

**Health Information Technology Exchange of
Connecticut**

Federal Single Audit Report

June 30, 2013

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INTERNAL CONTROL AND COMPLIANCE REPORT

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*

To the Board of Directors of the
Health Information Technology Exchange of Connecticut
East Hartford, Connecticut

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 Health Information Technology Exchange of Connecticut (the "Exchange"), a component unit of the State of Connecticut, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements. We issued our report thereon dated March 21, 2014, which contained an unmodified opinion on those financial statements.

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 opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 the Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
March 21, 2014

FEDERAL SINGLE AUDIT SECTION

Independent Auditor's Report on Compliance for Each Major Program, on Internal Control over Compliance Required by OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards

To the Board of Directors of the
Health Information Technology Exchange of Connecticut
East Hartford, Connecticut

Report on Compliance for Each Major Program

We have audited the Health Information Technology Exchange of Connecticut's (the "Exchange") compliance 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 June 30, 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 the Exchange's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the Exchange's compliance.

Basis for Qualified Opinion on Major Program

As described in Findings 2013-1 and 2013-2 in the accompanying schedule of federal findings and questioned costs, the Exchange did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2013-1	93.719	ARRA – State Grants to Promote Health Information Technology	Matching
2013-2	93.719	ARRA – State Grants to Promote Health Information Technology	Reporting

Compliance with such requirements is necessary, in our opinion, for the Exchange to comply with the requirements applicable to that program.

Qualified Opinion on Major Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Health Information Technology Exchange of Connecticut 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 program for the year ended June 30, 2013.

Other Matters

The Exchange's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of federal 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Health Information Technology Exchange of Connecticut (the "Exchange"), a component unit of the State of Connecticut, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements. We issued our report thereon dated March 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
March 21, 2014

**HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor; Pass-Through Grantor; Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the State of Connecticut			
Department of Public Health			
ARRA - State Grants to Promote Health Information Technology	2012-141	93.719	\$ 507,832
TOTAL FEDERAL AWARDS			<u>\$ 507,832</u>

The accompanying notes are an integral part of this schedule.

HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2013

NOTE A – ACCOUNTING BASIS

Basic Financial Statements

The accounting policies of the Health Information Technology Exchange of Connecticut (the “Exchange”) conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis consistent with the preparation of the basic financial statements. Information included in the schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The ARRA – State Grants to Promote Health Information Technology grant is a cost reimbursement award and revenues have been recognized to the extent of expenditures. Expenditures have been recognized to the extent the related obligation was incurred within the applicable grant period.

NOTE B – OTHER FEDERAL ASSISTANCE

The Exchange did not receive any non-cash federal assistance or federal assistance in the form of insurance, loans, or loan guarantees.

NOTE C – SUBSEQUENT EVENT

The ARRA – State Grants to Promote Health Information Technology grant was provided to the Exchange to develop and implement a secure health information exchange within the State of Connecticut. In connection with the development and implementation of the exchange, the Exchange entered into a three year agreement on September 30, 2011 with a third-party contractor for software licenses, hardware, technical support, maintenance and other services. During the year ended June 30, 2012, management reevaluated the project and decided to terminate development of its statewide electronic health information system. As a result, the Exchange negotiated an amendment to its existing agreement with the contractor dated December 11, 2013, whereby the Exchange agreed to pay \$330,000 as full and final payment for any and all products and services the contractor had provided under the original agreement. The amount of expenditures reported for the ARRA – State Grants to Promote Health Information Technology grant in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 has been adjusted to reflect the terms of the amended agreement.

HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
Schedule of Federal Findings and Questioned Costs
For the year ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

 ○ Material weakness(es) identified? _____ Yes ✓ No

 ○ Significant deficiency(ies) identified? _____ Yes ✓ None reported

Noncompliance material to financial statements noted? _____ Yes ✓ No

Federal Awards

Internal control over major programs:

 ○ Material weakness(es) identified? _____ Yes ✓ No

 ○ Significant deficiency(ies) identified? _____ Yes ✓ None reported

Type of auditors’ report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? ✓ Yes _____ No

Identification of major programs:

CFDA Number	Name of Federal Program
93.719	ARRA – State Grants to Promote Health Information Technology

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes ✓ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
Schedule of Federal Findings and Questioned Costs (*Continued*)
For the year ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2013-1 Noncompliance – Major Federal Award Program

Grantor: U.S. Department of Health and Human Services
Program Name: ARRA – State Grants to Promote Health Information Technology
Federal CFDA #: 93.719

Condition

The Health Information Technology Exchange of Connecticut (the “Exchange”) did not meet the matching requirements outlined in its agreement with the State of Connecticut Department of Public Health (“DPH”).

