



DCBS:

OREGON'S LARGEST BUSINESS REGULATORY **AND CONSUMER PROTECTION AGENCY**

Ways and Means Subcommittee on Transportation and
Economic Development – Subcommittee Presentation
March 31, 2015 through April 2, 2015



Agency Presentation Schedule

Tuesday, March 31, 2015

Agency Overview

Patrick Allen, Director

Workers' Safety System

- Workers' Compensation Division
- Oregon OSHA
- Workers' Compensation Board

John Shilts, Administrator
Michael Wood, Administrator
Holly Somers, Chairperson

Wednesday, April 1, 2015

Consumer Protection and Safety

- Insurance Division
- Division of Finance and Corporate Securities
- Building Codes Division

Laura Cali, Commissioner
David Tatman, Administrator
Mark Long, Administrator

Thursday, April 2, 2015

- Health Insurance Marketplace
- Department of Administrative Services Presentation
- Public Testimony

Patrick Allen, Director

Mission

To protect and serve Oregon's consumers and workers while supporting a positive business climate in the state.

What We Value

- A commitment to serve and protect the public
- Integrity, expertise, and personal responsibility
- Collaborative, creative efforts to find solutions
- Effectiveness and accountability in our people and our programs
- Excellent customer service
- Effective communication
- Respect for the diverse community of DCBS and Oregon
- A positive business climate



What We Do



License/Charter/Examine

- Securities broker dealers, investment advisors, and insurance companies
- Banks, trusts, credit unions, mortgage bankers, brokers, and loan originators
- Payday lenders, consumer finance companies, pawnbrokers, check cashing businesses
- Building trades workers and building code inspectors
- Worker leasing companies



Set/Enforce Standards

- Securities, mortgage lending, other consumer finance law
- Workplace deaths/injuries, prevention, and insurance benefits
- Worksites for safety/health
- Insurance companies/agents for insurance law
- Building construction standards

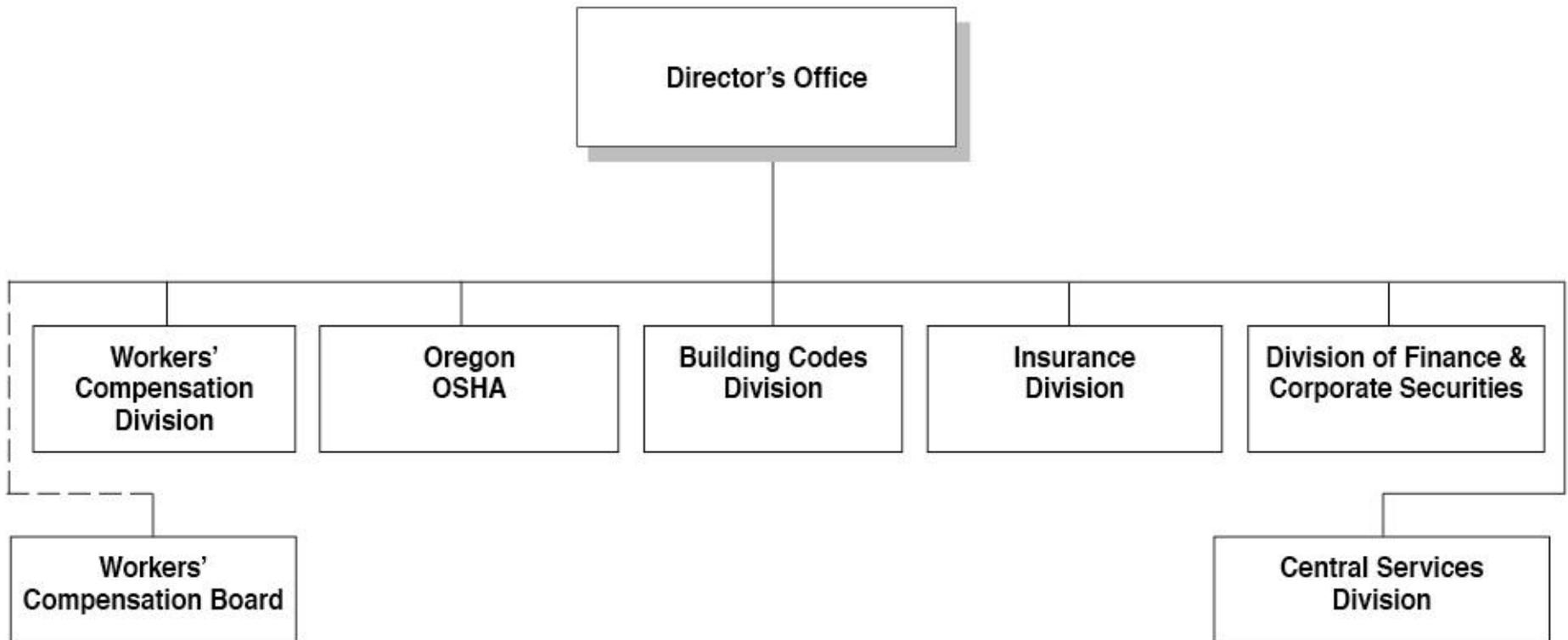


Educate/Advocate

- Workplace safety workshops
- Outreach for investors and homebuyers seeking mortgages
- Financial scam alerts
- Medicare counseling
- Insurance hotline, help with appeals of claim denials and delays
- Small business workers' compensation and injured workers advocacy



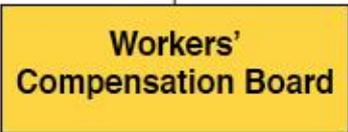
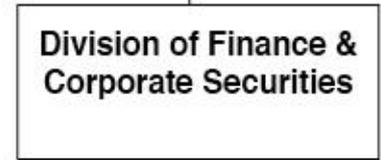
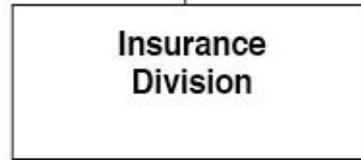
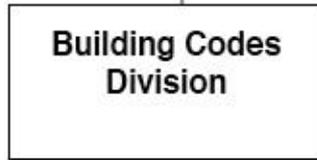
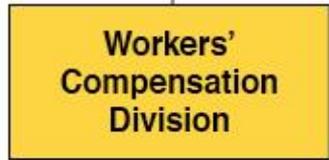
DCBS Organizational Chart



DCBS Organizational Chart



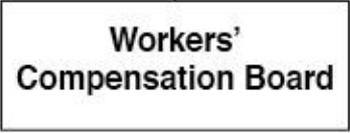
Workers' Safety



DCBS Organizational Chart



Consumer Protection



DCBS Organizational Chart

Director's Office

Financial Safety
and Soundness

Workers'
Compensation
Division

Oregon
OSHA

Building Codes
Division

Insurance
Division

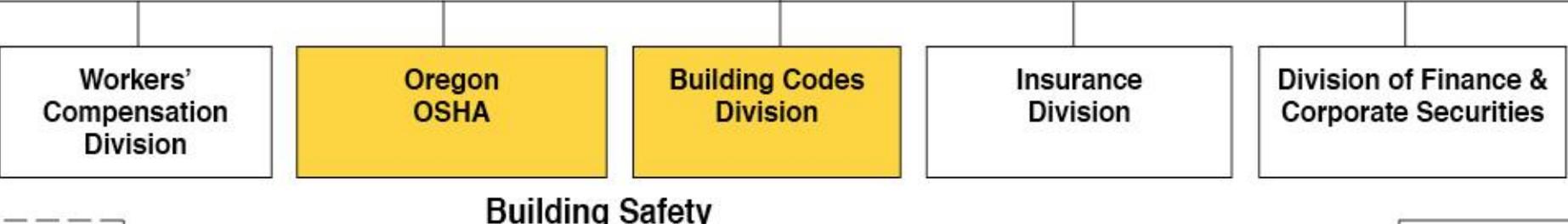
Division of Finance &
Corporate Securities

Workers'
Compensation
Board

Central Services
Division

DCBS Organizational Chart

Director's Office



Workers' Compensation Board

Central Services Division

2015 Department-Sponsored Bills

Consumer Protection

- **Senate Bill 274 – Debt Collection Regulation**
- **Senate Bill 275 – Loan Servicers**
- **Senate Bill 276 – Buy Here/Pay Here Auto Dealers**
- **Senate Bill 278 – Unlicensed Consumer Lenders**
- **House Bill 2467 – Life Insurance Surrender Charges**

Financial Safety and Soundness

- **House Bill 2469 – Own Risk and Solvency**

2015 Department-Sponsored Bills

Health Care

- **House Bill 2466 – Affordable Care Act Alignment**
- **House Bill 2468 – Health Insurance Network Adequacy**

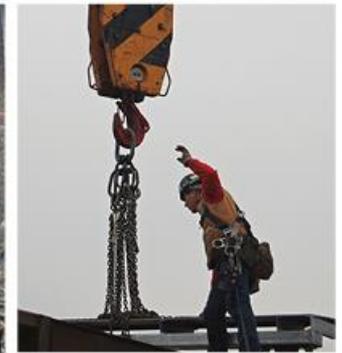
Regulatory Streamlining

- **Senate Bill 277 – National Licensing System**

What Drives Our Business?

Worker Safety:

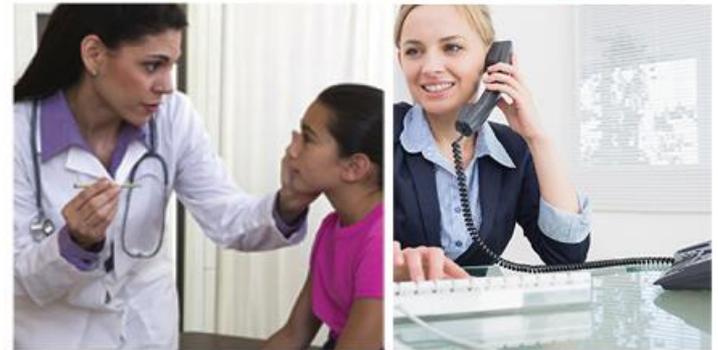
- Injury prevention
- Consultation and outreach
- Risk-focused enforcement
- Returning to work safely



What Drives Our Business?

Consumer Protection:

- Cross-division focus
- People, not programs
- Risk-focused
- Education and outreach



What Drives Our Business?

Administrative Efficiencies:

- Process improvement:
 - Procurement
 - Travel
 - Payroll
- Shared administrative services
- Performance management

Ratio of Non-Supervisors to Supervisors





Financial Overview

Service Priorities

Principles:

- Health and safety of Oregonians
- Financial safety
- Impact on Oregonians
- Emerging issues
- Revenue constraints and reductions
- Ease of compliance and public access

Budget Drivers, Environmental Factors

- The economy
 - Revenues directly tied to changes in economy
 - Growth in construction industry
 - OSHA presence in workplaces
- Building Codes county issues
- Federal health care changes
- Oregon's health transformation

Funding

- Funded by those we regulate and their customers
- More than:
 - ✓ 30 dedicated funds and
 - ✓ 500 dedicated fees, assessments, and charges
- Federal funds
- Collect approximately \$144 million for General Fund

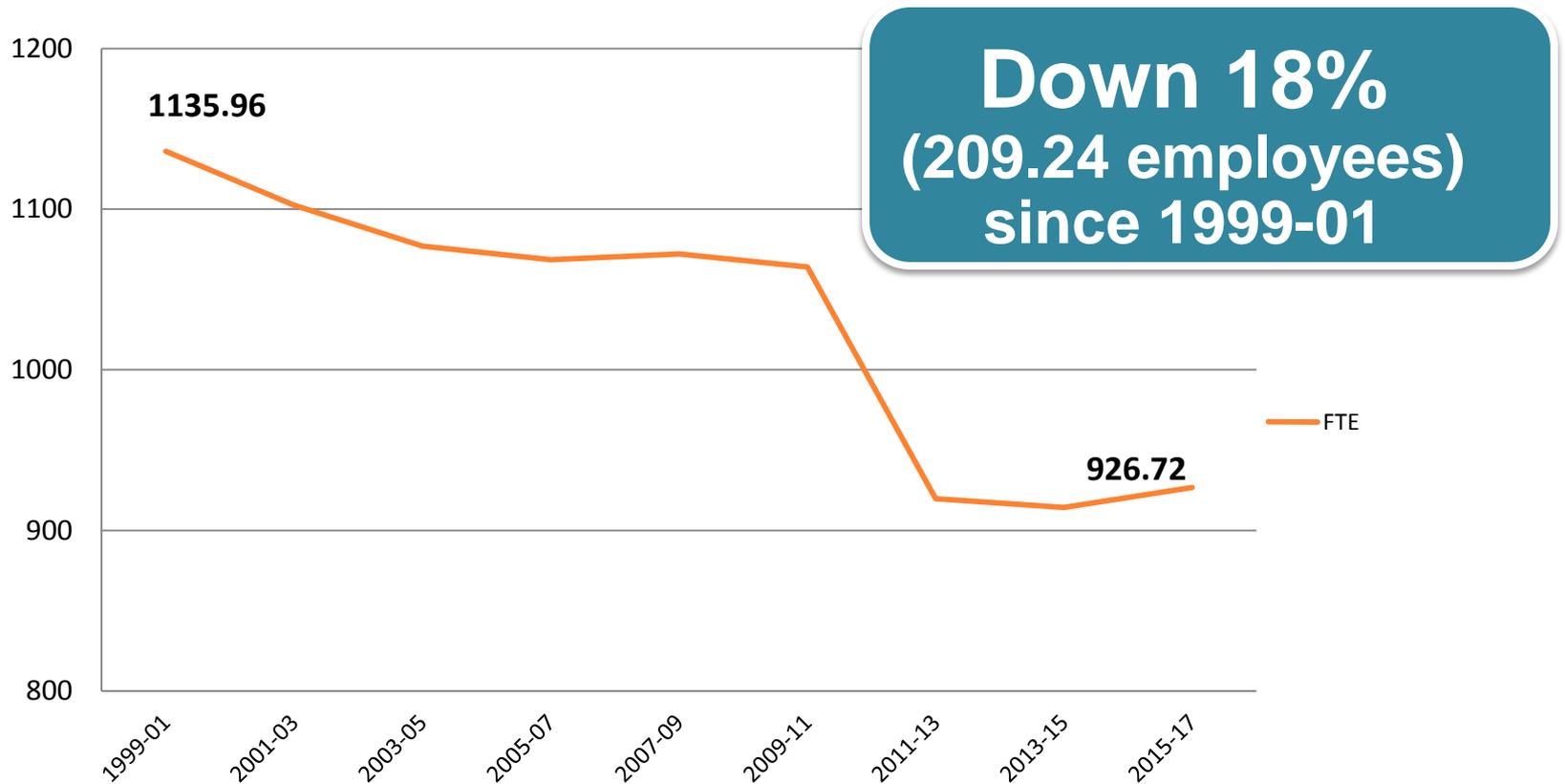
2015-17 Governor's Budget

2015-17 Expenditure Summary

Expenditures	2013-2015 Legislatively Approved Budget	2015-17 Governor's Budget	Percentage Change
Base, Limited (Operating)	215,666,166	220,866,749	2%
Base, Non-Limited	199,271,089	199,633,687	0%
Subtotal: Base Budget	414,937,255	420,500,436	1%
Essential Packages, Limited (Operating)	1,890,675	2,093,218	11%
Essential Packages, Non-Limited	340,187	14,568	-96%
Subtotal: Essential Packages	2,230,862	2,107,786	-6%
Base + Essential Packages, Limited (Operating)	217,556,841	222,959,967	2%
Base + Essential Packages, Non-Limited	199,611,276	199,648,255	0%
Subtotal: Base + Essential Packages Current Service Level (CSL)	417,168,117	422,608,222	1%
Policy Packages, Limited (Operating)	(6,222,448)	5,471,287	n/m
Policy Packages, Non-Limited	(46,091)	(2,021,748)	n/m
Subtotal: Policy Packages	(6,268,539)	3,449,539	n/m
2014 Special Session, Limited (Operating)	9,988,652	-	n/m
2014 Special Session, Non-Limited	-	-	n/m
Total 2014 Special Session	9,988,652	-	n/m
2014 September E-Board, Limited (Operating)	702,411		n/m
Total 2014 September E-Board	702,411		n/m
Total Budget, Limited (Operating)	222,025,456	228,431,254	3%
Total Budget, Non-Limited	199,565,185	197,626,507	-1%
Total Budget	\$ 421,590,641	\$ 426,057,761	1%
FTE	914.18	926.72	1%
Positions	923	934	1%

n/m = not meaningful

Position History



Policy Option Packages

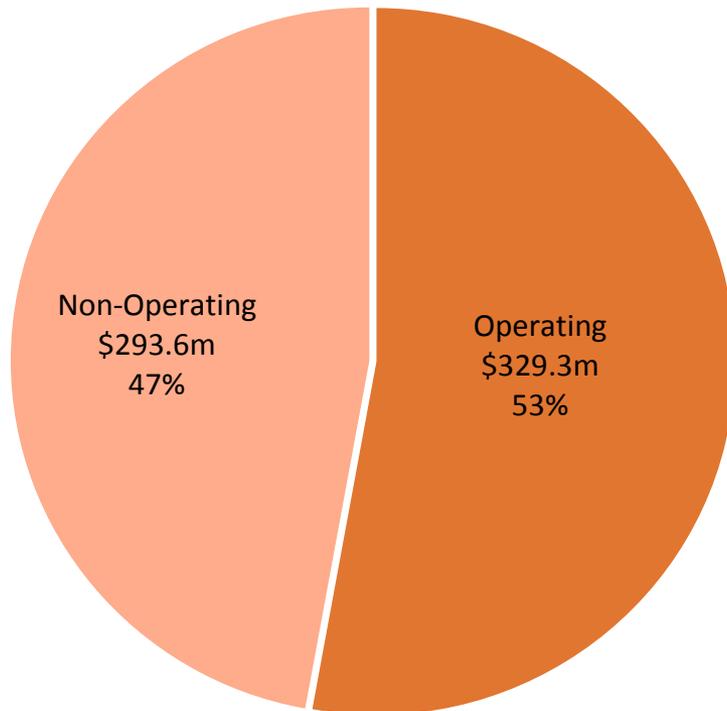
Workers' Safety System

- Increase in Workers' Compensation Disability Disputes – .88 FTE, POP 101
- Workplace Safety and Health – 3.52 FTE, POP 102

