



VERMONT HEALTH CONNECT

STATEMENT OF APPROPRIATIONS AND EXPENDITURES

Year Ended June 30, 2017

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Management of the Vermont Health Benefit Exchange
d/b/a Vermont Health Connect

Report on the Financial Statement

We have audited the accompanying statement of appropriations and expenditures of the Vermont Health Benefit Exchange d/b/a Vermont Health Connect (the Exchange), a function within the general fund of the State of Vermont, for the year ended June 30, 2017, and the related notes to the statement.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of this financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Exchange's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special-purpose statement referred to in the first paragraph presents fairly, in all material respects, the cash basis appropriations and expenditures of the Exchange for the year ended June 30, 2017, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

Purpose of this Report

This report is intended solely for the information and use of management, the Medicaid and Exchange Advisory Board, and the Centers for Medicare & Medicaid Services as a funding agency of the Exchange, and is not intended to be, and should not be, used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 on our consideration of the Vermont Health Benefit Exchange d/b/a Vermont Health Connect's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Vermont Health Benefit Exchange d/b/a Vermont Health Connect's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 29, 2018
Registration No. 92-0000278

**VERMONT HEALTH BENEFIT EXCHANGE
D/B/A VERMONT HEALTH CONNECT**

**Statement of Appropriations and Expenditures
for the Year Ended June 30, 2017**

Revenues	
State revenues	\$ 6,731,415
Expenditures	
Allocated from DVHA	6,649,822
Allocated from DCF	47,285
Allocated from AHS	<u>34,308</u>
Total expenditures	<u>6,731,415</u>
Excess of revenues over expenditures	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

**VERMONT HEALTH BENEFIT EXCHANGE
D/B/A VERMONT HEALTH CONNECT**

Notes to the Financial Statement

June 30, 2017

1. Purpose of Organization

The Patient Protection and Affordable Care Act (Pub. Law 111-148) (the ACA) provides for the establishment of a Health Benefits Exchange by each state. The Vermont Health Benefits Exchange d/b/a Vermont Health Connection (the Exchange) was established by Act 48 passed by the Vermont legislature in May 2011.

The Vermont Health Benefit Exchange, a unit of the Division of Vermont Health Access (DVHA) branded Vermont Health Connect (VHC), serves two important purposes: first, to negotiate for high quality, affordable health insurance options on behalf of individuals (in order to promote the health of all Vermonters); and second, to be a robust resource for all Vermonters to learn about and compare the quality and affordability of their health insurance options, enroll in coverage and, if eligible, access Medicaid, State and/or federal tax subsidies for coverage.

VHC is an organized State-based Marketplace (SBM) established to help consumers buy health insurance in a way that permits easy comparison of available plan options based on price, benefits, and quality through a web portal. VHC provides access to Qualified Health Plans to individuals and families. As an SBM, VHC is subject to regulations established by the Centers for Medicare & Medicaid Services.

VHC is part of an interagency team created in Vermont to implement ACA reforms. This team includes DVHA, the Department of Children and Families (DCF) and the Agency of Human Service (AHS). The interagency team developed an integrated vision for serving individuals and families through a single technology solution that supports eligibility, enrollment and, in the case of VHC, premium payment. VHC participates in the management of the implementation and receives an allocated share of the expenditures for the implementation and operation of the technology.

As an operation within the State, financial and administrative processes are performed at the State level including payroll, purchasing, accounts payable, cash management and general ledger accounting.

2. Basis of Presentation

The accompanying Statement of Appropriations and Expenditures (Statement or Schedule) of VHC has been prepared to meet the Federal requirement in 45 CFR §155.1200 that states:

- (b) (1) "Reporting. The State Exchange must, at least annually, provide to HHS...a financial statement ...", and,
- (c) "External audits. The State Exchange must engage an independent qualified auditing entity which follows generally accepted governmental auditing standards (GAGAS) to perform an annual independent external financial...audit..."

