

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Colorado Health Insurance Benefits Exchange: Connect for Health Colorado, Performance Audit, October 2014

AUDIT NUMBER: 1348P

AUDITED ENTITY: Connect for Health Colorado

DATE OF STATUS REPORT: July 31, 2015

SUMMARY INFORMATION

Rec. Number	Agency's Response	Implementation Status <i>Instructions: For each row below, insert "Implemented", "Implemented and Ongoing", "Partially Implemented", "Not Implemented", or "No Longer Applicable" to indicate the current status of the recommendation. Please refer to the attached sheet for definitions of each implementation status option.</i>	Original Implementation Date (provided in the organization's response in the audit report)	Revised Implementation Date (if applicable) <i>Instructions: Complete this column if the organization is revising the original implementation date. Note the month and year the recommendation will be implemented.</i>
1a	Agree	Implemented	February 2015	
1b	Agree	Implemented	March 2015	
1c	Agree	Implemented	June 2015	
1d	Agree	Implemented	December 2014	
1e	Agree	Implemented & Ongoing	March 2015	
1f	Agree	Implemented & Ongoing	June 2015	
1g	Agree	Implemented	March 2015	
2a	Agree	Implemented	January 2015	
2b	Agree	Implemented	March 2015	
2c	Agree	Implemented	January 2015	
2d	Agree	Implemented	March 2015	
2e	Agree	Implemented & Ongoing	June 2015	
3a	Agree	Implemented	March 2015	
3b	Agree	Implemented	December 2014	
3c	Agree	Implemented	March 2015	
3d	Agree	Implemented	March 2015	
4a	Agree	Implemented	March 2015	
4b	Agree	Implemented	June 2015	
4c	Agree	Implemented	April 2015	
4d	Agree	Implemented & Ongoing	June 2015	

DETAIL OF IMPLEMENTATION STATUS

Note: Connect for Health Colorado agreed with all of the audit recommendations.

RECOMMENDATION NO. 1:

Connect for Health Colorado should improve processes and controls over the purchase of goods and services from vendors by:

- a. Establishing and implementing written policies and procedures that: (1) require documentation of all goods and services that supports the payment amount and business purpose prior to paying vendors, (2) specify the types of documentation required to verify the receipt of goods and services prior to payment, and (3) require all payments to be allowable, compliant, reasonable, and accurate.

Current Implementation Status for Rec. No. 1, part a: Implemented

Organization's Update: Connect for Health Colorado revised its written Procurement Policy and underlying procurement procedures, approved by the Board of Directors July 2015, to address: (1) documentation to support appropriate payment to vendors; (2) documentation to support receipt of goods and services; and (3) assessment of the reasonability and accuracy of any payment under an existing contract.

- b. Establishing and implementing written processes and guidance that ensure staff and supervisors understand federal compliance requirements and consistently review all pending payments for compliance, reasonableness, and accuracy before they are paid. Each review should be performed and documented by an individual who is independent of the preparer and possesses sufficient knowledge of compliance and accounting requirements.

Current Implementation Status for Rec. No. 1, part b: Implemented

Organization's Update: Connect for Health Colorado revised its financial procedures, approved by the Board of Directors July 2015 as part of the Procurement Policy, to address: (1) supervisory and staff understanding of federal compliance requirements; and (2) review, assessment and documentation of the reasonability and accuracy of any payment prior to making such payment.

- c. Ensuring that there is an adequate number of supervisors and staff available to review financial documentation, verify the basis for the billed amounts, and ensure goods and services are received prior to paying vendors.

Current Implementation Status for Rec. No. 1, part c: Implemented

Organization's Update: Connect for Health Colorado's accounting department is fully staffed, as of August 2015 (including supervisors) to review financial documentation, verify billed amounts and ensure goods/services are received prior to paying vendors.

- d. Establishing and implementing a risk-based process for expediting low-risk purchases, such as low-dollar recurring administrative expenses, to expedite the procurement process, as appropriate, during times of high workload within the organization.

Current Implementation Status for Rec. No. 1, part d: Implemented

Organization's Update: Low-risk low-dollar, currently defined at \$5,000, recurring purchases are managed with a Connect for Health Colorado credit card allowing control and review of recurring administrative expense.

- e. Implementing an ongoing periodic monitoring process that involves members of the Board of Directors (Board), management, and supervisors, as appropriate, to ensure financial policies, procedures, processes, guidance, and training are implemented and operating as intended.

Current Implementation Status for Rec. No. 1, part e: Implemented & Ongoing

Organization's Update: Connect for Health Colorado is conducting and will continue to conduct periodic monitoring to ensure financial policies, procedures, processes, guidance, and training and operating as intended with the involvement of the Board (Finance Committee), management (CFO) and supervisors, as needed.

- f. Training management, supervisors, staff, and Board members, as appropriate, on the policies, procedures, processes, and guidance developed in recommendation parts a. through e.

