CONNECT for HEALTH COLORADO®

August 7, 2015

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the October 2014 Performance Audit of the Colorado Health Insurance Benefits Exchange: Connect for Health Colorado. The attached report provides a brief explanation of the actions the organization has taken to implement each recommendation.

If you have any questions, please do not hesitate to contact me at 720 496-2531or by email at aschmitz@connectforhealthco.com.

Sincerely,

Alan J. Schmitz
General Counsel

AUDIT RECOMMENDATION STATUS REPORT

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

AUDIT NUMBER: 1348P

AUDITED ORGANIZATION: Connect for Health Colorado

DATE OF STATUS REPORT: August 7, 2015

SUMMARY INFORMATION

Rec. Number	Organization's Response	Implementation Status Self-Reported by the Organization	Original Implementation Date (provided in the organization's response in the audit report)
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, 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 [federal] 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' 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 any 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 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.

November 6, 2015

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the Limited Performance Audit dated October 2014. The attached report provides a brief explanation of the actions taken by Connect for Health Colorado to implement each recommendation.

With the additions of a permanent Chief Financial Officer, Controller and Internal Audit Manager over the last four months, the new financial team has been able to take a fresh look at the organizations existing financial policies and procedures. Particular attention focused on those areas of weaknesses identified by the State Auditor's audit. Where needed, policies and procedures have been further improved to both address the audit findings and add additional controls on the financial activities of the organization.

If you have any questions, please do not hesitate to contact me at (303) 496-2530 or by email at ExecutiveDirector@ConnectforHealthCO.com.

Sincerely,

Kevin Patterson
CEO

UPDATED AUDIT RECOMMENDATION STATUS REPORT

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

AUDIT NUMBER: 1348P

AUDITED ORGANIZATION: Connect for Health Colorado

DATE OF UPDATED STATUS REPORT: November 6, 2015

SUMMARY OF UPDATES

Rec. Number	Organization's Response	Implementation Status Self-Reported by the Organization	Original Implementation Date (Provided by the Organization in the audit report)	Revised Implementation Date (Provided by the Organization)
1a	Agree	Implemented & Ongoing	February 2015	April 2015
1d	Agree	Implemented & Ongoing	December 2014	November 2015
1g	Agree	Implemented	March 2015	October 2015
2a	Agree	Implemented & Ongoing	January 2015	November 2015
2b	Agree	Implemented & Ongoing	March 2015	November 2015
2d	Agree	Implemented & Ongoing	March 2015	November 2015
3a	Agree	Implemented & Ongoing	March 2015	November 2015
3c	Agree	Implemented & Ongoing	March 2015	November 2015
3d	Agree	Implemented	March 2015	October 2015
4a	Agree	Implemented & Ongoing	March 2015	November 2015
4c	Agree	Implemented & Ongoing	April 2015	November 2015

DETAIL OF CONNECT FOR HEALTH COLORADO'S UPDATED STATUS REPORT

Recommendation 1a: Connect for Health should improve processes and controls over the purchase of goods and services from vendors by: 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health Colorado will establish and implement additional written policies and procedures that: (1) require documentation of 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. Connect for Health will continue to update, on an ongoing basis, written financial and personnel policies and procedures reflective of the evolving nature of the organization and its staff moving from a start-up toward a stable, established entity. Connect for Health will continue to improve and add to these policies to specify the documentation required to verify the receipt of goods and services prior to payment and require all payments to be allowable, compliant, reasonable, and accurate. New accounting staff will be instructed on use and management of the goods and services payment systems and documentation requirements.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The status report states that the Procurement Policy (Policy) and underlying procurement procedures address the documentation required to support appropriate payments to vendors and receipt of goods and services. However, the Policy and procedures do not specify the required documentation as recommended; the Policy states only that "suitable documentation" is required and does not define "suitable documentation" or provide examples to guide staff on what documentation is required before paying vendors.	**Update:** The August response failed to include a reference to the accounts payable bill processing procedure. In November 2015, Connect for Health Colorado provided the State Auditor a copy of the Accounts Payable Bill Processing and Check Run procedure (AP procedure) that details the process followed when paying all invoices by the organization. The procedure provides the specific steps taken in the processing of invoices (including the documentation required) prior to making payment. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** April 2015

