
New Mexico Health Insurance Exchange
Albuquerque, New Mexico

*Financial Statements,
Independent Auditor's Report, and
Single Audit Reporting Package*
December 31, 2013

New Mexico Health Insurance Exchange

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Official Roster | 1 |
| Independent Auditor’s Report | 2-4 |
| Management’s Discussion and Analysis | 5-7 |
| Financial Statements | |
| Statement of Net Position | 8 |
| Statement of Revenues, Expenses and Changes in Net Position | 9 |
| Statement of Cash Flows | 10 |
| Notes to the Financial Statements | 11-20 |
| Single Audit | |
| Schedule of Expenditures of Federal Awards | 21 |
| Notes to Schedule of Expenditures of Federal Awards | 22 |
| Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 23-24 |
| Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 25-27 |
| Schedule of Findings and Questioned Costs | 28-38 |
| Corrective Action Plan | 39 |
| Exit Conference | 40 |

**New Mexico Health Insurance Exchange
Official Roster
For the Period Ended December 31, 2013**

Governing Board of Directors

| | |
|----------------------|----------|
| Dr. J.R. Damron | Chairman |
| John Franchini | Director |
| Sidonie Squier | Director |
| Terraine Everhart | Director |
| Gabriel Parra | Director |
| Ben Slocum | Director |
| Dr. J. Deane Waldman | Director |
| Teresa Gomez | Director |
| Dr. Martin Hickey | Director |
| Dr. Larry Learning | Director |
| Patsy Romero | Director |
| Jason Sandel | Director |
| David Shaw | Director |

Principal Employees

| | |
|---------------|-----------------------------------|
| Mike Nunez | Chief Executive Officer (interim) |
| Anita Schwing | Chief Financial Officer |

Independent Auditor's Report

Board of Directors
New Mexico Health Insurance Exchange

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Health Insurance Exchange (the "Exchange"), as of and for the period from inception (April 28, 2013) through December 31, 2013, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity'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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of December 31, 2013, and the changes in financial position and cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Exchange's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of the Exchange'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 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 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 Exchange's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
September 24, 2014

Required Supplementary Information
Management's Discussion and Analysis

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2013

Introduction

This section of the financial report presents our discussion and analysis of the New Mexico Health Insurance Exchange's (the "Exchange") financial performance from the date of inception (April 28, 2013), through December 31, 2013. Please read it in conjunction with the Exchange's financial statements, which follow this section.

The Exchange is a governmental entity organized pursuant to the New Mexico Health Insurance Exchange Act (the "Act") which replaces the New Mexico Health Insurance Alliance Act that was created by the State of New Mexico. The purpose of the Exchange is to provide qualified individuals and qualified employers with increased access to health insurance in the State.

Overview of the Financial Statements

The financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, the Exchange presents the following three financial statements:

- The *Statement of Net Position* presents information on the assets and liabilities of the Exchange, with the difference between the assets and the liabilities reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether financial position is improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Position* presents information reflecting how the net position changed during the fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statement of Cash Flows* reports cash flows from operating activities, noncapital financing activities, and capital and related financing activities, and the resulting impact on cash and cash equivalents.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

Financial Highlights

- The Exchange's total assets were \$5.6 million as of December 31, 2013, mainly consisting of cash, receivables from the U.S. Department of Health and Human Services, and capital assets.
- The Exchange's total liabilities were \$5.6 million as of December 31, 2013, mainly consisting of accounts payable.

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2013

- The Exchange's total nonoperating revenues were \$22.3 million in 2013, with grants from federal and state governments being the sole revenue source.
- The Exchange's total expenses were \$22.3 million in 2013, which were related to establishing and operating the Exchange.

Statement of Net Position

The following shows a condensed statement of net position as of December 31, 2013:

| | | |
|------------------------------------|----|------------------|
| Current assets | \$ | 5,463,469 |
| Noncurrent assets | | 133,992 |
| Total assets | \$ | <u>5,597,461</u> |
| | | |
| Current liabilities | \$ | <u>5,597,461</u> |
| Invested in capital assets | | 133,992 |
| Unrestricted | | <u>(133,992)</u> |
| Total net position | | - |
| Total liabilities and net position | \$ | <u>5,597,461</u> |

Statement of Revenues, Expenses, and Changes in Net Position

The Exchange did not have operating revenue in 2013. Total operating expenses were approximately \$22.3 million, resulting in an operating loss of the equivalent amount. In 2013, substantially all of the Exchange's revenues were from federal grants. Because grant revenues are recognized based on qualifying expenses, nonoperating revenues also totaled \$22.3 million resulting in no net position at the beginning and end of the period.

Capital Assets

At December 31, 2013, the Exchange had \$133,992, net of depreciation, invested in capital assets, including furniture and fixtures, office equipment, computer software, and computer equipment. See the notes to the financial statements for additional information on capital assets.

Economic Factors and Next Year's Budget

During the next year, the Exchange expects to increase in funding from the federal government as a result of additional grants awarded to the Exchange for project development. The Exchange anticipates that this will significantly increase grant revenues and project management expenses.