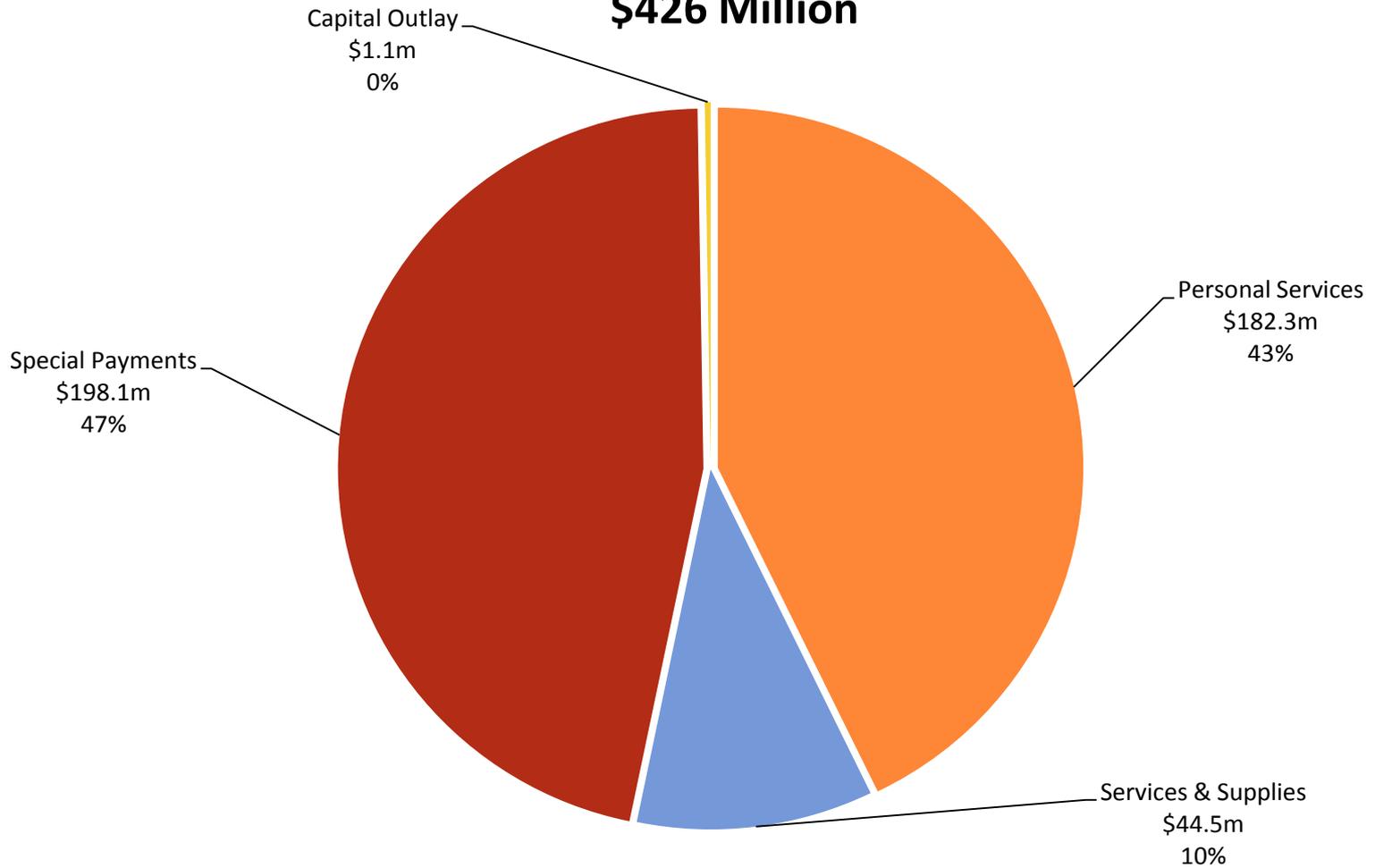
Consumer Protection

- Insurance Market Regulation – 1.0 FTE, POP 103
- Insurance Product Regulation – 1.75 FTE, POP 104
- Regulation of Loan Servicers – .88 FTE, POP 105, SB 275
- Collection Agency Program – .88 FTE, POP 106, SB 274
- Buy Here/Pay Here Auto Dealers – .88 FTE, POP 107, SB 276
- Building Codes, Workload Increase – 4.00 FTE, POP 108

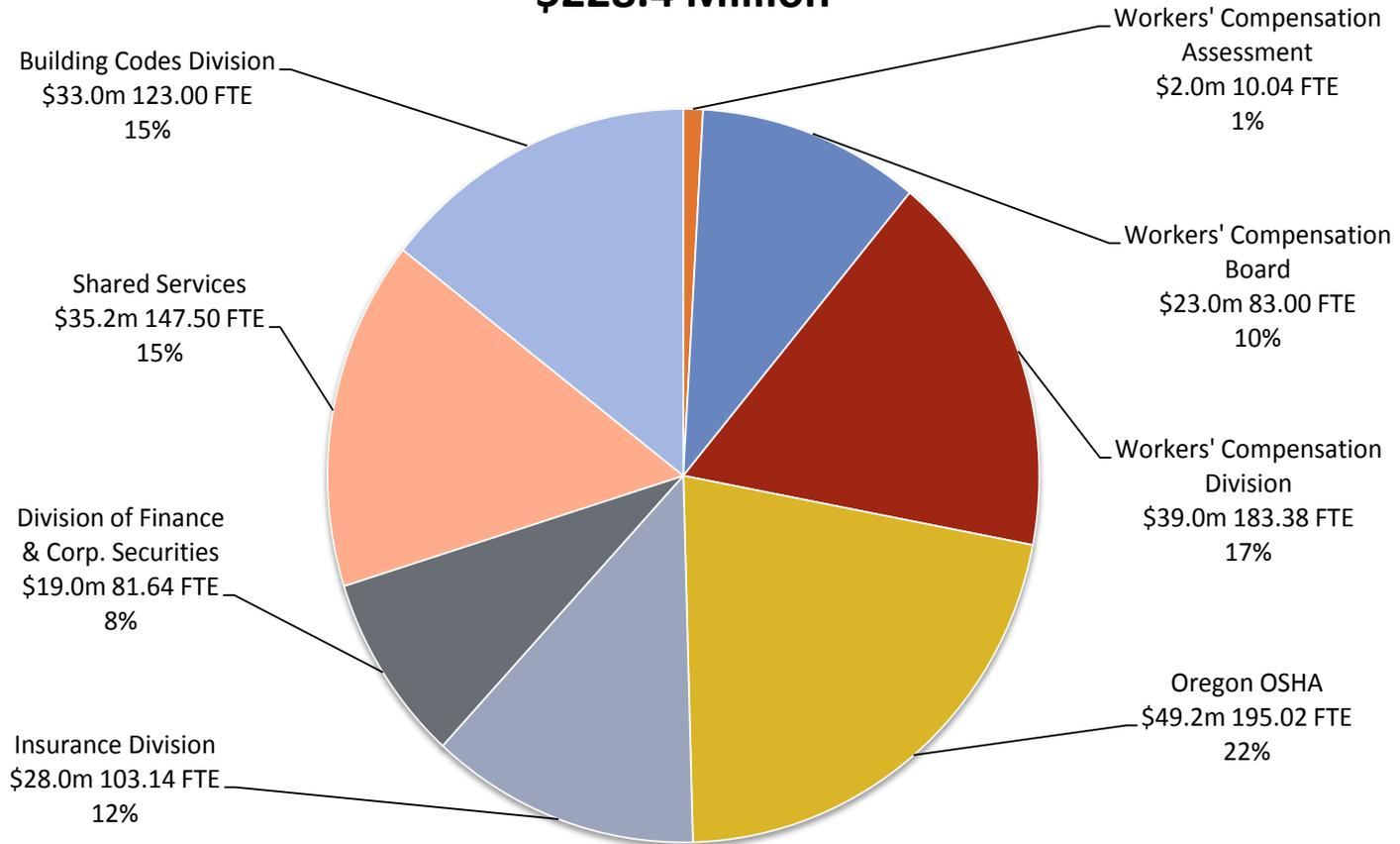
**2015-17 Governor's Budget
Projected Available Revenue
\$622.9 Million**



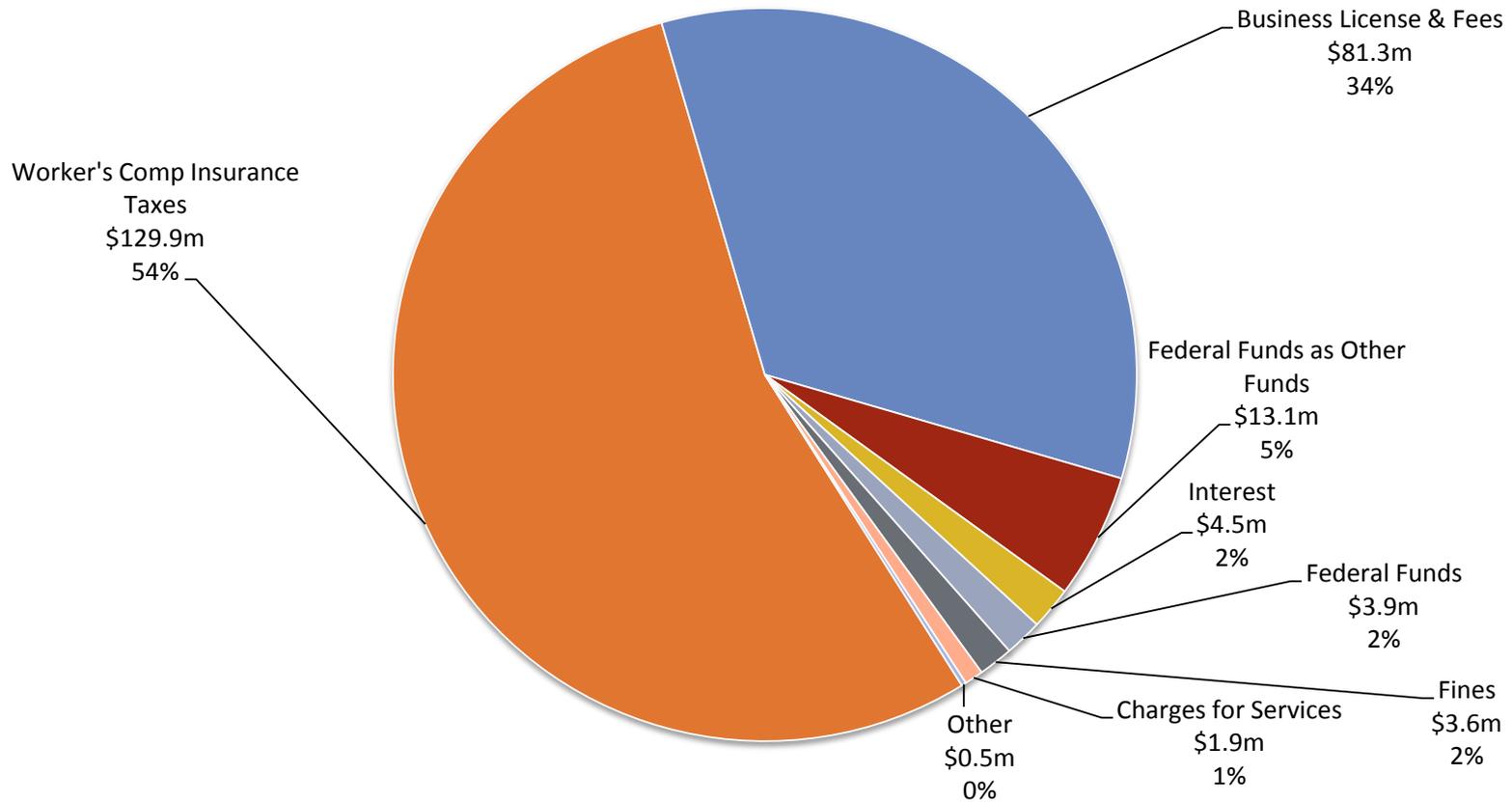
2015-17 Governor's Budget Budget by Category \$426 Million



2015-17 Governor's Budget Total Operating Budget \$228.4 Million



2015-17 Governor's Budget Projected Operating Revenue by Source \$238.7 Million

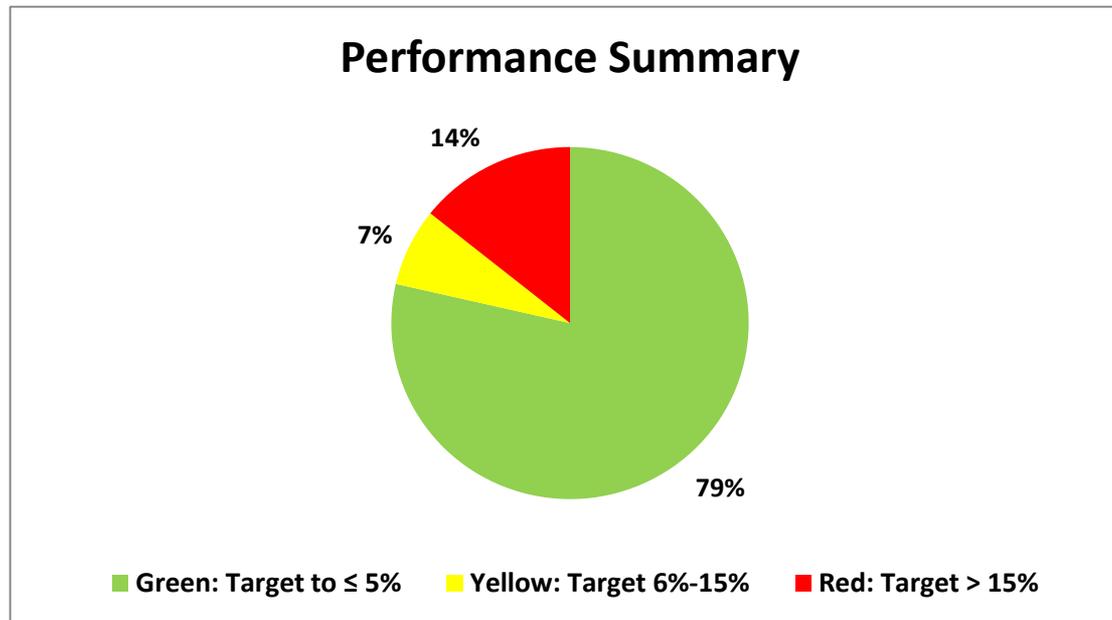


*Excludes: Beginning Balance, Fire Marshall, Transfer-In, and Transfer-Out



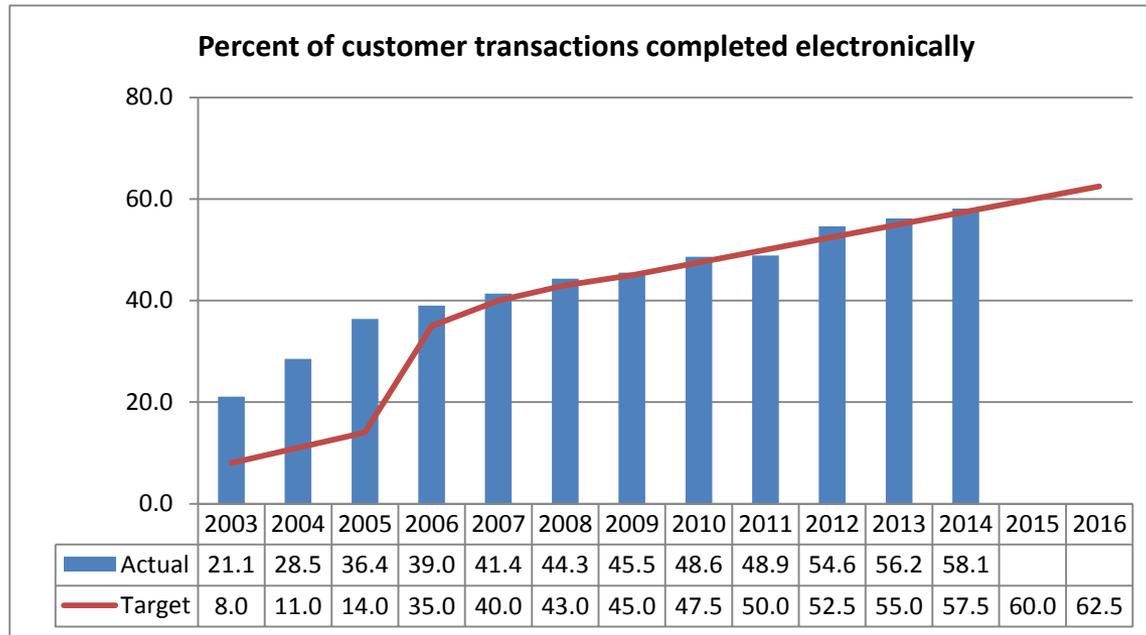
**Key Performance
Measures and
Outcomes**

Key Performance Measures



KPM #13 – E-Transactions for Customers

Electronic Transactions



2015-17 Proposed Technology Projects

- Workers' Compensation Division Electronic Data Exchange
- Workers' Compensation Board Web Portal
- .Net Conversion



**WORKERS'
SAFETY
SYSTEM**



**Workers'
Compensation
Division**

Workers' Compensation Division

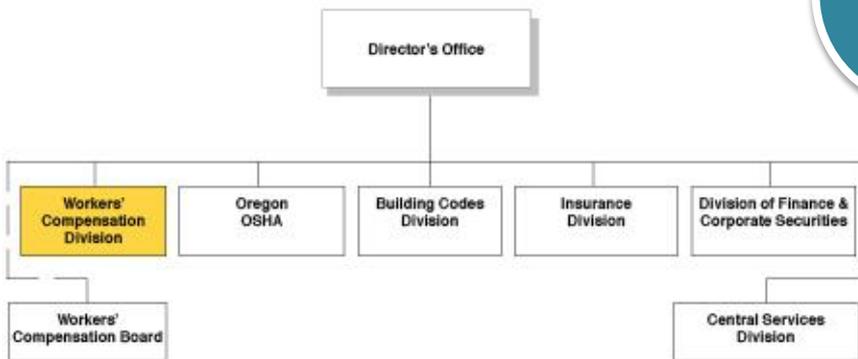
(Protect injured worker benefits and rights)

Improving Oregon's
workers' compensation
system for employers
and workers

*9th lowest workers'
comp rate in nation*

System is designed to provide:

- Prompt and complete medical treatment
- Adequate and reasonable income benefits
- A fair and just administrative system
- Workers are restored to self-sufficiency
- A sole and exclusive remedy



