



**Performance Audit of the  
Insurance Provider's Assessments for the  
DC Health Benefit Exchange Authority  
(DC HBX)**

Fiscal Years 2014 and 2015

April 8, 2016

May 16, 2016

Wayne E. McOwen, ARM, PLC  
Executive Director  
District of Columbia Insurance Regulatory Trust Fund Bureau  
P.O. Box 78160  
Washington, DC 20013

We hereby provide to you the results from the procedures we completed during the course of our performance audit of the insurance provider's assessments for the DC Health Benefit Exchange Authority (DC HBX) for the period of October 1, 2013 through September 30, 2015.

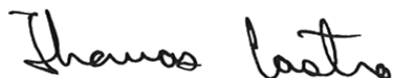
The District of Columbia Insurance Regulatory Trust Fund Bureau (RTFB) is an organization created by statute by the DC Council. Inasmuch as the budget for the DC HBX is funded by assessments on insurance providers, the Council determined that the insurance industry should have the ability to monitor how those funds are deployed. To that end, the RTFB is empowered to audit the DC HBX. The Board of Directors of the RTFB has determined that such audit will be commissioned for the DC HBX on a bi-annual schedule.

On April 8, 2016, we provided DC HBX and the RTFB with a draft copy of this report detailing our audit procedures, results, and conclusion and requested responses to the finding in Appendix A. Those responses were considered in the formation of the final report, along with the written and oral feedback provided by DC HBX. DC HBX's written responses are incorporated into this report as Appendix F – Management's Response to Audit Findings.

We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact us at 703-229-4440.

Sincerely,

**Castro & Company**



Thomas Castro, CPA  
Partner

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## EXECUTIVE SUMMARY

Castro & Company, LLC performed an audit of the DC Health Benefit Exchange (hereinafter referred to as “Auditee” or “DC HBX”) assessment funds for Fiscal Years 2014 and 2015. The audit was performed in accordance with our contract dated January 6, 2016. This report presents the results of the audit, including recommendations, to help improve the DC HBX’s management of the audited DC HBX insurance providers’ assessment funds. The audit was performed throughout the period of February 4, 2016 through March 29, 2016, and the results of our procedures, reported herein, are as of April 8, 2016.

We conducted this audit in accordance with applicable *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States of America (Yellow Book). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

Our audit, which was conducted in accordance with applicable Government Auditing Standards, 2011 revision, was a performance audit, as defined by Chapter 2 of the Standards, and included an audit of the DC HBX assessment funds. Although the audit report comments on costs incurred by the DC HBX, we did not perform a financial audit, the purpose of which would be to render an opinion on the DC HBX’s financial statements. In addition, we were not engaged to, and did not render an opinion on the DC HBX’s internal controls.

The objectives of the audit were to determine whether DC HBX spent the assessment funds efficiently and effectively, and in compliance with laws, regulations, and guidance. The audit included a review of the assessment of approximately \$26.3 million and \$28.8 million during fiscal years 2015 and 2014, respectively.

As our performance audit report further describes, see Appendix B, we identified the following as a result of the work performed to meet the above-stated audit objectives:

- Assessments received were not deposited in an interest bearing account or were not invested. (See Finding in Appendix A)

Based upon the results presented in this report, except for the finding related to interest noted above, we conclude that the assessments, revenues, collections, and expenses reported were accurate, allowable, allocable, and reasonable, in accordance with the Health Benefit Exchange Authority and other applicable requirements, and managed economically, efficiently, and effectively by DC HBX during the period of October 1, 2013 through September 30, 2015.

This report is intended solely for the information and use of the Executive Director of the District of Columbia Insurance Regulatory Trust Fund Bureau (RTFB), the RTFB Board of Directors, DC HBX management, and any appropriate DC Government officials or entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company

April 8, 2016

Alexandria, VA

## BACKGROUND

### Program Overview

The DC Health Benefit Exchange Authority (DC HBX) was established as a requirement of Section 3 of the Health Benefit Exchange Authority Establishment Act of 2011, effective March 3, 2012 (D.C. Law 19-0094).