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2013

Contacting the Exchange's Financial Management

This financial report is designed to provide the New Mexico Health Insurance Exchange and its customers with a general overview of the Exchange's finances and to show the Exchange's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Health Insurance Exchange
6301 Indian School Road NE, Suite 100
Albuquerque, New Mexico 87110
(505) 314-5211

Financial Statements

New Mexico Health Insurance Exchange
Statement of Net Position
December 31, 2013

Assets

Current assets

| | |
|---|------------|
| Cash | \$ 874,869 |
| Receivables | |
| Due from U.S. Department of Health and Human Services | 4,542,420 |
| Due from the New Mexico Health Insurance Alliance | 26,849 |
| Other receivables | 1,832 |
| Total receivables | 4,571,101 |
| Prepaid expenses and other assets | 17,499 |
| Total current assets | 5,463,469 |

Noncurrent assets

| | |
|---|--------------|
| Capital assets, net of accumulated depreciation | 133,992 |
| Total assets | \$ 5,597,461 |

Liabilities

Current liabilities

| | |
|---|--------------|
| Accounts payable | \$ 3,388,623 |
| Accrued payroll | 6,636 |
| Compensated absences | 62,495 |
| Unearned revenue | 2,073,315 |
| Due to the New Mexico Health Insurance Alliance | 65,318 |
| Due to insurance carriers | 1,074 |
| Total current liabilities | 5,597,461 |

Net Position

| | |
|------------------------------------|--------------|
| Invested in capital assets | 133,992 |
| Unrestricted | (133,992) |
| Total net position | - |
| Total liabilities and net position | \$ 5,597,461 |

The accompanying notes are an integral part of the financial statements.

New Mexico Health Insurance Exchange
Statement of Revenues, Expenses and Changes in Net Position
For the Period from Inception (April 28, 2013) through December 31, 2013

Operating Expenses

| | |
|-----------------------------------|---------------------|
| Salaries and benefits | \$ 455,845 |
| Professional and board | 270,378 |
| Operations | 303,852 |
| Technology and project management | 17,249,802 |
| Marketing and outreach | 4,035,981 |
| Other | <u>14,951</u> |
| Total operating expenses | <u>22,330,809</u> |
| Net operating loss | <u>(22,330,809)</u> |

Nonoperating Revenues

| | |
|--|--------------------|
| Grant revenue | 22,329,906 |
| Interest income (program income) | <u>903</u> |
| Change in net position | - |
| Net position, April 28, 2013 | <u>-</u> |
| Net position, December 31, 2013 | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of the financial statements.

New Mexico Health Insurance Exchange
Statement of Cash Flows
For the Period from Inception (April 28, 2013) through December 31, 2013

Cash flows from operating activities

| | |
|--|---------------------|
| Cash payments to employees for service | \$ (657,092) |
| Cash payments to other suppliers of goods and services | <u>(18,188,169)</u> |
| Net cash used in operating activities | <u>(18,845,261)</u> |

Cash flows from noncapital financing activities

| | |
|--|-------------------|
| Grants received | 19,860,801 |
| Interest income received | <u>903</u> |
| Net cash used in noncapital financing activities | <u>19,861,704</u> |

Cash flows from capital and related financing activities

| | |
|---|------------------|
| Purchase of capital assets | <u>(141,574)</u> |
| Net cash used in capital and related financing activities | <u>(141,574)</u> |

| | |
|--------------------------|--------------------------|
| Net increase in cash | 874,869 |
| Cash, April 28, 2013 | <u>-</u> |
| Cash, end of year | <u><u>\$ 874,869</u></u> |

Reconciliation of operating loss to net cash provided by operating activities

| | |
|--|-------------------------------|
| Net operating loss | \$ (22,330,809) |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| Depreciation | 7,582 |
| Changes in operating assets and liabilities | |
| Due from the New Mexico Health Insurance Alliance | (26,849) |
| Other receivables | (1,832) |
| Prepaid expenses and other assets | (17,499) |
| Account payable | 3,388,623 |
| Accrued payroll | 6,636 |
| Compensated absences | 62,495 |
| Due to the New Mexico Health Insurance Alliance | 65,318 |
| Due to insurance carriers | <u>1,074</u> |
| Net cash used in operating activities | <u><u>\$ (18,845,261)</u></u> |

The accompanying notes are an integral part of the financial statements.

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

1) Organization and Operations

Organization

The New Mexico Health Insurance Exchange (the “Exchange”) is a governmental entity organized pursuant to the New Mexico Health Insurance Exchange Act (the “Act”), New Mexico Statutes Annotated (1978), 59A-23F-1 through 23F-8. The Exchange was authorized by the New Mexico Legislature (the “Legislature”) in 2013 and began operations shortly thereafter. The Act replaces the New Mexico Health Insurance Alliance (the “Alliance”) that was created by the State of New Mexico in 1994. The purpose of the Exchange is to provide qualified individuals and qualified employers with increased access to health insurance.

The Act provides that the Exchange Board of Directors (the “Board”) is a governmental entity for purposes of the Tort Claims Act (New Mexico Statutes Annotated [1978] 41-4-1 to 41-4-27), but neither the Board of Directors nor the Exchange shall be considered a governmental entity for any other purpose. However, given that the Exchange Board consists of members that are appointed pursuant to the Act, they meet the criteria for being considered a governmental entity; therefore, the Exchange must apply the accounting and financial reporting standards set by the Governmental Accounting Standards Board (GASB).

