



June 24, 2016

Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021
Washington State Auditor's Office

Dear Auditor Kelly:

Pursuant to RCW 43.71.080 (8), the State Auditor's Office (SAO) has spent the last year conducting a performance review of the Washington Health Benefit Exchange's (Exchange) operating costs.

We appreciate the due diligence done on the part of the SAO and appreciate the agency's commitment of both time and resources to ensure a thorough examination of operating costs, fiscal responsibility and the Exchange's efforts to become sustainable.

Since its inception, the Exchange has helped improve access, increase competition and lower cost trends in the individual health insurance market. As of today, one in four Washington residents obtain their health coverage through *Washington Healthplanfinder*, providing a marketplace for hundreds of new insurance products, creating more competition, and bringing affordability to thousands of families – many for the first time. Residents have accessed over \$900 million in subsidies to help pay for premiums and over \$150 million to reduce out-of-pocket costs. And through its outreach and enrollment efforts, the Exchange has not only reached and enrolled more than 169,000 Qualified Health Plan (QHP) but also added close to 600,000 newly eligible Medicaid enrollees – 250% over the forecasted target.

The state auditor's office found that the Exchange's largest cost areas – IT maintenance and operations, call center expenses and wages, are reasonable and compare well with other states. Furthermore, the report found that the idea of the state leasing of the federal marketplace IT platform is not cost effective, increasing the Exchange's overall operating expenses.

We concur with these findings as they corroborate findings seen by the Exchange from internal and external audits and reviews and such reports conducted nationally.

To that end, the Exchange also concurs with state auditor's findings regarding additional actions and opportunities – the majority that are already underway – that would help the Exchange reduce costs, increase enrollment and achieve financial sustainability. These include:

- Assessing operational dependencies and adjustment contractual arrangements in the areas of both information technology and call center operations.
- Increasing enrollment in Qualified Health Plans through web site improvements for both new and renewing customers as well as exploring ways to use brokers to improve customer service and increase enrollment
- Working with the Washington State Health Care Authority (HCA) to revise the current cost reimbursement plan to better reflect the Exchange-related activities performed on behalf of HCA's Medicaid program.
- Establishing long-term financial management practices and procedures to ensure the adequate capturing, accounting and spending of state dollars, including planning for a working and capital reserve.

It is important to note that the Exchange remains fully supportive and is committed to working with HCA on a revised cost allocation plan that represent both fair and full reimbursement for Medicaid activity. We recognize that the efficacy of that allocation arrangement – and its subsequent approval by the Centers for Medicare and Medicaid Services (CMS) – is critical to our organization's sustainability.

However, the Exchange does not see a need to revisit previous decisions associated with cost reimbursement for Medicaid-related services for purposes of reclassifying expenditures.

The initial cost reimbursement as agreed upon by HCA and the Exchange was equitable based on the best information available at that time and the corresponding work undertaken to identify costs and services. The identified expenditures and supporting methodology served as the framework for the required advanced planning document (APD). This advanced planning document was submitted for review and authorization with CMS granting approval of the agreed upon cost allocation and reimbursement methodology. Several times, the APD was updated to recognize changes in enrollment.

It is important to note that the Exchange's three legislatively appropriated funding sources – (1) the 2% premium tax paid for plans sold in the Exchange; (2) the carrier assessment paid for plans sold in the Exchange, and; (3) the cost paid by HCA for Medicaid-related services provided by the Exchange – have all been and continue to be used in a legally and fiscally appropriate manner.

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Moving forward the Exchange is fully committed to establishing an ongoing process that identifies and defines equitable reimbursement for its Medicaid activities. This is reflected today in the continued work being done with HCA to reach agreement on updates to the appropriate cost allocation methodologies; enforcing the HCA/Exchange cooperative agreement to guarantee the timely submission of any updates to CMS, and; encouraging discussion of future cost reimbursement, enabling the timely capturing of dollars for both organizations and the state.

Attached please find an accompanying document that provides responses in detail to the specific findings found in the report. Again, we appreciate the work by the state auditor's office and look forward to further discussions on this report with our board, members of the legislature, our many stakeholders and partners as well as the public at large.

Sincerely,



Pam MacEwan
Chief Executive Officer
Washington Health Benefit Exchange

Enclosure: SAO Matrix

cc: David Postman, Chief of Staff, Office of the Governor
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