

THE D.C. HEALTH BENEFIT EXCHANGE AUTHORITY

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

INCURRED COSTS

MAY 18, 2011 THROUGH AUGUST 31, 2013

**BERT SMITH
& Co.**

Certified Public Accountants and Management Consultants

**D.C. HEALTH BENEFIT EXCHANGE AUTHORITY
AGREED-UPON PROCEDURES
INCURRED COSTS**

TABLE OF CONTENTS

Executive Summary.....1

Independent Accountants' Report on Applying Agreed-Upon Procedures.....3

Section I. Background.....5

Section II. Scope and Methodology.....8

Section III. Summary of Results... ..10

D.C. HEALTH BENEFIT EXCHANGE AUTHORITY
AGREED-UPON PROCEDURES
INCURRED COSTS

EXECUTIVE SUMMARY

BACKGROUND

The Government of the District of Columbia (D.C.) established the D.C. Health Benefit Exchange Authority as a requirement of Section 3 of the Health Benefit Exchange Authority Establishment Act of 2011, effective March 3, 2012.

PURPOSE OF THE AUTHORITY

The D.C. Health Benefit Exchange Authority (Authority) was established as an independent authority of the District of Columbia government whose purpose is to:

- (1) Enable individuals and small employers to find affordable and easier-to understand health insurance;
- (2) Facilitate the purchase and sale of qualified health plans;
- (3) Assist small employers in facilitating the enrollment of their employees in qualified health plans;
- (4) Reduce the number of uninsured;
- (5) Provide a transparent marketplace for health benefit plans;
- (6) Educate consumers; and
- (7) Assist individuals and groups to access programs, premium assistance tax credits, and cost-sharing reductions.

FUNDING FOR THE DC STATE BASED MARKETPLACE

The federal government through the U.S. Department of Health and Human Services (HHS) Centers for Medicare and Medicaid Services entered into cooperative agreements (herein after referred to as grants), with the District of Columbia Government Department of Health Care Finance. The Planning and Implementation Award, Establishment Level One and Establishment Level Two Awards were made to the District *prior to* the establishment of the Authority as an independent government entity. As such, the Department of Health Care Finance (DHCF) is the administrator and recipient of these Awards. The grants are an assistance mechanism in which there is substantial involvement with HHS personnel. A total of \$99,155,138 in federal funding was received for the implementation and establishment of an on-line health insurance marketplace. The funding was received in three separate awards: (1) Implementation grant to be used for planning, research and analysis, (2) Level One grant was used to complete planning activities, establish the Authority and a detailed implementation plan and (3) Establishment Level Two grant was used to build the system needed to support the Authority.

PURPOSE AND SCOPE OF THE ENGAGEMENT

To meet the information requested by the D.C. Health Benefit Exchange Authority, Bert Smith was contracted to perform procedures which were agreed to by the Authority for the period May 18, 2011 to August 31, 2013. The objectives of the procedures were to determine: 1) that the expenses incurred and charged to the grants were adequately supported; 2) the allocations charged to the grant funded programs were consistent with the federal requirements.

Our review was limited to the information provided by the D.C. Health Benefit Exchange Authority in conjunction with the District of Columbia Human Support Cluster, Office of the Chief Financial Officer, as representatives of the Authority's management. The Human Support Cluster provides oversight and direct supervision of the financial and budgetary functions of the agencies under the Cluster. Further, we did not perform an assessment of the technical sufficiency of the projects charged under the grants neither was the cost effectiveness and efficiency of billed amounts evaluated.

EXECUTIVE SUMMARY (Continued)

OVERALL METHODOLOGY

We obtained the financial records of the Authority, D.C. Departments of Health Care Finance and Human Services for the period beginning May 18, 2011 through August 31, 2013. We segregated personnel from non-personnel expenses. For the payroll expenses, we obtained the electronic download of the District of Columbia's payroll register (485 report) which details salary and fringe benefit information by employee and agency. The 485 report included data on a quarterly basis and was reconciled to the payroll journal entries recorded in the District of Columbia's Financial System of Accounting and Reporting (SOAR) database. For the payroll costs relating to the Authority, Department of Human Services and Department of Health Care Finance, we reconciled the quarterly reported salaries and fringe benefits included in the database of expenses to the comptroller objects and agreed to the amount in the 485 reports posted each quarter. We traced the names of the employees to the PeopleSoft Human Resource module and verified rates paid. We tested the allocation of salaries charged to the grant awards.