Patient Protection and Affordable Care Act (PPACA) and Grant Proceeds

On March 23, 2010, the federal government passed the Patient Protection and Affordable Care Act (PPACA). The PPACA provides for guaranteed coverage to children up to age 19 and allowance for children up to age 26 to remain on their parent’s insurance. In addition, insurance carriers will be prohibited from making rescissions on any insured member. By 2014, guaranteed issue will be expanded to the 25-64 population.

In July 2010, the State of New Mexico, through its Office of Health Care Reform, filed for and received an initial \$1,000,000 Exchange Planning Grant. In September 2011, a second planning grant application for \$34,300,000 was filed and approved. In that grant application, the Alliance was named as the organization to house the insurance exchange for the State of New Mexico. On December 3, 2012, a Memorandum of Understanding was signed between the New Mexico Human Services Department and the Alliance whereby the Alliance was authorized to proceed with the establishment of an insurance exchange under provisions of the PPACA. On December 31, 2012, \$1,600,000 in grant funds were transferred to the Alliance and was presented as pass-through grant proceeds in the Alliance’s 2012 statement of financial position.

During the 2013 legislative session, the Exchange legislation passed (Laws of 2013, Chapter 54). Under the new law, the Alliance Board ceased to exist and the Exchange Board supersedes the Alliance Board as the governing body. Once the Exchange was formed, the grant funds held by the Alliance were transferred to the Exchange’s bank

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

account for operating use. Effective January 1, 2015, the Alliance statutes (Laws 1994, Chapter 75, Sections 1 through 25) are repealed. Wind down of the Alliance is expected to occur in 2015. A Memorandum of Understanding was executed in June 2014 between the Alliance and the Exchange to further define transition costs and final wind down responsibilities.

Operations

The Exchange was established to provide access to quality health care for those without insurance, individuals that cannot afford health insurance offered at their place of employment, small business with 50 employees or fewer, and those that purchase their own insurance but would like more options.

All health insurance issuers and health maintenance organizations authorized to conduct business in New Mexico, and that meet the requirements of the rules promulgated in the Act, are eligible to participate in the Exchange. The Exchange performs its functions under the plan of operation established and approved pursuant to the Act and exercises its powers through the Board.

The Exchange functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. All premiums billed and collected are recorded in the statement of net position with no activity impacting the statement of revenues, expenses and changes in net position. The Exchange does not withhold any portion of premiums to cover administrative costs.

2) Summary of Significant Accounting Policies

Accounting Principles

The financial statements of the Exchange have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and funds. The GASB is the standard-setting body for governmental accounting and financial reporting.

Basis of Presentation

The financial statements of the Exchange have been prepared using the economic resources measurement focus and the accrual basis of accounting. All of the Exchange's activities are reported as an enterprise fund. Enterprise funds are used for activities for which a fee is charged to external users for goods and services.

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

The Exchange distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Because the Exchange's operations were financed solely by federal grants in 2013, there were no operating revenues reported. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, which consists of grant revenue and interest income.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. When restricted resources meet the criteria to be available for use and unrestricted resources are also available, it is the Exchange's policy to use restricted resources first. Expenses are recorded when they are incurred. Expenses charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

Cash and Cash Equivalents

For purposes of the statements of cash flows under proprietary fund accounting, the Exchange considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Exchange maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. At times, portions of the cash balances in the financial institutions may exceed the insured limits. The Board has not formally adopted deposit and investment policies that limit the Exchange's allowable deposits or investments and address the specific types of risks to which the Exchange is exposed. The Exchange has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalents. See additional collateralization information in Note 3.

Other Receivables

Other receivables consist of payments due from insured groups and vendors arising from the normal course of operations. The Exchange does not record an allowance against receivables from insured groups. Receivables from insured groups represent gross premium amounts receivable for insurance provided for which the payment is delinquent. These amounts are recovered by the Exchange either through subsequent collection or, if not collected, by cancellation of insurance coverage effective on the date through which premiums were paid.

Due from Grantor Agency and Unearned Revenue

Various reimbursement procedures are used for awards received by the Exchange. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Amounts due from grantor agencies at fiscal year-

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

end represent an excess of accrual basis expenses over cash reimbursements received to date. Conversely, unearned revenue represents an excess of cash received (advance) over accrual basis expenses. Generally, these balances are caused by differences in the timing of cash reimbursements and expenses and will be reversed in the remaining grant period.

Due to/Due from Alliance

Certain expenses, including wages and benefits of Alliance personnel, are shared between the Alliance and the Exchange based on an allocated percentage. During 2013, these shared expenses resulted in balances due to/due from the Alliance. The amounts receivable and payable are presented on the statements of net position as Due to the Alliance and Due from the Alliance.

Prepaid Expense

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the statement of net position and expensed as the items are used.