Big Four Reform Successes

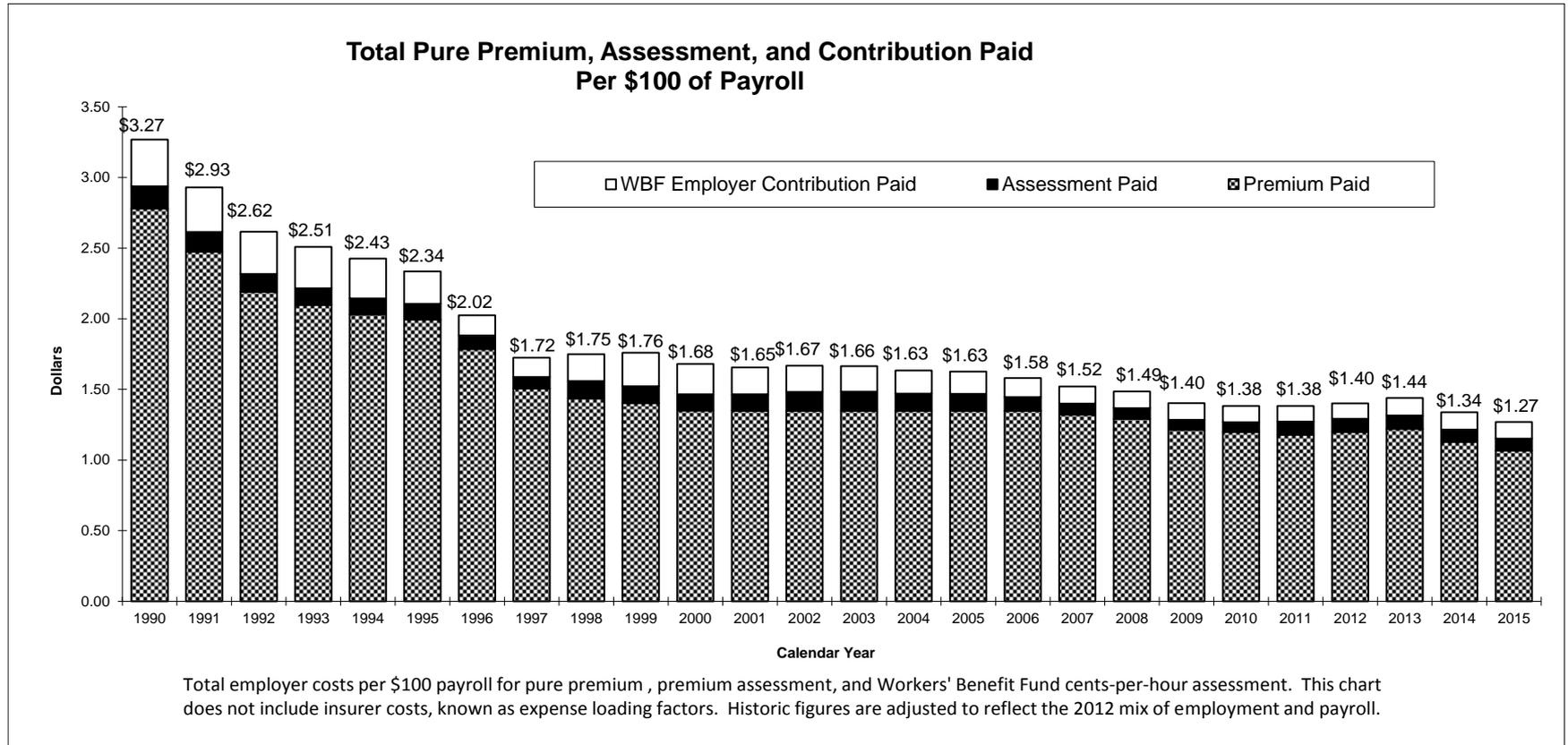
- ✓ Fewer injuries
- ✓ Better claims and medical practices
- ✓ Affordable for employers
- ✓ Good benefits and outcomes for workers

Workers' Compensation Division

Accomplishing the mission in 2015-2017

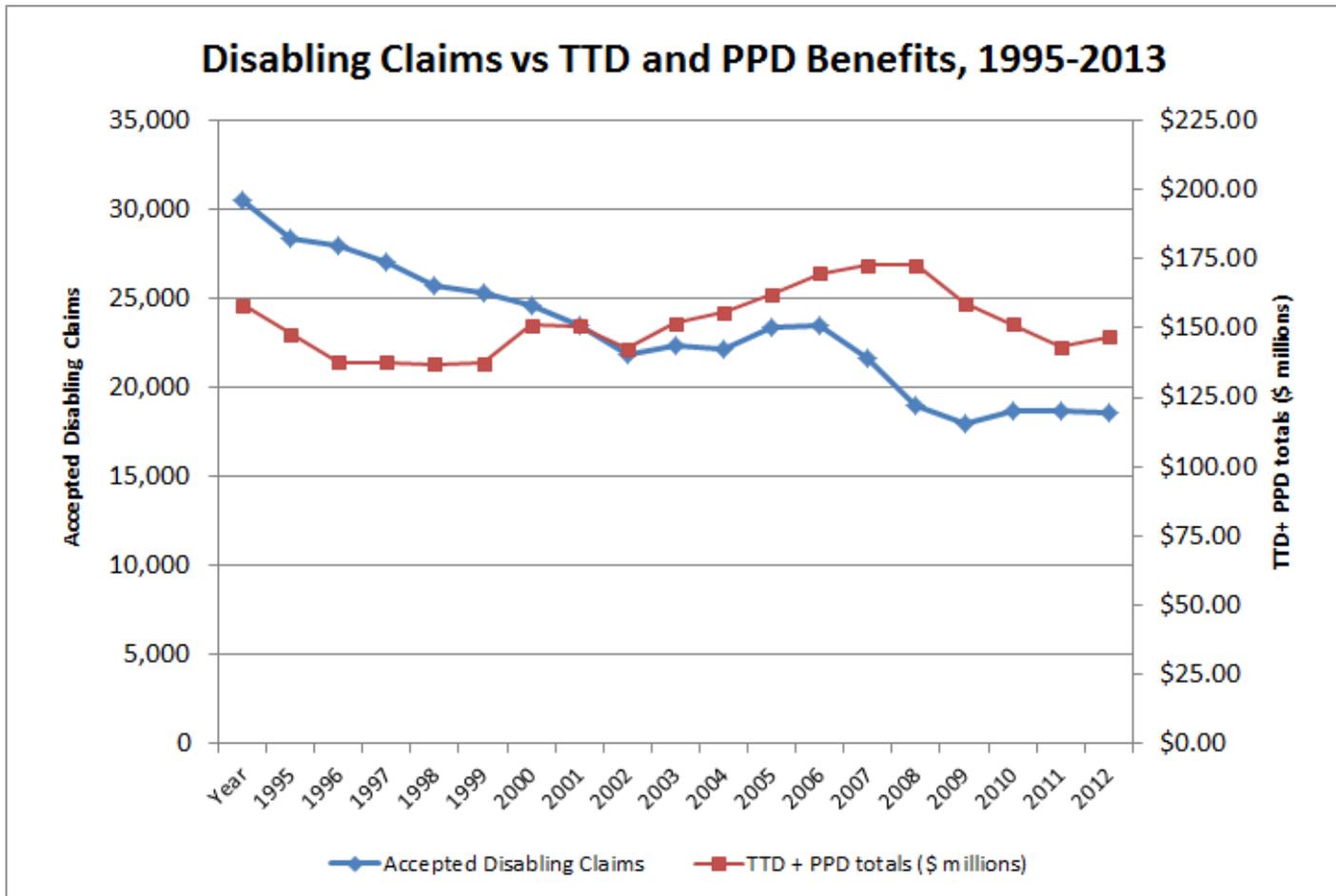
- Expand options for secure electronic transactions. Example: Accepting required reports through an Internet-based portal.
- Continue to perform risk-based auditing of workers' compensation insurers to focus on poor performers.
- Collaborate with other agencies. Example: Connecting employers with preferred workers.
- Continue to participate in the Interagency Compliance Network to reduce payroll classification errors.

Workers' Compensation System Employer Costs



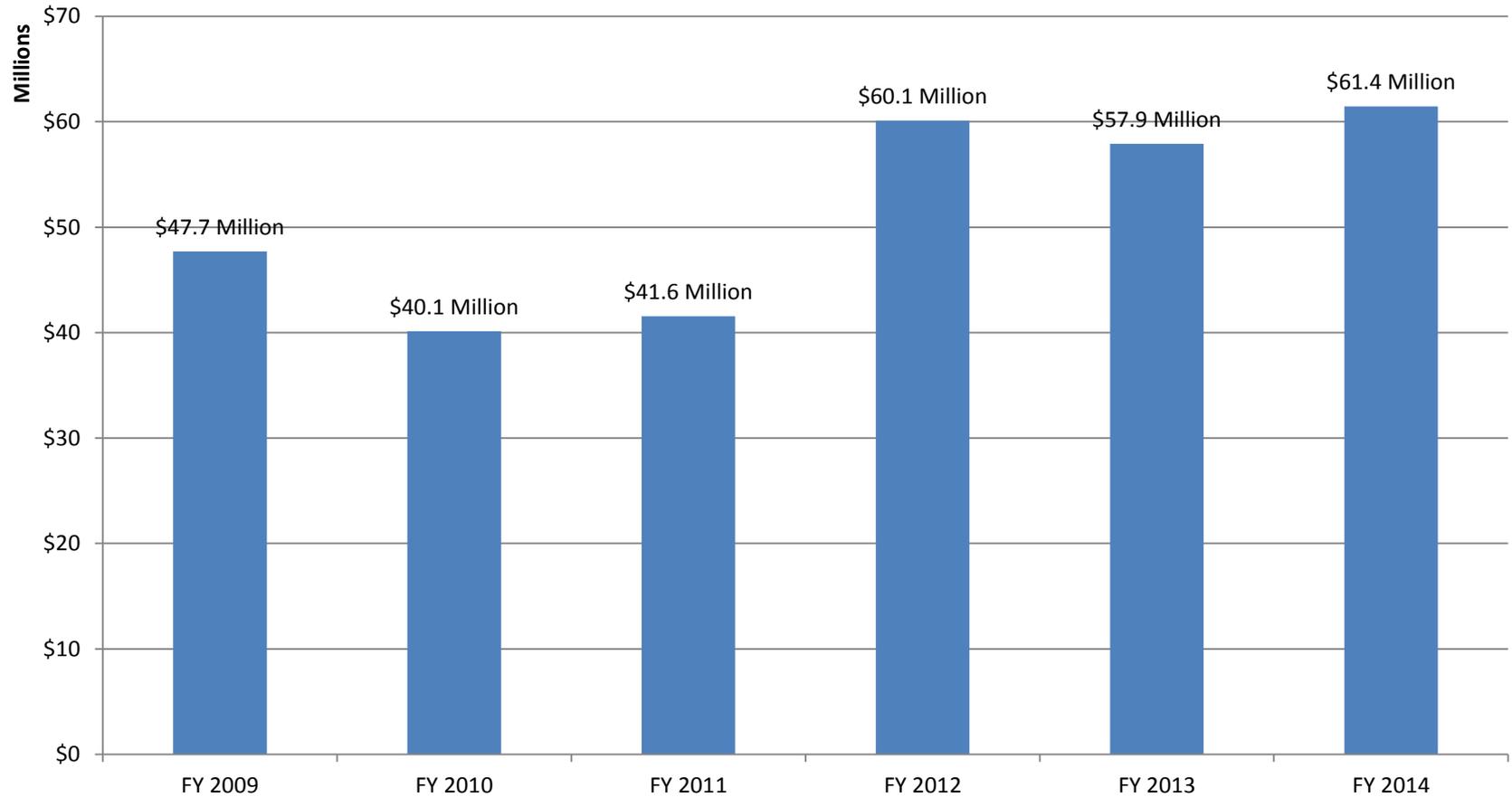
Workers' Compensation System

Worker Benefits and Claims



Workers' Compensation System

Premium Assessment Revenue



Workers' Compensation Division



**Key Performance
Measures and
Outcomes**



Oregon Occupational Safety and Health Division

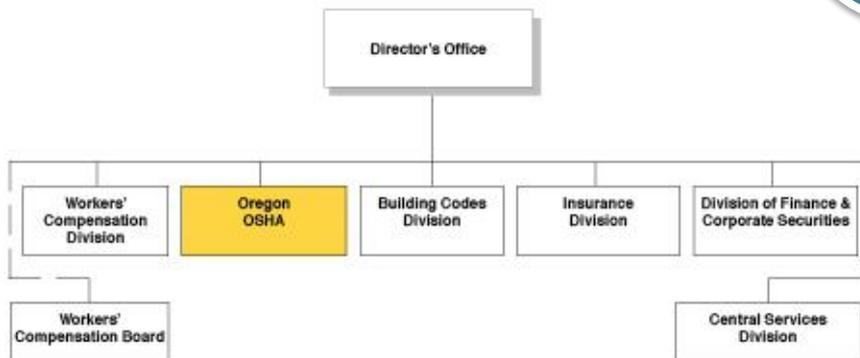
Oregon OSHA

(Improve workplace safety and health)

Improving workplace safety and health for all Oregon workers

Worker fatality rate dropped by about half over past 15 years

- Inspect workplaces
- Help employers avoid hazards
- Investigate workplace fatalities/injuries
- Resolve most appealed cases through dispute resolution



Oregon OSHA

Accomplishing the mission in 2015-2017

- Maintain strong presence in the workplace
- Enforcement/education focus: high-hazard industries and occupations, and small employers
- Outreach focus: Vulnerable and hard-to-reach workers
- Ensure enforcement is used more effectively as a tool to promote worker safety, both before and after a particular workplace has been inspected

Oregon OSHA

Accomplishing the mission in 2015-2017

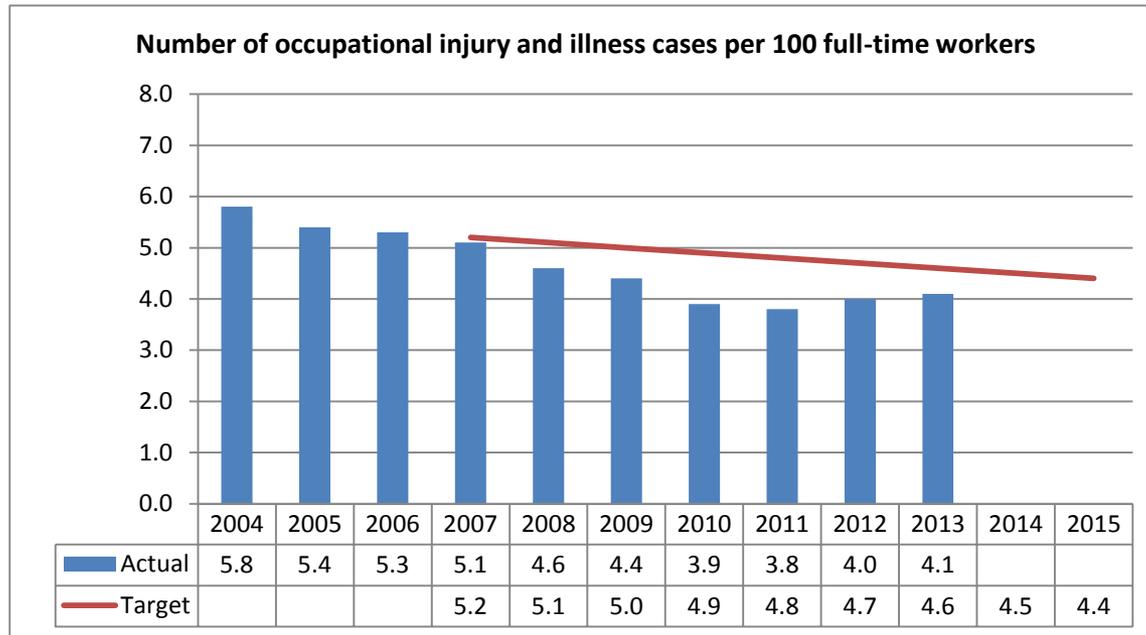
- Use technology to increase employer and employee safety and health training
- Make safety and health standards easier to understand by writing rules more clearly and using common industry terms
- Maintain partnerships to help “spread the word” about workplace safety and health

Oregon OSHA



**Key Performance
Measures and
Outcomes**

KPM #3 – Occupational Injury and Illness Incidence Rates





Workers' Compensation Board

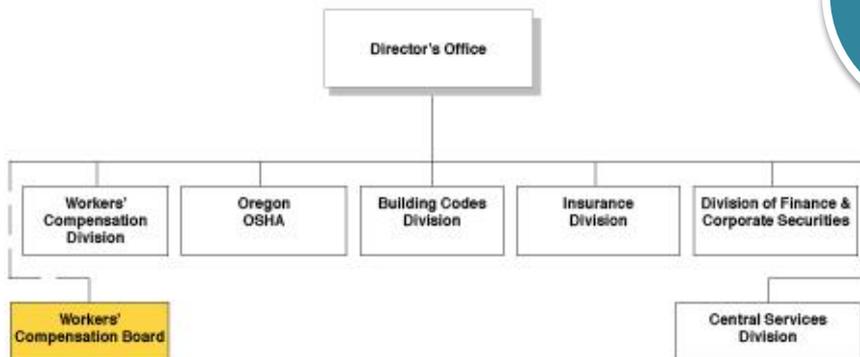
Workers' Compensation Board

(Resolve disputes of workers' compensation laws and safety laws)

Producing sound legal decisions for Oregon's workers' compensation system

*97% of ALJ orders timely issued
91% of mediations settle*

- Administrative Law Judges (ALJs):
 - Hold due process hearings of workers' compensation and Oregon OSHA disputes
 - Provide mediation services
- Board Members:
 - Provide appellate review of ALJ decisions
 - Approve claim disposition agreements
 - Exercise own motion jurisdiction



Workers' Compensation Board

Accomplishing the mission in 2015-2017

- Continue to provide timely and impartial dispute resolution of cases arising under workers' compensation and safety laws
- Maintain high affirmation rate of board orders at the Court of Appeals
- Offer stakeholders an alternative to litigation in the form of successful mediation services
- Continue to expand the online portal so that stakeholders can electronically transact additional business with the board
- Enhance electronic docket to provide quicker and more efficient service to stakeholders

Workers' Compensation Board



**Key Performance
Measures and
Outcomes**



Ombudsmen

Ombudsmen

(Help for injured workers and small employers)

Helping consumers and small business owners through the workers' compensation system

- 2,527 total SBO contacts
- 8,179 total OIW inquiries

Small Business Ombudsman (SBO)

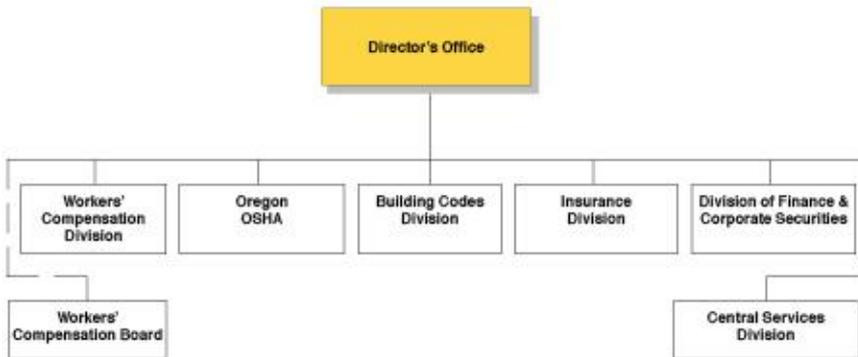
Answers questions about:

- Shopping for workers' compensation insurance
- Premiums/audits

Ombudsman for Injured Workers (OIW)

Answers questions about:

- Worker rights and responsibilities
- Benefits
- Returning to work



Ombudsman Offices

Accomplishing the mission in 2015-2017

Ombudsman for Injured Workers

- Conduct outreach to injured workers and stakeholders to increase awareness of the services the ombudsman's office provides
- Ensure that workers who need help have access to the ombudsman's services, regardless of language, disability, or other potential barriers

Ombudsman Offices

Accomplishing the mission in 2015-2017

Small Business Ombudsman

- Continue to build awareness of services by working with small business development centers, trade groups, small-business fairs, and other agencies and employer groups
- Maintain a 24-hour response time on all inquiries
- Collaborate with the Insurance Division on how to maintain the health of the Oregon voluntary workers' compensation market and the Oregon Assigned Risk Plan



**CONSUMER
PROTECTION AND
SAFETY**



Insurance Division

Insurance

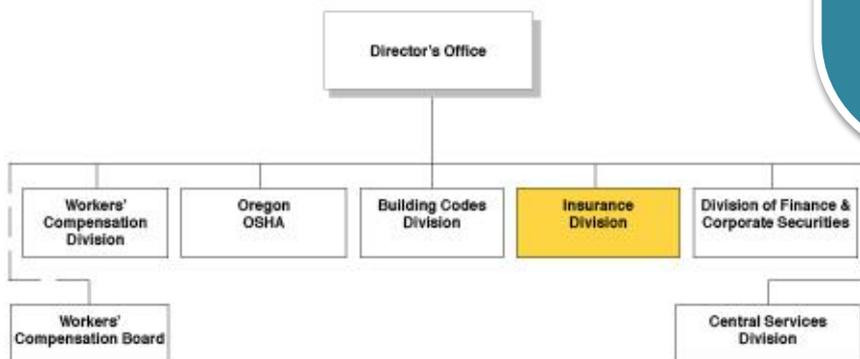
(Enforce Insurance Code; educate public on insurance issues)

Empower and protect consumers through fair and efficient regulation while encouraging a financially stable, innovative, and competitive insurance marketplace.

