Colorado marketplace's accounting records had transferred correctly and completely from the Software A general ledger to the Software B general ledgers. Consequently, several months after the software conversion, the Colorado marketplace hired an accounting firm to remedy the problems that the software conversion had created in the Software B grant general ledgers. (These problems included but were not limited to the discrepancies in trial balances discussed earlier.) The marketplace paid the accounting firm (using establishment grant funds) \$27,456 for its services. The accounting firm was unable to restore the integrity of the three Software B grant general ledgers. It is the Colorado marketplace management's responsibility to ensure that its grant general ledgers are accurate.

As a result of the absence of policies and procedures, we identified \$2,567,604 in unallowable costs, \$3,177,310 in costs that we are setting aside for adjudication by the Colorado marketplace and CMS, and a number of procedural findings.

RECOMMENDATIONS

We recommend that the Colorado marketplace:

- refund to the Federal Government \$2,567,604, consisting of:
 - \$1,998,617 in costs that were improperly transferred between grants and
 - \$568,987 in payments that were related to obligations that were not incurred during the grant funding period;
- work with CMS to certify the cost transfers associated with the remaining 352 expenditures totaling \$3,177,310, ensure that each expenditure transferred was allowable, and refund any unallowable expenditures to the Federal Government; and
- develop and implement written policies and procedures to ensure that it administers its financial management system accurately and reliably and to ensure that for any future Federal grant awards, the marketplace's financial management system maintains effective control over and accountability for grant funds.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

AUDITEE COMMENTS

In written comments on our draft report, the Colorado marketplace agreed with our third recommendation and said that it had implemented, and would continue to maintain and update, various financial management system policies and procedures as needed to remain in compliance with Federal requirements. With respect to our second recommendation, the Colorado marketplace said that it would be able to provide evidence that the 352 expenditures were allowable. It also agreed to work with CMS to certify the allowability of these expenditures.

With respect to our first recommendation, the Colorado marketplace said that it had reviewed those transactions and did not agree that the \$2,567,604 should be refunded to the Federal Government. The marketplace's position was that all funds received were used for costs related to establishment activities for marketplace operations and for meeting marketplace requirements. The marketplace further stated that it believed its financial management system provided accurate, current, and complete disclosure of financial results. The marketplace also said that it welcomed the opportunity to review the amounts in detail and discuss how those funds met the requirements of the program and the intent to establish a sustainable marketplace for health insurance consumers in Colorado.

The Colorado marketplace's comments appear in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the Colorado marketplace's comments, we maintain that all of our findings and recommendations remain valid. For the second recommendation, although the marketplace stated that it can provide evidence of the allowability of the 352 expenditures, it did not provide adequate evidence during our audit. Furthermore, we have classified these expenditures as potentially unallowable because the cost transfers with which they are associated may not have complied with the provisions of the *HHS Grants Policy Statement*. The marketplace's statement that it agrees to work with CMS to resolve these costs therefore aligns with our recommendation.

With respect to our first recommendation, the \$2,567,604 in questioned costs consisted primarily of \$1,998,217 in costs that were improperly transferred between grants because the cost transfers exceeded the specified 90-day timeframe and because the Colorado marketplace did not obtain the necessary advance approval to extend that timeframe. The questioned costs in our first recommendation also included \$568,987 in costs that were unallowable because the marketplace used grant funds that it had not previously obligated within the first two grant periods to pay for expenditures outside of those grant periods. The Colorado marketplace's written comments did not directly address, or attempt to refute, the reasons why we found the \$2,567,604 in costs to be unallowable. The marketplace did not provide any additional documentation, with respect to these or any of our other findings, for us to consider.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

As we did in our previous related reviews of the Colorado marketplace's operations (footnote 3), we reviewed the NGAs associated with the \$183.7 million that CCIIO awarded to the Colorado marketplace, in three establishment grants and a post-award amendment to the third of the three grants, beginning in FY 2012 and extending through the third quarter of FY 2016 (February 22, 2012, through June 30, 2016).