Capital Assets and Depreciation

Capital assets are recorded at historical cost. Typically, personal property and equipment costing \$1,000 or more are capitalized in accordance with internal policy, in addition to outlays for items that significantly extend the useful life of a capital asset. This, however, does not preclude the Exchange from capitalizing costs below this amount when control over such assets is desired. Donated assets are recorded at their estimated fair value at the date of donation. Costs incurred for repair and maintenance are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

| | |
|------------------------|---------|
| Furniture and fixtures | 8 years |
| Equipment | 3 years |
| Computer software | 3 years |
| Computer equipment | 3 years |

Compensated Absences

Under terms of employment, employees are granted sick leave and vacation in varying amounts. Full-time Exchange employees accumulate paid time off (PTO) hours for subsequent use according to the length of employment and within established maximum accrual limits, which may be paid out at separation of employment. PTO may be accrued up to a maximum of two times an employee's annualized equivalent based on length of service. Hours in excess of the maximum personal leave available are written off and are not payable to the employee.

New Mexico Health Insurance Exchange

Notes to Financial Statements

December 31, 2013

When employees terminate, they are compensated at their current hourly rate for accumulated unpaid vacation leave. All accumulated PTO is recorded as an expense and a liability in the Exchange's financial statements.

Net Position

The Exchange follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Accordingly, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is referred to as net position. Net position is categorized as follows:

- ◆ *Investment in capital assets (net of related debt)*—Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The net of related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Exchange has no capital asset related debt at fiscal year-end.
- ◆ *Restricted net position*—Restricted net position results when constraints placed on an assets' use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.
- ◆ *Unrestricted net position*—Represents net position not otherwise classified as invested in capital assets or restricted net position.

Operations Expense

Operations expense, as presented in the statement of revenues, expenses and changes in net position, are related to the design and implementation of the Exchange and not for ongoing maintenance.

Income Taxes

The Exchange is a tax-exempt, quasi-governmental organization. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Use of Estimates

Financial statements preparation in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Marketing and Advertising

Marketing and advertising costs are expensed as incurred.

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

Fair Value of Financial Instruments

Financial instruments include various cash equivalents, receivables and payables. The carrying amount of these financial instruments has been estimated by management to approximate fair value primarily due to their short maturity.

Subsequent Events

Subsequent events through September 24, 2014, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the December 30, 2013, financial statements.

3) Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Exchange's deposits may not be returned to it. The Exchange does not have a custodial credit risk policy requiring collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. Bank deposits are insured by the FDIC up to \$250,000 per depositor for interest-bearing and noninterest-bearing deposits. At December 31, 2013, the Exchange had deposits of \$1,593,077. Of this total bank balance, there were no amounts subject to custodial credit risk as all amounts were either insured or collateralized as presented below.

| | First National Bank of Santa Fe |
|--------------------------------|---------------------------------------|
| Total amount on deposit | \$ 1,593,077 |
| Less FDIC coverage | 250,000 |
| Total uninsured deposits | 1,343,077 |
| Pledged collateral, fair value | 2,015,943 |
| Pledged in excess | \$ (672,866) |

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

4) Capital Assets

A summary of capital assets activity is as follows:

| | Balance at April 28, 2013 (inception) | Increases | Decreases | Balance at December 31, 2013 |
|---------------------------|---|-------------------|-------------|------------------------------------|
| Depreciable assets | | | | |
| Furniture and fixtures | \$ - | \$ 47,800 | \$ - | \$ 47,800 |
| Equipment | - | 36,134 | - | 36,134 |
| Computer software | - | 32,787 | - | 32,787 |
| Computer equipment | - | 24,853 | - | 24,853 |
| | <u>-</u> | <u>141,574</u> | <u>-</u> | <u>141,574</u> |
| Accumulated depreciation | | | | |
| Furniture and fixtures | - | (2,904) | - | (2,904) |
| Equipment | - | (2,166) | - | (2,166) |
| Computer software | - | (1,822) | - | (1,822) |
| Computer equipment | - | (690) | - | (690) |
| | <u>-</u> | <u>(7,582)</u> | <u>-</u> | <u>(7,582)</u> |
| Total capital assets, net | <u>\$ -</u> | <u>\$ 133,992</u> | <u>\$ -</u> | <u>\$ 133,992</u> |

Depreciation expense for the period from inception (April 28, 2013) through fiscal year-end was \$7,582 and is reported in the statement of revenues, expenses, and changes in net position in the operations expense category.

5) Commitments

The Exchange is committed under various lease agreements for office space and office equipment. These leases are classified as operating leases. Lease expense for the period from inception (April 28, 2013) through December 31, 2013, was \$26,288 and is included in operations expense in the accompanying statement of revenues, expenses, and changes in net position. Future minimum lease payments are as follows:

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

| | | |
|--------------------------|----|----------------|
| Year ending December 31, | | |
| 2014 | \$ | 90,458 |
| 2015 | | 92,609 |
| 2016 | | 74,545 |
| 2017 | | 4,184 |
| 2018 | | - |
| Total | \$ | <u>261,796</u> |

Additionally, the Exchange has numerous professional and consulting service contracts, and agreements for technology services in place with outstanding commitments at December 31, 2013. Payments under such contracts totaled \$18.3 million in 2013, with outstanding commitments of \$31.4 million as of December 31, 2013, which are expected to be paid in 2014 through 2016.