More than 17,900 phone calls and emails from consumers in 2014

As the insurance regulator for the state, we ensure that:

- Insurance companies are financially sound so they can pay claims.
- Oregonians are treated fairly as policyholders and beneficiaries.
- Rates are reasonable in relation to the benefits provided by an insurance policy.



Insurance Division

Protecting Oregonians before, during, and after insurance transactions

- Insurance regulation focuses on financial solvency, product compliance, market conduct and enforcement, and consumer education
 - Analysis and examination of insurance company finances
 - Licensing of insurance companies and agents
 - Review of insurance policies and rates before they are sold in Oregon
 - Investigation of consumer complaints and conduct in the market
 - Consumer outreach and assistance with insurance issues
- Authority over all major lines of business:
 - Property & casualty
 - Life & annuities
 - Health

Insurance Division

Protecting Oregonians before, during, and after insurance transactions

- Providing assistance to consumers in 2014
 - More than 17,900 calls and inquiries
 - More than 3,500 complaints received
 - \$2.3 million in recovered benefits
 - More than 200 volunteers connected with 25,000 Oregonians to assist with Medicare issues

**THEY SAID MY CAR'S
TOTALLED. I DISAGREE.**

Get free help at Insurance.Oregon.gov



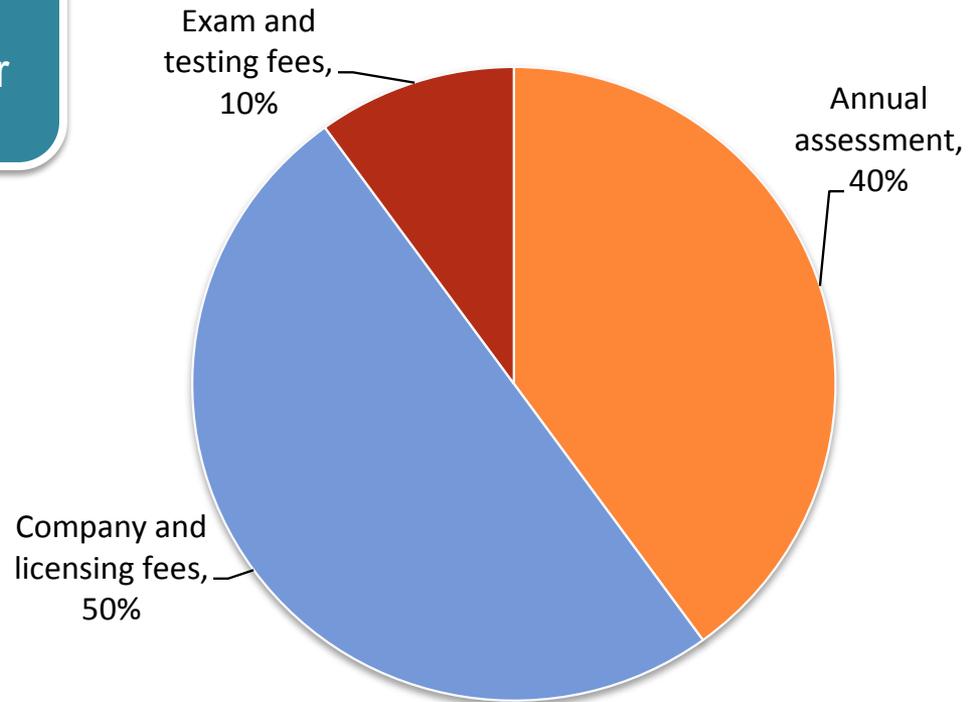
Insurance Division

Accomplishing the mission in 2015-2017

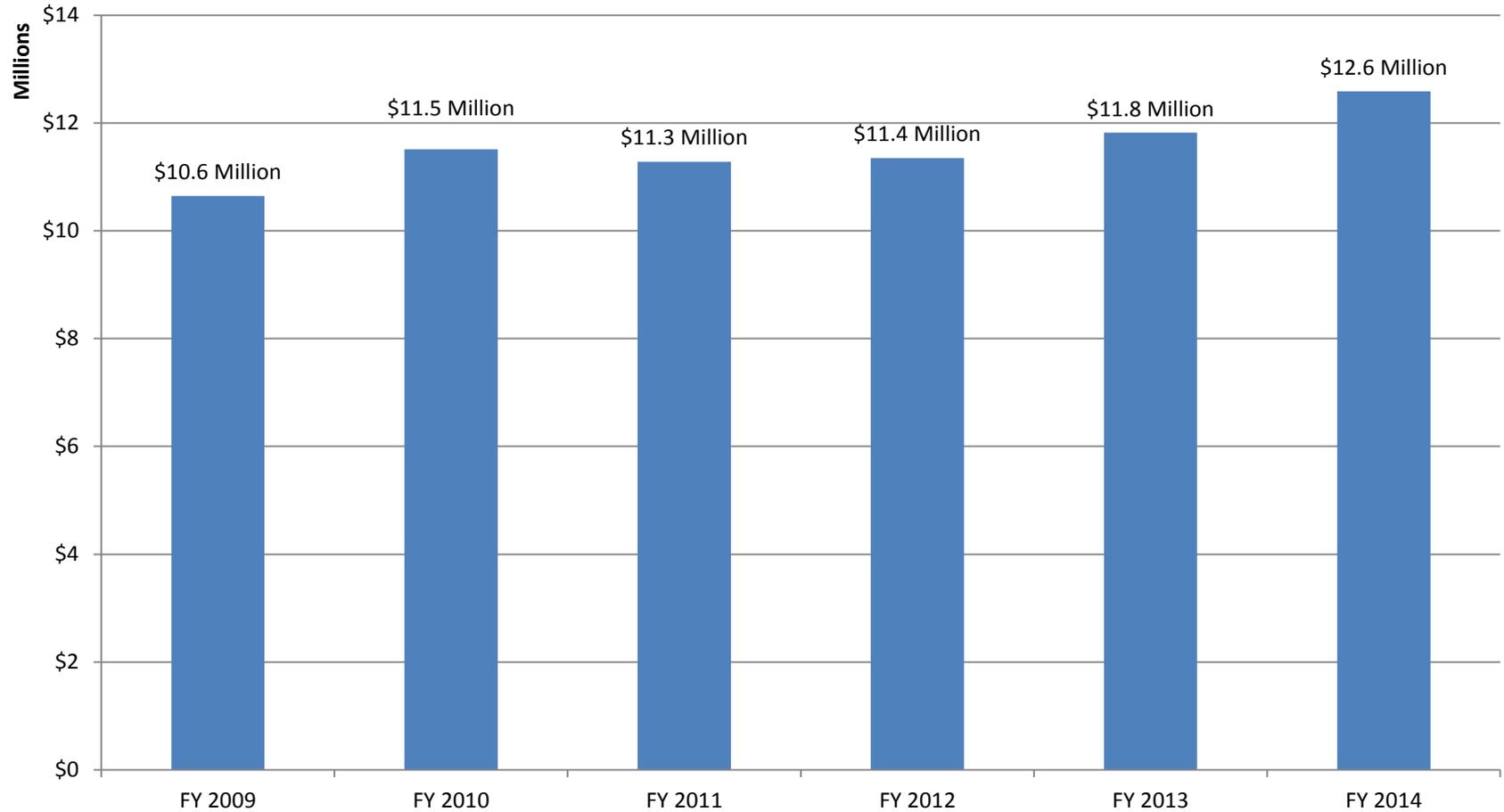
- Enhance the market regulation program to have a stronger market intelligence focus and facilitate swifter action to protect consumers
- Strengthen consumer protection in health insurance and annuities through proposed legislation
- Continue to implement the federal Affordable Care Act
- Provide information and assistance to Oregonians about insurance issues

Insurance Division Revenue

Less than \$0.005 – half a cent – of every premium dollar pays for our services



Insurance Division Revenue



Insurance Division



**Key Performance
Measures and
Outcomes**



Division of Finance and Corporate Securities

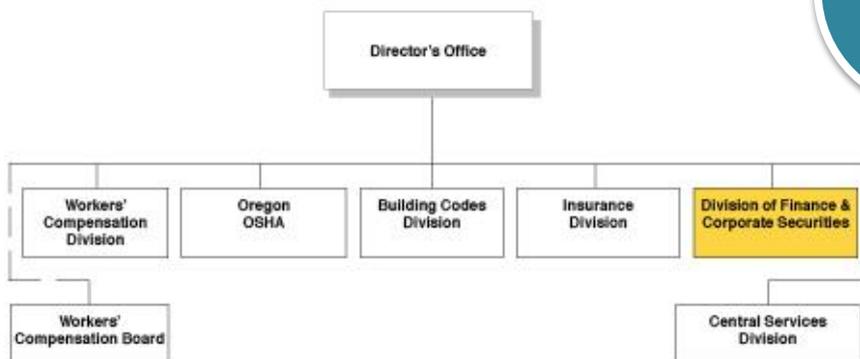
Finance and Corporate Securities

(Administer multiple programs involving financial products/services)

Ensuring sound financial services and products and protecting consumers from fraud

Investigated 854 complaints in 2014

- Regulate banks, trusts, and credit unions
- Regulate financial services to ensure consumers receive products in compliance with required fee and cap limits
- Ensure sound mortgage lending practices
- License people who sell investment securities; investigate investment fraud
- Consumer education on how to avoid financial fraud/foreclosure safeguards



Division of Finance and Corporate Securities

Accomplishing the mission in 2015-2017

- Monitor banks and credit unions as institutions grow in size through mergers and new charters are added
- Identify new methods to ensure that Internet providers of financial services meet consumer protection standards
- Continue to steer Oregonians who seek financial help toward licensed entities that comply with Oregon requirements and standards
- Help Oregonians make educated choices about investments, mortgage lending, and foreclosures

Division of Finance and Corporate Securities

Accomplishing the mission in 2015-2017

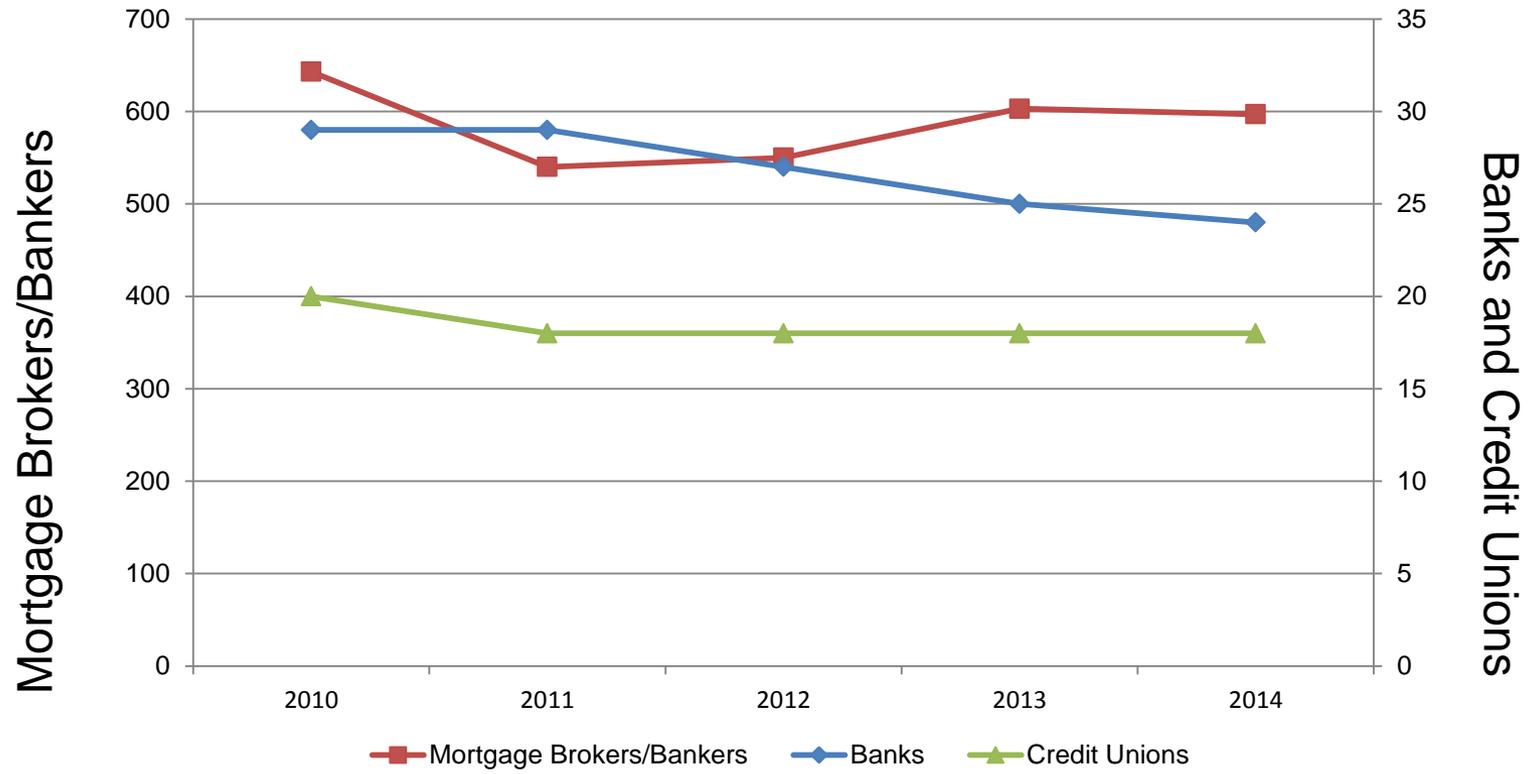
- Conduct outreach to seniors and others to help them avoid financial fraud and make good financial decisions
- Continue to enhance mortgage lending office examinations
- Continue to deter financial abuse toward Oregonians through strong enforcement efforts
- Expand use of the Nationwide Mortgage Licensing System (NMLS) to other division programs to streamline the licensing process and provide greater public access to licensing information

Division of Finance and Corporate Securities

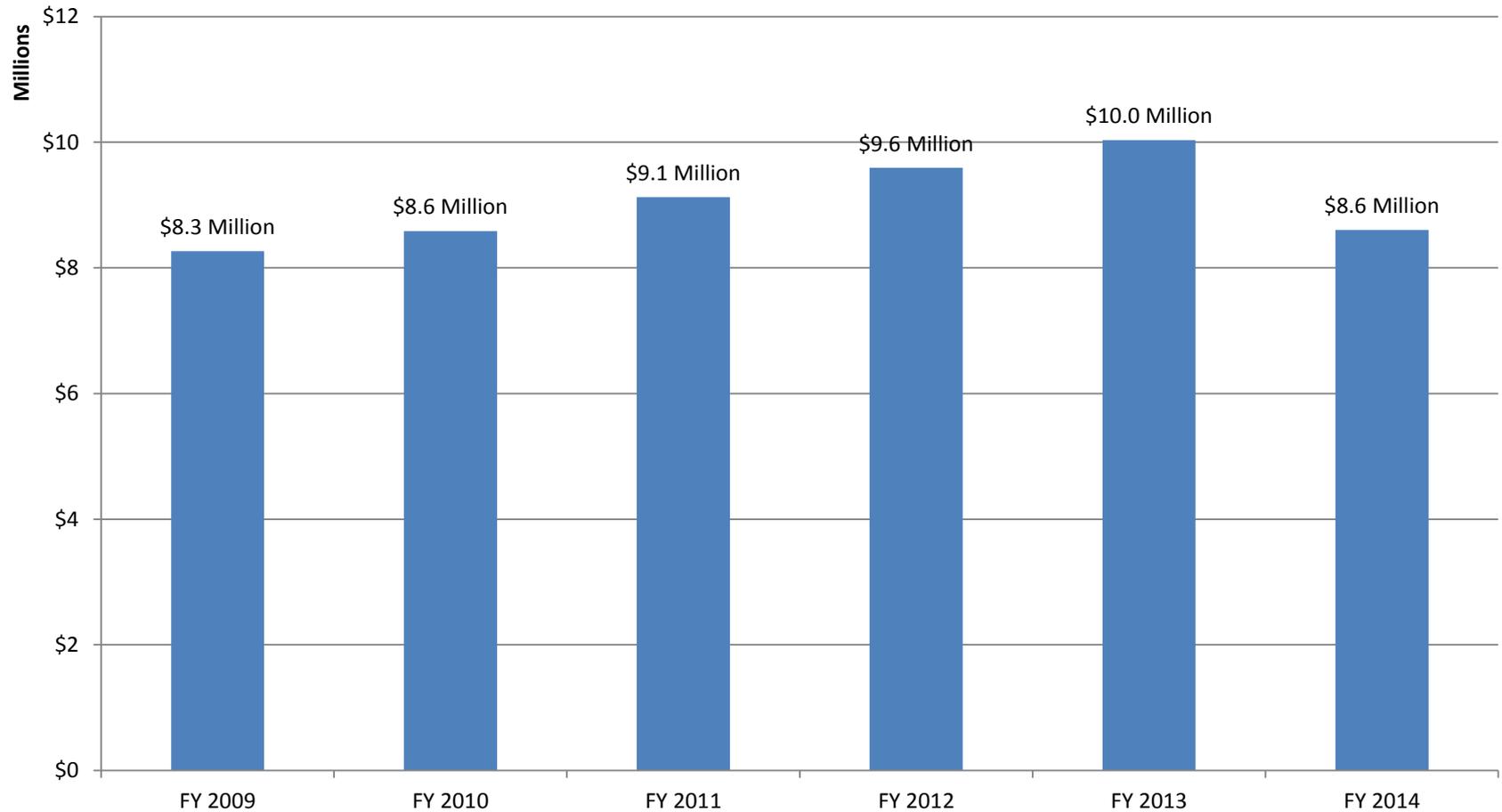
Accomplishing the mission in 2015-2017

- Connect the unbanked and underbanked with safe and affordable financial products
- Work with the Department of Justice to develop and strengthen consumer protection around collection agencies, loan servicers, and “buy here/pay here” auto dealers
- Help connect Oregonians with safe, affordable financial products through Bank On Oregon

