



University of Colorado
Boulder | Colorado Springs | Denver | Anschutz Medical Campus

September 26, 2013

Dr. Melinda Piket-May, Chair
Faculty Council
University of Colorado

Dear Chair Piket-May and members of Faculty Council:

I was dismayed to learn that the Faculty Council took action at its August 19, 2013 meeting on the proposal submitted by the Budget Committee concerning “Fiscal Management of the Health Trust (copy attached).” I understand that Professor Bruce Neumann presented the resolution on behalf of the Budget Committee, but no one from the University administration was in attendance at the Faculty Council meeting to offer comment. As you know, I was traveling on that day and had requested the topic be deferred to this month. No urgency existed to require discussion in August. The purpose of this letter, therefore, is to offer context and perspective on several issues raised in the proposal.

At the outset, I note that these are not new issues—they have been raised by Professor Neumann in numerous other meetings over the last four months and addressed in one form or another by me and by other University administrators, including University Counsel. The proposal, now resolution, reflects numerous inaccuracies or misunderstandings that previously were brought to the attention of and publicly corrected with Professor Neumann but apparently not conveyed to Faculty Council. I am therefore concerned that the Faculty Council was asked to act on the proposal without complete or accurate information.

The proposal, in the introductory paragraph, expresses concern about a “significant increase in accounts receivable and the corresponding decrease in reserve funds during the Second and Third Quarter of the prior fiscal year.” As has been explained and demonstrated to Professor Neumann, the quarterly budget statements on which he relied were snapshots of account balances on a specific day. Plan Administration now processes approximately \$23 million in claims each month. Liquidity and solvency questions must be viewed over the entire financial year.

Regarding item 2 of the proposal on liquidity and solvency, University Treasurer Don Eldhart, who is the Trust’s designated fund manager, stated in reaction to the proposal that the Trust has never faced a liquidity problem since its inception in July 2010. Quarterly financial reports from Treasurer Eldhart (attached), distributed to the Trustees and to

Professor Neumann (as a member of the public who attends Trust Committee meetings from time to time), depict daily fund balances in graph form. According to the University's actuary, Mercer, one of the largest and most prestigious human resources consulting companies in the world, the Plan Administration's financial reports, including Treasurer Eldhart's reports, are consistent with independent actuarial measurements. Also, according to Mercer (see attached), the Trust has operated on a cumulative surplus basis over its first full three plan years and has never been in a negative cash flow position.

Equally bewildering is the request in item 1 of the proposal that the Trust request its external auditors to examine the Trust's internal control and accounting policies, especially revenue recognition policies, and include the results in the firm's management letter. Engaged for the Trust is CliftonLarsonAllen, a top ten accounting firm selected in a competitive process by the Office of the University Controller (and also is the CU external auditor, selected by the Colorado State Auditor), to perform an external audit of the Trust's financial statements. External auditing firms alone are responsible for determining the nature and extent of their internal control testing and evaluation of accounting policies. And when the external auditor issues an **unqualified opinion as to the balances and disclosures in the Trust's financial statements, as has occurred each of the two Plan years audited** (see attached), millions of dollars in malpractice insurance stand behind the firm, not to mention the firm's professional reputation.

In other contexts, Professor Neumann has accurately asserted that maintaining a large accounts receivable balance for even a short period of time could deprive the Trust of investment earnings. Item 3 of the proposal requests Trust accounting staff to calculate that loss. The attached email from Treasurer Eldhart calculates the potential maximum loss over the six-month period Professor Neumann has identified at \$1,700, which is 0.00084% of the FY 2013 operating budget of nearly \$203 million. The issue that caused the temporary increase in accounts receivables was caused by a performance deficiency of our former Administrative Services Organization; therefore, we are seeking to recoup an appropriate amount as part of the normal close-out review with them. The value of the time spent by University and Plan administrators and outside consultants responding repeatedly to the matter exceeds that amount.

Item 4 of the proposal requests that the Trust's external auditors examine the "[o]verall assessment of the Health Trust's fiscal health and likelihood that it will not encounter similar problems in the future." This request also reflects a misunderstanding of the auditing process. An external financial auditor is engaged to audit the Trust's financial statements using the auditor's own control procedures and national standards to issue an opinion as to compliance with generally accepted accounting standards of such statements. If the auditor were to find a significant deficiency or material weakness in internal controls or a material misstatement of financial results, professional standards require them to report this to the Trustees. In no way is it the external auditor's responsibility to assess the Trust's fiscal health. Nor is it an auditor's responsibility to prognosticate. That role belongs

to the Trust's independent actuary, Mercer. As already noted, the Trust's actuary indicates that the Trust has operated on a cumulative surplus basis over the course of its first three full plan years.