6) Accrued Compensated Absences

A schedule of changes in the Exchange's accrued compensated absences follows:

| Balance at April 28, 2013 | Additions | Reductions | Balance at December 31, 2013 | Amounts Due Within One Year |
|------------------------------|------------------|---------------|------------------------------------|-----------------------------------|
| <u>\$ -</u> | <u>\$ 63,168</u> | <u>\$ 673</u> | <u>\$ 62,495</u> | <u>\$ 62,495</u> |

7) Retirement Plan

The Exchange sponsors a Savings Incentive Match Plan for Employees (SIMPLE) IRA Plan. All employees may participate in the plan after having fulfilled a one-year eligibility period and received a minimum of \$5,000 in compensation as defined under the terms of the plan document. The Exchange makes matching contributions limited to 3% of the participant's compensation. For the period from inception (April 28, 2013) through December 31, 2013, the Exchange contributed \$2,775 to the Plan.

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

8) Contingencies

Grants

Grant awards from federal governmental entities are subject to audits. Such audits could result in claims against the Exchange for disallowed costs or noncompliance with grantor restrictions. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time; although, the Exchange expects such amounts, if any, to be immaterial.

Litigation

The Exchange is party to various legal proceeding that occur in the normal course of operations. Management does not believe that the outcome of these legal proceedings will have a material adverse impact on the Exchange. The Exchange maintains insurance coverage to protect against losses related to personal property and general liabilities, directors and offices, errors and omissions, and workers compensation.

Claims may also be filed for incidents that have occurred, including some of which the Exchange is not presently aware. Management believes that the amount of such potential claims, if any, would be immaterial to the Exchange. Accordingly, no accrual has been made for these potential claims.

9) New and Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements

The following GASB pronouncements have been issued, but are not effective at December 31, 2013:

- ◆ GASB Statement No. 67, *Financial Reporting for Pension Plans*
- ◆ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- ◆ GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- ◆ GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- ◆ GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*

New Mexico Health Insurance Exchange
Notes to Financial Statements
December 31, 2013

The Exchange will implement new GASB pronouncements, if applicable, no later than the required effective dates of each pronouncement. The Exchange believes that the above listed GASB pronouncements will not significantly impact financial reporting of the Exchange.

10) Economic Dependency

The Exchange receives substantially all of its revenues from grants funded by the United States Government and the State of New Mexico.

Schedule of Expenditures of Federal Awards

New Mexico Health Insurance Exchange
Schedule of Expenditures of Federal Awards
December 31, 2013

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass-Through Grantor Number or Other Identifying Numbers | CFDA Number | Federal Expenditures |
|---|--|----------------|-------------------------|
| U.S. Department of Health and Human Services | | | |
| Cooperative agreement to support establishment of a state-operated health insurance exchange | | 93.525 | \$ 10,969,105 |
| Passed through the State of New Mexico: | | | |
| Cooperative agreement to support establishment of a state-operated health insurance exchange | HBEIE120083 | 93.525 | <u>11,361,704</u> |
| Total U.S. Department of Health and Human Services | | | <u>\$ 22,330,809</u> |

New Mexico Health Insurance Exchange
Notes to Schedule of Expenditures of Federal Awards
December 31, 2013

1) General

The accompanying schedule of expenditures of federal awards presents the federal award programs of the New Mexico Health Insurance Exchange (the “Exchange”). The Exchange’s reporting entity is defined in Note 1 to the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the basic financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3) Catalog of Federal Domestic Assistance Award Numbers

Federal granting agencies are responsible for providing the Exchange with the Catalog of Federal Domestic Assistance (CFDA) number for each grant or contract. In addition, for pass-through awards, the pass-through granting agencies are responsible for providing the Exchange with pass-through grantor numbers.

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

Board of Directors
New Mexico Health Insurance Exchange

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the New Mexico Health Insurance Exchange (the "Exchange"), as of December 31, 2013 and for the period from inception (April 28, 2013) through December 31, 2013, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as item 2013-003 through 2013-006.

The Exchange's Response to Findings

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

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 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 their internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
September 24, 2014

Independent Auditor's Report on Compliance
With Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133

Board of Directors
New Mexico Health Insurance Exchange

Report on Compliance for Each Major Federal Program

We have audited the compliance of the New Mexico Health Insurance Exchange (the "Exchange") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Exchange's major federal program for the year ended December 31, 2013. The Exchange's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004, 2013-005, and 2013-006. Our opinion on the major federal program is not modified with respect to these matters.

The Exchange's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Exchange's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and

therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004, 2013-005, and 2013-006, that we consider to be significant deficiencies.