For the non-personnel service expenses we obtained the database extracted from the District of Columbia's Financial System of Accounting and Reporting (SOAR) and reconciled amounts by comptroller objects. We selected transactions charged to the grants and traced amounts to the contracts, purchase orders and invoices.

- For non-personnel costs, we reviewed the cost allocation associated with the invoices examined to ensure that the allocated amounts were consistent with the cost allocation methodology in place.
- We also verified the supporting documentation for services purchased through intra-district transactions between DHS and DHCF under a signed Memorandum of Understanding between these two agencies.

We accumulated the expenses incurred and prepared the schedule of expenses by award and the budget to actual schedule.

SUMMARY OF RESULTS

A summary of the results is noted below and is further explained in the Summary of Results section of this report.

The table below presents the amount of expenses incurred and reported under the Implementation Award, Establishment Level One and Establishment Level Two awards from inception to August 31, 2013.

	Implementation Award	Establishment		Total
		Level One	Level Two	
Personnel Expenses	\$ 48,540	\$ 87,635	\$ 1,519,021	\$ 1,655,196
Non-personnel Expenses	950,824	5,787,758	24,261,117	30,999,699
Total Expenses	\$ 999,364	\$ 5,875,393	\$ 25,780,138	\$ 32,654,895

10. Recalculated amounts based upon supporting documentation reviewed to ensure that the proper percentages were allocated to the grants;
11. We accumulated, summarized and prepared financial schedules based upon comptroller object classifications for each of the award.

The results of these procedures are presented in the Summary of Results section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the accompanying schedule of incurred costs. Accordingly, we do not express such an opinion. Further, we were not engaged to, and did not conduct an evaluation of the system of internal controls of the Authority's fiscal operations, the objective of which would be the expression of an opinion on the system of internal controls in effect during the period May 18, 2011 through August 31, 2013. Accordingly, we do not express such an opinion. Had we performed additional procedures or an evaluation of the system of internal controls, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Authority's management and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

 Bert Smith & Co.

November 15, 2013

D.C. HEALTH BENEFIT EXCHANGE AUTHORITY
AGREED-UPON PROCEDURES
INCURRED COSTS

SECTION I. BACKGROUND

The Government of the District of Columbia (D.C.) established the D.C. Health Benefit Exchange Authority as a requirement of Section 3 of the Health Benefit Exchange Authority Establishment Act of 2011, effective March 3, 2012.

FINANCIAL OVERSIGHT AND FUNDING SOURCES FOR THE DISTRICT ONLINE MARKETPLACE

The D.C. Health Benefit Exchange Authority (the Authority) is funded by federal grants through the U.S. Department of Health and Human Services made available with the passage of the Patient Protection and Affordable Care Act, approved on March 23, 2010. These funds were used for the establishment and maintenance of the District's online market place and for the operational expenses of the Authority.

- **U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services/Center for Consumer Information and Insurance Oversight (CCIIO)** issued three (3) cooperative agreements (grants) to the D.C. Department of Health Care Finance (DHCF) to support of the establishment of a State operated health exchange: (1) Planning and Implementation Award; (2) Level One Establishment Award; and (3) Level Two Establishment Award. DHCF also received separate funding from the Centers for Medicare and Medicaid Services for the District's Online Market place.
- **District of Columbia Government:** The D.C. Department of Human Services received matching funding from the District of Columbia government to fund the DC Online Market place.
- **Financial Management:** The Planning and Implementation Award and Establishment Level One Awards were made to the District *prior to* the establishment of the Authority as an independent government entity. As such, the Department of Health Care Finance (DHCF) is the administrator of these Awards. The Center for Consumer Information and Insurance Oversight (CCIIO) indicated that before the grant funds can be transferred from the DHCF to the Authority a business assessment must be completed for the Authority and approved by the CCIIO. The topics covered by the assessment include the Authority's accounting system, budgetary controls, personnel, payroll, consultants, property management, purchases, travel and internal controls. The questions require the District to indicate that the Authority has the appropriate systems and policies in these areas. On July 16, 2013, the Authority completed the assessment and submitted it to the CCIIO for review and approval. Until the Authority receives approval from the CCIIO, the grants will remain under the authority of the DHCF. The results of the assessment have not been released as of the date of this report.