Recommendation 1d: Connect for Health Colorado should improve processes and controls over the purchase of goods and services from vendors by: 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health Colorado agrees with the audit findings and will have a corporate credit card for expediting low-risk purchases and a process by the end of November 2014. A policy is currently being drafted detailing the use of this card and staff will be informed and trained as needed in December 2014.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The status report states that low-risk, low-dollar purchases are defined as $5,000 and are managed with a credit card, but the April 2015 financial procedures state that the Board approved a credit card limit of $3,000. In addition, Connect for Health does not appear to have a policy for its credit card, as it stated in its response at the time of the audit.	**Update:** To further clarify the small purchase process and add additional centralized controls, a separate Small Purchases procedure was implemented. In regards to the $5,000 limit identified in the procurement policy. While the lower limit on the credit card of $3,000 has provided an extra level of control for the potential of abuse of the credit account, it has also created operational challenges in regards to small purchases. Even a $5,000 credit card limit that matches the one-time purchase limit, would create a challenge since in any given month small purchases (purchases under $5,000) could easily exceed the $5,000 credit card limit. Connect for Health Colorado believes a centralized purchasing process is the best solution for these types of purchases and is a more holistic approach to the operational needs of the organization yet provides the level of control needed for these types of purchases. The implementation of the Small Purchase procedures are the initial step in establishing centralized control over small purchases. In addition, the Financial Policy was updated (and approved) to provide high level direction and higher authorization levels for small purchases/credit accounts that addresses the low credit card limit issue. As the new process evolves and more automated processes are developed the procedure for small purchases will be updated. In addition a Credit Card Policy has been established governing the overall use of corporate credit cards. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** The use of a small purchase preapproval process/form was adopted in August 2015. The full adoption of the small purchases procedure commenced in November 2015

Recommendation 1g: Connect for Health Colorado should improve processes and controls over the purchase of goods and services from vendors by: 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health will conduct an internal audit by the end of this year to identify unallowable costs, and an adjustment will be made in the Intacct accounting system to reclassify the funding source to non-federal grant funds. An internal tracking process will be used to ensure that the next request for payment is reduced by that amount. With ongoing internal auditing, unallowable costs will be identified and adjusted accordingly. The Board's Finance Committee will be advised on all identified costs, payments, and corrective actions with respect to material agreements. General Counsel (or other legal staff) will review each material agreement for compliance with applicable regulatory requirements and transactional best practices. For vendors with a continuing relationship with Connect for Health, oversight processes for vendor payments will be used to recover or net out vendor payments to eliminate overpayments or other identified accounting errors.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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'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 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 [federal] Payment Management System was reduced by the full amount.	For Recommendation 1g, Connect for Health agreed to recover payments for the unallowable costs and payment errors identified in the audit. However, the status update states that Connect for Health did not attempt to recover the improper payments.	**Update:** A thorough review of each of the identified vendor costs was performed and the resolution documented and provided to the State Auditor. The determination of whether the cost was recoverable was made based on this in depth investigation. It was determined that $46,998 paid to vendors (out of the total $156,937 in questioned costs in the finding) were legitimate business expenses but were not federally reimbursable. Adjustments were made to reclassify the funding to non-federal funds and not use federal funds for these costs. $109,939 in costs related to this finding were deemed legitimate allowable business expenses based on following up, obtaining additional supporting documentation/invoices, and analysis of the documentation. Appropriate measures were taken based on these findings including the enhancing of internal processes to reduce the risk of these errors occurring in the future along with the establishment (in the updated Financial Policies) of a policy requiring the resolution of errors, overpayments and noncompliance issues in a timely manner. **Implementation Status:** Implemented **Revised Implementation Date:** Initial review conducted in March 2015, further review and resolution of findings completed in October 2015

Recommendation 2a: Connect for Health Colorado should improve its controls over payments to contractors and contract administration by: 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.

Connect for Health's Response from the Audit Report: Agree. To obtain federal grants in 2012, Connect for Health Colorado was required to have in place federally approved procurement policies and procedures. Connect for Health agrees with the audit findings and will establish a more comprehensive written procurement policy and applicable procedures that specify the Board's responsibilities for contract approval. This will 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 contract amount approved by the Board.