The mission of the DC HBX is to implement a health care exchange program in the District of Columbia in accordance with the Patient Protection and Affordable Care Act (PPACA), thereby ensuring access to quality and affordable health care for all DC residents. Section 4 of the District of Columbia Health Benefit Exchange Establishment Act (DC Law 19-0094) (“Act”) states that (a) the District of Columbia Health Benefit Exchange Authority Fund (“Fund”) is established as a non-lapsing fund, which shall be administered by the Authority in accordance with generally accepted accounting principles and which shall be used solely for the purposes set forth in the Act and the costs of administering the Act, and (b) the Fund shall consist of (1) Any user fees, licensing fees, or other assessments collected by the Authority; (2) Income from investments made on behalf of the Fund; (3) Interest on money in the Fund; (4) Money collected by the executive board as a result of a legal or other action; (5) Donations; (6) Grants; (7) All general revenue funds appropriated by a line item in the budget submitted pursuant to section 446 of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 801; D.C. Official Code § 1-204.46), and authorized by Congress for the purposes of the Authority; and (8) Any other money from any other source accepted for the benefit of the Fund.

DC HBX enables individuals and small employers to find and enroll in affordable and easier-to-understand health insurance and assist small employers in purchasing qualified health benefit plans for their employees. The exchange facilitates enrollment in qualified health plans and assists individuals in applying for advance premium tax credits and cost-sharing reductions.

The use of the assessment funds is required by the Health Benefit Exchange Authority Establishment Act of 2011, effective March 3, 2012 (D.C. Law 19-94; D.C. Official Code § 31-3171.01 et seq.), which was amended to provide for the financial sustainability of the Health Benefit Exchange Authority on July 29, 2014. The amendment included language authorizing the Authority to annually assess, through a "Notice of Assessment", each health carrier doing business in the District with direct gross receipts of \$50,000 or greater in the preceding calendar year, an amount based on a percentage of its direct gross receipts for the preceding calendar year<sup>1</sup>. Each health carrier is required to pay the Authority the amount stated in the Notice of Assessment within 30 business days of receipt of the Notice of Assessment. Failure to pay the assessment shall subject the health carrier to section 5 of the Insurance Regulatory Trust Fund Act of 1993, effective October 21, 1993 (D.C. Law 10- 40; D.C. Official Code § 31-1204). The Department of Insurance, Securities and Banking, on behalf of the Authority, sent Notices of Assessment to health carriers, with a payment due date of September 30, 2014.

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<sup>1</sup> As required by the D.C. Official Code §31-3171.03(f), the Health Benefit Exchange Authority (HBX) assessed each health carrier, as defined in §31-3171.01(6), an assessment based on 1% of its direct gross receipts for the fiscal years 2014 and 2015.

In addition, DC HBX, as a component unit to the District of Columbia, receives fiscal support from the Independent Office of the Chief Financial Officer (OCFO) of the District of Columbia. The independent OCFO was established in 1996 through amendments to the Federal Home Rule Act. Under this Federal Act, the CFO is appointed by the Mayor, confirmed by the District Council, and approved by the U.S. Congress to a five-year term. Under the Home Rule Act, the OCFO:

- Certifies budgets are balanced and financial statements are fairly represented;
- Provides independent revenue estimates;
- Monitors revenues and spending;
- Evaluates fiscal impacts of all legislation;
- Reviews all economic development projects;
- Issues all debt, manages all investments, and oversees credit ratings;
- Oversees tax collections and lottery; and
- Manages financial personnel (budget, accounting and payroll functions) in all agencies.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The objective of this engagement was to conduct a performance audit related to assessments received from insurance providers by the DC HBX for the period of October 1, 2013 through September 30, 2015 pursuant to D.C. Code § 31-1209. This performance audit was performed in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States of America (Yellow Book 2011 Revision).

### **Scope**

The scope consisted of an audit of the revenues from assessments and expenses incurred by DC HBX during the period of October 1, 2013 through September 30, 2015.

### **Methodology**

To meet the audit objectives, Castro & Co identified the applicable criteria against which to test the financial records and supporting documentation through a review of contracts and other supporting documentation. In addition, Castro & Co met with DC HBX management and staff, reviewed policies and procedures, budgets, organizational charts and reporting hierarchy, and chart of accounts of DC HBX to gain an understanding of the procedures and system of internal controls established by the DC HBX.