As of August 31, 2013, the Department of Health Care Finance has received a total of \$99,155,138 in federal funding as follows:

- **SIM Implementation Award**
On September 30, 2010, the District received a Planning and Implementation Award to begin planning for the Affordable Care Act (ACA) implementation. Activities funded under this grant included:
 - Research and analysis on the District's insurance marketplace;
 - Requirements definition for a health benefit exchange;
 - Analysis of different exchange models and structures; and
 - The development of recommendations for implementing the exchange and potential changes to existing agencies.

I. BACKGROUND (Continued)

o \$8.2M Establishment Level One Award

The District was awarded its original Establishment Level One request in June 2011. These funds were used to complete the necessary planning efforts to establish the Authority, including the creation of a detailed implementation plans, a District-wide strategy for technology, and early evaluation measures.

o \$89.9M Establishment Level Two Award

On September 27, 2012 the District was awarded Establishment Level Two funding to build the systems needed to support the Authority. These funds were used to hire staff and consultants to manage implementation activities, begin the Information Technology system build, develop a consumer outreach strategy and begin stakeholder collaboration. The District was awarded supplemental funding to this award in March 2013 to support the District's In-Person Assister program, communications and outreach, and appeals infrastructure.

Prior to the District receiving any of the above funding from HHS, an application was submitted and approved for each of the grant awards. The District received approval of its Planning and Implementation Advance Document (PIAD) for this project from the Center for Medicaid and CHIP Services on December 30, 2011.

COST ALLOCATION

Costs associated with the project were allocated to multiple sources: Exchange Establishment Awards, the Medicaid/CMS Advance Planning Document (APD), and District of Columbia appropriated funds.

All functions which were constructed exclusively for the marketplace, Small business Health Options Program (SHOP), and District of Columbia Health Benefit Exchange (DCHBX) management related to private-provider services were charged to the Exchange Establishment Awards. The cost associated with the Advance Planning Document (APD) were divided among the core common functions that have to be built for Medicaid changes utilizing 90/10 funds; specific functionality required for Supplemental Nutrition Assistance Program (SNAP) utilizing 50/50 funds; and other federal and locally funded programs; and other cost allocated to those specific programs. The table below outlines the covered programs and sources of funding.

More specifically, the project costs estimates were divided in five allocation categories: Exchange Establishment Awards; CMS APD 90/10 and 75/25 match; FNS 50/50 match; and District-only no-match funding.

PROGRAMS	CMS/FNS APD	ESTABLISHMENT AWARDS	DISTRICT
DCHBX (Marketplace/SHOP, etc.)		X	
New Software, including Online Integrated Eligibility Portal and Account Management	X	X	X
ACEDS updates for MAGI/New Interfaces	X		X
Call Center	X	X	X
MMIS Enhancements	X		X
SNAP, WIC, Refugee Assistance, LIHEAP	X		X
TANF/Case Management	X		X
PMO/IV&V, etc.	X	X	X

I. BACKGROUND (Continued)

Funds associated with each award will also be used in the development of the new DC Access System (DCAS) system which tracks the completion of a functional phase of the system as a Release. The costs of each Release of the (DCAS) system will be allocated to each category based upon what is being funded. DCAS is designed to be a state-of-the-art health and human services solution that provides the District's Health Benefit Exchange a new integrated eligibility system for Medicaid, private health insurance and other programs with new case management capabilities that span programs and agencies. This system will be used to determine eligibility and enroll individuals, families, and small businesses that purchase healthcare coverage through the Exchange's online marketplace. Each Release builds upon the next.