Our audit work included site visits to the Colorado marketplace's office in Denver, Colorado.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal regulations;
- reviewed Colorado marketplace policies and procedures for the administration of its financial management system throughout the establishment grant period;
- identified 43 cost transfers from a review of all three Software B grant general ledgers for the time period from February 22, 2012 (the effective date of the 1L1 grant period) to October 31, 2014;
- obtained from the Colorado marketplace a list of the 414 general ledger entries associated with the 43 cost transfers;
- determined whether any of the 43 cost transfers were performed to correct bookkeeping or clerical errors; whether they were supported by documentation explaining how the errors had occurred; whether a responsible marketplace official certified that the new charge was correct; whether the time span from the date of occurrence of an error to the date of the applicable cost transfer exceeded 90 days; and whether any time spans of greater than 90 days were approved in advance by the GMO;
- identified the portion of the 43 cost transfers that was improper and the portion that may have been unallowable;
- reviewed the Colorado marketplace's pooled cash account to identify those payments charged to an establishment grant for which the payment dates were outside the grant period and

- determined whether any such payments resulted from an obligation incurred within the grant funding period,
- determined the number of unique payees for unallowable payments made outside the grant period, and
- identified the payments that were recorded in the pooled cash account and the payroll cash general ledger account as well as the grants to which the payments had been charged;
- determined the number of cash transactions in the pooled cash account and the number of transactions that were missing an identifier, segregated the cash transactions missing an identifier into debit and credit entry transactions and summed the total dollar of each, calculated the percentage of all cash transactions in that account that lacked identifiers, and then determined the number of unique identifiers used in that account;
- reconciled PMS drawdowns of \$183.7 million through June 30, 2016, with the pooled cash account and
 - reconciled each grant award amount with the applicable PMS drawdowns that were recorded in the pooled cash account and that had an identifier,
 - determined the number of PMS drawdowns that lacked identifiers and calculated what percentage that was of all the PMS drawdowns, and
 - determined the number of PMS drawdowns in which a portion of a drawdown was missing an identifier and calculated a percentage of that number to all PMS drawdowns;
- reviewed 18 trial balances from the 3 establishment grants to determine whether they were in balance (footnote 19) and, for each trial balance,
 - determined the dollar range between total debits and total credits for the 6 trial balances that were not in balance,
 - determined, through a line-by-line review, whether open balances existed for those trial balances not in balance and calculated the number of months that had elapsed from the grant period end date to the trial balance date (Appendix E), and

- determined whether liability general ledger accounts were among those accounts with open balances and whether the cash-based trial balances included accrual accounts (i.e., receivables and payables);
- reviewed those trial balances not in balance to identify:
 - general ledger account balances that had either debit or credit balances that were not appropriate for that type of account (for example, an accounts receivable account with a credit balance) and
 - general ledger accounts that were missing but that we would have expected to see;
- reviewed the NGAs' terms and conditions;
- reviewed FYs 2014 and 2015 audit reports prepared by an independent auditing firm under the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and gained an understanding of those reports' findings about the Colorado marketplace's use of establishment grant funds;
- reconciled all PMS drawdowns from March 22, 2012, to December 31, 2015, with the bank statements for the Colorado marketplace's operating checking account;
- attempted to reconcile all PMS drawdowns from March 22, 2012, to December 31, 2015, with the "cash-operating account" in the marketplace's Software B grant general ledgers;
- attempted to trace each PMS drawdown recorded in Software A's cash-operating general ledger account to any of the three Software B grant general ledgers;
- reviewed the letter of understanding between the Colorado marketplace and the accounting firm it hired to remedy problems with the Software B grant general ledgers, as well as the marketplace-prepared spreadsheet that detailed the firm's billings for its efforts to restore the integrity of the Software B grant general ledgers;
- attempted to reconcile, for each Software B grant general ledger, the ending cash balance in the pooled cash account at a designated date during the grant period with the ending cash balance in the cash-operating account for each of the establishment grants under the same general ledger for the same date; and
- discussed our findings with Colorado marketplace officials on September 12, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: FEDERAL GRANTS TO STATES FOR PLANNING, ESTABLISHING, AND EARLY OPERATION OF MARKETPLACES

CCIIO used a phased approach to provide States with resources for planning and implementing marketplaces. CCIIO awarded States and one consortium of States planning and establishment grants, including early innovator cooperative agreements and two types of marketplace establishment cooperative agreements.