Current Implementation Status for Rec. No. 1, part f: Implemented & Ongoing

Organization's Update: Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures, and processes for the preceding recommendations, as needed.

- g. Recovering payments for the unallowable costs and payment errors identified in this audit, including identifying and recovering payments to vendors made using the cost plus a percentage method and reporting the results of these efforts to the Board. This should include reviewing current vendor contracts to identify those allowing the cost plus a percentage payment, revising the contracts, and prohibiting future contracts from allowing this payment method.

Current Implementation Status for Rec. No. 1, part g: Implemented

Organization's Update: Cost plus percentage payment provisions are not allowed under Connect for Health Colorado's Procurement Policy, approved by the Board of Directors July 2015. Contractual audit provisions assist Connect for Health Colorado in vendor management to identify unallowable costs and payments errors that may arise. Connect for Health Colorado's accounting personnel identified the "plus percentage" cost paid to a vendor in the amount of \$229,511. These costs were reclassified from the federal funding source to non-federal grant funds in the accounting system, for the fiscal year ended June 30, 2014. After reclassification Connect for Health Colorado determined it was not appropriate (practical or cost-effective) to attempt to recover such monies. The costs were deemed to be contractual expenses for which the Organization received appropriate value. The subsequent request for payment from the Payment Management System was reduced by the full amount.

RECOMMENDATION NO. 2:

Connect for Health Colorado should improve its controls over payments to contractors and contract administration by:

- a. Establishing a comprehensive written procurement policy or procedure that specifies the Board of Directors' (Board's) responsibilities for contract approval. This should include establishing an appropriate minimum threshold for executing contracts, implementing a consistent Board-approval procedure for all contracts of \$150,000 or more, and establishing reporting and approval procedures for payments that exceed the amount that was approved by the Board.

Current Implementation Status for Rec. No. 2, part a: Implemented

Organization's Update: Connect for Health Colorado comprehensively revised its Procurement Policy and underlying procedures, approved by the Board of Directors July 2015, specifying the circumstances that require Board approval of procurements using federal funds, currently exceeding \$150,000 and \$250,000 for procurements not using federal funds, and establishing reporting and approval processes for payments that materially exceed approved amounts, currently defined as 5% or \$5,000, whichever is greater.

- b. Establishing and implementing procedures and processes to accurately track each contract and monitor payments to vendors to ensure that payments do not begin before the contract is fully executed and do not exceed contract amounts without appropriate Board and management approval, an executed addendum to the contract statement of work, and documentation of the services provided.

Current Implementation Status for Rec. No. 2, part b: Implemented

Organization's Update: In connection with the Procurement Policy and underlying procedures, approved by the Board of Directors July 2015, Connect for Health Colorado monitors contracts and payments to vendors to ensure that payments do not begin before the contract effective date and do not exceed contract amounts without appropriate Board and/or management approval. Also, contractual amendments are required to reflect changes to the contractual relationship as is appropriate. Appropriate documentation of services provided and a current agreement are required prior to payment of any invoice.

- c. Consistently utilizing contract templates that include federally required provisions and developing and implementing written procedures to review all contracts for completeness before they are executed. This should include ensuring contracts contain all required provision, are signed by authorized management, and specify statements of work, periods of performance, and payment terms.

Current Implementation Status for Rec. No. 2, part c: Implemented

Organization's Update: Connect for Health Colorado utilizes contract templates as the starting place for contracting with required contract provisions that include execution/effective date requirements, specified services, periods of performance/term, and payment specifics.

Additional terms and provisions are added as unique circumstances and organizational goals warrant, effective with the adoption of the Procurement Policy, approved by the Board of Directors July 2015.

- d. Establishing and implementing written procedures to ensure that complete information about contracts exceeding the approval thresholds is provided to the Board and documented in Board minutes. This should include a process to ensure Board approvals are documented.

Current Implementation Status for Rec. No. 2, part d: Implemented

Organization's Update: Connect for Health Colorado's revised Procurement Policy, approved by the Board of Directors July 2015, addresses contracts materially exceeding the applicable approval thresholds (as noted above), appropriate Board review and acceptable documentation. Board review and approvals are documented in the minutes of the Board meetings and tracked in spreadsheet.

- e. Training management, staff, and Board members, as appropriate, on the policies, procedures, and processes developed in recommendation parts a. through d.

Current Implementation Status for Rec. No. 2, part e: Implemented & Ongoing

Organization's Update: Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures and processes for the preceding recommendations, as needed.

RECOMMENDATION NO. 3:

Connect for Health Colorado should ensure reimbursements and payments to grantees are reasonable, necessary, accurate, and allowable in accordance with federal laws and regulations, internal policies and procedures, and grant contracts by:

- a. Establishing and implementing comprehensive written policies and procedures to administer its grant program. This should include written policies and/or procedures that prohibit the organization from obtaining or using federal funds for pay grantees that federal requirements prohibit from receiving federal funds; ensure grantees are paid in compliance with their contract terms and the documentation supporting grantees' actual costs; and ensure timely payment processing.