Respectfully,



E. Jill Pollock
Vice President, Employee and Information Services
and
Chair, Trust Committee, University of Colorado Health and Welfare Trust

Attachments

Copy: University of Colorado Staff Council

**Budget Committee Proposal on
Fiscal Management of the Health Trust 2012-13, 8-19-13**

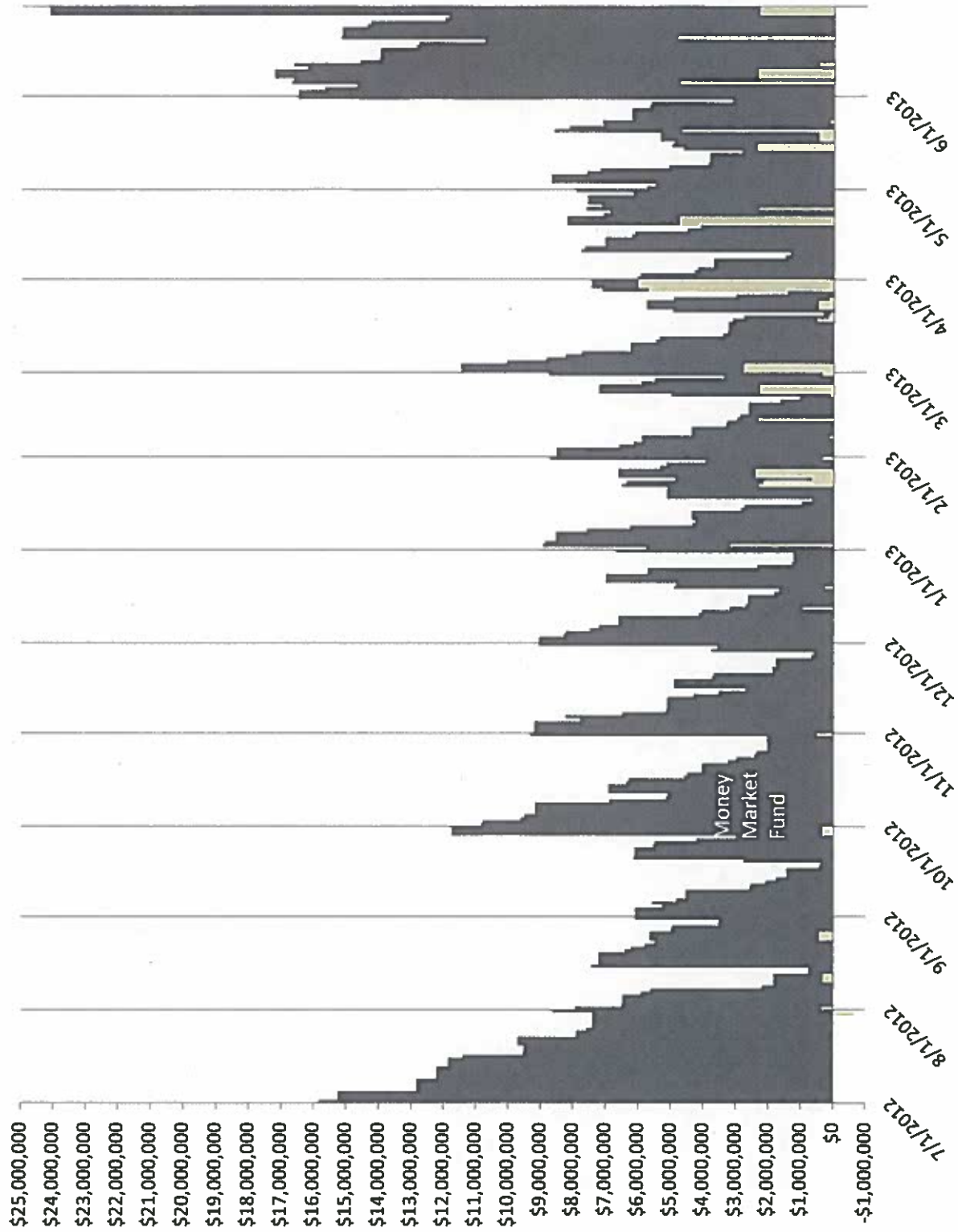
The Budget Committee of Faculty Council is concerned about the fiscal management of the Health Trust, particularly the significant increase in accounts receivable and the corresponding decrease in reserve funds during the Second and Third Quarter of the prior fiscal year. While the problem may be alleviated at present, it is essential to ask the Trust auditors and the CU auditors (same firm) to further examine issues #1 & #4 as part of their audit processes and include the results in their management letter, and we request the Trust accounting staff and/or CU Internal Audit staff to consolidate or assemble data on issues #2 and #3 and provide such data to the auditors, the Budget Committee, UBAB, the Health Trust, Faculty and Staff Councils:

1. Internal control and accounting policies (and especially revenue recognition policies).
2. Liquidity and solvency issues during the period January-June, 2013. Please identify the number of days that reserves were below actuarial limits, and categorize the amounts of shortages into quartiles. Please graph the shortages and provide means and standard deviations and medians for each quartile.
3. Calculate the estimated loss of interest or other earnings that were lost because the investment balances were so low during most of the fiscal year.
4. Overall assessment of the Health Trust's fiscal health and likelihood that it will not encounter similar problems in the future. We are not asking for an assessment of medical risks, but rather an assessment of financial strength based on financial statement indicators.

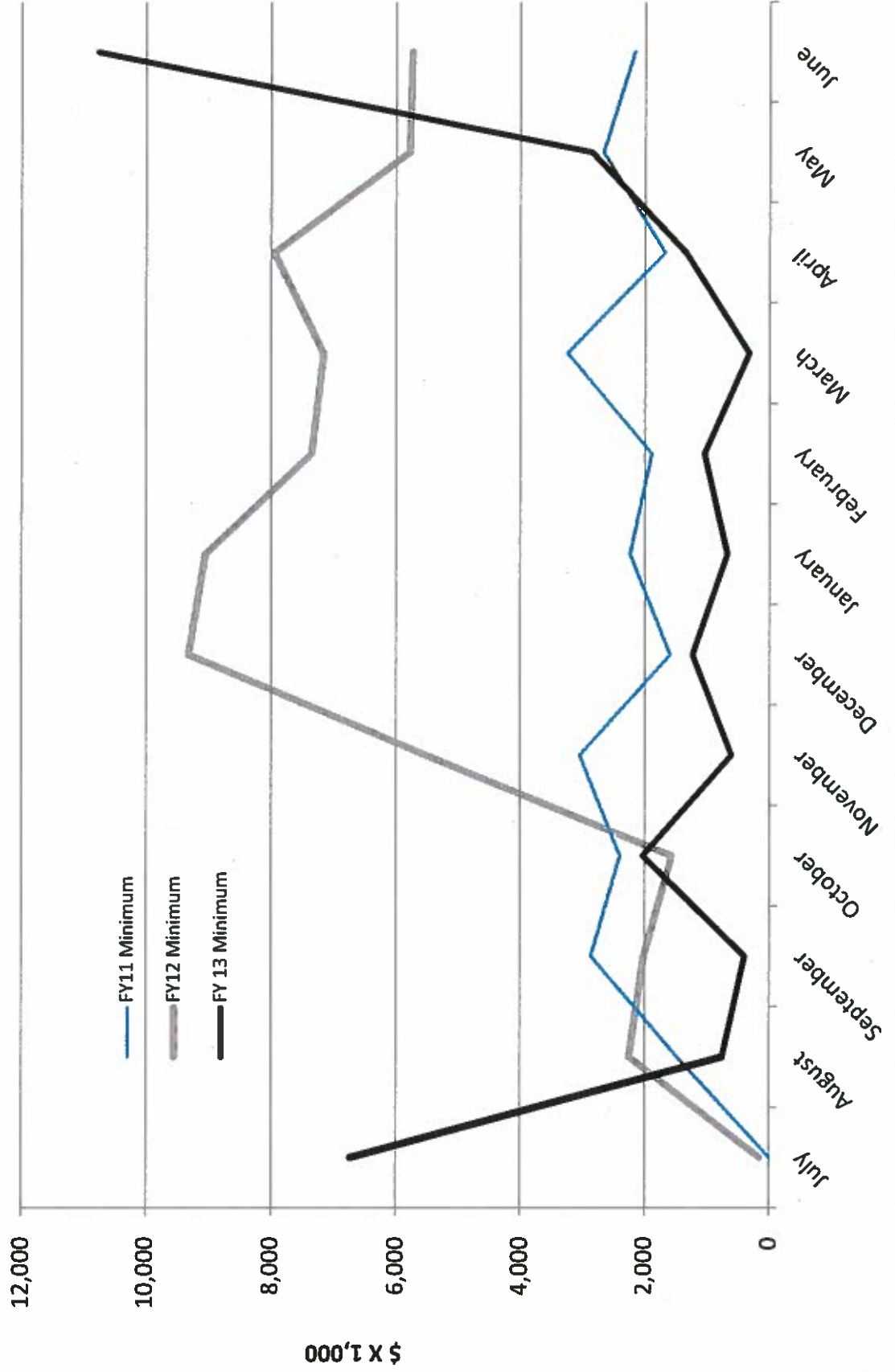
We request Faculty Council to support this request and communicate it to the President and relevant Vice-Presidents (including the CU Trustees).