The Exchange's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Exchange's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

REDW LLC

Albuquerque, New Mexico
September 24, 2014

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs
December 31, 2013

Section I — Summary of Auditor’s Results

Financial Statements

| | |
|---|------------|
| Type of auditor’s report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|------------|
| Type of auditor’s report issued on compliance for major programs: | Unmodified |
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section I — Summary of Auditor's Results — continued

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 93.525 | State Planning and Establishment Grants for Affordable Care Act (ACA) Exchanges |

Dollar threshold used to distinguish

between type A and type B programs: \$669,924

Auditee qualified as low-risk auditee? No

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs
For the Period Ended December 31, 2013

Section II — Financial Statement Findings

2013-001 Financial Statement Segregation of Duties – Cash Disbursements

Condition: The Chief Financial Officer does not typically perform, but has access to perform from November 2013 forward, the following functions within the Exchange’s cash disbursements function:

- **Cash Disbursements:** Setup of new vendors and modification of existing vendors; entry of invoices into the accounting system; access to blank check stock, and printing, signing, and mailing of checks.
- **Payroll Disbursements:** Setup of new employees and modification or termination of existing employees; review of employee time sheets; entry of time sheets into the accounting system; access to blank payroll checks, and printing, signing, and distribution of payroll checks.

Criteria: Adequate separation of duties should exist to mitigate the likelihood of errors or fraud in the accounts payable and payroll processes.

Cause: Adequate segregation of duties within the accounts payable and payroll processes has not been established.

Effect: When one employee can add vendors or employees and has access to signed checks, that employee may be able to disburse funds to fictitious or inappropriate vendors or employees without timely detection.

Auditor’s Recommendation: For practical reasons and costs considerations, the Exchange has a limited number of personnel to facilitate segregation of duties. However, duties between existing personnel can be allocated in such a manner to provide more robust segregation of incompatible duties. Consider implementing some or all of the following additional controls:

- **Cash Disbursements:** Assign the setup of new vendors, or changes to existing vendors, to an individual independent of the cash disbursement process and restrict access to this function in the system to individuals outside of the disbursement process. This individual should also be responsible for reviewing all prepared checks, comparing them to underlying support including invoices, and mailing the checks. Alternatively, the Chief Executive Officer or a member of the Board should periodically review the vendor list and the check register for unusual or unknown vendors and disbursements.
- **Payroll Disbursements:** Assign the setup of new employees, or changes to the status of existing employees, to an individual independent of the payroll disbursement process and restrict access to this function in the system to individuals outside of the payroll process. Consider having the Chief Executive Officer or a member of the Board review the payroll register each pay period to ensure hours and pay rates appear appropriate.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section II — Financial Statement Findings — continued

2013-001 Financial Statement Segregation of Duties – Cash Disbursements — continued

Management's Response: Management understands the importance of segregation of duties over both Accounts Payable and Payroll. The Chief Financial Officer was provided access to the accounts payable module when she brought the accounting system up in November, as she was the only employee at the Exchange working in the accounting function. The following compensating controls were established immediately:

1. The Interim Chief Executive Officer reviewed all check requests greater than \$5,000, and in accordance with Board Resolution 2013-02, approved October 18, 2013, provided the second signature on all checks greater than \$5,000.00.
2. The Treasurer of the Board of Directors reviewed all expense reimbursements to the Interim Chief Executive Officer.
3. The Interim Chief Executive Officer reviewed and approved all expense reimbursements to the Chief Financial Officer.
4. The monthly check register was distributed to all members of the Exchange Board of Directors on a monthly basis.
5. The Exchange hired an accountant who started on December 1, 2013 who has processed every accounts payable run since being hired.

In addition to the above controls that have already been implemented, Management will make the following changes:

1. The vendor file will be further segregated to a different employee who neither enters payable transactions nor approves and posts them.
2. The access rights of the Chief Financial Officer will be restricted to ensure that functions are appropriately segregated.
3. Another accountant has been hired to ensure that we can properly segregate duties.

As the only employee in the accounting function at startup, the Chief Financial Officer was the employee who processed payroll from the end of November 2013 through end of June 2014. As a compensating control, each pay period check register was reviewed and approved by the Interim Chief Executive Officer prior to releasing the payroll file to the bank. The Interim Chief Executive Officer also verified the ACH transaction with the Bank. The employee paychecks were also listed on the monthly Check Register that was distributed to the Board of Directors. The payroll function was outsourced mid-2014 to eliminate the segregation issue.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section II — Financial Statement Findings

2013-002 Financial Statement Adjustments

Condition: Management reconciles account information on a monthly and annual basis, which typically identifies significant errors and misstatements in the financial statements. However, audit procedures resulted in adjustments to accounts payable and expenses, unearned revenue, and grant revenues in order to conform account balances with generally accepted accounting principles.

Criteria: Preparation of financial statements and footnotes in accordance with generally accepted accounting principles helps ensure that timely, accurate and useful information is available to management and those charged with governance.

Cause: The adjustments resulted from inadequate cut-off procedures at year-end.

Effect: The financial statements required adjustments to conform to generally accepted accounting principles.

Auditor's Recommendation: The Exchange should perform a more detailed review and analysis of year-end financial statements to ensure consistent application of generally accepted accounting principles. Management is capable of performing such procedures and needs to ensure that such detail review of invoices during processing is taking place to ensure cutoff of expenses is achieved.