Division of Finance and Corporate Securities Licensees and Charters



Division of Finance and Corporate Securities Revenue



Division of Finance and Corporate Securities



**Key Performance
Measures and
Outcomes**



Building Codes Division

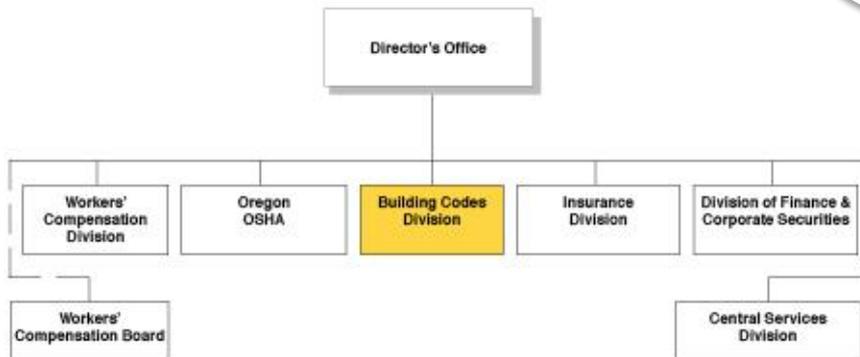
Building Codes Division

(Safe building construction)

Set Uniform Standards

Oversee 130 city and county building departments

- Adopt and enforce uniform building code for Oregon
- Resolve code disputes
- Local government assistance
- Certify inspectors and license trades workers
- Conduct inspections where local entities do not



Building Codes Division

Accomplishing the mission in 2015-2017

- Support economic growth by using technology to aid local governments and business
- Focus regulation and inspection services on needs of rural areas
- Continue implementing a comprehensive electronic permitting program

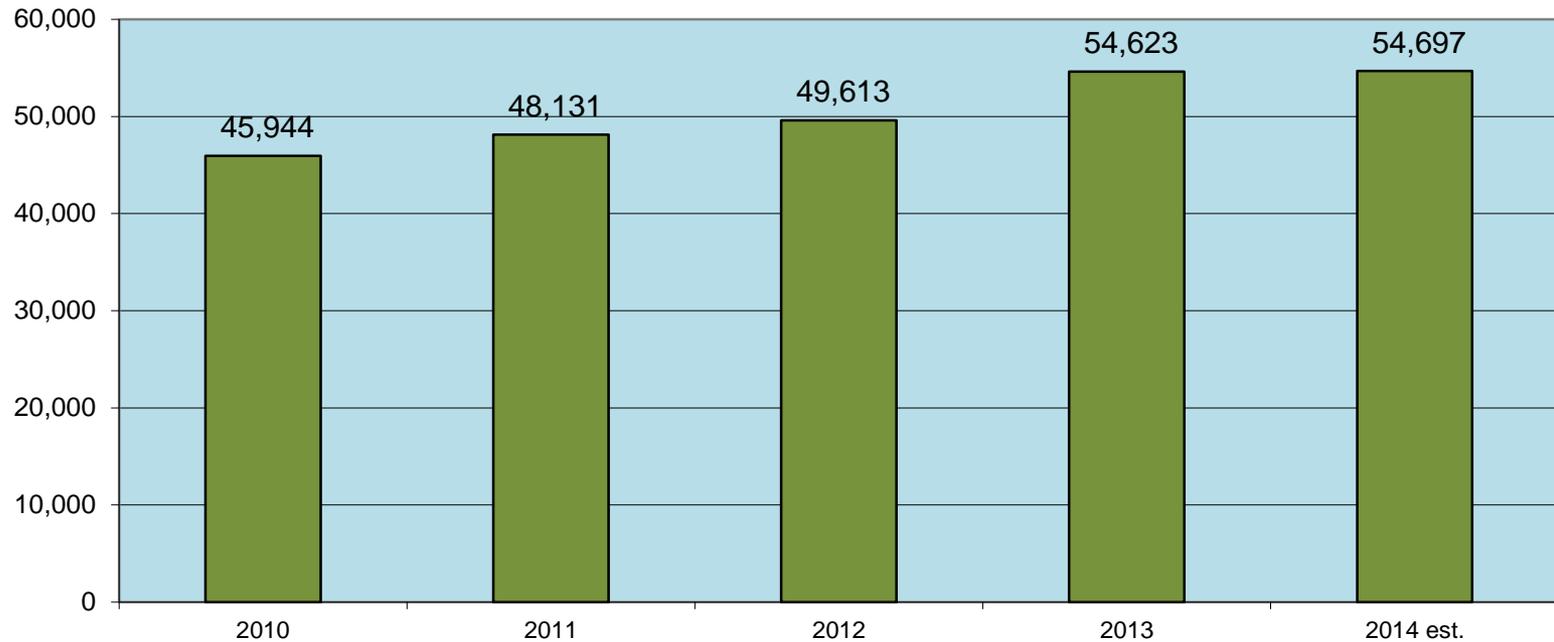
Building Codes Division

Accomplishing the mission in 2015-2017

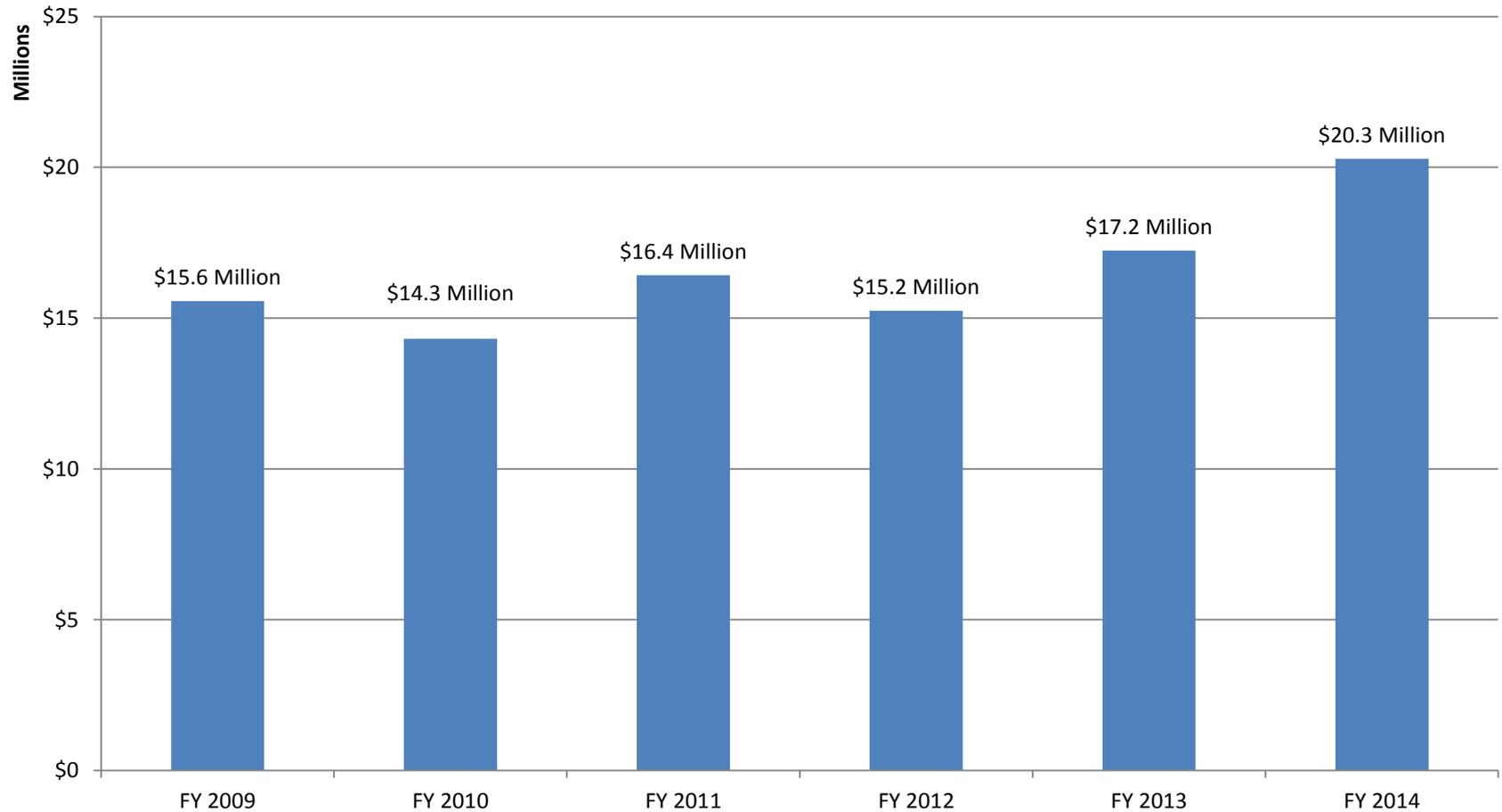
- Help develop a highly trained and efficient workforce by realigning inspector certification requirements and delivering inspector training in innovative ways
- Develop options for contractors and businesses to use new technology
- Continue regulatory streamlining efforts

Building Codes Division

Permits Issued (Building Codes Division has Statewide Responsibility)



Building Codes Division Revenue



Building Codes Division

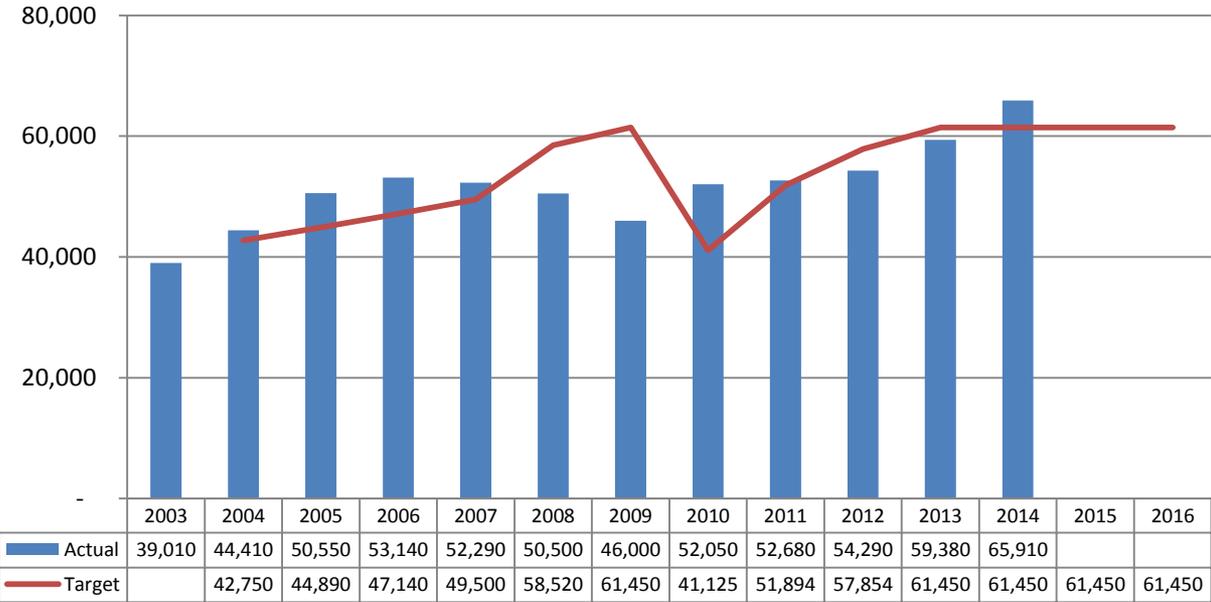


**Key Performance
Measures and
Outcomes**

KPM #11 – Permits for Minor Construction Work

Streamlined processes for contractors

Number of building permits sold that can be used by contractors in multiple jurisdictions for minor construction work





Health Insurance Marketplace

Health Insurance Marketplace

Senate Bill 1 Overview

- Transfers functions and responsibilities for Oregon's health insurance marketplace from Cover Oregon to DCBS, including:
 - Providing information through a call center and website
 - Establishing community partner program
 - Certifying and contracting with carriers
- Creates an advisory committee
- June 30, 2015 effective date

Health Insurance Marketplace

Transition goals:

- Continue to provide high-quality service to marketplace customers
- Engage stakeholders throughout the process
- Maximize the effectiveness and sustainability of Oregon's supported state-based marketplace
- Work with Cover Oregon to complete current work by June 30

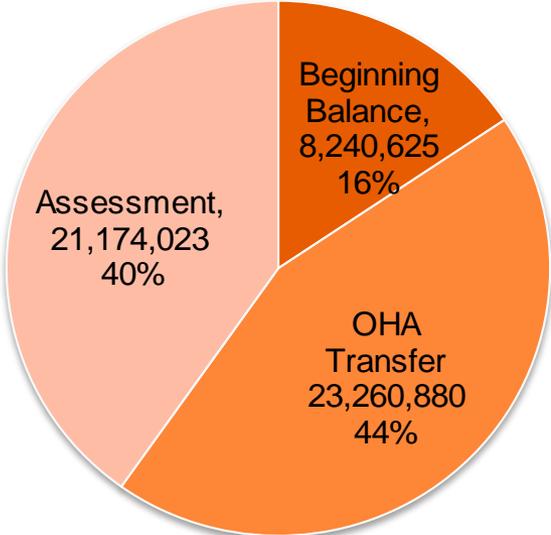
Health Insurance Marketplace

Next steps:

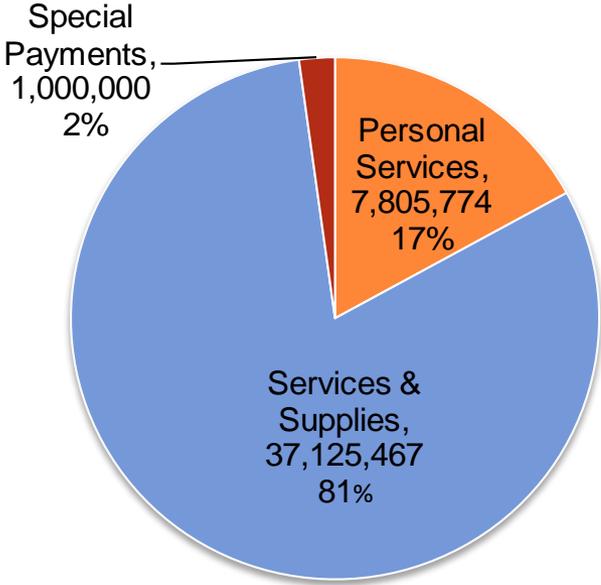
- Establish an advisory committee
- Develop a plan for small business marketplace (SHOP)
- Prepare for 2016 open enrollment, which begins fall/winter 2015
- Develop a communications plan:
 - Target the 5 percent of Oregonians who are uninsured
 - Help Oregon families learn how to use their insurance benefits

Health Insurance Marketplace 2015-17

Revenue
\$52.7 m



Expenditures
\$45.9 m



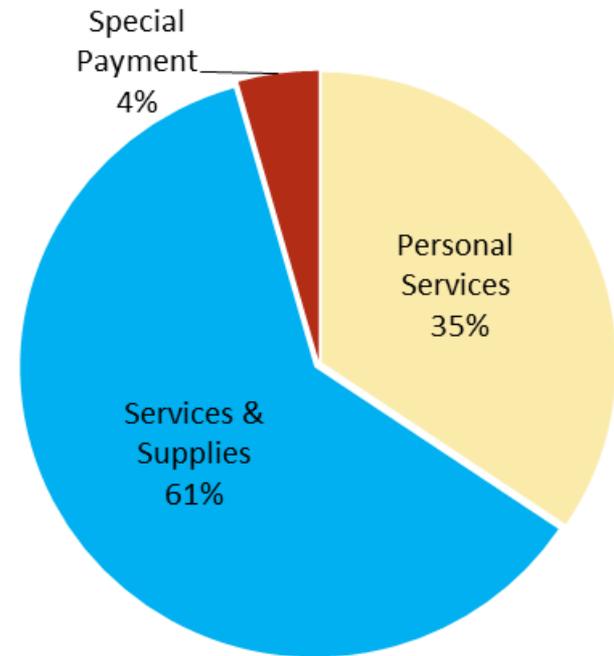
FTE	Permanent	Limited Duration
Marketplace	15.00	3.00
Call Center	0.0	13.00

Health Insurance Marketplace

Health Insurance Marketplace, less Oregon Health Authority's Expenditures

Revenue	2015-2017
Beginning Balance	8,240,625
Assessment Revenue	21,174,023
Total Revenue:	29,414,648

Expenditures	2015-2017
Personal Services	7,805,774
Services & Supplies	13,864,587
Special Payments	1,000,000
Total Expenditures	22,670,361



Health Insurance Marketplace

Risks

- Tight timelines to complete/transfer work on 2014 and 2015 plan years and begin work on 2016 open enrollment
- Scope creep
- Need for cross-organizational collaboration
- Differing priorities among organizations involved
- Loss of knowledge and resources



CONCLUSION



Oregon

John A. Kitzhaber, MD, Governor

Department of Consumer and Business Services

Director's Office
350 Winter Street NE, Room 200
Salem, OR 97301-3878
Voice: 503-378-4100
Fax: 503-378-6444
dcbs.oregon.gov

December 22, 2014

Gary Blackmer, Director
Secretary of State, Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97301

Dear Mr. Blackmer:

This representation letter is provided in connection with your audit of the State of Oregon's financial statements as of and for the year ended June 30, 2014 and the related notes to the financial statements. The Department of Consumer and Business Services (department) submits financial information to the Department of Administrative Services for the preparation of the State of Oregon's financial statements and related notes. The audit is being conducted for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position as of June 30 2014, the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of December 16, 2014:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 15, 2014, for the preparation and fair presentation of the financial statements accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

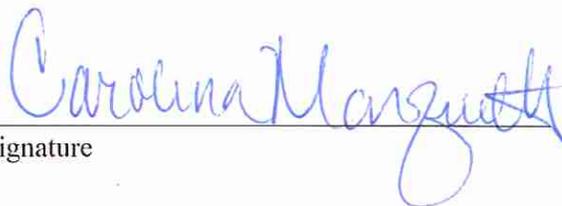
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the financial statements.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have provided you with:
 - (a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity whom you determined it necessary to obtain evidence.
9. All transactions have been recorded in the accounting records and are reflected in the financial statements.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge of any fraud or suspected fraud that affects the agency and involves:
 - (a) Management;
 - (b) Employees who have significant roles in internal control; or
 - (c) Others when the fraud could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the agency's financial statements communicated by employees, former employees, analysts, regulators, or others.
13. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws, regulations, provisions of contracts, and grant agreements whose effects should be considered when preparing financial statements.
14. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
15. We have disclosed to you the identity of the department's related parties and all related party relationships and transactions of which we are aware.

16. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives.
17. There are no violations or possible violations of laws and regulations, provisions of contracts and grant agreements, debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
18. We agree with the findings of specialists in evaluating claim loss liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
19. Risk disclosures associated with deposits and investment securities and derivative transactions are presented in accordance with GASB requirements.
20. The department has satisfactory title to all owned assets, and there are no unrecorded liens or encumbrances on such assets nor has any asset been pledged as collateral.
21. The department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. Components of fund balance (nonspendable and restricted, committed, assigned and unassigned) are properly classified.



