

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

Fiscal Year 2017

July 30, 2018

July 30, 2018

Wayne E. McOwen, ARM, PLC
Executive Director
District of Columbia Insurance Regulatory Trust Fund Bureau
1455 Pennsylvania Avenue, NW, Suite 400
Washington, DC 20004

We hereby provide you with 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, 2016 through September 30, 2017.

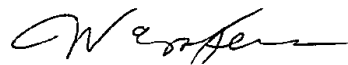
The District of Columbia Insurance Regulatory Trust Fund Bureau (RTFB) is an organization created by statute by the DC Council. DC HBX is funded by assessments on insurance providers, and the Council determined that the insurance industry should have the ability to monitor how those funds are deployed. To that end, the RTFB is responsible for conducting the audit of the DC HBX.

On July 30, 2018, we provided DC HBX and the RTFB a draft copy of this report detailing our audit procedures, results, and conclusion for review and approval. Any changes or recommendations provided were considered in the formation of the final report.

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



Wayne Ference, CPA
Partner

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EXECUTIVE SUMMARY

Castro & Company, LLC (Castro & Co) performed an audit of the DC Health Benefit Exchange's (hereinafter referred to as "Auditee" or "DC HBX") assessment funds for Fiscal Year 2017. The audit was performed in accordance with our contract dated March 26, 2018. 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 May 7, 2018 through June 29, 2018, and the results of our procedures, reported herein, are as of July 30, 2018.

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.

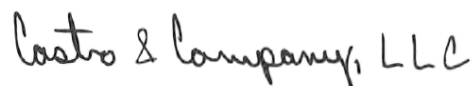
Our performance audit, as defined by Chapter 2 of GAS, included an audit of the DC HBX assessment funds. Although the audit report comments on costs incurred by the DC HBX, we did not perform a financial audit, the purpose of which would be to render an opinion on the DC HBX's financial statements. In 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, effectively, and in compliance with laws, regulations, and guidance. The audit included a review of the assessment of approximately \$32.5 million during Fiscal Year 2017.

Based upon the results presented in this report, 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, 2016 through September 30, 2017.

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. However, upon release by the RTFB Board of Directors, this report is a matter of public record and its distribution is not limited.

Sincerely,



Castro & Company
July 30, 2018

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 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.

The health care exchange program enables individuals and small employers to find affordable and easier-to-understand health insurance and assist small employers in purchasing qualified health benefit plans for their employees. The exchange facilitates the purchase of qualified health plans and assists individuals and groups to access programs, premium assistance tax credits and cost-sharing reductions.

The PPACA (42 U.S.C. 13031) under Sec. 1311, AFFORDABLE CHOICES OF HEALTH BENEFIT PLANS (d)(5) FUNDING LIMITATIONS – (A) NO FEDERAL FUNDS FOR CONTINUED OPERATIONS, requires the establishing of an Exchange for which 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. In addition, 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. 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, 2017.

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.
- 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, 2016 through September 30, 2017 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, 2016 through September 30, 2017.

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 DC HBX.

Summary of Results

Castro & Co evaluated DC HBX's internal controls and compliance regarding the use of the assessment funds received from insurance providers 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.

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 – Summary of Procedures and Results.

APPENDIX A – SUMMARY OF PROCEDURES AND RESULTS

	Required Steps	Procedures (Not all-inclusive)	Results
1	Review the methodology for calculating the annual assessment of insurers.	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.	Based on the information obtained, we understand that the methodology used for calculating the annual assessment of insurers appears to be reasonable.
2	Determine whether each insurer was properly assessed in Fiscal Year 2017.	Obtained a listing of all insurers assessed by DC HBX during Fiscal Year 2017. Examined a sample of notifications sent to the insurers. Recalculated the 1% assessment of all insurers to verify that each insurer was properly assessed in Fiscal Year 2017.	Based on our procedures, we believe that amounts billed to insurers were properly assessed during Fiscal Year 2017.
3	Examine the approved DC HBX budgets in support of which the required assessments are calculated.	Obtained an understanding of the budget approval process. Compared the 2017 approved budget 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 DC HBX operating accounts to determine compliance with applicable DC law provisions that provide for the administration of such funds to defray the expenses of DC 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 properly allocated. We examined supporting documentation of the disbursement, including invoices, purchase orders, and approvals.	Based on our audit procedures performed, we determined that deposits were in compliance with applicable DC law provisions. Expenses incurred also appeared to be in compliance with DC law provisions.