Management Response: Management accepts responsibility for ensuring there is a more thorough review and analysis of year-end financial statements. Additionally, management has implemented a formal cut-off procedure requiring the submission of invoices to the Exchange in a timely basis. These additional review procedures have been added to the Senior Accountant job responsibilities.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs

2013-003 — Allowable Costs

Federal program information:

| | |
|-----------------|---|
| Funding agency: | U.S. Department of Health and Human Services |
| Title: | State Planning and Establishment Grants for ACA Exchange |
| CFDA number: | 93.525 |
| Award number: | HBEIE140187, HBEIE140185, HBEIE120083, HBEIE130170 |

Criteria: According to OMB Circular A-87, to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, authorized or not prohibited under state or local laws or regulations, and adequately documented.

Condition: The Exchange contracted with an advertising agency as part of a marketing campaign. Upon review of invoices from this advertising agency, we noted several instances where alcohol purchases were included as part of the invoices submitted to the Exchange under their contract.

Questioned Costs: \$610.62

Context: Five of forty disbursements tested contained alcohol as part of the invoiced amounts. All five disbursements were to the same advertising agency vendor.

Cause: There was limited review of invoices submitted by this advertising agency due to the size of the invoices. In addition, Exchange personnel are not experienced with the allowability of selected items of cost as prescribed in OMB Circular A-87.

Effect: The Exchange is not in compliance with OMB Circular A-87 and used federal funds to fund unallowable costs.

Auditor's Recommendations: The Exchange should establish review procedures over all vendor invoices to ensure that only allowable expenses are invoiced to the Exchange and allocated to federal awards. Further, the Exchange should ensure that contracts with significant vendors include language requiring compliance with the selected items of cost section of OMB Circular A-87. Exchange personnel should also consider attending training on OMB Circulars A-87 and A-133.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs — continued

2013-003 — Allowable Costs — continued

Management's Response: Management has tightened reviews over all vendor invoices to ensure that only allowable expenses are paid from the federal awards. Management notified the advertising agency immediately and asked for the return of all reimbursements of alcohol.

Vendor contracts are being changed to include language requiring compliance with the selected items of the cost section of OMB Circular A-87, including the recent contract amendment for the advertising agency identified as submitting prohibited expenses. Additionally, selected Exchange staff have attended training on OMB Circulars A-87 and A-133 as recommended. This training will be required for all Exchange personnel going forward as part of the on-boarding process.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs — continued

2013-004 — Procurement

Federal program information:

| | |
|-----------------|---|
| Funding agency: | U.S. Department of Health and Human Services |
| Title: | State Planning and Establishment Grants for ACA Exchange |
| CFDA number: | 93.525 |
| Award number: | HBEIE140187, HBEIE140185, HBEIE120083, HBEIE130170 |

Criteria: According to 45 CFR part 92.36, grantees and subgrantees will use their own procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section. Additionally, all procurement transactions will be conducted in a manner providing full and open competition, and will have written selection procedures.

Condition: The Exchange operated in fiscal year 2013 without procurement policies and procedures in place. The Exchange entered into procurement transactions with certain vendors during the year without written selection procedures.

Questioned Cost: None.

Context: Four out of twenty-eight vendors tested that were paid in excess of \$25,000.

Cause: The Exchange did not approve formal procurement policies and procedures during fiscal year 2013. In addition, Exchange personnel lacked experience operating federal grants and applicable OMB circulars, including Circulars A-87 and A-133.

Effect: The Exchange is not in compliance with federal procurement requirements.

Auditor's Recommendations: Develop written policies and procedures for procurement and ensure they are followed. Additionally, ensure that all procurement transactions have written selection procedures. Exchange personnel should also consider attending training on OMB Circulars A-87 and A-133.

Management's Response: Management agrees with the recommendation, and had taken steps earlier in 2014 to correct this deficiency. Procurement procedures were established and approved by the Board of Directors on March 21, 2014. They will be amended to include written selection procedures. The Exchange accounting staff has attended training on OMB Circulars A-87 and A-133 as recommended. This training will be required for all Exchange personnel going forward as part of the on-boarding process.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs — continued

2013-005 — Suspension and Debarment

Federal program information:

| | |
|-----------------|---|
| Funding agency: | U.S. Department of Health and Human Services |
| Title: | State Planning and Establishment Grants for ACA Exchange |
| CFDA number: | 93.525 |
| Award number: | HBEIE140187, HBEIE140185, HBEIE120083, HBEIE130170 |

Criteria: According to 45 CFR part 92.35 states that “grantees and subgrantees” must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, Debarment and Suspension.

Condition: The Exchange operated in fiscal year 2013 without a policy or procedure in place to verify contractors are not suspended or debarred. Although there were no formal policies in place, there were some contracts that included Debarment and Suspension clauses.

Questioned Cost: None.

Context: All vendors paid in excess of \$25,000.

Cause: The Exchange did not approve formal procurement policies and procedures during fiscal year 2013. In addition, Exchange personnel lacked experience operating federal grants and applicable OMB circulars, including Circulars A-87 and A-133.

Effect: The Exchange is not in compliance with federal suspension and debarment requirements. The Exchange runs the risk of contracting with a vendor who is suspended or debarred.

Auditor’s Recommendations: Develop written policies and procedures for procurement and ensure they are followed, including controls to ensure that the Exchange does not mistakenly contract with a suspended or debarred vendor. Exchange personnel should also consider attending training on OMB Circulars A-87 and A-133.