Signature

Patrick Allen, Director



Signature

Carolina Marquette, Chief Financial Officer

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

December 16, 2014

Patrick Allen, Director
Department of Consumer and Business Services
350 Winter Street NE, Room 200
Salem, OR 97309-0405

Dear Mr. Allen:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2014. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2014, 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*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department'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 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Patrick Allen, Director
Department of Consumer and Business Services
Page 2

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michelle Rock or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION



Kelly L. Olson, CPA
Audit Manager

KLO:mlr:jas

cc: Jean Straight, Deputy Director
Nancy Boysen, Administrator, Central Services Division
Rose Wooton, Internal Auditor
Michael J. Jordan, Director, Department of Administrative Services



Oregon

John A. Kitzhaber, MD, Governor

Department of Consumer and Business Services

Director's Office
350 Winter Street NE, Room 200
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November 25, 2014

The Honorable Kate Brown
Secretary of State
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

RE: Response to Management Review, Report Number 2014-2x

Dear Secretary Brown:

Thank you and your performance audit team for evaluating the Insurance Division's rate review program. We appreciate the diligence, professionalism, and thoroughness of the process and your team's dedication to learning about a complex and important consumer protection function.

As your report suggests, Oregon's rate review process is incredibly important to consumers and their families. More than 390,000 Oregonians rely upon health insurance sold in the markets regulated by rate review. As you also note in your report:

- Insurance regulation and rate review work hand in hand to achieve a financially sound and competitive insurance market, promote affordability, and ensure fair treatment of consumers.
- In the past two years, nearly every rate request in Oregon was changed as a result of Oregon's rate review process, and most requests were decreased. Oregon's 2015 approved rates for individuals increased at a rate of 5.7% as compared to an average annual increase of 14% for states in the federally-facilitated marketplace. In fact, Oregon's average individual and small group health insurance premiums were lower in 2015 than in 2014.
- Oregon has an unusually competitive and robust market, which includes 16 companies selling health insurance in the individual and small group markets.
- The cost of insurance premiums is mostly comprised of the actual cost of care and services provided. The Affordable Care Act (ACA) set a standard to ensure premium dollars are spent on actual medical care. Beginning in 2011, insurers must spend at least 80 percent of premium dollars on care and quality improvements. On average, Oregon's largest companies spent 90 cents of every premium dollar on medical costs between 2007 and 2012. Oregon's review process helps ensures insurers meet this requirement.



The Honorable Kate Brown

November 25, 2014

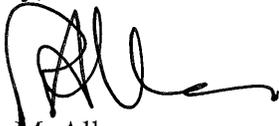
Page 2

- Oregon's rate review laws and process contain some desired features not required by federal law or always found in other states. Those attributes include: prior approval authority of rates before products are marketed to Oregonians, complete process transparency so that any Oregonian can follow a rate from filing to approval in real time, a well-resourced and qualified staff as well as a partnership with the Oregon State Public Interest Research Group (OSPIRG) to provide an additional layer of consumer advocacy during the rate review process.

Your report also recommends that our office prepare process and procedure manuals to document the methodology behind the rate review program. We believe this is an excellent suggestion and have begun developing formalized documentation of procedures.

Again, thank you for your efforts in evaluating this important program. We are pleased that your findings are consistent with the consumer protection goals we strive to accomplish.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Allen', with a long horizontal flourish extending to the right.

Patrick M. Allen

Director

Oregon Health Insurance Rates *Management Review*

Introduction

We conducted preliminary work on the Oregon Insurance Division's (division) health insurance rate review process. We did not conduct a full audit because our preliminary review did not identify deficiencies or improvements to justify the commitment of additional audit resources. This report summarizes the areas we reviewed. Among our observations:

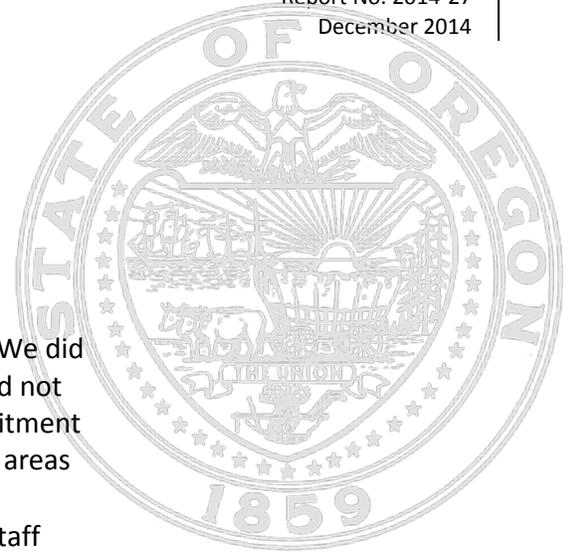
- Oregon's rate review process is performed by skilled staff and designed to be transparent and engage consumers.
- The division analyzes and approves rates for the individual and small group markets, about 10% of Oregon's health insurance market.
- Within this smaller group, Oregon's market includes 16 insurers offering coverage to over 390,000 people.
- Federal and state regulations require at least 80% of consumer premiums be spent on patient medical care, cost containment and quality improvement efforts.
- To protect consumers, the division reviews seek to ensure reasonable rates that are actuarially sound and companies are financially stable.
- In the past two years, nearly every rate request in Oregon was changed as a result of rate review, and most requests were decreased. Health insurance premiums continue to increase, but the increase has slowed in recent years.

Health Insurance Regulation in Oregon

Insurance regulation and rate review work together to further the division's goals to foster a financially sound and competitive insurance market place, promote affordability, and ensure fair treatment of consumers. The division regulates most types of insurance, including health, auto, homeowner, life, long-term care, and disability.

The division is accredited by the National Association of Insurance Commissioners (NAIC), which sets standards and accredits states for insurance regulation. All states are currently accredited.

Financial regulation, which includes financial examinations and ongoing financial analysis, provides the foundation for rate review. Initially, the division authorizes companies to sell



Regulators perform ongoing financial examinations and financial analysis to ensure companies are financially sound and able to pay insurance claims

insurance in the state. Regulators then perform ongoing financial examinations and financial analysis to monitor and ensure companies are financially sound and able to pay insurance claims. The division examines the financial condition of companies domiciled in Oregon approximately every 3-5 years, or as needed. The examinations consist of site visits, interviews, analysis and other procedures to develop a robust risk assessment of the company. A standard financial examination also includes control testing and substantive tests covering several areas, including but not limited to: claim handling, claim reserves, underwriting, premiums, and expenses.

Between examinations, the division's financial analysts conduct ongoing monitoring by reviewing insurance company annual and quarterly financial statements. Analysts look for prospective risks with the greatest potential to develop financial problems. If necessary, the division can take regulatory action including supervision, rehabilitation, or liquidation of the company.

Health Insurance Rate Review

About 10% of Oregonians participate in individual and small group health insurance plans. The division annually reviews and approves these rates, which typically experience greater volatility. In addition, individuals and small groups do not have the same capacity to negotiate rates with insurers as do businesses or government entities with large group plans. The division does not approve rates for large employers (those with 51 or more employees), self-insured employers, or government entities including Medicare and Medicaid programs.

The Division is responsible for reviewing and approving health insurance rates for about 10% of Oregonians

Companies use actuarial analysis to develop rates estimated to cover the anticipated costs of clinical services, administrative costs, and company profits. The actuarial analysis produces a range of answers based upon these estimates. If the estimates differ from what actually occurs, or costs change, the company may request a rate increase or decrease in the future.

The division reviews rate requests by conducting its own analysis and modifies most rates before approving them for use. The division reviews rates each summer that will take effect for the following calendar year.

Insurance companies begin preparing rates using the prior year's financial information submitted at the end of March. Once submitted, state law gives the insurance division up to 60 days to

review and approve rates. After the review, companies revise and submit new plan documents based on the approved rates. New plans must be ready in September to be included in the insurance exchange open enrollment as mandated by the Affordable Care Act (ACA).

Companies have the option to appeal rate decisions and have their appeal heard by an Administrative Law Judge. However, time is a limiting factor since companies must have their appeals concluded and rates approved to get on the insurance exchange and compete in the marketplace.

Rate review begins when companies submit their rate filings. The filing is an extensive document that includes financial data from the previous year such as claim information, premiums collected and administrative costs. It also includes an explanation of how the company created the rate, including assumptions about medical costs and utilization, projected enrollment, and projected profit margin if the rate is approved. The filing is initially reviewed for completeness. If there is something missing or if at any point during the process staff have questions, they submit written requests to the insurance company for information and/or an explanation. Companies can also provide further explanation during public rate review hearings.

Multiple division staff members contribute to reviewing the rate requests. Each rate filing is reviewed by a team of an actuary and a rate analyst. An actuary is a professional who analyzes the financial costs of risk and uncertainty using mathematics, statistics, and financial theory. The division's financial analysts, who perform ongoing monitoring of the companies, provide input on the company at the beginning and end of the rate review. In 2014, the actuaries, analysts, and their manager, held weekly meetings to discuss their process for evaluating plans and trends they were seeing across all of the rates filed.

By law, the director may approve an individual or small group rate if it is:

- actuarially sound;
- reasonable and not excessive, inadequate or unfairly discriminatory; and
- based on reasonable administrative expenses.

The division reported reviewing a greater number of rates in 2013 and 2014 as health insurance transitioned to ACA-compliant plans.

Rate review is not a mechanical function. Each insurance company develops its rates differently. The division's review team looks for reasonableness in the filings and checks the assumptions companies make. In the past two years, rate reviews have resulted in changes to nearly every ACA-compliant plan.

In the past two years, rate reviews have resulted in changes to nearly every ACA-compliant proposal.

During our review staff was able to describe the rate review process for the prior year and plans for the current year. However, we noted that the division does not have written policies and procedures for rate review, which would make its process more consistent and transparent. The division has recently begun work to develop written policies and procedures.

National Reforms Change Rate Review

Health care has historically been regulated at the state level. The Affordable Care Act, passed in March 2010, gave the federal government a role in private health insurance rate review, and began changing rates and the rate review process. Most of the ACA's rate review provisions were implemented in 2010 and 2011. Federal regulation outlined elements for effective rate review and the US Department of Health and Human Services (HHS) evaluated the effectiveness of state rate review programs. HHS deemed Oregon to have an effective rate review program.

The cost of insurance premiums is mostly comprised of the actual cost of care and services provided. The ACA set a standard to ensure premium dollars are spent on actual medical care. Beginning in 2011, insurers must spend at least 80% of premium dollars on clinical care and quality improvements. No more than 20% can be spent on administration, advertising, and profit. If an insurer spends less than the required 80% on clinical care, cost containment and quality improvement efforts, the company must rebate policy holders the difference. The division reports that Oregon's largest insurers generally spend more than is required. On average, the largest companies spent 90 cents of every premium dollar on medical costs between 2007 and 2012.

Insurers must spend at least 80% of premium dollars on clinical care and quality improvements.

The ACA reforms also require that individual or small group rates above an applicable threshold must be reviewed. Insurers must publicly disclose and justify rate increases. Rate increases are

reviewed for reasonableness by states, or by the federal government if the state does not have an effective rate review program. Oregon reviews all rate changes and publishes the rate documentation on the division's website.

The federal government and/or states established insurance exchanges to sell individual and small group insurance plans. These marketplaces also link qualified consumers to tax credits to help pay for insurance coverage. All companies selling insurance on or off the exchange are required to sell a standard "bronze" and "silver" plan so consumers can compare costs across companies. On average, a bronze plan is estimated to pay for 60% of normally expected medical costs and a silver plan is estimated to pay for 70% of normally expected medical costs.

The ACA reforms included grant funding for states to transform rate review processes and increase transparency. Oregon was awarded grants in each of three grant cycles, totaling \$8.6 million. These grants were generally used to improve the rate review process, hire staff, increase transparency and consumer advocacy, and enhance data.

Notable Features of Oregon's Rate Review

There is no template for rate review and state law and rate review processes vary across the country. However, Oregon's laws and rate review process include some desired features. These are described below.

Prior approval authority

The division has "prior approval authority" over individual and small group plans for all types of carriers, meaning the division must approve an insurer's rate before it can be marketed to consumers. This makes the state better positioned to negotiate reductions in rates. Not all states have this authority.

Transparency

The division has made robust efforts to be transparent, including providing the public access to rate filing information and avenues for public comment. Specific details on these efforts include:

- The division maintains a consumer-oriented website, <http://www.oregonhealthrates.org/>, devoted to rate review. All new, recent, and historical rate decisions and documentation can be found on the site. The documentation includes the correspondence between the division and the insurance company. The information for requested rates is

available online during the rate review process so the public can access the information and provide comments before a decision is made. The website also includes basic information on the rate review process and information on grant funding.

- The division has public education reports on health insurance in Oregon and consumer guides to health insurance and health insurance rate review, which go into more detail about many topics. It also publishes consumer friendly charts depicting rates.
- Rate review hearings are public. The hearings are also streamed online for those who are unable to attend in person.
- The public can sign up to receive email notifications from the division about rate filings for their particular insurance company, or other companies, and a variety of other insurance topics.

Actuarial staff

States vary in their staffing and actuarial resources for rate review. Oregon has three health actuaries on staff to review and question company assumptions on behalf of the public.

Consumer advocacy

ACA grant funding allowed the Insurance division to contract with Oregon State Public Interest Research Group (OSPIRG) to provide consumer advocacy during the rate review process. OSPIRG does not review every rate. It reviews a selection of the rates in consultation with an independent actuary, and provides comments during the rate review hearings on behalf of the public. It is unclear if there will be further funding for this work after September 2015.

Recent Rate Review Results

In the past two years, nearly every rate request in Oregon was changed as a result of rate review. Most rate requests were decreased while others were increased. On average, the overall effect of these changes was a reduction in the requested rates for the individual and small group markets. Figure 1 shows the 2014 and 2015 rates. The prices displayed are the estimated monthly rate for a Silver Plan for a 40-year-old Portland resident. Actual premiums may vary based on whether you use tobacco, where you live, your age, and the specific plan you choose.

Oregon has 3 health actuaries on staff to review and question company assumptions on behalf of the public.

Figure 1: ACA-complaint Individual and Small Group Monthly Rates

Individual	2014			2015		
	Requested	Approved	Change	Requested	Approved	Change
LifeWise Health Plan of OR	\$ 252	\$ 248	-1.6%	\$ 216	\$ 222	2.8%
Oregon's Health CO-OP	\$ 278	\$ 271	-2.5%	\$ 202	\$ 230	13.9%
Providence Health Plan	\$ 342	\$ 272	-20.5%	\$ 227	\$ 233	2.6%
Health Net Health Plan of OR	\$ 221	\$ 215	-2.7%	\$ 233	\$ 234	-16.1%
Moda Health Plan, Inc.	\$ 225	\$ 221	-1.8%	\$ 249	\$ 245	-1.6%
Atrio Health Plans ¹	\$ 371	\$ 293	-21.0%	\$ 259	\$ 245	20.7%
Kaiser Foundation Health Plan	\$ 291	\$ 256	-12.0%	\$ 257	\$ 246	-4.3%
Health Republic Ins Co	\$ 299	\$ 256	-14.4%	\$ 231	\$ 251	8.7%
Regence BlueCross BlueShield	\$ 280	\$ 270	-3.6%	\$ 263	\$ 259	-1.5%
PacificSource Health Plans	\$ 257	\$ 252	-1.9%	\$ 290	\$ 261	-10.0%
BridgeSpan Health Company	\$ 288	\$ 278	-3.5%	\$ 270	\$ 266	-1.5%
Time Insurance Co	\$ 251	\$ 351	0.0%	\$ 318	\$ 273	-14.2%
Trillium Community Health Plan, Inc	\$ 486	\$ 329	-32.3%	\$ 352	\$ 290	-17.6%

Small Group	2014			2015		
	Requested	Approved	Change	Requested	Approved	Change
LifeWise Health Plan of OR	\$ 292	\$ 289	-1.0%	\$ 291	\$ 286	-1.7%
Oregon's Health CO-OP	\$ 338	\$ 335	-0.9%	\$ 287	\$ 290	1.0%
Health Republic Ins Co	\$ 298	\$ 269	-9.7%	\$ 294	\$ 297	1.0%
Trillium Community Health Plan, Inc	\$ 401	\$ 381	-5.0%	\$ 361	\$ 298	-17.5%
Providence Health Plan	\$ 375	\$ 331	-11.7%	\$ 278	\$ 299	7.6%
Regence BlueCross BlueShield	\$ 316	\$ 310	-1.9%	\$ 307	\$ 302	-1.6%
Samaritan Health Plans, Inc ²	\$ 518	\$ 346	-33.2%	\$ 308	\$ 302	-1.9%
PacificSource Health Plans ²	\$ 358	\$ 358	0.0%	\$ 319	\$ 308	-3.4%
Health Net Health Plan of OR	\$ 301	\$ 297	-1.3%	\$ 318	\$ 310	-2.5%
Kaiser Foundation Health Plan	\$ 299	\$ 293	-2.0%	\$ 311	\$ 315	1.3%
Moda Health Plan, Inc.	\$ 306	\$ 306	0.0%	\$ 340	\$ 333	-2.1%
Atrio Health Plans ¹	\$ 368	\$ 360	-2.2%	\$ 345	\$ 339	-1.7%
UnitedHealthcare of OR, Inc	\$ 340	\$ 323	-5.0%	\$ 364	\$ 356	-2.2%
UnitedHealthcare Ins Co	\$ 348	\$ 330	-5.2%	\$ 372	\$ 363	-2.4%

¹ Estimate is for Salem area

² Estimate is for Eugene area

Health insurance premiums continue to increase, but the increase has slowed in recent years. Figure 2 shows the average annual increase in Oregon rates declining in the years since the ACA reforms were enacted. There is no data for 2014 because it is the first year of ACA rates and the rates are not comparable to prior years.

Figure 2: Average Annual Rate Increase by Market, 2008 to 2015

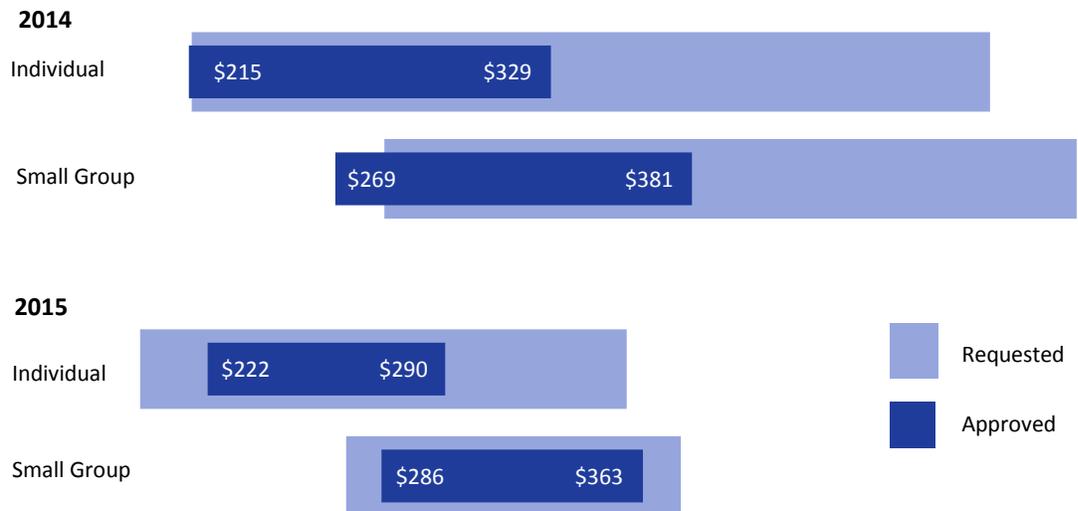
Year	Individual Increase	Small Group Increase
2008	21.34%	13.44%
2009	14.92%	10.47%
2010	15.57%	11.68%
2011	9.05%	6.63%
2012	7.00%	4.13%
2013	7.19%	5.87%
2014	-	-
2015*	5.70%	2.80%

Source: Oregon Insurance Division

* ACA-compliant plans only; does not include “grandfathered” or “transitional” plans

Consumers will likely see a market with more similar prices as a result of rate review. The range of prices shrank in the past two years making prices more competitive across the market. Figure 3 illustrates the range of rates requested and approved for a 40 year old on a silver plan living in the Portland area. The range of requested rates was larger for 2014, the first year of ACA-compliant rates, and shrank considerably in the second year.