Release I activities were cost allocated such that all functions that are constructed exclusively for the marketplace, SHOP and DCHBX management related to private-provider services were charged to Establishment Awards. All costs associated with functions that were solely associated with Medicaid operations were charged to the APD using 90/10 matching for the system design, construction and implementation and 75/25 matching for licenses and other operating expenses. Core shared functionality between the DCHBX and Medicaid were be split evenly between the Establishment Awards and the APD. The allocation of shared and distinct functions was calculated based on the requirements identified for the system. This resulted in a cost allocation for vendor services in Release I of 67% to the Establishment Award.

For Release II, funding for specific functionality required for SNAP will be funded through the District's APD using a 50/50 match rate. All other incremental costs for the integration of other programs were paid for with local dollars. Release III, which integrates all remaining local programs, were paid for entirely with local dollars. Exchange funding for Release II and Release III are to be used for future implementation and maintenance expenses.

D.C. HEALTH BENEFIT EXCHANGE AUTHORITY
AGREED-UPON PROCEDURES
INCURRED COSTS

SECTION II. SCOPE AND METHODOLOGY

SCOPE

Bert Smith was engaged to perform the following tasks:

- Task 1:0: Perform a review of the expenses incurred on the Implementation, Level I and Level 2 awards issued during the period May 18, 2011 through August 31, 2013;
- Task 1:1: Determine whether the expenses were properly allocated to the Health Benefit Exchange cooperative agreement.

METHODOLOGY

Bert Smith performed procedures to review the financial transactions related to the Health Benefit Exchange. In this analysis, we relied on the financial information provided by the Authority.

We obtained an understanding of each of the grant awards to determine that amounts were charged to the proper cost categories.

We examined the financial records of the Implementation Grant, Level I Grant and Level II Grants for the period May 18, 2011 to August 31, 2013 and segregated the costs into categories based upon the comptroller objects. We examined expenses from each of the agencies which were incorporated into the Authority's financial records and interviewed the financial management of the Human Support Cluster including the Authority's financial management.

We obtained an understanding of the process for the approval of certifying invoices prior to payment. By certifying the invoices the Program staff attested that the services presented for payment were completed. In addition to the Program certification, Information Technology (IT) invoices had to be independently verified and validated by an outside contractor before they were approved for payment.

We did not determine the technical sufficiency of the work performed.

We obtained detailed financial information:

- The Authority's detailed general ledger for the period May 18, 2011 to August 31, 2013 including a download of detailed expenses;
- The proposed allocation of costs including the rates for the respective cost categories. The rates used were evaluated for accuracy and reasonableness. The rates provided by the Authority are outlined above in the Cost Allocation section above.

Using the above information, we performed the following tasks:

- We determined that the Authority maintains detailed records according to grant award.
- Using the data in the general ledger for the period May 18, 2011 through August 31, 2013, we reviewed the procedures and methodology for identifying and accumulating the expenses.
- Using the detailed general ledger information, we reviewed and summarized the expenses charged under each award for the reporting period identified above by comptroller object which includes account categories such as salaries and wages, fringe benefits, supplies, telephone and telegraph, other services and charges, contractual services, subsidies and transfers and equipment.