	Required Steps	Procedures (Not all-inclusive)	Results
5	Review the procedures and methodology to track and allocate expenditures among insurance and any other sources of revenues, and the methodology and procedures used to reflect the allocations in accounting and budget documents.	<p>Obtained the listing of expenses for Fiscal Year 2017.</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 vendor contracts to verify that the amount was being allocated as per the contract.</p> <p>Obtained a list of employees and selected 2 months for Fiscal Year 2017 to perform payroll and timekeeping testing. For each month selected we reviewed the employees' timesheet and personnel file to verify the qualifications and hours that have been charged to the assessments.</p>	Based on our procedures, we believe that the methodology to track and allocate expenditures appears to be adequate.
6	Review the use of DC HBX office space in determining the appropriate allocation of expense included in the calculation of the assessment to insurance premiums as required to sustain the annual DC 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 the District of Columbia Department of General Services (DC 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 was properly allocated.
7	Calculate and report the amount of any accumulated surplus dollars as a result of total annual revenues less total	<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 B.

	Required Steps	Procedures (Not all-inclusive)	Results
	annual expenditures for fiscal year 2017.		
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 in the bank at 9/30/17.</p>	Based on our work performed, assessment funds are deposited in an interest-bearing account.

APPENDIX B – SCHEDULE OF ASSESSMENT REVENUES AND EXPENSES

District of Columbia Health Benefit Exchange Authority (DC HBX) Schedule of Assessment Revenues and Expenses September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Assessment	\$ 32,261,623	\$ 30,260,887
Massachusetts Contract	4,376,291	-
Interest	<u>37,743</u>	<u>4,496</u>
Total Revenues	<u>\$ 36,675,657</u>	<u>\$ 30,265,383</u>
Expenses		
Salaries & Benefits	\$ 8,454,890	\$ 3,746,767
Contractual & Rentals	8,166,536	12,207,287
Others	<u>644,896</u>	<u>1,258,152</u>
Total Expenses	<u>17,266,322</u>	<u>17,212,206</u>
Increase in surplus	19,409,335	13,053,177
Surplus at beginning of year	<u>60,704,096</u>	<u>47,650,919</u>
Surplus at the end of the year	<u>\$ 80,113,431</u>	<u>\$ 60,704,096</u>

NOTE 1: Financial Sustainability Provision

Under Sec. 1311 (42 U.S.C. 13031), from September 30, 2017, HBX is relying on the income stream provided by assessment funds, augmented by the income derived from the contractual arrangement with the Massachusetts Exchange, to sustain operations. Federal grants were fully expended as of September 30, 2017. As of January 2018, as part of the required financial sustainability provision and HBX’s policy on Reserve Funds, the HBX Executive Board designated an additional \$11,390,950 of unassigned fund balance to the FY 2017 Operating Reserves of \$14,500,000 to achieve a fully funded Operating Reserves of \$25,890,590. In addition, the HBX Executive Board also designated \$5,000,000 to the Capital Reserve, in which HBX has not yet met the minimum balance requirement in the HBX board approved Reserve Policy.

NOTE 2: Rent Expenses Allocations

In FY 2016, Centers for Medicare & Medicaid Services (CMS) allowed DCHBX to use grants to pay for rent attributable to IT development work, which included some portion of the work that the DC Health Link call center provided. The DC Health Link call center is cost allocated with Medicaid. Cost allocation formulas change and must be approved by CMCS (CMS) for each fiscal year. In FY 2016, the rent for the call center was in part paid for by Medicaid, DCHBX grants, and the DCHBX assessment. CMS did not allow grants to be used for rent in FY 2017. The rent for the call center was paid for by Medicaid and DCHBX assessment. The cost allocation between Medicaid and DCHBX assessment was based on the CMS-approved cost allocation formula. Separately, DHCF uses part of the leased space for DCAS IT work. The cost that DHCF reimbursed DCHBX for this space is based upon square footage.

APPENDIX C – 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 insurance carriers lists that were provided.

Year	Premium	1% Assessments	Collections	Receivables
2017	\$ 3,251,983,537	\$ 32,519,835	\$ 31,753,988	\$ 765,847