PLANNING AND ESTABLISHMENT GRANTS

CCIIO awarded planning and establishment grants²² to assist States with initial planning activities related to the potential implementation of the marketplaces. States could use these funds in a variety of ways, including to assess current information technology (IT) systems; to determine the statutory and administrative changes needed to build marketplaces; and to coordinate streamlined eligibility and enrollment systems across State health programs, including Medicaid and CHIP. In September 2010, CCIIO awarded grants in amounts up to a maximum of \$1 million per State to 49 States and the District of Columbia. (Alaska did not apply for a planning and establishment grant.)

EARLY INNOVATOR COOPERATIVE AGREEMENTS

CCIIO awarded early innovator cooperative agreements²³ to States to provide them with incentives to design and implement the IT infrastructure needed to operate marketplaces. These cooperative agreements rewarded States that demonstrated leadership in developing cutting-edge and cost-effective consumer-based technologies and models for insurance eligibility and enrollment for marketplaces. The “early innovator” States received funding to develop IT models, “building universally essential components that can be adopted and tailored by other States.” In February 2011, CCIIO awarded 2-year early innovator cooperative agreements to six States and one consortium of States. Awards ranged from \$6.2 million (Maryland) to \$59.9 million (Oregon).

²² CCIIO, *State Planning and Establishment Grants for the Affordable Care Act’s Exchanges*, Funding Opportunity Number: IE-HBE-10-001, July 29, 2010.

²³ CCIIO, *Cooperative Agreements to Support Innovative Exchange Information Technology Systems*, Funding Opportunity Number: TBA, October 29, 2010. In February 2011, CMS announced that it had awarded seven early innovator cooperative agreements. The cooperative agreements totaled \$249 million.

MARKETPLACE ESTABLISHMENT COOPERATIVE AGREEMENTS

CCIIO designed establishment cooperative agreements²⁴ to support States' progress toward establishing marketplaces. Establishment cooperative agreements awarded through December 31, 2014, were available for States seeking (1) to establish a State-based marketplace, (2) to build functions that a State elects to operate under a State partnership marketplace, and (3) to support State activities to build interfaces with the federally facilitated marketplace. Cooperative agreement funds were available for approved and permissible establishment activities and could include startup year expenses to allow outreach, testing, and necessary improvements during the startup year. In addition, a State that did not have a fully approved State-based marketplace on January 1, 2013, could have continued to qualify for and receive establishment cooperative agreement awards in connection with its activities related to establishment of the federally facilitated marketplace or State partnership marketplace, subject to certain eligibility criteria. States were eligible for multiple establishment cooperative agreements.

There were two categories of establishment cooperative agreements: Level One and Level Two. Level One establishment cooperative agreements were open to all States, whether they were (1) participating in the federally facilitated marketplace (including States collaborating with the federally facilitated marketplace through the State partnership model) or (2) developing a State-based marketplace. All States could have applied for Level One establishment cooperative agreements, including those that previously received exchange planning and establishment grants. Level One award funds were available for up to 1 year after the date of the award.

Level Two establishment cooperative agreements were available to States, including those that previously received exchange planning and establishment grants. Level Two establishment cooperative agreement awards provided funding for up to 3 years after the date of the award. These awards were available to States that could demonstrate that they had (1) the necessary legal authority to establish and operate a marketplace that complies with Federal requirements available at the time of the application, (2) established a governance structure for the marketplace, and (3) submitted an initial plan discussing long-term operational costs of the marketplace.

States could have initially applied for either a Level One or a Level Two establishment cooperative agreement. Those that had received Level One establishment cooperative agreements could have applied for another Level One establishment cooperative agreement by a subsequent application deadline. Level One establishment grantees also could have applied

²⁴ CCIIO, *Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges*, Funding Opportunity Number: IE-HBE-11-004, November 29, 2011, and *Cooperative Agreement to Support Establishment of the Affordable Care Act's Health Insurance Exchanges*, Funding Opportunity Number: IE-HBE-12-001, December 6, 2013.

for a Level Two establishment cooperative agreement provided the State had made sufficient progress in the initial Level One establishment project period and was able to satisfy the eligibility criteria for a Level Two establishment cooperative agreement.