In October 2014, Connect for Health began updating procurement policies to include a more robust process in conjunction with the executive management team, members of the Board's Finance Committee, and the Board with respect to procurement and independent contractor management, including: (i) an appropriate minimum threshold for executing contracts; (ii) consistent Board-approval procedure for all contracts with a specified threshold; and (iii) reporting and approval procedures for payments that exceed thresholds approved by the Board. The procedures will address multiple individual "statements of work" from a single vendor below any applicable approval threshold that may cumulatively exceed the threshold over time so as to clarify the circumstances when additional Board approval will be required. These updated policies will be presented to the Finance Committee and Board of Directors in January 2015 for approval before final implementation.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The status report states that the Policy specifies the circumstances requiring Board approval of procurements and establishes reporting/approval processes for payments materially exceeding approved amounts defined as 5% or $5,000, whichever is greater. However, the Policy and procedures do not specify these materiality thresholds or that the Board should or must approve contracts exceeding these thresholds.	**Update:** Upon further analysis of the existing procurement policy, it was concluded there was a gap in procedural guidance between the procurement policy and the process for ongoing contract management. While the procurement policy requires Board involvement for "material" threshold overages in the initial stages of the contract, the definition of these overages and associated steps to be taken for ongoing monitoring and resolution of contract overages was not defined in the procurement policy. In response to this gap in documented controls, the Financial Policies were revised (and approved) to require an ongoing contract management process that will monitor contract terms, expenditure levels and appropriately report discrepancies over the life of a contract. New Contract Management Procedures have been implemented that assures compliance with this new financial policy and adds definition around contract overages (both materiality and required approvals) beyond the procurement stage. These new policy and procedures were designed to work in conjunction with the existing procurement policy and procedures.

		Implementation Status: Implemented and Ongoing **Revised Implementation Date:** November 2015 – the procurement policies and procedures were implemented prior to this date but the added procedures around materiality and contract management were not fully implemented until November 2015

Recommendation 2b: Connect for Health Colorado should improve its controls over payments to contractors and contract administration by: 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health Colorado agrees with the audit findings regarding the accurate tracking of contract amounts, terms, and payments. The Controller, Assistant Controller, and Accounts Payable Specialist were trained in October on Intacct's tools and workflow processes to track vendor contracts through the Purchase Order and Project Modules. A customized report will be finalized by the end of December that will show contract amount, term, spent to date, and balance. Work on this report will begin in November and will be tested and audited to ensure accuracy. This report will be monitored monthly by the Controller and Accounts Payable Specialist.
With the implementation of these accounting tools, Connect for Health will establish and implement procedures and processes to document this. These procedures will include how to accurately track each contract; monitor payments to vendors to ensure appropriate timing of payments; and ensure that payments 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. Oversight and management of vendor relationships by General Counsel and legal staff will ensure that each contract contains all the appropriate language, that appropriate Board and executive level approval exists, and that the terms and conditions lay out all appropriate, required, and prudent contract terms.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The status report states that Connect for Health ensures payments do not begin before the contract effective date or exceed contract amounts without appropriate Board and/or management approval. However, the Policy and procedures do not include these requirements.	**Update:** Financial policies and procedures have been implemented that address both the monitoring of contracts and the payment process. As mentioned in the response to Recommendation 2a, a policy, and related procedures, were instituted related to the ongoing financial management & monitoring of contracts. The new Contract Management procedures were implemented in conjunction with the existing AP procedures to assure proper controls are in place restricting the disbursement of funds prior to the contract date or when payments exceed contract amounts. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** November 2015 – the payment procedures were implemented previously and the contract financial tracking process was partially implemented prior to November, full implementation of the contract management procedures, however, was not completed until November 2015

Recommendation 2d: Connect for Health Colorado should improve its controls over payments to contractors and contract administration by: 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health Colorado agrees with the audit findings regarding the need for documentation of Board decisions. In combination with the revision of the procurement policies detailed in Rec. 2A, and the finance tools and reports detailed in Rec. 2B, Connect for Health will take steps to document all Board decisions as well. The steps taken to accomplish this documentation are:

- Improving an existing spreadsheet document that memorializes action items from previous Board meetings and policy decisions to include vendor name, contract amount, contract terms, and Board votes (including unanimous votes and Yes/No vote counts), and
- Enlisting staff to capture historical decisions in this spreadsheet by researching Board meeting documentation on file.

Connect for Health will establish and implement written procedures to ensure that complete information about contracts exceeding the approval thresholds is provided to the Board and documented in Board minutes. This will include a procedure detailing the Board documentation process detailed above.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The Policy and procedures do not specify the materiality thresholds or that the Board should or must approve contracts exceeding the thresholds.	**Update:** The updated Financial Policies require the establishment of a contract management process for the tracking of contract expenditures and additional approvals when expenditures exceed contracted amounts. As discussed in the update to Recommendations 2a and 2b, new Contract Management procedures were implemented to address the new policy and delineate the approvals needed. The new procedures require the tracking of remaining contract amounts based on the historical payments processed in the accounting system. The procedures track the approval levels of each contract and flag contracts that will exceed the approved contract amount and any relevant procurement thresholds. The Contract Management procedures require and direct that additional approval is needed before releasing additional payments on a contract when cumulative payments exceed the contract amount. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** November 2015

Recommendation 3a: 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: 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 any 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.

