



**COMMONWEALTH HEALTH INSURANCE  
CONNECTOR AUTHORITY**

(A Component Unit of the Commonwealth of Massachusetts)

Independent Auditors' Reports as Required by Office of  
Management and Budget (OMB) Circular A-133 and  
*Government Auditing Standards* and Related Information

June 30, 2015

**COMMONWEALTH HEALTH INSURANCE  
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June 30, 2015

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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

**Exhibit 1**

**Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133**

The Board of Directors  
Commonwealth Health Insurance Connector Authority:

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth Health Insurance Connector Authority's (the Authority), a component unit of the Commonwealth of Massachusetts, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit IV).

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of



## Exhibit I

requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Authority as of and for the year ended June 30, 2015, and have issued our report thereon dated February 5, 2016 which contained an unmodified opinion on those financial statements. Our report included an emphasis of matter paragraph regarding the Authority's implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

March 28, 2016

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

| <u>Federal grantor/pass-through grant/program title/grant title</u>                         | <u>CFDA<br/>number</u> | <u>Award/Contract<br/>number</u> | <u>Federal<br/>expenditures</u> |
|---|------------------------|----------------------------------|---------------------------------|
| U.S. Department of Health and Human Services:   |                        |                                  |                                 |
| State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges       |                        |                                  |                                 |
| Direct Programs:  |                        |                                  |                                 |
| Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges |                        |                                  |                                 |
| Level 1   | 93.525                 | HBEIE120109-01                   | \$ 989,834                      |
| Level 1A  |                        | HBEIE120134-01                   | 17,448,522                      |
| Level 1D  |                        | HBEIE150204-01                   | 10,492,236                      |
| Level 1E  |                        | HBEIE150212-01                   | 244,015                         |
| Level 2   |                        | HBEIE130143-01                   | 52,869,223                      |
| Total   |                        |                                  | <u>\$ 82,043,830</u>            |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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Notes to Schedule of Expenditures of Federal Awards

June 30, 2015

**(1) Definition of the Reporting Entity**

The Commonwealth Health Insurance Connector Authority (the Authority) is an authority established by the Massachusetts General Laws and is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The accompanying schedule of expenditures of federal awards presents the activity of all expenditures of federal awards of the Authority. All expenditures of federal awards received directly from federal agencies are included on the schedule.

**(2) Summary of Significant Accounting Policies**

The Authority's accounting policies conform with U.S. generally accepted accounting principles applicable to governmental units as set forth by the Governmental Accounting Standards Board.

***Basis of Presentation***

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting.

**(3) Subrecipient Payments**

For the year ended June 30, 2015, the Authority provided \$18,648,297 of federal reimbursements to its subrecipients, the Commonwealth Executive Office of Health and Human Services, the Center for Health Information and Analysis, the University of Massachusetts Medical School, and Health Care for All, for expenses incurred by the subrecipients in the fiscal year ended June 30, 2015.



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

Exhibit III

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
Commonwealth Health Insurance Connector Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Commonwealth Health Insurance Connector Authority (the Authority), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2016. Our report included an emphasis of matter paragraph regarding the Authority's implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2015-001 and 2015-002 that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the



### **Exhibit III**

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Authority's Response to Findings**

The Authority's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on those responses.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

February 5, 2016



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Schedule of Findings and Questioned Costs

June 30, 2015

(1) **Summary of Auditors' Results**

*Financial Statements*

|   |              |     |                     |
|---|--------------|-----|---------------------|
| Type of auditors' report issued:  | Unmodified   |     |                     |
| Internal control over financial reporting:  |              |     |                     |
| • Material weakness(es) identified?   | _____        | yes | <u>  x  </u> no     |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <u>  x  </u> | yes | _____ none reported |
| Noncompliance material to the financial statements noted?                                     | _____        | yes | <u>  x  </u> no     |

*Federal Awards*

|  |            |     |                            |
|--|------------|-----|----------------------------|
| Internal control over major programs:  |            |     |                            |
| • Material weakness(es) identified?  | _____      | yes | <u>  x  </u> no            |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses?                            | _____      | yes | <u>  x  </u> none reported |
| Type of auditors' report issued on compliance for major programs:  | Unmodified |     |                            |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | _____      | yes | <u>  x  </u> no            |

*Identification of Major Programs*

| <u>Funding source</u>                        | <u>Program</u>  | <u>CFDA number</u> |
|--|---|--------------------|
| U.S. Department of Health and Human Services | State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges | 93.525             |

|  |                           |
|--|---------------------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$2,461,315               |
| Auditee qualified as low-risk auditee?                                   | <u>  x  </u> yes _____ no |

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Schedule of Findings and Questioned Costs

June 30, 2015

(2) **Findings Relating to Financial Statements Reported in Accordance with *Government Auditing Standards***

**Finding 2015-001:**

**Financial Accounting and Reporting – Significant Deficiency**

*Observation:*

Since inception, the Authority's operations have changed significantly. Among other things, the addition of new offerings under the Affordable Care Act and the implementation of new technology have resulted in the Authority being far more complex in terms of operating processes and procedures, especially in the accounting and financial reporting areas, than expected. Unfortunately, the Authority's internal control structure has not kept pace with these changes.

The increased complexity has highlighted the need for sufficient skilled resources in all areas of operation, including the accounting and financial reporting area. Although the current staffing for 2015 has been able to complete the routine duties it performs to support the Authority's operations, the timeliness of the work and the internal review and approval process has suffered.