In determining award amounts, CCIIO looked for efficiencies and considered whether the proposed budget would be sufficient, reasonable, and cost effective to support the activities proposed in the State's application. According to the Funding Opportunity Announcement, the cooperative agreements funded only costs for establishment activities that were integral to marketplace operations and meeting marketplace requirements, including those defined in existing and future guidance and regulations issued by HHS. A marketplace must use ACA, section 1311(a), funds consistent with ACA requirements and related guidance from CCIIO.

States were required to ensure that their marketplaces were self-sustaining beginning on January 1, 2015 (ACA § 1311(d)(5)(A)).

**APPENDIX C: FEDERAL GRANTS AWARDED FOR PLANNING, ESTABLISHING,
AND EARLY OPERATION OF THE COLORADO MARKETPLACE
AS OF DECEMBER 31, 2014**

Table 2 summarizes the grants awarded by CCIIO to support the planning, establishing, and early operation of the Colorado marketplace and expenditures allocated to these grants.

Table 2: Establishment Grant Numbers, Award Periods, Award Types, and Award Totals

Grant Number	Award Period	Award Type	Award Total
HBEIE120111	February 22, 2012– April 15, 2013	Level One	\$17,951,000
HBEIE120131	September 27, 2012– January 15, 2014	Level One	43,486,747
HBEIE130169	July 9, 2013– December 31, 2015 ²⁵	Level Two	116,245,677
HBEIE130169 ²⁶	July 9, 2013– December 31, 2015	Level Two	6,055,673
Total of Establishment Grants			\$183,739,097
HBEIE00004 ²⁷	September 29, 2010– February 29, 2012	Planning	1,247,599
Total of All Grants			\$184,986,696

²⁵ The award period for this grant (and the post-award amendment grant on the next line) includes the NCE period.

²⁶ This grant, awarded in December 2014, was a post-award amendment of the Level Two grant.

²⁷ CCIIO did not award this planning grant to the Colorado marketplace but did award it to the Executive Office of the State of Colorado. The total amount shown (\$1,247,599) includes the initial planning grant award (\$999,987) and a supplemental grant award (\$247,612). We did not review the \$1,247,599.

APPENDIX D: DETAILS OF CASH TRANSACTIONS THAT WERE MISSING IDENTIFIERS IN THE POOLED CASH ACCOUNT

The pooled cash account, which included both Federal grant funds and non-Federal funds, had a total of 9,136 cash transactions for our audit period. The number of cash transactions that lacked identifiers was 556, which amounted to more than 6 percent of all transactions in this account during this period. Without an identifier, Federal grant funds and non-Federal funds are effectively commingled, and it is therefore not possible to identify adequately the source and application of funds used in those cash transactions.

Of the 556 cash transactions, 143 were debit-entry cash transactions and 413 were credit-entry cash transactions. Cash transactions with no identifier totaled \$81,470,850. Of this amount, debit-entry cash transactions were \$40,772,790 and credit-entry cash transactions were \$40,698,060.

In addition, the Colorado marketplace made 173 drawdowns of establishment grant funds totaling \$183,739,097. Of the 173 drawdowns, 39 drawdowns (or 23 percent) had no identifier, and a portion of 13 other drawdowns (or 8 percent) had no identifier. Of the \$183,739,097, the grant funds associated with the drawdowns that lacked identifiers totaled \$24,306,743 (or 13 percent).

Cash is at greater risk of loss when an entity's general ledger does not adequately identify the source and application of the cash transactions.

APPENDIX E: TRIAL BALANCES

The material in this Appendix elaborates on the information presented earlier in this report in our finding: “Trial Balances for General Ledger Accounts Were Not Always in Balance.”

A fundamental principle of double-entry accounting is that, at any point in time, the sum of the *debit* balances for all of the accounts in a general ledger should equal the sum of the *credit* balances for all of the accounts in that general ledger. A list of general ledger account balances is known as a trial balance. When a trial balance is not in balance, the underlying general ledger cannot be considered to be reliable. In reviewing the Colorado marketplace’s trial balances, we identified variances between the debit and credit balances that ranged from \$7,272,809 (June 30, 2014, cash-based trial balance for the L2 grant) to \$17,511,690 (April 30, 2015, accrual-based trial balance for the 1L1 grant).

