

MEMO - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To: Audit Committee, Connecticut Health Insurance Exchange
From: Nikoleta McTigue, CPA, Audit Partner
Blum Shapiro & Company, P.C.
Date: May 20, 2020
Re: Auditing Standard No. 114, "The Auditor's Communication with Those Charged with Governance" regarding audit of Connecticut Health Insurance Exchange

We are engaged to audit the financial statements of the Connecticut Health Insurance Exchange for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our responsibilities under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards.

As stated in our engagement letter dated April 14, 2020, our responsibility, as described by professional standards, is to express opinions as to whether the financial statements, prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve those charged with governance or management of their responsibilities.

In planning and performing our audit, we will consider the Connecticut Health Insurance Exchange's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Connecticut Health Insurance Exchange's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform an examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Planned Scope, Timing of the Audit and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design

the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of our audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Other Attest Services

Programmatic Compliance Audit – Audit of the Connecticut Health Insurance Exchange’s compliance with 45 CFR Part 155 as prescribed by the Department of Health and Human Services, Centers for Medicare and Medicaid Services

Nonattest Services

In addition to above services, we will also assist in preparing a draft of the financial statements. This service does not constitute an audit under *Government Auditing Standards*. Management agrees to oversee the nonattest service by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Independence

There are no relationships between any of our representatives and the Connecticut Health Insurance Exchange that in our professional judgment impairs our independence.

Responsibilities under Auditing Standards Generally Accepted in the United States of America

Management’s responsibilities include:

- The selection and application of accounting principles, the preparation and fair presentation of the financial statements and all accompanying information
- Establishing and maintaining effective internal controls, including internal controls over compliance
- Making all financial records and related information available to us and for the accuracy and completeness of that information
- The design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the government
- Identifying government award programs and understanding and complying with the compliance requirements

Auditor’s responsibilities include:

- Express opinions on the financial statements based on our audit
- Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement
- Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements
- Consider 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
- 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

Audit Areas of Focus

- Cash
- Receivables and revenues
- Capital Assets
- Payables, accruals, expenditures
- Payroll expenditures
- Unearned Revenue
- Programmatic compliance with 45 CFR Part 155

Engagement Timing

Due to COVID-19, we recognize that there has been disruption or challenges in your operations. We will communicate with management to ensure our fieldwork is conducted at mutually agreeable dates but due to the disruptions you have encountered, please recognize that we might not meet the exact dates outlined below. At this time, we do not anticipate any delays in issuance of the financial statements.

Our initial planning for the year-end audit will be performed during June 2020. Our focus will be on documentation of the internal controls as required by auditing standards, fraud inquiry interviews with management and key personnel, preparation of certain confirmations some overall analytical procedures and audit fieldwork as applicable to the programmatic compliance audit.

- Audit Timing:

Trial Balance Files to BlumShapiro	8/24/2020
Commencement of Fieldwork	8/31/2020
End of Fieldwork	9/4/2020
Issuance of Draft Financial Statements	10/2/2020
MD+A Finalized	10/9/2020
Client Approval of Draft Statements	10/16/2020
Issuance of Financial Statements	10/30/2020
Issuance of Management Letter, if applicable	10/30/2020
Post Audit Meeting with Management	TBD

Engagement Team

The engagement team that will be responsible for audit, and other services, is as follows including contact information to reach us:

- Nikoleta McTigue, Audit Partner
Direct Line: 860-570-6377
Email: nmctigue@blumshapiro.com
- Vanessa Rossitto, Concurring Audit Partner
Direct Line: 860-561-6824
Email: vrossitto@blumshapiro.com
- Matthew Coit, Audit Manager
Direct Line: 860-570-6416
Email: mcoit@blumshapiro.com

Other Communications

At the completion of our audit we will communicate in writing the following information related to our audit:

- Management judgments and significant sensitive accounting estimates
- Significant accounting policies
- The adoption of new accounting principles or changes in accounting principles
- Significant audit adjustments (recorded and unrecorded)
- Disagreements with management about auditing, accounting or disclosure matters
- Difficulties encountered in performing the audit
- Irregularities and illegal acts
- Consultation by management with other auditors
- Matters affecting independence of auditors
- Material weaknesses, significant deficiencies and control deficiencies

Knowledge of Fraud

- If management or those charged with governance has any knowledge of fraud or potential fraud, this information needs to be communicated to us. As part of the audit process, we will be meeting with management to discuss fraud risks and any further issues.

Best Practices and Industry Updates

Fraud Risk Assessment

- In the 2018 Report to the Nations, a survey of members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence was \$130,000, with more than 22% of those cases resulting in losses exceeding \$1,000,000. Almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. Also, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), through fraudulent cash disbursements.
- The objectives of a Fraud Risk Assessment are to gather perceptions of fraud risk and to promote fraud awareness and prevention across the entity. The Fraud Risk Assessment process starts with the gathering of information on the population of fraud risks that may apply to the entity. This includes consideration of various types of possible fraud schemes, scenarios and opportunities to commit fraud. This information is then used to assess the relative likelihood and potential significance of identified fraud risk based on historical information, known fraud schemes and interviews with staff and management. The fraud risk assessment can be formal – performed by an outside accounting or consulting firm; or informal - performed by a management-level individual who has extensive knowledge of the entity that might be used in the assessment. The fraud risk assessment process should consider the Entity's vulnerability to misappropriation of assets.