Figure 3: Range of Approved Rates by Market and Year



The new health exchange allows consumers to compare rates across insurance companies. It is too early to tell how this will affect consumer choices or the competitiveness of the market in

the long run. In the initial year of the exchange, the individual market had more dramatic changes than the small group market. Individual enrollment increased from the prior year. Most consumers chose the lowest cost individual ACA-compliant plan. One company, Moda, captured the largest share of consumers who changed providers or enrolled for the first time. It more than tripled its individual plan enrollment and captured over 50% of the individual market. The individual and small group market enrollment is shown in Figures 4 and 6. These figures include enrollment in both ACA and non-ACA compliant plans and are based on preliminary data provided by the companies.

The individual market in 2014 looked less competitive and more concentrated than the prior year. The number of companies with more than 5% market share decreased and the largest market share held by a company increased from 29% to 54%. Figure 5 provides basic information on the individual and small group markets.

Figure 5: Market Information as of June 30, 2014

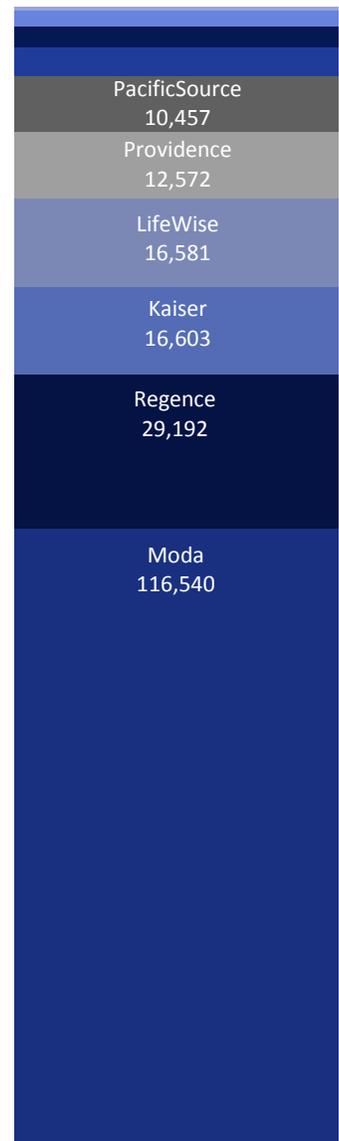
	<u>Individual</u>	<u>Small Group</u>
Enrollment as of Prior Year	151,189	193,961
Enrollment	216,662	175,312
Number of Companies	13	14
Number of Companies over 5% Market Share	5	8
% Market Share of Largest Company	54%	16%
% Enrolled in ACA Plans	74%	14%
Market Concentration as of Prior Year	Moderate	Moderate
Market Concentration	Highly	Unconcentrated

There were less dramatic shifts in the small group market. Small group enrollment decreased. Overall, the market became less concentrated and looked more competitive, with 8 companies obtaining 5-16% of the market share each. While most of the individual market (74%) is enrolled in ACA-compliant plans, only 14% of the small group market has switched to ACA plans. There could be additional shifts in the market as members move to ACA compliant plans in the future.

Surplus Regulation

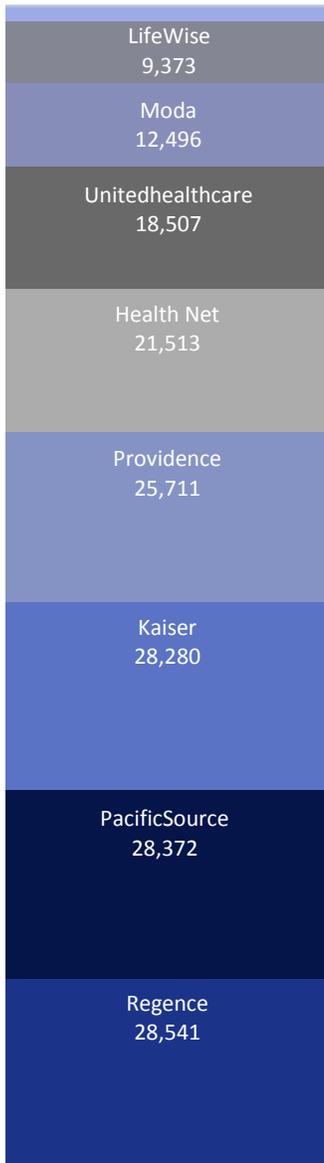
The division has authority to consider a company’s surplus as it reviews rates and can raise or lower requested rates based on surplus.

Figure 4: Individual Enrollment as of June 30, 2014



216,662 Enrolled

Figure 6: Small Group Enrollment as of June 30, 2014



175,312 Enrolled

A company’s surplus can be derived from many insurance plans and is a cushion for its entire business, not just related to the rates approved by the division. Surplus is comprised of profits accumulated by the insurer as well as capital received from issuing stock, and can be used at the company’s discretion. In general, surplus is used to fund new technology and infrastructure projects, and cover unexpected costs, losses or enrollment.

Regulators want to see a sufficient surplus to ensure the company can continue to operate and pay claims in the event of unexpected losses or increased costs. Surplus funds can benefit the consumer by reducing sharp price fluctuations year to year.

The predicted profit margin for a rate can indicate whether a rate may increase or decrease surplus funds and the extent of its impact. Rates that are kept artificially low by relying on surplus funds could lead to sharp fluctuations in the future. There is currently no state or national standards defining excessive, or even sufficient, levels of surplus. The majority of health insurance companies maintain a surplus that represents 2-4 months worth of operating expenses. Surplus is an element considered by financial regulators as they perform ongoing monitoring and by actuaries and analysts reviewing rates. Regulators check to see that there are minimum levels of surplus and Risk Based Capital (RBC) in place. Surplus that is less than 10% of yearly premiums requires additional scrutiny or review.

Risk Based Capital is a national formula for measuring the minimum amount of capital a company should hold given the risk involved in the company’s business. Regulatory action is triggered when RBC levels drop to certain levels. The minimum levels function as an early warning system so that regulators and the company can take action and remedy issues before a company becomes insolvent. These actions can range from monitoring the company and setting a plan of action, to liquidating a company. RBC levels vary across Oregon companies.

Scope of Work

We limited our work to general review of the division's health insurance rate review process and insurance regulation, as we did not identify a topic that warranted a full audit.

We gathered information on the federal Affordable Care Act and its impacts on health care and state health insurance rate review, as well as Oregon's health reform efforts. We researched health insurance rate review practices and financial regulation.

We interviewed Insurance Division managers, staff, external stakeholders, and officials from other states. We obtained rate filings and observed rate review hearings. We also reviewed national financial regulation and actuarial practice standards, reports on health reforms, and laws and rules at the state and national level.

We focused our work on health insurance rate review processes and did not cover other lines of insurance, such as property and casualty or life insurance. We also did not review specific rate decisions or perform financial or actuarial analysis to evaluate the appropriateness of rate decisions or the financial position of insurance companies.

Because we limited our work to a general review and did not proceed with a full audit, we were not required to and did not follow generally accepted government auditing standards. Had we found a topic warranting an audit, the work would have been conducted to meet those standards.

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State, Kate Brown, shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division, under the direction of Gary Blackmer, exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

Will Garber, CGFM, MPA, Deputy Director

Sheronne Blasi, MPA, Audit Manager

Amelia Eveland, MBA, Senior Auditor

Roy Jackson, Staff Auditor

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

website: sos.oregon.gov/audits

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

The courtesies and cooperation extended by officials and employees of the Oregon Insurance Division during the course of this audit were commendable and sincerely appreciated.



Oregon

John A. Kitzhaber, MD, Governor

Department of Consumer and Business Services

Central Services Division

350 Winter St. NE, Room 400

P.O. Box 14480

Salem, OR 97309-0405

503-947-7977

Fax: 503-378-3134

www.oregon.gov/DCBS/FABS

December 30, 2013

Gary Blackmer, Director
Secretary of State, Audits Division
255 Capitol Street N.E., Suite 500
Salem, Oregon 97310

Dear Mr. Blackmer:

This representation letter is provided in connection with your audit of the State of Oregon's financial statements as of and for the year ended June 30, 2013 and the related notes to the financial statements. The Department of Consumer and Business Services (department) submits financial information to the Department of Administrative Services for the preparation of the State of Oregon's financial statements and related notes. The audit is being conducted for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position as of June 30 2013, the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

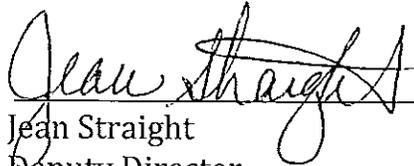
We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of December 30, 2013:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated September 24, 2013, for the preparation and fair presentation of the financial statements accordance with U.S. GAAP.

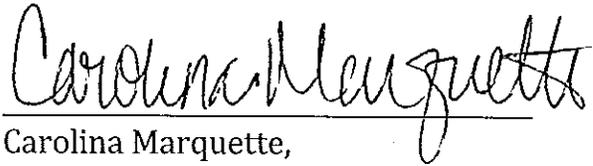
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the financial statements.
7. The effects of all known actual or possible litigation and claims, have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have provided you with:
 - (a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity whom you determined it necessary to obtain evidence.
9. All transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge of any fraud or suspected fraud that affects the agency and involves:
 - (a) Management;
 - (b) Employees who have significant roles in internal control; or
 - (c) Others when the fraud could have a material effect on the financial statements.

12. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the agency's financial statements communicated by employees, former employees, analysts, regulators, or others.
13. We have no knowledge of any instances of noncompliance or suspected noncompliance laws, regulations, provisions of contracts and grant agreements whose effects should be considered when preparing financial statements.
14. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
15. We have disclosed to you the identity of the department's related parties and all related party relationships and transactions of which we are aware.
16. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives.
17. There are no violations or possible violations of laws and regulations, provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
18. We agree with the findings of specialists in evaluating claim loss liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
19. Risk disclosures associated with deposits and investment securities and derivative transactions are presented in accordance with GASB requirements.
20. Provisions for uncollectible receivables have been properly identified and recorded.
21. The department has satisfactory title to all owned assets, and there are no unrecorded liens or encumbrances on such assets nor has any asset been pledged as collateral.

22. The department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
24. Components of fund balance (nonspendable and restricted, committed, assigned and unassigned) are properly classified.



Jean Straight
Deputy Director



Carolina Marquette,
Financial Services Manager

Office of the Secretary of State

Kate Brown
Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

December 19, 2013

Patrick Allen, Director
Department of Consumer and Business Services
350 Winter Street NE
PO Box 14480
Salem, Oregon 97309-0405

Dear Mr. Allen:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2013. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2013, 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*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department'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 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Patrick Allen, Director
Department of Consumer and Business Services
Page 2

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michelle Searfus or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:MNS:nmj

cc: Jean Straight, Deputy Director
Nancy Boysen, Administrator, Central Services Division
Carolina Marquette, Financial Services Manager
Rose Wooten, Chief Audit Executive
Michael J. Jordan, Director, Department of Administrative Services

Department of Consumer and Business Services
2013-15

Position Reclassifications

PFP Package	Action	Repr. Class No.	Class Title	Position	SR	Biennial Salary
13-15-01	Reclass↑	To: OA C0108 AA	Administrative Specialist 2	0003.010	19	92,112
		From: OA C0107 AA	Administrative Specialist 1	0003.010	17	83,616
				Change in Salary:		8,496
	Reclass↑	To: OA C0108 AA	Administrative Specialist 2	0003.070	19	92,112
		From: OA C0107 AA	Administrative Specialist 1	0003.070	17	83,616
				Change in Salary:		8,496
	Reclass↓	To: MENN Z0830 AA	Executive Assistant	2000.016	25	127,296
		From: MMS X0833 AA	Supv. Executive Assistant	2000.016	26	133,608
						(6,312)
	13-15-02	Reclass↑	To: OA C2512 AA	Electronic Pub. Design Spec. 3	5000.011	23
		From: OA C2511 AA	Electronic Pub. Design Spec. 2	5000.011	21	101,040
				Change in Salary:		10,032
Reclass↑		To: OA C0436 AA	Procurement & Contract Spec.	9000.814	23	111,072
		From: OA C0108 AA	Administrative Specialist 2	9000.814	19	92,112
				Change in Salary:		18,960
Reclass↑		To: MMN X0873 AA	Operations & Policy Analyst 4	0004.926	32	178,512
		From: MMS X7006 AA	PEM C	0004.926	31	170,232
				Change in Salary:		8,280
Reclass↓		To: MMS X7006 AA	PEM D	4000.035	31	170,232
	From: MESN Z7008 AA	PEM E	4000.035	33	187,464	
			Change in Salary:		(17,232)	
Reclass↓	To: MMS X7006 AA	PEM D	7000.328	31	170,232	
	From: MESN Z7008 AA	PEM E	7000.328	33	187,464	
			Change in Salary:		(17,232)	
13-15-03	Reclass↑	To: MENN Z7010 AA	PEM F	7100.166	35	209,808
		From: MMS X7008 IA	PEM E	7100.166	33	220,104
				Change in Salary:		(10,296)

Department of Consumer and Business Services
2013-15

Position Reclassifications

PFP Package	Action	Repr. Class No.	Class Title	Position	SR	Biennial Salary
	Reclass↑					
		To: AT C0872 AA	Operations & Policy Analyst 3	0004.814	30	157,248
		From: AT C0871 AA	Operations & Policy Analyst 2	0004.814	27	<u>119,448</u>
				Change in Salary:		37,800
	Reclass↑					
		To: OA C5707 AA	Industrial Hygienist 3	5000.141	29	150,120
		From: OA C5706 AA	Industrial Hygienist 2	5000.141	27	<u>136,512</u>
				Change in Salary:		13,608
	Reclass↑					
		To: OA C0855 AA	Project Manager 2	7000.004	29	150,120
		From: OA C0854 AA	Project Manager 1	7000.004	26	<u>130,104</u>
				Change in Salary:		20,016
	Reclass↑					
		To: OA C1487 IA	Information Systems Specialist 7	7100.759	31	169,344
		From: OA C1486 IA	Information Systems Specialist 6	7100.759	29	<u>153,096</u>
				Change in Salary:		16,248
	Reclass↓					
		To: OA C0872 AA	Operations & Policy Analyst 3	5000.629	30	157,440
		From: OA C5708 AA	Industrial Hygienist 4	5000.629	31	<u>165,240</u>
				Change in Salary:		(7,800)
13-15-04	Reclass↑					
		To: OA C1488 IA	Information Systems Specialist 8	7100.032	33	184,704
		From: OA C1487 IA	Information Systems Specialist 7	7100.032	31	<u>169,344</u>
				Change in Salary:		15,360
13-15-05	Reclass↑					
		To: MMC X1319 AA	Human Resource Assistant	1000.006	18	93,960
		From: MMC X0107 AA	Administrative Specialist 1	1000.006	17	<u>89,208</u>
				Change in Salary:		4,752
	Reclass↑					
		To: OA C1487 IA	Information Systems Specialist 7	7100.028	31	172,728
		From: OA C1486 IA	Information Systems Specialist 6	7100.028	29	<u>156,168</u>
				Change in Salary:		16,560
	Reclass↑					
		To: AT C0108 AA	Administrative Specialist 2	0004.905	19	95,352
		From: AT C0118 AA	Executive Support Specialist 1	0004.905	17	<u>86,640</u>
				Change in Salary:		8,712
	Reclass↑					
		To: AT C0872 AA	Operations & Policy Analyst 3	0004.076	30	160,392
		From: AT C0871 AA	2Operations & Policy Analyst 3	0004.076	27	<u>139,248</u>
				Change in Salary:		21,144

Department of Consumer and Business Services
2013-15

Position Reclassifications

PFP Package	Action	Repr. Class No.	Class Title	Position	SR	Biennial Salary
	Reclass↑					
	To:	AT C0872 AA	Operations & Policy Analyst 3	0004.385	30	160,392
	From:	AT C5247 AA	Compliance Specialist 2	0004.385	25	<u>126,648</u>
				Change in Salary:		<u>33,744</u>
	Reclass↓					
	To:	OA C0104 AA	Office Specialist 2	4000.182	15	78,960
	From:	OA C0107 AA	Administrative Specialist 1	4000.182	17	<u>86,568</u>
				Change in Salary:		<u>(7,608)</u>
	Reclass↓					
	To:	MMN X1322 AA	Human Resources Analyst 3	1100.742	29	159,912
	From:	MMN X7008 AA	PEM E	1100.742	33	<u>194,088</u>
				Change in Salary:		<u>(34,176)</u>

Notes:

*Did not include: Establish, Abolish, Increased Months, Reduced Months
Biennial salaries for the same classification may differ due to point in time of comp plan*

Department of Consumer and Business Services
2013-2015
New Hires

EFF DATE	DIV	EMPLOYEE	SR	STEP	REPR	CLASS	ACTION	JUSTIFICATION
7/1/2013		WOODFORD, BARBARA A		3	UA	C1545	new hire	
7/8/2013		TACOMA, SUSANNE M		2	OA	C5710	new hire	
7/8/2013		MARTELLES, JOANNA MARI		2	OA	C5710	new hire	
7/9/2013		NERING, LAWRENCE ROBER		1	OA	C5233	new hire	
7/10/2013		DLOUHY, RODNEY JAMES		2	OA	C5710	new hire	
7/15/2013		MARAS, BARBARA J		6	MMN	X0107	new hire	Exceptional Qualifications
7/15/2013		VEST, CHRIS J		2	OA	C5710	new hire	
7/16/2013		PELTON, LACEY KRISTINA		2	AT	C1217	new hire	
7/22/2013		WOLFER, RANDALL L		1	AT	C5353	new hire	
7/29/2013		GUNDERSON, SCOTT A		2	OA	C5710	new hire	
8/12/2013		INGRAHAM, JENNIFER L		1	AT	C0212	new hire	
8/19/2013		ADAMS, JENNIFER ROSE		1	MMN	X1321	new hire	
8/19/2013		RING, NICHOLAS G		4	OA	C5248	new hire	
8/26/2013		SHERMAN, CRYSTAL DIANN		7	OA	C5247	new hire	exceptional qualifications
9/3/2013		FLEETWOOD, DAVID GEORG		6	OA	C0871	new hire	exceptional qualifications
9/17/2013		MURPHY, CATHERINE A		4	OA	C5111	new hire	exceptional qualifications
10/1/2013		HINKEL, TIMOTHY R		1	MMN	X1190	new hire	
10/7/2013		HART, NORMA D		2	OA	C0104	new hire	
10/9/2013		YODER, GRANT MICHAEL L		1	OA	C0104	new hire	
10/14/2013		STUPFEL, SABRINA E		2	OA	C0104	new hire	
10/21/2013		CRAIG, ELIZABETH MARIE		2	MMC	X1319	new hire	
10/21/2013		MARSHALL, KELLY GENE		6	OA	C1487	new hire	exceptional qualifications
10/21/2013		AYERS, KIMBERLEE LYN		1	OA	C5675	new hire	
10/23/2013		CUPP, JASON TONY		2	OA	C0104	new hire	
10/28/2013		COBB, STERLING RYAN LO		5	OA	C5710	new hire	exceptional qualifications, prior salary history
10/30/2013		LOVE, JULIE ADAIR		3	MMN	X1322	new hire	
10/30/2013		HESTER, TERIA LEE		6	OA	C0110	new hire	exceptional qualifications