At two different points in time in our audit period (June 30, 2014, and April 30, 2015), the Colorado marketplace’s trial balance for each establishment grant (that is, the 1L1, 2L1, and L2 grants) was not in balance. Of the six trial balances we reviewed, four pertained to grant award periods (1L1 and 2L1 grants) that had ended anywhere from 5.5 months to 24.5 months before the trial balance date. In addition, for these four trial balances, we identified liability general ledger accounts (that is, accounts for which the Colorado marketplace owed funds to other entities) with open balances. The existence of open balances meant that within these accounts, the Colorado marketplace had incurred obligations that had not yet been liquidated, even though the relevant grant award period had ended at least 5.5 months earlier. The dates of the other two trial balances that were not in balance fell within the relevant grant period.²⁸

The discussion that follows offers details on the discrepancies we identified for three June 30, 2014, trial balances and for three April 30, 2015, trial balances. Within each of these groupings, one of the three trial balances that were not in balance involved the ongoing grant award period for the L2 grant.

²⁸ The other two trial balances pertained to the L2 grant. Because the L2 grant had not closed as of the two trial balance dates, the presence of open balances in the general ledger was expected.

FEDERAL REQUIREMENTS

The NGAs for the 1L1 and 2L1 grants state: “Award recipients shall liquidate all obligations incurred under the award not later than 90 days after the end of the project period and before the final FFR [Federal Financial Report] submission.”²⁹

Federal regulations require grantees to have financial management systems that provide for the accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant (45 CFR § 92.20(b)).

Federal regulations also state: “A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee” (45 CFR 92.23(b)).

JUNE 30, 2014, TRIAL BALANCES THAT WERE NOT IN BALANCE

Cash-Based Trial Balance for the 1L1 Grant

The Colorado marketplace’s accounting system labeled this trial balance as a cash-based trial balance, but it included accrual accounts (e.g., payables). Although the total debits should have equaled total credits on the trial balance date, the total debits exceeded total credits by \$17,174,431.

Specifically, the Colorado marketplace’s revenue general ledger account labeled “Grant 1L1 \$17,951,000”³⁰ showed a credit balance of \$551,000. Because the 1L1 grant period ended on April 15, 2013—well before the June 30, 2014, trial balance date—we would have expected to see a zero balance in this account on this trial balance date.

²⁹ The FFR involves the obligation of grant funds; grantees submit these reports to the cognizant Federal agency in accordance with a schedule or frequency specified in the relevant NGA. Although the NGA for the L2 grant award contains similar language regarding the obligation of funds as is quoted here from the NGAs for the two earlier awards, this requirement is not applicable to the L2 grant award because that grant was ongoing at the time of the April 30, 2015, trial balance.

³⁰ This is the name given to this account in the Colorado marketplace’s general ledger. As shown in Appendix B, the dollar amount associated with this account name, like the amounts associated with the other general ledger account names discussed in this Appendix, refers to the total amount of that particular grant award.

Cash-Based Trial Balance for the 2L1 Grant

The Colorado marketplace's accounting system labeled this trial balance as a cash-based trial balance, but it included accrual accounts (e.g., receivables and payables). Although the total debits should have equaled total credits on the trial balance date, the total debits exceeded total credits by \$12,213,280.

In addition, the marketplace's revenue general ledger account labeled "Grant Level 2" showed a credit balance of \$1,436,074. The very presence of this account represented an accounting error, as L2 grant revenues should not have been tracked in the 2L1 grant general ledger.

Another discrepancy in the marketplace's accounting system for this trial balance involved one prepaid asset account that had a credit balance of \$11,373. A prepaid asset account normally has a debit balance.

Cash-Based Trial Balance for the L2 Grant

The Colorado marketplace's accounting system labeled this trial balance as a cash-based trial balance, but like the other two June 30, 2014, trial balances, it included accrual accounts (e.g., receivables and payables). The L2 grant period was ongoing at the date of this trial balance.

The total credits for this trial balance exceeded its total debits by \$7,272,809.

