



**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**

(A Component Unit of the Commonwealth of Massachusetts)

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards* (Uniform
Guidance) and *Government Auditing Standards* and Related Information

Year Ended June 30, 2017

**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**
(A Component Unit of the Commonwealth of Massachusetts)

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Exhibit I

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

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 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2017. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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, 2017.

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 requirements that could have a direct and material effect on its major federal program to determine the auditing procedures



Exhibit I

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 Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2017, and have issued our report thereon dated November 15, 2017 which contained an unmodified opinion on those financial statements. 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 Uniform Guidance 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 audits 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

Boston, Massachusetts
January 22, 2018

**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**
(A Component Unit of the Commonwealth of Massachusetts)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

<u>Federal grantor/pass-through grant/program title/grant title</u>	<u>CFDA number</u>	<u>Award/Contract number</u>	<u>Federal expenditures</u>	<u>Pass thru to Subrecipients</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 1D	93.525	HBEIE150204-01	\$ (318,665)	—
Level 1E		HBEIE150212-01	5,031,697	2,761,704
Level 1F		HBEIE150215-01	3,289,882	3,289,882
Level 2		HBEIE130143-01	9,073,208	8,138,133
Total			<u>\$ 17,076,122</u>	<u>14,189,719</u>

See accompanying notes to schedule of expenditures of federal awards.

**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Schedule of Expenditures of Federal Awards
June 30, 2017

(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, 2017, the Authority provided \$14,189,719 of federal reimbursements to its subrecipients, the University of Massachusetts, Medical School and the Commonwealth of Massachusetts – MassIT, for expenses incurred by the subrecipients in the fiscal year ended June 30, 2017. During 2017, the Authority repaid the Federal government \$318,665 for costs incurred in a prior year that were subsequently determined to be unallowable. The repayment appears as a negative expenditure on the Level 1D line in the accompanying SEFA. This amount was not recovered from the Authority's subrecipients.

(4) Indirect Costs

For the year ended June 30, 2017, the Authority did not elect to use the 10% de minimis indirect cost rate.



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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 statement of the Commonwealth Health Insurance Connector Authority (the Authority), which comprise the statement of net position as of June 30, 2017, 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 November 15, 2017.

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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a significant deficiency.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 Finding

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

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

Boston, Massachusetts
January 22, 2018

**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**
(A Component Unit of the Commonwealth of Massachusetts)
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major program:
 - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges – CFDA number: 93.525
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

**COMMONWEALTH HEALTH
INSURANCE CONNECTOR AUTHORITY**
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Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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

Finding 2017-001

IT System Controls – Significant Deficiency

Observation

As reported in prior years, the Authority's premium billing and cash collection activity has been processed by a third party service organization and, to date, a Service Organization Controls (SOC 1) Report has not been available that would provide Authority management with assurances that controls at the service organization exist and are operating effectively.

Since 2015, Authority management has been working extensively with management of the third party service organization (formerly, Dell and currently, NTT) to assess and improve financial and operating controls at the service organization. The Authority has undertaken significant measures to address the prior year finding and reduce associated risks by performing comprehensive reviews of the system documentation of the automated and manual processing controls to identify areas of weakness and by implementing quality assurance measures to help ensure the completeness and accuracy of information produced by the service organization upon which management relies.

Recommendation

While the action steps taken by management over the past two years and documented in the 2016 Corrective Action Plan have resulted in significant improvements in the processing of activity at the third party service organization, we recommend that Authority management continue to work with the service organization to improve controls over data processing as a way to mitigate the risk associated with a SOC 1 being unavailable.

Views of responsible officials

See Authority's Corrective Action Plan

(3) Findings and Questioned Costs Relating to Federal Awards

None noted.



The Commonwealth of Massachusetts
 Commonwealth Health Insurance Connector Authority
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CHARLIE BAKER
 Governor

MARYLOU SUDDERS
 Board Chair

LOUIS GUTIERREZ
 Executive Director

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

*Corrective Action Plan as required by UG Section 200.511(c)
 June 30, 2017*

Reference	Finding
2017-001	IT System Controls

Corrective Action Planned

During FY17, Health Connector management substantially completed all steps identified in the FY16 Corrective Action Plan and will continue to work collaboratively with the service organization to improve financial integrity, data validation and internal controls.

Specifically, the Health Connector worked with the service organization to implement necessary controls to ensure that the vendor’s financial management system, inclusive of premium billing and cash collections, is accurate and working according to business rules. Validation of key financial metrics are in place and are run on a monthly basis to identify any discrepancies based on expected results.

The Health Connector will continue to work and meet with the service organization during FY18 to ensure that all financial controls and processes are in place and working appropriately.

Anticipated Completion Date

June 30, 2018

Contact Person

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