



July 24, 2017

Juan Antonio Lasanta Camacho  
Senior Audit Manager  
Castro & Company  
1711 King Street, Suite C  
Alexandria, VA 22314

**Re: Management Response to Report on Performance Audit of HBX Assessments Conducted for District of Columbia Insurance Regulatory Trust Fund Bureau (IRTB)**

Dear Mr. Camacho:

This is the DC Health Benefit Exchange Authority (HBX) management response to the draft/final report, “Performance Audit of the Insurance Provider’s Assessments for the DC Health Benefits Exchange Authority (DC HBX) Fiscal Year 2016.” (IRTB Audit FY2016)

As stated in the Executive Summary of the draft report, the audit objective was to determine whether “DC HBX spent the assessment funds efficiently and effectively, and in accordance with laws, regulations, and guidance.” The audit concluded that “the assessments, revenues, collections, and expenses reported were accurate, allowable, allocable, or reasonable, in accordance with the Health Benefit Exchange Authority, and other applicable requirements and managed economically, efficiently, and effectively by DC HBX during [FY 2016].” There were no audit findings.

We appreciate the Castro audit team and their professional approach and recognize that IRTB directed this audit. The purpose of this management response is to highlight several procedural and substantive concerns. These concerns are as follows:

- 1. Failure to properly reference HBX operating expenses/budget:** The audit does not reference HBX’s actual operating expenses noted in the District’s Comprehensive Annual Financial Report. The scope of the audit, as noted in item 3 of Appendix A on page 6 of the audit, states that the auditors are to “Examine the approved HBX budget in support of which the required assessments are calculated.” The IRTB Audit schedule for FY 2015 and FY 2016 indicates the total expenses from assessment were \$5,886,604 and \$17,212,206 respectively. However, it leaves out the total operating expenses of \$47,488,000 and \$33,106,000 for FY 2015 and FY 2016 respectively (Source: CAFR audit). HBX’s approved budget should be included to ensure accurate information is presented.<sup>i</sup>
- 2. Failure to provide management with draft audit report and final report:** Although draft report states that HBX management was provided with a draft copy of the report, it was not the case. HBX

had repeatedly asked for but was not provided a draft report for review. The first time HBX saw the draft report was at the IRTB meeting where it was being presented. After multiple requests for an official copy, nearly a month later the final report was shared with HBX. This practice is not consistent with any other city or federal government audits of HBX. Other audits including CAFR, CMS SMART Audit, and HHS OIG Audits provide HBX staff with draft reports for review and input.

3. **Imposing unpredictable and burdensome timetable:** Two aspects of the audit timetable were unexpected and burdensome. First, although the frequency of carrier assessment audits is designated as biannual, this audit was conducted only a year after the previous one. Second, this audit followed a more compressed timetable than the previous audit. In addition to not being able to plan to ensure correct staff resources are available, the compressed timetable of less than 30 days imposed significant burdens on staff having to drop other planned and time sensitive priorities. This IRTB audit was the first time HBX encountered accelerated audit frequency or timetables without warning. Even HHS OIG audits and Treasury OIG audits are planned and sufficient time is provided to enable agencies to operate without having to shut down certain other activities during the audit. The approach and direction from IRTB unlike in the prior audit was burdensome and unprecedented for HBX in our entire history of frequent audits at the federal and local levels.

In summary, HBX appreciates the professional approach of the Castro audit team and we look forward to IRTB improvements addressing our concerns.

Sincerely,



Mila Kofman  
Executive Director  
Health Benefit Exchange Authority

CC: Wayne E. McOwen, Executive Director, District of Columbia Insurance Regulatory Trust Fund Bureau

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<sup>i</sup> HBX was given the opportunity to review only Schedule B. HBX provided the following to the auditors to ensure that information presented would be complete:

**“SEC. 1311 (42 U.S.C. 13031). AFFORDABLE CHOICES OF HEALTH BENEFIT PLANS (d)(5) FUNDING LIMITATIONS. – (A) NO FEDERAL FUNDS FOR CONTINUED OPERATIONS. –** In establishing an Exchange under this section, the State shall ensure that such Exchange is self-sustaining beginning on January 1, 2015, including allowing the Exchange to charge assessments or user fees to participating health insurance insurers, or to otherwise generate funding, to support its operations.

Under this provision, during FY 2015, FY 2016, HBX is increasingly relying on assessment funds to sustain operations. For example, in the above schedule for FY 2015 and FY 2016 the total expenses from assessment were \$5,886,604 and \$17,212,206 respectively. However, the total operating expenses for FY 2015 and FY 2016, as noted in the District’s CAFR, were approximately \$47,488,000 and \$33,106,000 respectively. Federal grants expire during Q1 FY 2018 and HBX will rely fully on assessment funds at that time. In addition, in October 2016; as part of the required financial sustainability provision and HBX’s policy on Reserve Funds, the HBX Executive Board designated approximately \$14,500,000 of the surplus as Operating Reserves and still has not met the minimum balance requirement in the HBX board approved Reserve Policy.”