**VERMONT HEALTH BENEFIT EXCHANGE
D/B/A VERMONT HEALTH CONNECT**

Notes to the Financial Statement

June 30, 2017

The accompanying special-purpose financial statement has been prepared on the cash receipts and disbursements basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. On this basis, income is recognized when cash is received rather than when earned, and expenditures are recognized when cash is paid rather than when expenditures are incurred.

This Schedule does not include insurance premiums collected from consumers as part of VHC carrying out its responsibilities under the ACA of 2010.

3. Accounting Policies

All accounting policies used in the preparation of this Statement follow those of the State of Vermont.

4. Allocation of Costs

The operations of VHC are integrated with DVHA, DCF and AHS. Expenditures of these departments are allocated to VHC based on quarterly cost allocation plans. Expenditures of these departments are identified below. The portion of these costs allocated to VHC are presented on the Statement. (Note: Exchange costs include support for Medicaid Eligibility.)

	<u>DVHA</u>	<u>DCF</u>	<u>AHS</u>	<u>Total</u>
Expenditures				
Salaries	\$ 7,370,932	\$ 2,766,430	\$ 438,541	\$ 10,575,903
Benefits	3,415,574	1,535,715	213,485	5,164,774
Advertising	4,486	2,314	-	6,800
Supplies	12,741	27,013	1,629	41,383
Printing and mailing	673,539	453,078	4,261	1,130,878
Telephone	35,763	65,389	7,474	108,626
Travel	13,680	39,316	5,591	58,587
General operating	7,006,306	876,338	5,214	7,887,858
Granting and contracting	33,775,358	54,839	25	33,830,222
Settlement with carrier	<u>3,500,000</u>	<u>-</u>	<u>-</u>	<u>3,500,000</u>
Direct marketplace operations	55,808,379	5,820,432	676,220	62,305,031
AHS allocated expenditures (VHC unsubsidized only)	43,017	2,196	-	45,213
Other allocated expenditures (VHC unsubsidized only)	<u>154,151</u>	<u>2,672</u>	<u>11,334</u>	<u>168,157</u>
Total costs	<u>\$ 56,005,547</u>	<u>\$ 5,825,300</u>	<u>\$ 687,554</u>	<u>\$ 62,518,401</u>
Revenues				
State-only revenues	\$ 3,149,822	\$ 47,285	\$ 34,308	\$ 3,231,415
State-only program revenue	3,500,000	-	-	3,500,000
All other revenues	<u>49,355,725</u>	<u>5,778,015</u>	<u>653,246</u>	<u>55,786,986</u>
Total revenues	<u>\$ 56,005,547</u>	<u>\$ 5,825,300</u>	<u>\$ 687,554</u>	<u>\$ 62,518,401</u>

**VERMONT HEALTH BENEFIT EXCHANGE
D/B/A VERMONT HEALTH CONNECT**

Notes to the Financial Statement

June 30, 2017

Costs are allocated as directed by the applicable divisions' approved cost allocation methodology. Costs related to salaries and expense are based on general effort. Other costs represent the allocation of direct charges incurred.

5. Commitments and Contingencies

With respect to litigation, VHC officials are of the opinion that there are no lawsuits likely to result either individually or in the aggregate in final judgments against the unit that would materially affect its financial position.

DVHA, DCF, and AHS have entered into a number of contracts with vendors to support the operation of VHC. These contracts extend through June 30, 2018; some contain renewal options. VHC is also party to Interagency Agreements among DVHA, DCF, and AHS as referenced above. At June 30, 2017, minimum payments under contractual commitments were as follows:

Through June 30, 2018	\$1,951,992
2019	52,513
2020	21,956
2021	21,956
2022	21,956

During the year ended June 30, 2017, one insurance provider through the state based exchange alleged that VHC did not properly reconcile participant data and census information and did not provide timely notice of termination of covered individuals from the exchange. The provider alleged damages related to claims paid in good faith related to terminated individuals. The provider and VHC reached a settlement of \$3,500,000 in 2017 related to claims paid in 2015. This expenditure is presented in Note 4 as a settlement with carrier, with offsetting reimbursement from the state general fund labeled as state-only program revenue. The provider and VHC reached a settlement of approximately \$4,500,000 in 2018 related to claims paid in 2016, which is expected to be paid during the year ending June 30, 2018.