Although the Authority has historically maintained a lean staff in the accounting and financial reporting area, the vacancy at the CFO position, the numerous additional internal demands resulting from ACA and mandated relationships, the increased complexity of the operations, the imposition of new financial reporting standards and other personnel issues have impacted the Authority's ability to produce timely, accurate and well vetted information which has increased financial and operational risk to the Authority.

*Recommendation:*

The Authority management needs to take necessary actions to fill key vacant positions – such as the CFO position and add sufficient full time skilled resources to ensure all routine work, as well as special requests gets done in a timely fashion. These staff additions would improve internal controls over accounting and financial reporting by helping to ensure there is a link between the operational processes and changes to financial reporting and the work done is properly reviewed and approved prior to its internal or external release. Such an approach should also consider expected future changes in operations as well as providing adequate resources for ad hoc and special request activities.

Without changes, the Authority is exposed to significant control weaknesses that could result in incorrect information being produced and the internal controls not detecting or preventing this information from being reported.

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*Management Response:*

To ensure the internal control structure over accounting and financial reporting is functioning properly and the work is completed accurately and reviewed in a timely fashion, the Health Connector hired an Accountant and Junior Accountant on January 19, 2016 and February 1, 2016, respectively. The new positions will allow for timely and accurate reporting of financial information, the appropriate separation of duties within the accounting area and the ability to handle additional ad hoc requests without impacting the department's ability to complete the day-to-day responsibilities. In addition, a Chief Actuary was hired on February 8, 2016 to assist the Finance team with development and maintenance of the ConnectorCare program budget; provide actuarial support to the Annual Seal of Approval (SoA) Process and the ACA risk adjustment program; and perform financial and analytical modeling to improve data infrastructure and enhance the organization's analytical capabilities. We also expect to post for another position in the Finance team focused on internal control and financial reconciliation and analysis.

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**Finding 2015-002:**

**IT System Controls - ConnectorCare 2.0 and 3.0 Premium Billing – Significant Deficiency**

*Observation:*

During our fiscal 2015 audit, we reviewed the Authority's ConnectorCare 2.0 and 3.0 premium billing entries noting these are recorded based on information obtained from the Dell enrollment systems (HIX and hCentive). These entries are heavily reliant on the information from the output of these systems. When such heavy reliance is placed on data from external sources there are a variety of quality assurance and control considerations which should be assessed by management. This element of quality assurance and control is particularly critical in the current environment considering the recent challenges in developing a fully functional enrollment system. It does not appear that the Authority has thorough documentation of the control environment and the quality assurance measures that will address risks related to completeness and accuracy of information within the respective system output relied upon.

A Service Organization Controls (SOC 1) Report outlining the controls and the independent testing of these controls at the service organization is typically obtained in order to ensure the appropriate controls are in place at the service organization and are operating effectively. However, a SOC 1 Report is not available relating to the service organization's enrollment systems processing and information output and therefore management is unable to ensure that controls at the service organization exist and are operating effectively.

A SOC 1 Report for the physical access of the enrollment systems located in Plano, Texas was obtained; however, this SOC 1 report covers only nine months during the year. The remaining three month dark period is addressed through a bridge letter; however, based upon the contracting of this report, the other three months are never covered by a SOC 1 report or subject to service auditor testing.

In addition, we noted that the service organization, during the transition from the ConnectorCare 2.0 program to the 3.0 program, made adjustments to reconcile client ledgers between these systems. These adjustments were not appropriately communicated to the Authority and as a result needed to be manually reconciled to cash transfers. Ultimately, the transfers led to a difference between the ConnectorCare 3.0 accounts receivable aging and the accounts receivable subledger of \$540 thousand. This amount was unable to be reconciled and was ultimately reserved as part of a corrected audit adjustment.

For the ConnectorCare 2.0 program, we were unable to recalculate, in some instances, a sample of the premium amounts billed to the subscribers and paid to the insurers. We were, however, able to validate the revenues received and the expenses paid for this program during fiscal 2015.

Further, the Authority, late in the fiscal year, began to monitor the service organizations financial and operational contract compliance. However, the reports, statistics and measurements reviewed to determine this compliance are reported from the service organizations systems.

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June 30, 2015

*Recommendation:*

We recommend that management fully document policies and procedures around the premium billing enrollment system data validation and monitoring. In addition, management should obtain an annual Type II SOC 1 Report from the service organization related to each of the systems noted above to ensure controls at the service organization are operating effectively. Management should review the SOC 1 report and ensure appropriate controls are in place and operating effectively, and the user consideration controls are properly addressed. Management should also ensure quality assurance measures are implemented with the service organization, actively monitored and documented in order to reduce risks related to completeness and accuracy of data sources used in recording premium billing activities and used as a measurement for contract compliance.

*Management Response:*

The Health Connector is working with the service organization to fully document the policies and procedures related to premium billing system monitoring and data validation. The Health Connector and the service organization are working together on a premium billing controls assessment project to develop and implement a remediation plan that addresses the concerns related to the completeness and accuracy of the information housed within the premium billing system. This project began in January 2016 and is currently projected to end its first phase by April 29, 2016. The objective is to bring the premium billing system to a stable, dependable, predictable and consistent state of operation by introducing proactive controls that prevent errors from affecting key stakeholders.

In addition, the Health Connector is currently working with the service organization's management team to obtain an annual Type II SOC 1 Report for the premium billing system to ensure that the appropriate controls are in place, documented and working effectively.

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Schedule of Findings and Questioned Costs

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**(3) Findings and Questioned Costs Relating to Federal Awards**

None