Within this trial balance, we identified discrepancies in several accounts of the type that normally have debit balances:

- the cash-operating account had a credit balance of \$18,734,326,
- the Federal grant receivable account had a credit balance of \$119,355, and
- the depreciation/amortization account had a credit balance of \$214,274.³¹

We also identified discrepancies in several accounts of the type that normally have credit balances:

- the accumulated depreciation—marketplace development account had a debit balance of \$184,683,
- the vendor payables account had a debit balance of \$60,502, and

³¹ Our review of this account revealed that most of its entries were labelled "Depreciation True up," without any additional explanation (such as cross-references identifying which other accounts were being trued up) or details other than references to timeframes for each entry.

- the garnishments payable account had a debit balance of \$627.

Further, the marketplace's revenue general ledger account labeled "Grant 2L1 \$43,486,748.15" showed a credit balance of \$640,173. The very presence of this account represented an accounting error, as 2L1 grant revenues should not have been tracked in the L2 grant general ledger.

APRIL 30, 2015, TRIAL BALANCES THAT WERE NOT IN BALANCE

Accrual-Based Trial Balance for the 1L1 Grant

Although the total debits should have equaled total credits on the trial balance date, the total debits exceeded total credits by \$17,511,690.

Accrual-Based Trial Balance for the 2L1 Grant

Although the total debits should have equaled total credits on the trial balance date, the total debits exceeded total credits by \$13,038,752.

Other discrepancies in the marketplace's accounting system for this trial balance involved the following:

- one prepaid asset account had a credit balance of \$58,924, rather than a debit balance as is normally found in an account of this type, and
- there was no expense account corresponding to any of five prepaid expense accounts.³²

Accrual-Based Trial Balance for the L2 Grant

The L2 grant period was ongoing at the date of this trial balance. The total credits for this trial balance exceeded its total debits by \$10,649,488.

Within the opening July 1, 2014 (the first day of the Colorado marketplace's new FY), trial balance, we identified discrepancies in several accounts of the type that normally have debit balances:

- the cash-operating account had a credit balance of \$10,788,157 and
- accounts receivable had a credit balance of \$11,797.

³² The five accounts were Prepaid Insurance, Rent & Miscellaneous; Prepaid hCentive Support; Prepaid CGI Hosting; Prepaid [Software B] Annual License; and Healthation Support.

We also identified discrepancies in several accounts of the type that normally have credit balances:

- the accumulated depreciation—marketplace development account had a debit balance of \$184,683,
- the pre-tax medical liability account had a debit balance of \$6,327, and
- the garnishments payable account had a debit balance of \$395.

OPEN BALANCES FOR TRIAL BALANCE DATES THAT WERE AFTER THE ENDING DATES OF THE GRANT AWARD PERIODS

Table 3 on the following page shows the open balances for the four trial balances for which the applicable grant period had ended at least 5.5 months before the trial balance date.

Table 3: Open Balances for Trial Balance Dates That Were After the Ending Dates of the Grant Award Periods

	Normal Account Balance Debit = DR Credit = CR	6-30-14 Cash G/L 1L1 Grant Open Balance	6-30-14 Cash G/L 2L1 Grant Open Balance	4-30-15 Accrual G/L 1L1 Grant Open Balance	4-30-15 Accrual G/L 2L1 Grant Open Balance
<u>Cash</u>					
Cash-operating account	DR	\$428,058	\$1,682,119	\$428,058	\$1,382,913
FSA (cash) account ³³	DR	11,675	38,451	11,675	34,368
Payroll (cash) account	DR	<196,447>	<172,614>	<200,402>	<172,614>
<u>Receivables</u>					
Accounts receivable	DR		<3,846>	<551,000>	<4,948,647>
Federal grant receivable	DR		<1,196>		<1,196>
<u>Payables</u>					
Vendor payables	CR	<147,530>	<587,004>	196,167	513,825
Accrued payroll	CR	<307,981>	<500,911>	<307,981>	<500,911>
FSA liability	CR	<6,808>	<52,397>	<6,808>	<52,397>
Pre-tax medical liability	CR	5,016	24,295	5,016	24,295
Accrued payroll taxes	CR	<17,152>	155,414	<14,011>	155,414
SUTA payable ³⁴	CR	<283>	1,444	<23>	1,444
403(b) liability	CR		24,314		24,314
Roth (post-tax) liability	CR		127		127
Garnishments payable	CR		<395>		<395>

Notes: (1) Bolded entries in the left-hand column signify open balances for which we identified particularly significant concerns, as discussed on the following page. (2) The use of brackets around dollar amounts in this table signifies credits. (3) Dollar amounts that do not have brackets are debits.