II. SCOPE AND METHODOLOGY *(Continued)*

- Using the expenses database, we stratified the population of non-personnel expenses into three groups which comprise of amounts over \$500,000, transactions between \$100,000 and \$499,999 and transactions below \$100,000. We selected and tested all transactions in two of the three groups which represented all items over \$500,000 and between \$100,000 and \$499,999. We selected a random sample of transactions incurred and recorded below \$100,000. For each of the transactions tested, we reviewed the related purchase orders, contracts and invoices and matched these documents.
- Once all invoices were reviewed, we also determined whether the amounts were charged to the awards based upon the costs allocation method explained in the cost allocation section on page 6 of this report.
- For the personnel expenses, we obtained the electronic download of the 485 reports and reconciled to the payroll journal entries recorded in the District of Columbia's Financial System of Accounting and Reporting (SOAR) database. For the payroll costs relating to the D.C. Health Benefit Exchange Authority, Department of Human Services and Department of Health Care Finance, we reconciled the quarterly reported salaries and fringe benefits included in the database of expenses to the comptroller object and agreed amount to the 485 reports. We traced the names of the employees to the PeopleSoft Human Resource module and verified rates paid. We tested the allocation of salaries charged to the grant awards.

D.C. HEALTH BENEFIT EXCHANGE AUTHORITY
AGREED-UPON PROCEDURES
INCURRED COSTS

SECTION III. SUMMARY OF RESULTS

TABLE 1: SCHEDULE OF INCURRED GRANTS COSTS

	<u>Implementation</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total All Grants</u>
Grant Award	\$ 999,999	\$ 8,200,716	\$89,954,422	\$ 99,155,138
Expenses				
Salaries and Benefits	\$ 48,540	\$ 87,635	\$ 1,519,021	1,655,196
Supplies	1,066	7,889	20,424	29,379
Communications	-	2,705	4,873	7,578
Other Services and Charges	5,779	24,051	37,372	67,201
Contractual Services	938,462	5,725,235	24,009,829	30,673,526
Subsidies & Transfers	-	-	188,620	188,620
Equipment	5,518	27,879	-	33,397
Total Expenses	<u>999,365</u>	<u>5,875,393</u>	<u>25,780,138</u>	<u>32,654,896</u>
Unexpended Funds	<u>\$ 634</u>	<u>\$ 2,325,323</u>	<u>\$64,174,284</u>	<u>\$ 66,500,242</u>

TABLE 2: SCHEDULE OF BUDGET VS. ACTUAL – ALL GRANT AWARDS

Implementation Award			
<u>Account Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries	\$ 41,616	\$ 41,616	\$ -
Employee Benefits	6,924	6,924	-
Supplies	1,668	1,066	602
Telephone, Telegraph	-	-	-
Other Services and Charges	5,811	5,779	32
Contractual Services	938,462	938,462	-
Subsidies and Transfers	-	-	-
Equipment	5,518	5,518	-
Excess Budget vs. Actual	<u>\$ 999,999</u>	<u>\$ 999,365</u>	<u>\$ 634</u>

Level One Award			
<u>Account Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries	\$ 256,423	\$ 76,691	\$ 179,732
Employee Benefits	72,324	10,944	61,381
Supplies	54,889	7,889	47,000
Telephone, Telegraph	-	2,705	(2,705)
Other Services and Charges	210,995	24,051	186,945
Contractual Services	7,555,706	5,725,235	1,830,470
Subsidies and Transfers	-	-	-
Equipment	50,379	27,879	22,500
Excess Budget vs. Actual	<u>\$ 8,200,716</u>	<u>\$ 5,875,393</u>	<u>\$ 2,325,323</u>

III. SUMMARY OF RESULTS (Continued)

Level Two Award			
Account Description	Budget	Actual	Variance
Salaries	\$ 6,238,152	\$ 1,519,021	\$ 4,719,131
Supplies	487,200	20,424	466,776
Telephone, Telegraph	43,000	4,873	38,127
Other Services and Charges	720,137	37,372	682,765
Contractual Services	81,345,933	24,009,829	57,336,104
Subsidies and Transfers	1,000,000	188,620	811,380
Equipment	120,000	-	120,000
Excess Budget vs. Actual	\$ 89,954,422	\$ 25,780,138	\$ 64,174,284

Source: Information was obtained from financial reports, expense databases, invoices, federal grants, and payment information provided by the DC Human Support Cluster and the Authority's management.

Bert Smith noted that all expenses tested were supported, cost allocations were consistent with the cost allocation methodology provided and there were no exceptions.