Management’s Response: Management felt that they had complied with federal suspension and debarment requirements by incorporating a certification in its standard vendor contract. As the additional step of verifying that the vendor is not debarred by checking the excluded list provides a stronger control, management agrees to incorporate it in the evaluation process of vendor selection.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs — continued

2013-006 — Supporting Documentation

Federal program information:

| | |
|-----------------|---|
| Funding agency: | U.S. Department of Health and Human Services |
| Title: | State Planning and Establishment Grants for ACA Exchange |
| CFDA number: | 93.525 |
| Award number: | HBEIE140187, HBEIE140185, HBEIE120083, HBEIE130170 |

Criteria: According to OMB Circular A-87, to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, authorized or not prohibited under state or local laws or regulations, and adequately documented.

Condition: Procedures were not in place to ensure that costs allocated to federal awards were authorized and/or received by the Exchange before payment was issued to the vendor. In addition, there were several instances where costs allocated to federal awards were not adequately documented, resulting in variances between the amounts allocated to federal awards and available supporting documentation.

Questioned Costs: \$5,731.04

Context: Nine of forty disbursements tested were not approved before payment was issued to the vendor. Additionally, two of three journal entries tested were not approved by someone other than the preparer of the journal entry. There was also no evidence that goods purchased were received before payment on eight of forty disbursements. Lastly, costs allocated to federal awards did not agree to supporting documentation for two of forty disbursements tested.

Cause: The Exchange did not approve formal procurement policies and procedures during fiscal year 2013. In addition, Exchange personnel lacked experience operating federal grants and applicable OMB circulars, including Circulars A-87 and A-133. Finally, given that the Exchange was a new entity in 2013, the accounts payable function was outsourced to the New Mexico Health Insurance Alliance from April through November as the Exchange was in the process of hiring staff and developing policies and procedures.

Effect: Payments may be issued to vendors without authorization, before goods are received, or for different amounts than supported by invoices or other documentation. As such, costs allocated to federal awards do not comply with the requirements of OMB Circular A-87.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Period Ended December 31, 2013

Section III — Federal Award Findings and Questioned Costs — continued

2013-006 — Supporting Documentation — continued

Auditor's Recommendations: Formally document and enforce policies and procedures to ensure that invoices are authorized and goods are received before payment is issued to vendors. This will ensure that supporting documentation is maintained for all costs allocated to federal awards and that vendors are paid at appropriate amounts. Exchange personnel should also consider attending training on OMB Circulars A-87 and A-133.

Management's Response: Management agrees that expenditures must be necessary and reasonable, authorized and not prohibited and adequately documented. Controls and procedures were established in late 2013 to ensure that payments are only made for the purchase of goods and services that meet that criteria. Purchasing procedures were implemented to ensure that authorization is obtained prior to the purchase of goods and services. Additionally, procedures were established requiring the receipt of goods before payment is issued and all supporting documentation is maintained for all costs allocated to federal awards.

**New Mexico Health Insurance Exchange
Corrective Action Plan
December 31, 2013**

| Audit Finding | Corrective Action Plan | Person(s) Responsible | Estimated Completion Date |
|---|--|-------------------------|---------------------------|
| 2013-001 – Financial Statement Segregation of Duties – Cash Disbursements | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |
| 2013-002 – Financial Statement Adjustments | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |
| 2013-003 – Allowable Costs | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |
| 2013-004 – Procurement | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |
| 2013-005 –Suspension and Debarment | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |
| 2013-006 –Supporting Documentation | See management’s response in the schedule of findings and questioned costs | Chief Financial Officer | December 31, 2014 |

New Mexico Health Insurance Exchange
Exit Conference
December 31, 2013

An exit conference was held on September 5, 2014, with the Exchange. The conference was held at the Exchange's offices in Albuquerque, New Mexico. In attendance were:

NM Health Insurance Exchange

Amy Dowd, Chief Executive Officer (CEO)
Anita Schwing, Chief Finance Officer (CFO)

REDW_{LLC}

Laurel Shelton, Principal
Halie Garcia, Senior Manager

A presentation was made to an open session of the Board of Directors on September 19, 2014, with the following in attendance.

NM Health Insurance Exchange

Dr. J.R. Damron, Chairman of the Board
Jason Sandel, Vice Chairman of the Board
Patsy Romero, Treasurer
John Franchini, Director
Sidonie Squier, Director
Terriane Everhart, Director
Gabriel Parra, Director
Ben Slocum, Director
Teresa Gomez, Director
Dr. Martin Hickey, Director
Dr. Larry Leaming, Director
David Shaw, Director
Amy Dowd, CEO
Anita Schwing, CFO
Raj Shethia, IT Director
Michelle Brooks, HR Manager
Kimberly Llamas, Accountant
Yolanda Miles, Compliance Officer
Lisa Garcia, Executive Administrative Assistant
Michael Dineen, Customer Care Director
Scott Atole, Native American Outreach Coordinator
Tracy Gwash, Receptionist

REDW_{LLC}

Laurel Shelton, Principal
Halie Garcia, Senior Manager