Submitted by Chair, Bruce R. Neumann, Ph.D.

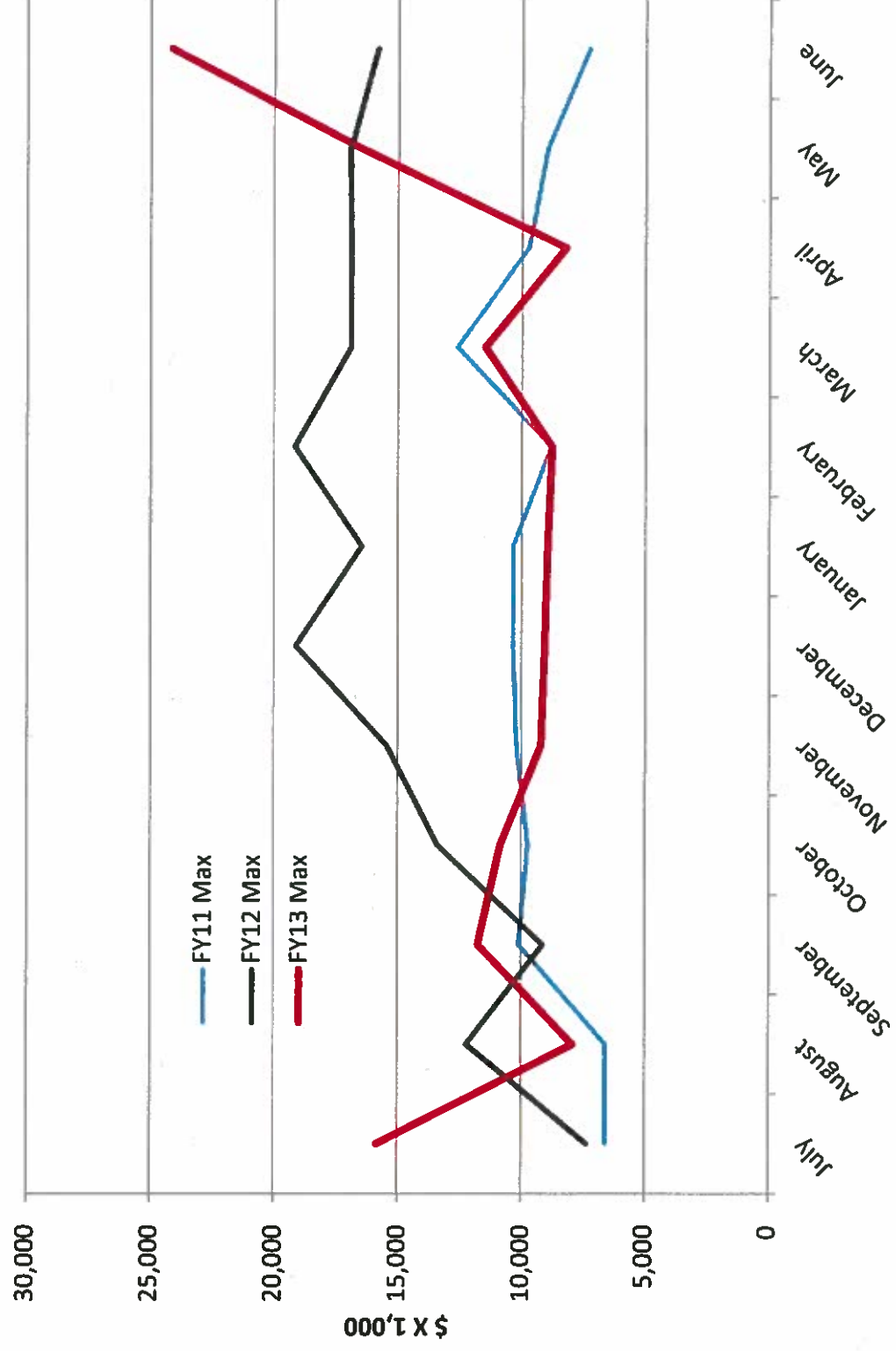
Bank and Investment Balances by Day Wells Fargo and Money Market Fund - FY2013