## Summary of Results

Castro & Co evaluated DC HBX's internal controls and compliance regarding the use of the assessment funds as per the Health Benefit Exchange Authority Establishment Act of 2011. Based on our audit procedures, we concluded that the assessments, revenues, collections and expenses reported were in accordance with the Health Benefit Exchange Authority and other applicable requirements. See Summary of Procedures and Results in Appendix B. However, as a result of an internal control and non-compliance deficiency, Castro & Co identified that the District of Columbia Office of the Chief Financial Officer (OCFO) was neither investing the assessment funds received nor depositing those funds in an interest bearing account. See Finding in Appendix A.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety. For a detail of the results obtained, see Appendix A - Schedule of Finding and Appendix B – Summary of Procedures and Results.



## **APPENDIX A – SCHEDULE OF FINDING**

**Assessments received were not deposited in an interest bearing account or were not invested.**

### **Condition:**

To examine the DC HBX treatment of yearly interest income earned on the cumulative operating balance to determine whether interest was accounted for in the calculation of subsequent assessments against insurer premiums, Castro & Co examined the trial balances for FYs 2014 and 2015 and noted that the District of Columbia Office of the Chief Financial Officer (OCFO) is neither investing the assessment funds received nor depositing those funds in an interest bearing account. Castro & Co also inquired of DC HBX management if there is any reason no interest has been accounted for. The OCFO stated that they did open an interest-bearing account but did not deposit the funds in that account.

### **Criteria:**

Section 4(d) of the District of Columbia Health Benefit Exchange Authority Act of 2011 stipulates that the Chief Financial Officer shall invest the money of the Fund in the same manner as other District money may be invested.

Section 4 states that the fund will also consist of, in addition to other sources of revenue, (1) Income from investments made on behalf of the Fund, and (2) Interest on money in the Fund.

Section 4(c) states that all revenues, income from investments, proceeds, and other monies, from whatever source derived, that are collected or received by the Authority shall be deposited into the Fund. All funds deposited into the Fund, and any interest earned on those funds, shall not revert to the unrestricted fund balance of the General Fund of the District of Columbia at the end of a fiscal year, or at any other time, but shall be continually available for the uses and purposes set forth in this act without regard to fiscal year limitation, subject to authorization by Congress.

Title 47 of the District of Columbia Code establishes methods for depositing and investing District funds and obtaining financial services. Section 47-351.3(b), General deposit and investment requirements, allows the Mayor, or the CFO, to determine what amount of District funds are needed immediately, and maintain deposit funds in amounts great enough to satisfy that need. The Mayor, or the CFO, pursuant to § 47-351.2(c), shall invest all other funds.

The District of Columbia Cash & Investment Management Investment Policy specifies that in accordance with DC Law 12-56 and other applicable laws, the District shall be permitted to invest in several authorized securities for the purpose, among other objectives, of maximizing the return of investments.

**Cause:**

The District of Columbia Office of the Chief Financial Officer (OCFO), in conjunction with the Office of Finance and Treasury (OFT), established an interest bearing account for DC HBX in May 2015. However, assessment funds were not allocated to the established account due to a misunderstanding of the DC Laws and Requirements.

**Effect:**

By not investing the assessments received in accordance with required legislation, DC HBX did not receive additional income that could create stronger financial sustainability and pay for future expenses. As a result, DC HBX may have lost an estimated interest income on its current checking account of approximately \$235,000<sup>2</sup> from the date the account was opened during September 2014 through September 30, 2015. In addition, an additional \$172,000 in interest could have been accrued from October 1, 2015 through March 31, 2016 for an approximate total amount of \$407,000.

**Recommendations:**

We recommend DC HBX's assessment funds be maintained in an interest bearing account. In addition, we recommend the OCFO to invest the funds as stipulated in Section 4(d).

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<sup>2</sup> To estimate the interest revenue for the funds maintained in an interest-bearing account, Castro & Company conservatively used a .061% interest rate.