Cybersecurity Threats

Cybersecurity has reached a new crossroads. Entities can no longer have a “wait and see” attitude toward securing operations and data. Proactively assessing and managing operations and IT environment(s) in anticipation of cyber threats is critical. Managing your organization’s risk to cyber threats starts with a consideration of the following:

- Cybersecurity is now considered a key business risk by most boards.
- Global spending on cybersecurity is projected to increase each of the next 10 years.
- Nearly 70% of funds expended due to a cyber event are unrecoverable.

- Ransomware attacks force the majority of impacted businesses to pay to get their data back.
- The scale of data breaches and lost funds due to phishing and business email compromise is exponentially trending upward.
- Most companies do not know all locations where personal/confidential information is stored and/or how it is protected.
- With the most frequent cybersecurity attack vector migrating from the network perimeter, directly to the individual user, everyone who touches technology can be a point of exposure.

As such, cybersecurity strategies require a new approach to identify where critical information exists that needs to be protected, a new way of foreseeing and deterring the threats that could result in the theft of information or the loss of funds, and a new way to understand the overarching corporate risk associated with cyber-attacks.

Understanding your baseline exposure to cyber threats is a critical best practice. An annual security and vulnerability risk assessment should be performed that identifies and evaluates exposures, hazards and/or potential for breach that could negatively impact an organization's ability to conduct business. These assessments help to identify the inherent cyber risks and provide measures, processes and controls to reduce the impact of these risks to business operations. From this assessment you should identify and locate personal/confidential information and understand how this information is secured and gain a clear understanding of potential for exposure. Risk mitigation plans should be designed to tighten areas of exposure and establish stronger security protocols. Limited resources will be applied to the areas most in need of protection.

As a key component to building and maintaining a resilient culture of cybersecurity, strengthening employee cybersecurity awareness through focused training will be a critical component of an organization wide cybersecurity initiative. Progressive ways of assessing how employees respond to targeted threats through phishing simulation attacks can proactively identify areas of exposure, reinforce learning objectives, identify training opportunities, and help identify missing security protocols.

BlumShapiro offers a range of services to assess your company's cybersecurity strategy and develop a plan to mitigate risk. It can start with a short educational session for employees. We also offer a portfolio of implementation services to help mitigate overall risks.

Future Accounting Standards and Industry Developments

NOTE: Due to COVID-19, the GASB has delayed the implementation dates of these standards by at least 12 months. The dates below reflect the new implementation date.

Industry Developments - Current Year - June 30, 2020 - Accounting Standards

- None

Industry Developments - Future Accounting Standards - June 30, 2021

- **GASB Statement 84 – Fiduciary Activities** This statement establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- **GASB Statement 90 – Majority Equity Interests** This statement defines majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an

investment, and measured using the equity method unless it is held by a special-purpose government engaged only in fiduciary activities and then would be measured at fair value.

- **GASB Statement 92 – Omnibus 2020** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

Effective upon issuance:

- Clarification of the effective date of GASB Statement 87, Implementation Guide 2019-3
- Risk financing and insurance-related activities of public entity risk pools reinsurance recoveries
- Terminology used to refer to derivative instruments

Industry Developments - Future Accounting Standards - June 30, 2022

- **GASB Statement 87 – Leases** This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.
- **GASB Statement 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period** This statement requires interest cost incurred before the end of a construction period to be expensed in the period in which the cost is incurred.
- **GASB Statement 92 – Omnibus 2020** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
 - Intra-entity transfers of assets between a governmental employer or nonemployer contributing entity and a defined benefit pension plan or a defined benefit other postemployment benefit (OPEB) plan that are within the same financial reporting entity
 - Reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specific criteria
 - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
 - Nonrecurring fair value measurements
- **GASB Statement 93 – Replacement of Interbank Offered Rates** This statement addresses the issued raised about how the London Interbank Offered Rate (LIBOR) was determined and its expected cessation by the end of 2021. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (June 30, 2022 or December 31, 2022). *This statement is also not included in the ED to delay implementation of various standards and implementation guides.*

Industry Developments - Future Accounting Standards - June 30, 2023

- **GASB Statement 91 – Conduit Debt Obligations** - Conduit debt obligations are debt instruments issued by a state or local government to provide financing for a specific third party, which is primarily liable for repaying the debt instrument. The GASB's existing standards, Interpretation No. 2, Disclosure of Conduit Debt Obligations, allowed variation in practice among governments that issue conduit debt obligations, which adversely affects the comparability of financial statement

information. The variation arose from the option for government issuers either to recognize conduit debt obligations as their own debt or to disclose them.

Statement 91 eliminates the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting;

Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. Statement 91 requires a government issuer to recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

Areas of Concerns

- If you have any concerns that you would like to discuss with Blum Shapiro, we will make ourselves available either by phone or in person to discuss such concerns.