**Department of Consumer and Business Services
2013-2015
New Hires**

EFF DATE	DIV	EMPLOYEE	SR	STEP	REPR	CLASS	ACTION	JUSTIFICATION
10/31/2013		OVCHINIKOV, ELENA		2	OA	C0211	new hire	
11/4/2013		BLANK, DAVID ALAN		2	OA	C0103	new hire	
11/12/2013		LAMBRIGHT, AUTUMN KATH		2	OA	C0104	new hire	
11/18/2013		SHACKELFORD, ELIZABETH		3	OA	C0104	new hire	
11/25/2013		DESHORES, HEATHER		2	OA	C5748	new hire	
12/2/2013		SHAW, DIANE		1	OA	C0104	new hire	
12/2/2013		VAN GRUNSVEN, ANGELA		1	OA	C2512	new hire	
12/9/2013		MOON, KAREN		4	OA	C5247	new hire	
12/23/2013		DOUTHIT, CHARITY S		2	OA	C0104	new hire	
1/1/2014		ADAMS, JOHN D		1	AT	C0871	new hire	
1/1/2014		LARIOS, DENNIS GARY		7	AT	C5345	new hire	exceptional qualifications
1/3/2014		YAMBAW, KEILEI NICOLE		5	OA	C5747	new hire	exceptional qualifications
1/6/2014		SNAPP, BRYON MICHAEL		6	OA	C0872	new hire	exceptional qualifications
1/13/2014		MORAWSKI, LISA MARIE		8	MENN	Z7010	new hire	exceptional qualifications
1/13/2014		STURDEVANT, MELODY ANN		1	OA	C5111	new hire	
1/21/2014		RYAN-BEAN, DOROTHY ROS		2	OA	C1547	new hire	
1/21/2014		TINNERSTET, DARREN PAU		2	OA	C5233	new hire	
2/1/2014		LULL, MERI		8	OA	C1339	new hire	exceptional qualifications
2/1/2014		SWANSON, MARK E		4	OA	C5711	new hire	prior salary history
2/10/2014		OLSON, KELSEY LEE		4	OA	C0103	new hire	exceptional qualifications
2/10/2014		MOLINA, MARIO ANTONIO		3	OA	C1117	new hire	
3/3/2014		STARKEY, JEFFREY R		9	MMS	X7006	new hire	exceptional qualifications
3/5/2014		KHIN, NOREA DANIEL		7	OA	C5248	new hire	exceptional qualifications
3/17/2014		KRIVOSHEIN, TREVOR		2	OA	C5671	new hire	
3/17/2014		ALLEN, DARRELL		2	OA	C5671	new hire	
3/19/2014		OBRIEN, JAMES MILES		4	MMN	X7006	new hire	
3/31/2014		IVERS, KRISTI L		5	OA	C1488	new hire	educations, prior salary history

**Department of Consumer and Business Services
2013-2015
New Hires**

EFF DATE	DIV	EMPLOYEE	SR	STEP	REPR	CLASS	ACTION	JUSTIFICATION
4/8/2014		CUTLER, ERIC JOSEPH		8	MMS	X7006	new hire	exceptional qualifications
4/8/2014		WEST, KENNA L		4	OA	C5248	new hire	
4/14/2014		ATKINS, KAYLEEN REANNE		1	OA	C0108	new hire	
4/14/2014		DELATORRE, RYAN SEAN		4	OA	C0872	new hire	
4/14/2014		SMITKE, RAYMOND T		3	OA	U7522	new hire	
4/21/2014		HAUGEN, HANNAH A		2	OA	C1116	new hire	
4/21/2014		MCDONALD, AUSTIN M		2	OA	C1483	new hire	
4/28/2014		JONES, JEFFERY RAYMOND		8	AT	C5353	new hire	exceptional qualifications
5/12/2014		BEAN, KRISTOPHER M		2	AT	C0107	new hire	
5/12/2014		WATERS, THERESA GEM		1	OA	C5711	new hire	
5/19/2014		TOMKA, RUSSELL DAVID		6	AT	C5353	new hire	difficult recruitment, salary qualifications
5/19/2014		STRUVE, JOHN DANIEL		1	OA	C0107	new hire	
5/26/2014		HACK, STEVEN RICHARD		9	AT	C5342	new hire	exceptional qualifications
6/1/2014		MUSTOLA, STEVEN DOUGLA		4	AT	C5353	new hire	
6/2/2014		JOHNSON, JUDY		8	MENN	Z7521	new hire	Governor appointed
6/2/2014		BOONE, CHRISTINA MARIE		5	OA	C0405	new hire	
6/2/2014		GRUNKE, PHILIP ANTHONY		2	OA	C5706	new hire	
6/9/2014		CUREY, SALLY A		8	MENN	Z7521	new hire	Governor appointment
6/9/2014		MATHAE, MIRANDA SHAY		5	OA	C0107	new hire	exceptional qualifications
6/9/2014		OLLIS, STEPHANIE FRANC		2	OA	C0118	new hire	
6/9/2014		JOLLIFF, BENJAMIN JOHN		3	OA	C5233	new hire	
6/16/2014		SCHULTZE, LEAH VICTORI		1	OA	C5707	new hire	
6/23/2014		LEBEAU, MICHAEL K		8	AT	C0872	new hire	exceptoinal qualifications
6/23/2014		FORSTE, TIMOTHY STEPHE		2	OA	C1484	new hire	
6/24/2014		HANNAN, ANGELA		4	OA	C5710	new hire	prior salary history
6/30/2014		TUCKER, SUMMER		2	OA	C0104	new hire	
7/21/2014		TANNER, KRISTIN JOY		2	OA	C1486	new hire	

Department of Consumer and Business Services
2013-2015
New Hires

EFF DATE	DIV	EMPLOYEE	SR	STEP	REPR	CLASS	ACTION	JUSTIFICATION
7/22/2014		CARR, CYNTHIA ANN		6	OA	C0110	new hire	exceptional qualifications
7/31/2014		REED, JENNIFER S		6	OA	C0107	new hire	prior salary history, exceptional qualifications
8/4/2014		FERRELL, MATTHEW C		2	OA	C5247	new hire	
8/5/2014		JORAJURIA, TAMARA D		6	OA	C0104	new hire	exceptional qualifications
8/7/2014		LAMM, DAWN MARIE		3	OA	C0103	new hire	
8/11/2014		ADAMS, ANITA JOEDY		2	OA	C0104	new hire	
8/13/2014		BURGER, KYLE D		2	OA	C1484	new hire	
8/18/2014		OLSON, JASON L		4	AT	C5345	new hire	
8/18/2014		MULLINS, SCOTT LASHER		4	OA	C1547	new hire	
8/18/2014		GARNER, GARY		8	OA	C3715	new hire	exceptional qualifications
8/25/2014		SJOLANDER, JANINE M		4	OA	C0104	new hire	
8/25/2014		HIBLER, RYAN		6	OA	C5707	new hire	prior salary history, exceptional qualifications
8/26/2014		ACKERMAN, QUINN		2	OA	C0104	new hire	
9/1/2014		THOMPSON, JOHNNY		9	AT	C5353	new hire	exceptional qualifications
9/1/2014		CRAIG, RODNEY JACKSON		1	OA	C5676	new hire	
9/2/2014		MCFARLIN, GAIL L		1	OA	C5248	new hire	
9/8/2014		BUTLER, JAMES H		4	AT	C5354	new hire	
9/8/2014		OCASIO, ANTHONY		1	OA	C5246	new hire	
9/15/2014		JOHNSON, HEATHER N		4	OA	C0104	new hire	
9/22/2014		HALL, KENTON		6	AT	C5344	new hire	
9/24/2014		DRAPER, JODI S		5	AT	C0212	new hire	
9/29/2014		BEILSTEIN-WEDEL, ERIN		4	OA	C0870	new hire	
9/29/2014		JAMES, CHRISTIAN MARMO		5	OA	C5706	new hire	exceptional qualifications
9/29/2014		SCHREIBER, JESSICA L		5	OA	C5706	new hire	exceptional qualifications
10/1/2014		BRENDEN-LOCKE, APRIL		7	MENN	Z0119	new hire	exceptional qualifications
10/1/2014		HITTNER, COLETTE A		4	OA	C5247	new hire	

**Department of Consumer and Business Services
2013-2015
New Hires**

EFF DATE	DIV	EMPLOYEE	SR	STEP	REPR	CLASS	ACTION	JUSTIFICATION
10/6/2014		CORNTHWAITE, JOELLE M		4	AT	C0118	new hire	
10/6/2014		TASCHEREAU, BRIANA		2	OA	C0211	new hire	
10/20/2014		KAYSER, DENISE A		3	OA	C0110	new hire	
10/27/2014		RISNER, ERIC S		9	AT	C5247	new hire	exceptional qualifications
10/27/2014		STRAUMFJORD, PETER A		2	OA	C5248	new hire	
10/29/2014		BEMIS, MELISSA J		7	AT	C0107	new hire	prior salary history, exceptional qualifications
10/30/2014		JAGGER, DAWN A		4	OA	C1547	new hire	
11/1/2014		PUTNAM, APRIL		7	AT	C0107	new hire	prior salary history
11/1/2014		DARLING, WILLIAM R		7	AT	C5247	new hire	exceptional qualifications, prior salary history
11/1/2014		ESTRADA, ROSA		2	OA	C0103	new hire	
11/1/2014		AMESBURY, DAVID J		9	OA	C1547	new hire	exceptional qualifications, prior salary history
11/17/2014		ANDERSON, WILLIAM KEIT		4	MMN	X0873	new hire	
12/22/2014		CODY, CRYSTIE M		1	OA	C0104	new hire	
12/23/2014		WILCOX, CATHERINE		3	OA	C0110	new hire	
1/5/2015		CHRISTENSEN, DOUGLAS		5	OA	C5676	new hire	prior salary history
1/6/2015		REDDY, SREEVAMSHI		4	OA	C1547	new hire	
1/16/2015		VIG, DANEE		2	OA	C0104	new hire	
2/1/2015		GROGG, WILLIAM L		9	OA	C1486	new hire	difficult recruitment
2/1/2015		EVERSMAYER, STEVEN		9	OA	C5707	new hire	exceptional experience
2/9/2015		MELTON, TARREN C		1	OA	C0104	new hire	
2/9/2015		LEDER, ETHAN		1	OA	C5710	new hire	
2/11/2015		MAKINSON, KENNETH R		2	OA	C5711	new hire	

NOTE: DCBS applies the DAS Statewide Pay Practices policy (20.005.10(1)(e)) for new hires between Step 2 and 4.

UPDATED OTHER FUNDS ENDING BALANCES FOR THE 2013-15 & 2015-17 BIENNIA

Agency: Department of Consumer and Business Services
 Contact Person: Carolina Marquette (503) 947-7381

(a) Other Fund Type	(b) Program Area (SCR)	(c) Treasury Fund #/Name	(d) Category/Description	(e) Constitutional and/or Statutory reference	(f) 2013-15 Ending Balance		(g) 2015-17 Ending Balance		(j) Comments for 2013-15 Changes	(k) Comments for 2015-17 Changes
					In LAB	Revised	In CSL	Revised		
Limited	44000-000-00-00-00000	0450 / CBS Fund	Operational	Consumer & Business Services Fund; ORS 705.145	48,261,244	98,686,224	102,655,509	102,788,917	The CBS Fund is comprised of dedicated funds paid by those we regulate. The fund pays for department regulatory activities in the areas of workers' compensation, occupational safety and health, financial products, services and institutions, insurance and building codes. A minimum fund balance is maintained to meet cash flow needs, accommodate the timing of receipts and expenditures, and minimize the volatility of fees and assessments. Although the revised 6/30/2015 estimated ending fund balance will cover approximately nine months of total operating expenditures, the projected months of coverage varies for each program within the fund because the distinct programs have dedicated revenues that are not fungible. Change in balance from the 2013-15 LAB is a result of lower than planned expenditures based on the Department's expenditure reductions and an increase in actual revenues collected.	The CBS Fund is comprised of dedicated funds paid by those we regulate. The fund pays for department regulatory activities in the areas of workers' compensation, occupational safety and health, financial products, services and institutions, insurance and building codes. A minimum fund balance is maintained to meet cash flow needs, accommodate the timing of receipts and expenditures, and minimize the volatility of fees and assessments. Although the revised 6/30/2017 estimated ending fund balance will cover approximately nine months of total operating expenditures, the projected months of coverage varies for each program within the fund because the distinct programs have dedicated revenues that are not fungible. Change in balance from the 2013-15 LAB is a result of lower workers' compensation premium revenue resulting from the approved 7.6 percent pure premium rate decrease on January 1, 2015 and higher surcharge revenue for the Building Codes program.
Nonlimited	44000-005-00-00-00000	0450 / Workers' Compensation NL Accounts	Other -- Injured Worker Benefit Payments	Workers' Compensation NL Accounts; ORS 656.614	648,437	2,993,237	4,112,883	3,398,815	This fund includes the Self Insured Employer Adjustment Reserve (SIEAR) and the Self Insured Employer Group Adjustment Reserve (SIEGAR). SB 1558, passed during the 2014 session, split the SIEGAR into two subaccounts, one for private self-insured groups and one for public self-insured groups. The reserves are funded by assessments to workers' compensation self-insured employers and self-insured employer groups. They pay claims of injured workers of self-insureds when they become insolvent. Change in balance from the 2013-15 LAB is due to slightly higher assessment revenue collected.	This fund includes the Self Insured Employer Adjustment Reserve (SIEAR) and the Self Insured Employer Group Adjustment Reserve (SIEGAR). The reserves are funded by assessments to workers' compensation self-insured employers and self-insured employer groups. They pay claims of injured workers of self-insureds when they become insolvent. Change in balance from the 2015-17 CSL reflects lower actual and anticipated revenue recovery from insolvent self-insurers and lower exposure to the reserves.
Nonlimited	44000-006-00-00-00000	0696 / Workers' Benefit Fund	Other -- Injured Worker/Employer Benefit Payments	Workers' Benefit Fund; ORS 656.506	46,196,611	86,655,446	90,144,853	96,992,761	The WBF is funded by a cents-per-hour assessment paid one-half by employers and one-half by employees. The fund supports several return-to-work programs, as well as retroactive benefit changes for permanently and totally disabled workers and beneficiaries of workers deceased as the result of an occupational injury or disease. ORS 656.506 was modified by SB 1558 during the 2014 session to change the WBF minimum ending balance requirement from 12 months of projected expenditures to not less than 6 months of expenditures. Given certain criteria under SB 1558, the WBF will incur additional costs for paying claims of bankrupt self-insured employer groups. The revised estimated 6/30/2015 fund balance covers approximately 11.3 months of expenditures. The fund has over \$900 million in unfunded liability for ongoing claims costs. Change in balance from the 2013-15 LAB is due to an increase in the WBF assessment rate from 2.8 cents-per-hour to 3.3 cents-per-hour effective April 1, 2013 and from lower actual expenses for the retroactive benefit program resulting from a continuing decline in the population of beneficiaries.	The WBF is funded by a cents-per-hour assessment paid one-half by employers and one-half by employees. The fund supports several return-to-work programs, as well as retroactive benefit changes for permanently and totally disabled workers and beneficiaries of workers deceased as the result of an occupational injury or disease. ORS 656.506 sets minimum ending balance of 12 months of projected expenditures. The revised estimated 6/30/2017 fund balance covers approximately 12.6 months of expenditures. The fund has over \$900 million in unfunded liability for ongoing claims costs. Change in balance from the 2015-17 CSL is due to the continued decrease of actual expenditures for the retroactive benefit program.
Nonlimited	44000-016-00-00-00000	1039 / PreNeeds Funeral Trust	Trust Fund -- Restitution to Consumers	PreNeeds Funeral Trust; ORS 97.945	397,696	1,064,546	520,997	1,156,772	Prearranged funeral trusts are prepaid funeral and endowment plans. Revenue for the fund is a fee paid on each contract purchased. The fund provides restitution to consumers when the provider has defaulted. Changes in balance from the 2013-15 LAB is due to lower than expected payouts from the reserve.	Prearranged funeral trusts are prepaid funeral and endowment plans. Revenue for the fund is a fee paid on each contract purchased. The fund provides restitution to consumers when the provider has defaulted. Changes in balance from the 2015-17 CSL is due to lower than expected payouts from the reserve.

Objective: Provide updated Other Funds ending balance information for potential use in the development of the 2015-17 legislatively adopted budget.

Instructions:

- Column (a): Select one of the following: Limited, Nonlimited, Capital Improvement, Capital Construction, Debt Service, or Debt Service Nonlimited.
- Column (b): Select the appropriate Summary Cross Reference number and name from those included in the 2013-15 Legislatively Approved Budget. If this changed from previous structures, please note the change in Comments (Column (j)).
- Column (c): Select the appropriate, statutorily established Treasury Fund name and account number where fund balance resides. If the official fund or account name is different than the commonly used reference, please include the working title of the fund or account in Column (j).
- Column (d): Select one of the following: Operations, Trust Fund, Grant Fund, Investment Pool, Loan Program, or Other. If "Other", please specify. If "Operations", in Comments (Column (j)), specify the number of months the reserve covers, the methodology used to determine the reserve amount, and the minimum need for cash flow purposes.
- Column (e): List the Constitutional, Federal, or Statutory references that establishes or limits the use of the funds.
- Columns (f) and (h): Use the appropriate, audited amount from the 2013-15 Legislatively Approved Budget and the 2015-17 Current Service Level as of the Agency Request Budget.
- Column (g) Provide updated ending balances based on revised expenditure patterns or revenue trends. **Do not include** adjustments for reduction options that have been submitted unless the options have already been implemented as part of the 2013-15 General Fund and approved budget or otherwise incorporated in the 2013-15 LAB. The revised column (i) can be used for the balances included in the Governor's budget if available at the time of submittal. Provide a description of revisions in Comments (Column (j)).
- Column (j): **Please note any reasons for significant changes in balances previously reported during the 2013 session.**

Additional

Materials: If the revised ending balances (Columns (g) or (i)) reflect a variance greater than 5% or \$50,000 from the amounts included in the LAB (Columns (f) or (h)), attach supporting memo or spreadsheet to detail the revised forecast.