Criteria

The agreement with the DPH required the Exchange to meet the matching requirements of the Health Information Technology for Economic and Clinical Health Act of 2009 (“HITECH Act”). The HITECH Act required a one dollar match for each seven federal dollars received for the grant period October 1, 2011 through September 30, 2012 and a one dollar match for each three federal dollars received for the grant period October 1, 2012 through September 30, 2013. On December 3, 2013, the DPH amended its agreement with the Exchange. As part of the amendment, the DPH required that the Exchange make *best efforts* to comply with the matching requirements.

Cause

The cause was primarily due to a change in the scope of work to be performed by the Exchange, resulting in an inability to generate sufficient in-kind contributions to meet the matching requirements.

Questioned Costs

No costs were questioned.

Effect

The DPH is responsible for administering the federal grant and retains the ultimate responsibility at the State level for complying with the matching requirements that have been established by the HITECH Act. The Exchange’s failure to comply with the matching requirements required by its agreement with the DPH could negatively effect the DPH’s ability to comply with the matching requirements of the HITECH Act.

Auditor’s Recommendation

No recommendations provided.

HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
Schedule of Federal Findings and Questioned Costs (*Continued*)
For the year ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (*Continued*)

Finding 2013-1 Noncompliance – Major Federal Award Program (*Continued*)

Management’s Response

In 2013, the DPH revised the Strategic & Operating Plan, which changed the scope of work for the Exchange. Leadership changes and vendor issues delayed progress throughout the year, thereby suspending much of the Committee work. This work had been earmarked for in-kind contribution. To address the situation, DPH amended its agreement with the Exchange (12/2013), whereby the nature of compliance for in-kind matching was changed from “must meet” to “best efforts”.

Finding 2013-2 Noncompliance – Major Federal Award Program

Grantor: U.S. Department of Health and Human Services
Program Name: ARRA – State Grants to Promote Health Information Technology
Federal CFDA #: 93.719

Condition

The Health Information Technology Exchange of Connecticut (the “Exchange”) did not submit timely program financial reports to the State of Connecticut Department of Public Health (“DPH”), as required by the Exchange’s agreement with the DPH.

Criteria

The agreement with the DPH required the Exchange to submit program financial reports for a specified reporting period by a specified due date.

Cause

The Exchange initially filed program financial reports in a timely manner. However, the DPH had requested multiple modifications to the Exchange’s program financial reports, which resulted in delays in filing subsequent program financial reports.

Questioned Costs

No costs were questioned.

Effect

The DPH is responsible for administering the federal grant and retains the ultimate responsibility at the State level for complying with the federal reporting requirements. The Exchange’s delay in complying with the reporting requirements required by its agreement with the DPH could negatively effect the DPH’s ability to comply with the federal reporting requirements.

HEALTH INFORMATION TECHNOLOGY EXCHANGE OF CONNECTICUT
Schedule of Federal Findings and Questioned Costs *(Continued)*
For the year ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS *(Continued)*

Finding 2013-2 Noncompliance – Major Federal Award Program *(Continued)*

Auditors' Recommendation

The Exchange has hired an accounting firm to assist in the preparation of its program financial reports. We recommend that the Exchange continue to utilize the assistance of an accounting firm to ensure future compliance.

Management's Response

The Exchange has complied with all of DPH's requested changes in financial reporting. To ensure clarity of requests, the Exchange's accounting firm is working directly with DPH's senior financial analyst. The Exchange continues to provide weekly financial updates and fulfills requests for financial information as needed.

SUMMARY SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS

Findings 2012-1 and 2012-2 have been repeated as findings 2013-1 and 2013-2.