6. Subsequent Event Considerations

VHC monitored and evaluated any subsequent events for note disclosures or adjustments required in its financial statement through March 29, 2018, the date on which the statement was issued.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Management of the Vermont Health Benefit Exchange
d/b/a Vermont Health Connect

We have audited, in accordance with U.S. generally accepted auditing standards 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 Vermont Health Benefit Exchange d/b/a Vermont Health Connect (the Exchange), a function within the general fund of the State of Vermont, which comprises the statement of appropriations and expenditures for the year ended June 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated March 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Exchange's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange'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 statement 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 have not been identified. We did identify a deficiency in internal control described in the attached Schedule of Findings as Finding 2017-001 which we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statement is free of 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 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*.

Exchange's Response to the Finding

The Exchange's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Exchange's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 Vermont Health Benefit Exchange'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 Vermont Health Benefit Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 29, 2018

**VERMONT HEALTH BENEFIT EXCHANGE
d/b/a VERMONT HEALTH CONNECT**

Schedule of Findings

Year Ended June 30, 2017

Finding 2017-001

Criteria

Costs are to be allocated in accordance with cost allocation agreements among the related departments.

Condition and Context

Allocations of costs between departments are based, in part, on the relative census of exchange enrollees and Medicaid recipients. During the process of allocating costs to Vermont Health Connect (the Exchange) from other departments, management used incorrect census numbers as the basis of the allocation.

We reviewed all four quarters, and noted one out of the four was incorrect for the costs allocated from the Department of Vermont Health Access.

Cause and Effect

The Exchange did not implement a process of oversight to ensure that the amounts entered into the software performing the allocations was proper. This weakness in internal controls resulted in a material understatement of expenses of \$103,652.

Recommendation

We recommend that the Exchange update its internal policy and procedures to incorporate a level of review to help ensure the basis for allocations is appropriate.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding. See attached for Planned Corrective Action.

Corrective Action Plan

DVHA did not properly allocate \$103,652 to the Vermont State Healthcare Resource Fund because it used an incorrect statistics file to prepare its Quarter Ending (QE) 12/31/2016 earnings report. This amount was allocated to Global Commitment Medicaid Program and the Children's Health Insurance Program in error.

Method of Correction:

DVHA will amend the earnings reports for QE 12/31/2016 to reflect the correct statistics file. DVHA has adjusted the State Fiscal Year 2017 Report of Marketplace Expenditures to reflect this adjustment. The earnings report of QE 03/31/2018 will reflect a prior quarter adjustment to correct the federal drawdown.

Corrective Action:

Effective July 1st, 2017, documented policies and procedures regarding the quarterly CAP and earnings report process have been enhanced to strengthen the verification and validation steps. These changes more clearly define roles and responsibilities; ensuring that procedures are in place and the updated policies are followed for the reconciliation of reported expenditures and drawdowns to cumulative actual spending.

A validation file preparation step was created. This process uses the Allocations MASTER file (not in existence in QE 12/31/2016) to directly validate the accuracy of every individual cell created in the earnings report. The Allocations Master sheet starts by combining allocations from every backup document DVHA uses in the allocation methodology and produces a percentage-based version of an earnings report; then the validation file compares the earnings report allocation percentages to those created in the MASTER document. The Allocations MASTER file is verified by the Financial Manager III. There is a multi-step validation process inherent in the creation of the Allocations MASTER file that assures the final product is as accurate as possible. In addition to the validation process, DVHA Financial Director II is responsible for approving the earnings report and allocations prior to delivery to AHS.