## APPENDIX B – SUMMARY OF PROCEDURES AND RESULTS

	Required Steps	Procedures (Not all-inclusive)	Results
1	Review the methodology for calculating the annual assessment of insurers. For FYs 2014 and 2015, the assessment was stated as 1% of the direct gross receipts.	Met with DC HBX personnel to obtain an understanding of the methodology for calculating the annual assessment. In addition, we reviewed related laws and regulations that have been enacted to create the assessment.  See Appendix D for details of assessment calculations.	Based on the information obtained, we understand that the methodology used for calculating the annual assessment of insurers, based on 1% of its direct gross receipts, which was 1% for FYs 2014 and 2015, appears to be reasonable and in accordance with HBX requirements.
2	Determine whether each insurer was assessed in accordance with HBX requirements, based on a percentage of its direct gross receipts, which was 1% for FYs 2014 and 2015.	Obtained a listing of all insurers assessed by DC HBX during FYs 2014 and 2015.  Examined a sample of notifications sent to the insurers.  Recalculated the 1% assessment of all insurers to verify that each insurer was assessed in accordance with HBX requirements during FYs 2014 and 2015.	Based on our audit procedures, we determined that amounts billed to insurers, based on 1% of its direct gross receipts, which was 1% for FYs 2014 and 2015, were assessed in accordance with HBX requirements.
3	Examine the approved HBX budgets in support of which the required assessments are calculated.	Obtained an understanding of the budget approval process.  Compared the 2014 and 2015 approved budgets with the assessment collections to determine reasonableness of the budget.	Based on our procedures, we determined that the DC HBX budget appears to be reasonable related to the required assessments.
4	Review deposits and expenditures from the HBX operating accounts to determine compliance with applicable DC law provisions that provide for the administration of such funds to defray the expenses of the HBX.	Obtained bank statements and verified that the amount assessed was deposited in the lockbox and in the bank statement.  Performed a disbursement test to determine whether expenses such as rent, supplies, and IT contracts were allocated in accordance with	Based on our audit procedures performed, we determined that deposits were not in compliance with applicable DC law provisions. See Finding in Appendix A. However, expenses incurred appeared

	Required Steps	Procedures (Not all-inclusive)	Results
		<p>HBX requirements. Therefore, we examined related supporting documentation such as invoice, purchase orders, and approvals.</p>	<p>to be in compliance with DC law provisions.</p>
5	<p>Review the procedures and methodology to track and allocate expenditures among insurers and any other sources of revenues, and the methodology and procedures used to reflect the allocations in accounting and budget documents.</p>	<p>Obtained the listing of expenses for FYs 2014 and 2015.</p> <p>Identified expenses charged to the assessments and selected items to test.</p> <p>Obtained an understanding of the allocation procedures and methodology.</p> <p>Examined vendors' contracts to verify that the amount was being allocated as per the contract.</p> <p>Obtained a list of employees and selected 4 months of each fiscal year (2014 and 2015) to perform payroll and timekeeping testing. For each month selected we reviewed the employees' timesheets and personnel files to verify the qualifications and hours that have been charged to the assessments.</p>	<p>Based on our procedures, we believe that the methodology to track and allocate expenses among insurers appears to be adequate.</p>

	Required Steps	Procedures (Not all-inclusive)	Results
6	Review the use of HBX office space in determining the appropriate allocation of expenses included in the calculation of the assessment funds to insurance premiums as required to sustain the annual HBX budget.	<p>Obtained copies of the lease agreements to determine that the allocation of the expenses was adequate.</p> <p>Obtained copies of the rent allocation methodology from DGS.</p> <p>Compared the actual rent expenses with the lease agreements.</p> <p>Recalculated the rent allocation.</p>	Based on our work performed, we determined that office space allocation appears to be reasonable.
7	Calculate and report the amount of any accumulated surplus dollars as a result of total annual revenues less total annual expenditures for fiscal years 2014 and 2015.	<p>Identified the separated revenues and expenses related to the assessment.</p> <p>Prepared a schedule to determine the total surplus of the assessments.</p>	See Appendix C
8	Review the treatment of yearly interest income earned on the cumulative operating balance to determine whether interest was accounted for in the calculation of subsequent assessments against insurer premiums.	<p>Verified the type of bank account that was created to deposit the assessments.</p> <p>Inquired of DC HBX personnel on investment policies for assessment funds.</p> <p>Calculated the interest earned based on the amount of money deposited on bank at 9/30/15.</p>	Based on our work performed, we noted that assessment funds were not deposited in an interest-bearing account. See Finding in Appendix A.