Significant concerns associated with these open balances include the following:

- The cash-operating account shows cash balances ranging from \$428,058 to \$1,682,119. The Colorado marketplace should have liquidated all obligations within 90 days of the end of the grant award period, in accordance with the Federal requirements cited earlier in this Appendix; instead, the cash-operating account showed sizable balances

³³ "FSA" refers to Flexible Spending Account.

³⁴ "SUTA" refers to State Unemployment Tax Act.

on each of the trial balance dates, which were at least 5.5 months and up to 24 months after the ends of the grant award periods.

- The Federal grant receivable account showed a credit balance for the 2L1 grant's June 30, 2014, and April 30, 2015, trial balances. However, the awarded funds for the 2L1 grant had been previously drawn down from the PMS.
- The accrued payroll account showed balances of either \$307,981 or \$500,911 for each of the four trial balances. These balances suggest that on the trial balance dates, the Colorado marketplace owed salary payments totaling \$808,892 to its employees.

Connect for Health Colorado appreciates the opportunity to respond to the recommendations in the draft report of the Office of Inspector General (OIG) titled *The Colorado Health Insurance Marketplace's Financial Management System Did Not Always Comply With Federal Requirements*. We take all audit recommendations seriously and use it as an opportunity to improve our processes. The following is our response to the recommendations contained in the OIG report.

The organization's financial management system has undergone continuance improvement since its inception. Over this period the Exchange has maintained accurate accounting of all activities, receipts, and expenditures in accordance with generally accepted accounting principles (GAAP). Connect for Health Colorado has undergone an annual independent financial audit that follows generally accepted governmental auditing standards (GAGAS) since its inception in 2012. The organization has also been subject to an annual Single Audit (A-133) to test compliance with CMS grant requirements. This audit looks at the financial records, financial statements, federal award transactions and expenditures, internal control systems, and the federal assistance it received during the audit period. These audits are available to the public and all open items resulting from these audits have been resolved.

OIG Recommendation:

Work with CMS to certify the cost transfers associated with the remaining 352 expenditures totaling \$3,177,310, ensure that each expenditure transferred was allowable, and refund any unallowable expenditures to the Federal Government

Connect for Health Colorado will be able to provide evidence that these expenditures were allowable and agrees to work with CMS to certify the allowability of these expenditures.

OIG Recommendation:

Develop and implement written policies and procedures to ensure that it administers its financial management system accurately and reliably to ensure that for any future Federal grant awards, the marketplace's financial management system maintains effective control over and accountability for grant funds.

Connect for Health Colorado agrees with this recommendation and has, subsequent and during the timeframe of this audit, implemented various policies and procedures regarding the financial management system. As with all the organization's policies and procedures we will continue to maintain and update these policies and procedures as needed to remain in compliance with Federal requirements.

OIG Recommendation:

Refund to the Federal Government \$2,567,604, consisting of:

- *\$1,998,617 in costs that were improperly transferred between grants and*
- *\$568,987 in payments that were related to obligations that were not incurred during the grant funding period*

It is Connect for Health Colorado's position that all funds received through the Cooperative Agreement were used solely for costs related to establishment activities that were integral to the marketplace operations and meeting marketplace requirements. It is also the organization's position that the financial management system used by the organization provided the necessary information to provide accurate, current and complete disclosure of its results to assure the reasonableness, allocability and allowability of the costs related to the establishment of the marketplace. Connect for Health Colorado has reviewed the transactions that are the basis for this refund recommendation and do not agree with the conclusion that these costs should be refunded. We welcome the opportunity to review these amounts in detail and discuss how they have met the requirements of the program as well as the intent of the public policy to establish a sustainable marketplace for health insurance consumers in Colorado.

Sincerely,

/Kevin N. Patterson/

Kevin N. Patterson, MURP, MPA
Chief Executive Officer
May 24, 2018