Connect for Health's Response from the Audit Report: Agree. Connect for Health Colorado will establish additional written policies and procedures to administer its grant program. This will include policies and/or procedures that control the use of federal funds for grantees; ensure grantees are paid in compliance with their contract terms and the documentation supporting grantees' actual costs; and ensure timely payment processing. Connect for Health will implement written policies and procedures regarding the administration of its grant program.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	For Recommendation 3a, Connect for Health agreed to establish and implement written policies and procedures that prohibit it from using federal funds to pay grantees that federal requirements prohibit from receiving federal funds. However, the policies and procedures do not prohibit these activities.	**Update:** Connect for Health has established a number of levels of control in regards prohibiting payments to grantees that are not allowed to receive federal funds. At the highest level, the Financial Policies were expanded to address the use of Federal funds including the requirement to screen vendors/subrecipients for eligibility to receive Federal funds. Also, for commitments exceeding the Federal fund procurement threshold, Section VI of the Procurement Policy prohibits the establishment of contractual relationships with parties that are excluded from receiving Federal funds. Another layer of control is provided by the existing Accounts Payable Bill Processing and Check Run procedures requiring the checking of eligibility for Federal funds via the Excluded Parties List System (EPLS) prior to setting up any party in the accounting system that receives disbursements. The AP procedures prohibit the payment of invoices with Federal funds if the vendor is shown as not being eligible. In addition, the Assistant Network Grant Procedures requires verification that grantee is not on the EPLS. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** November 2015 for full policy implementation. Prior to November the Procurement and AP procedures required screening of new vendors using the EPLS.

Recommendation 3c: 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: 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 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.

Connect for Health's Response from the Audit Report: Agree. Over the past 3 months, Connect for Health Colorado has been able to improve internal processes to ensure timely payment of grantees reimbursement requests. Management and staff have worked with grantees who were not consistently providing the appropriate documentation after being awarded an advance payment. Those grantees who have not been able to improve have been changed to a reimbursement only status, and no future advances are paid. In July 2014, Connect for Health communicated with the Centers for Medicare and Medicaid Services to confirm advance payment processes to grantees as permitted under Level 2 Grant funding. Connect for Health received confirmation that advances are anticipated with appropriate documentation to support the need for the requested advance. Internally, Connect for Health now has tracking tools to ensure that grantees who are awarded advances submit their previous month's reimbursement documentation, and that the outstanding advanced monies are not more than they have historically shown a need for on a monthly basis. If the balance in a grantee's advance account is greater than historical monthly need, the advance is being denied and the organization is notified to determine how to proceed. Additionally, improved internal processes and the hiring of staff reduced the payment time for reimbursement requests, thus reducing the number of grantees requesting advances as follows:

- February 2014 – 11 grantees requested advances of $379,487.
- March 2014 – 9 grantees requested advances of $334,690.
- April 2014 – 8 grantees requested advances of $221,979.
- September 2014 – 3 grantees requested advances of $59,480 but only 2 grantees received advances.

The grantees who were still requesting advances in September have been notified of the controls implemented by Connect for Health, and were queried as to whether they would be able to continue exchange activity without advances in the future. Two of the three indicated that this amount is still necessary. The third grantee has been converted to a reimbursement-only payment type.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	The status report states that procedures require grantees to submit documentation demonstrating an immediate need before Connect for Health makes advance payments to them and require supervisory review of advances for reasonableness. The policies and procedures do not include these requirements.	**Update:** The Assistance Network Prospective Payment Procedures were updated to provide additional clarity around the demonstration of immediate need. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** Updated procedures implemented November 2015.

Recommendation 3d: 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: Investigating each instance of overpayment, noncompliance, and error identified in the audit and recover funds from grantees, as appropriate. **Connect for Health's Response from the Audit Report:** Agree. Connect for Health Colorado agrees with the findings of the state audit that constant vigilance is needed to investigate and identify any instance of overpayment, noncompliance, and error. Connect for Health's internal review processes were strengthened in February, when it hired a Controller (filling a vacancy), and continued in full force in May, when new grant accounting staff was hired. Moving forward, for any organization where an overpayment, noncompliance indicating an overpayment, or errors were identified, the under or overpayment amounts and instances will be reviewed and addressed by the Controller. Meetings will be scheduled with grantee organizations to discuss the results of any review or investigation. Reimbursements requested by an organization will be reduced or increased as appropriate. This review and adjustment process will be ongoing and continue through the grantee award cycle as appropriate. The intent of this process is to ensure that federal funds are tracked and maintained pursuant to all applicable regulatory authority.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	For Recommendation 3d, Connect for Health agreed to investigate each instance of overpayment, noncompliance, and error identified in the audit and recover funds from grantees, as appropriate. Connect for Health's written response in the audit report stated that it would review and address overpayments and errors, and reduce or increase reimbursements to grantees, but the status report states that it did not recover the improper payments.	**Update:** A thorough review of each of the identified grantee reimbursements was performed and the resolution documented and provided to the State Auditor. The determination of whether the cost was recoverable was made based on this in depth investigation and documented in the report. $8,022 in overpayments has been recovered from grantees. Additional measures were taken based on these findings including the enhancing of internal processes to reduce the risk of these errors occurring in the future. **Implementation Status:** Implemented **Revised Implementation Date:** Initial review conducted in March 2015, further review and resolution of findings completed in October 2015