## APPENDIX C – SCHEDULE OF ASSESSMENT REVENUES AND EXPENSES

<b>District of Columbia Health Benefit Exchange Authority (DC HBX)</b>	
<b>Schedule of Assessment Revenues and Expenses</b>	
<b>September 30, 2015 and 2014<sup>3</sup></b>	
	<b><u>2015</u></b>
<b>Revenue from Assessments</b>	<b>\$ 53,537,524</b>
<b>Expenses</b>	
Salaries & Benefits	1,083,129
Contractual & Rentals	4,478,815
Others	<u>324,661</u>
	<b>Total Expenses</b> <u>5,886,605</u>
<b>Surplus</b>	<b><u>\$ 47,650,919<sup>4</sup></u></b>

<sup>3</sup> In the DC HBX financial statements for the fiscal year end 2014, assessments were recorded as deferred inflows. Therefore, no assessment revenue was recorded for FY 2014. In addition, for FY 2014, assessment funds were not used to cover any expenses incurred by DC HBX.

<sup>4</sup> 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 issuers, or to otherwise generate funding, to support its operations.

## APPENDIX D – RECALCULATION OF ASSESSMENT REVENUES

During our procedures, we obtained a list of all insurance carriers that provide health care services in the District of Columbia. We recalculated the amount and compared the assessment with the collections as shown in the table below. For the highest assessments, we verified the Notice of Assessment and compared with the lists that were provided.

Year	Premium	1% Assessments	Collections	Receivables
2014	\$ 2,654,262,027	\$ 26,542,620	\$ 25,351,981	\$ 1,190,639 <sup>5</sup>
2015	\$ 2,880,141,362	\$ 28,801,414	\$ 28,778,211	\$ 23,203

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<sup>5</sup> Includes amount of \$1.178 Million that was not collected because the insurance company declared bankruptcy, and therefore it was written-off during 2015.

## APPENDIX E – BEST PRACTICES

During our audit procedures, we identified three best practices that are performed by DC HBX for the management and operation of the Exchange that we consider should be shared with other Exchanges. The tools and practices are as follows:

1. DC HBX assessed, within the District of Columbia, those agencies that could assist DC HBX to achieve its objectives with the most effective and less cost possible. Therefore, DC HBX entered into a memoranda of agreement (MOA) with various district agencies to leverage their expertise and infrastructure as needed by HBX, reducing personnel, cost of training, and infrastructure needs. Some MOA examples include:
  - The Department of Insurance Securities and Banking (DISB) calculates and send notices of assessment to health carriers on DC HBX’s behalf.
  - The Department of Human Services has in person service centers located throughout the District. DC Health Link customers can go there to receive in person assistance completing an application. DHS also performs eligibility verification for DC HBX that is required under the Affordable Care Act.
  - The Department of Human Resources provides processing and policy support for DC HBX personnel functions.
  - The DC Contract Appeals Board hears contractual disputes between DC HBX and contractors.
  - The Office of Administrative Hearing hears DC Health Link customer eligibility and tax credit appeals.
  - The Office of the Chief Technology Officer provides certain IT services for DC HBX, including email.
  - The Office of Disability Rights provides sign language interpretation as needed by DC HBX.
2. DC HBX works closely with the District of Columbia to identify procurement needs that could be acquired by volume that will allow it to negotiate the best available contract prices, volume purchasing discounts, and relieve the financial and administrative burden of the DC HBX.
3. DC HBX works to renegotiate contracts with vendors to get best available contract prices and discounts. DC HBX effectively accomplished this with their call center vendor and their premium aggregation vendor for the small business marketplace.



## **APPENDIX F – MANAGEMENT’S RESPONSE TO AUDIT FINDINGS**

DC HBX Management concurs with the finding. After recently confirming the legal requirements regarding interest income, effective April 1, 2016, the assessment funds now reside in an interest bearing account per the enabling legislation of DC HBX. Going forward, OCFO, in conjunction with DC HBX, will determine their operational and long term funding needs and will work with OFT to identify the best investment instruments.