UCHWT Monthly Minimum Resources



UCHWT Monthly Maximum Resources





Bradley Cornish, FSA, MAAA
Principal

1225 17th Street, Suite 2200
Denver, CO 80202
+1 303 376 0800
Brad.Cornish@Mercer.com
www.mercer.com

September 16, 2013

Mr. Mark Stanker
Assistant Vice President
CU Health Plan
1800 Grant Street, Suite 225
Denver, CO 80203

Subject: Trust's Financial Management

Dear Mark:

I am responding to the Budget Committee of Faculty Council's August 19, 2013 letter in which concerns were expressed about the financial management of the University of Colorado's Health & Wealth Trust. While I am not directly responsible for the operation of the Trust or the preparation of its financial statements, as actuary with more than 25 years of experience and in serving in such capacity to the Trust since its inception in 2010, I am offering the following comments.

- Over the course of its first full three plan years (July 1, 2010 - June 30, 2013), the Trust has operated on a cumulative surplus basis (funding to the Trust has exceeded expenses paid out by the Trust).
- At no time during this period was the Trust in a negative cash flow position or in danger of not maintaining assets that exceeded its liabilities.
- The financial reports presented at Trust meetings have been complete and consistent with the positive plan experience that Mercer has observed and measured.

I am available to answer any questions that may arise from these comments.

Sincerely,

Bradley A. Cornish, FSA, MAAA

Independent Auditors' Report

The Board of Trustees
University of Colorado Health and Welfare Trust
Denver, Colorado

We have audited the accompanying basic financial statements of University of Colorado Health and Welfare Trust (Trust) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Trust as of and for the year ended June 30, 2011, were audited by other auditors whose report dated April 13, 2012, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Colorado Health and Welfare Trust as of June 30, 2012, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and ten-year loss development information on pages 3 through 5 and 16 be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University of Colorado Health and Welfare Trust's basic financial statements. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Greenwood Village, Colorado
January 11, 2013

From: [Don Eldhart](#)
To: [Mark Stanker](#)
Subject: RE: Investment Earnings
Date: Thursday, August 22, 2013 11:29:55 AM
Attachments: [image001.png](#)
[image002.png](#)

Mark,

Had this "missing" amount been invested in the money market fund, the lost earnings would be no more than twice that amount or approximately \$1,700.

Donald A Eldhart
Treasurer, Associate Vice President & Chief Investment Officer
University of Colorado
1800 Grant Street, Suite 600
Denver, CO 80203
Phone: 303.837.2182
Fax: 303.837.2188



University of Colorado
Boulder | Colorado Springs | Denver | Anschutz Medical Campus

From: Mark Stanker
Sent: Thursday, August 22, 2013 11:10 AM
To: Don Eldhart
Subject: RE: Investment Earnings

Thank you!

Mark

From: Don Eldhart
Sent: Thursday, August 22, 2013 9:47 AM
To: Mark Stanker
Subject: RE: Investment Earnings

Mark,

Estimating lost earnings is a pretty speculative endeavor which requires lots of assumptions.

Here's the assumptions I used to estimate the largest amount of lost earnings for FY2013:

- The maximum amount that could have been invested based on the FY2012 cash flow pattern is \$4.25 million;
- This amount would have been invested for only the last six months of the fiscal year based

on the FY2012 cash flow pattern;

- This money would likely have been invested in a short-duration, high-quality, liquid, fixed-income mutual fund; and
- Earnings would have been similar to the Barclays Capital 1-3 Year Government Float Adjusted Index.

Interest rates climbed in the last quarter of FY2013 following Fed Chairman Bernanke's comments about reducing the Fed's \$85 billion monthly purchases of Treasuries and mortgages. Even the return of this short-term, high-quality index was adversely affected by these comments. The index's total return for this six month period was a paltry 0.02%. So, in terms of dollars the earnings on the \$4.25 million for the six months assumed above would have been a trivial \$850.

Donald A Eldhart

Treasurer, Associate Vice President & Chief Investment Officer

University of Colorado

1800 Grant Street, Suite 600

Denver, CO 80203

Phone: 303.837.2182

Fax: 303.837.2188



University of Colorado

Boulder | Colorado Springs | Denver | Anschutz Medical Campus