Current Implementation Status for Rec. No. 3, part a: Implemented

Organization's Update: Connect for Health Colorado utilizes written procedures, effective December 31, 2014, to administer its grant program, including: (1) procedures that control the process of obtaining or using federal funds; (2) ensuring grantees are paid in compliance with contract terms; (3) documenting allowable grantees' costs; and (4) ensuring timely payment processing.

- b. Establishing and implementing processes to oversee the grant program, including ensuring that there are adequate staff to review and process payment requests in a timely manner; ensuring staff

review documentation supporting grantee payment request and correct errors prior to payment; implementing consistent supervisory reviews of transactions before grantees are paid; and accurately recording all transactions in the general ledger.

Current Implementation Status for Rec. No. 3, part b: Implemented

Organization's Update: Connect for Health Colorado's accounting and finance department is fully staffed as of August 2015 to: (1) review and process payment requests in a timely manner; (2) review documentation supporting grantee payment requests and correct errors prior to payment; (3) engage in supervisory reviews of transactions before grantees are paid; and (4) accurately record transactions in the general ledger.

- c. Evaluating the practice of making advance payments to grantees before services are provided. If this practice continues, Connect for Health should develop a written policy and/or procedure requiring grantees to submit documentation demonstrating an immediate need before making advance payments to grantees; an appropriate supervisory review of all advance payments for reasonableness, appropriateness, and federal compliance; and a reconciliation to ensure grantees spend all advances before receiving subsequent advances.

Current Implementation Status for Rec. No. 3, part c: Implemented

Organization's Update: Connect for Health Colorado reviews payments to grantees before services are provided using written procedures, effective December 31, 2014 to: (1) require grantees to submit documentation demonstrating an immediate need before making advance payments; (2) obtain supervisory review of advance payments for reasonableness, appropriateness, and federal compliance; and (3) perform reconciliations to ensure grantees spend prior advances before receiving additional advances.

- d. Investigating each instance of overpayment, noncompliance, and error identified in the audit and recover funds from grantees, as appropriate.

Current Implementation Status for Rec. No. 3, part d: Implemented

Organization's Update: Connect for Health Colorado has reviewed the status of funds provided to all grantees and determined the recovery of funds from grantees was not appropriate as a function of reconciliation and budgeting processes.

RECOMMENDATION NO. 4:

Connect for Health Colorado and the Board of Directors (Board) should improve fiscal management by:

- a. Establishing and implementing appropriate written financial policies, procedures, and internal controls that ensure proper accounting, recording of all financial transactions, and checks, and compliance with applicable laws, regulations, and internal requirements. This should include developing procedures for identifying, reporting, investigating, and correcting transactions that appear noncompliant with laws, regulations, and requirements; developing policies and procedures

over reimbursing staff for purchases, such as supplies, equipment, and overtime meals, and considering centralizing procurement for office items such as supplies and equipment.

Current Implementation Status for Rec. No. 4, part a: Implemented

Organization's Update: Connect for Health Colorado established written financial procedures and internal controls effective April 2015 to: (1) ensure proper accounting and recording of financial transactions in compliance with applicable laws, regulations, and internal requirements; (2) identify and correct transactions as necessary; (3) reimburse staff for purchases with accompanying documentation; and (4) centralize procurement for office items.

- b. Ensuring that an appropriate number of staff and supervisors are assigned to accounting functions, with the appropriate levels of system access and segregation of duties controls in place.

Current Implementation Status for Rec. No. 4, part b: Implemented

Organization's Update: Connect for Health Colorado's accounting and finance department is fully staffed, as of August 2015, with defined levels of system access and segregation of duties controls, including using the services of an internal audit manager holding a CPA designation.

- c. Establishing and implementing periodic risk-based quality control reviews to ensure organizational compliance with laws, regulations, and internal policies and procedures. This should include reporting the results of the reviews to the Board, and revising policies and procedures, as appropriate, based on the results of the reviews.

Current Implementation Status for Rec. No. 4, part c: Implemented

Organization's Update: Connect for Health Colorado established fiscal management quality control reviews and checks (including formalized processes to close the books on a monthly basis, budgeting/variance reviews and cash management) to ensure organizational compliance with laws, regulations, and internal policies and procedures, including reporting the results of the reviews to the Board as needed, and revising policies and procedures, as appropriate, based on the results of the reviews.

- d. Training Board members, management, and appropriate staff on the policies and procedures established in recommendation parts a., b., and c. above.

Current Implementation Status for Rec. No. 4, part d: Implemented & Ongoing

Organization's Update: Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures and processes for the preceding recommendations, as needed.