Recommendation 4a: Connect for Health Colorado and the Board of Directors (Board) should improve fiscal management by: 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.

Connect for Health's Response from the Audit Report: Agree. Please see responses in Recommendations 1 through 3. Connect for Health Colorado will establish and implement additional appropriate written financial policies, procedures, and internal controls that ensure proper accounting, recording of all checks and financial transactions, and compliance with applicable laws, regulations, and internal requirements. This will include developing more robust 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. Additional improvements will include financial policies, procedures, and internal controls regarding all revenue transactions. Employee reimbursement requests are now formalized in an on-line accounting process requiring documentation and approval. With the continuing maturation of Connect for Health from its initial start-up as a new state-based marketplace, accounting and oversight processes for low-dollar recurring expenses will be established through appropriate accounting protocols. Connect for Health will use a corporate credit card to expedite and control the recurring low-dollar administrative costs with appropriate use restrictions and oversight.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	For Recommendation 4a, Connect for Health's policies and procedures do not require centralized procurement, as the audit recommended and Connect for Health agreed to. Connect for Health's April 2015 financial procedures state "employees request the use of the [credit] card as needed," indicating that multiple employees may purchase items.	**Update:** As discussed in the update to Recommendation 1d, a small purchases policy and process has been formalized that provides for both the controls and flexibility needed when purchasing low risk and low dollar administrative goods and services. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** The use of a small purchase preapproval process/form was adopted in August 2015. The full adoption of the small purchases procedure commenced in November 2015

Recommendation 4c: Connect for Health Colorado and the Board of Directors should improve fiscal management by: 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. **Connect for Health's Response from the Audit Report:** Agree. Connect for Health Colorado submitted an Oversight and Monitoring Program description to the Centers for Medicare and Medicaid as part of a comprehensive process to implement an overarching and holistic monitoring, compliance, and quality control program for the functional and operational components of a state-based marketplace. The comprehensive program description was submitted for review and feedback on October 17, 2014. Connect for Health Colorado will establish and implement periodic risk-based quality control reviews to ensure organizational compliance with laws, regulations, and internal policies and procedures; report the results of the reviews to the Board; and revise policies and procedures, as appropriate, based on the results of the reviews. As Connect for Health Colorado moves from a start-up organization in the implementation phase to sustainability and operation as a more mature entity, oversight, monitoring, compliance and quality control processes will be continually reviewed and amended as the regulatory environment evolves at both a state and a federal level. Connect for Health recognizes its obligation to ensure ongoing compliance and appropriate market conduct in keeping with its statutory mission.

Connect for Health Colorado's August 2015 Status Report Comments	Problems Identified by the State Auditor in August 2015	Status Update Provided by Connect for Health Colorado in November 2015
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.	Connect for Health's policies and procedures do not establish a quality control review process or require staff and management to report the results of quality reviews to the Board, as the audit recommended and Connect for Health agreed to in its audit response.	**Update:** The Financial Policies were updated (and approved) requiring quality control reviews to be periodically conducted to ensure organizational compliance with laws, regulations, and internal policies and procedures. The policy also requires the results of the quality control reviews to be reported to the Board. The role of the new Internal Audit Manager is to manage/conduct compliance reviews of the organization. An initial plan has been established for the implementation of the quality control review process. The initial focus of the program will be monitoring and testing compliance and effectiveness of the new policies and procedures implemented as the result of recent audit findings. In addition, concurrent with this monitoring, a risk assessment will be conducted to determine any other areas of fiscal control weaknesses and areas needing auditing and/or monitoring. This risk based approach will be used in prioritizing and scheduling internal audits and monitoring going forward. **Implementation Status:** Implemented and Ongoing **Revised Implementation Date:** Policy and plan implemented in November 2015