STATE OF CONNECTICUT

AUDITORS' REPORT
OFFICE OF HEALTH CARE ACCESS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 and 2009

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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August 9, 2011

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FOR THE FISCAL YEARS ENDED JUNE 30, 2008 and 2009

We have examined the financial records of the Office of Health Care Access (OHCA) for the fiscal years ended June 30, 2008 and 2009. This report on that examination consists of the comments, recommendations and certification, which follow.

Financial statements pertaining to the operations and activities of the Office of Health Care Access are presented on a Statewide Single Audit basis to include all state agencies. This audit examination has been limited to assessing OHCA's compliance with certain provisions of laws, regulations, and contracts, and evaluating OHCA's internal control policies and procedures established to ensure such compliance. Under Section 19a-612a of the General Statutes, the Office of Health Care Access operates within the Department of Public Health for administrative purposes only.

COMMENTS

FOREWORD:

The Office of Health Care Access operates primarily under the provisions of Title 19a, Chapter 368z, of the General Statutes. The duties and responsibilities of OHCA are described in Section 19a-613 of the General Statutes, as follows:

- Collecting patient-level outpatient data from health care facilities or institutions
- Establishing a cooperative data collection effort across public and private sectors to ensure that adequate health care personnel demographics are readily available
- Oversee and coordinate health system planning for the state
- Monitor health care costs
- Create an advisory council to advise the Commissioner on graduate medical education.

Other Sections within Chapter 368z provide for certain regulatory powers, most notably, rate-setting and approvals for certain capital expenditures of health care facilities and

institutions. Such health care facilities and institutions submit, Certificate of Need requests that must be approved by OHCA prior to execution. A change in ownership or control, or a change in function or service, must also be approved through the Certificate of Need process.

As prescribed within Section 19a-612 of the General Statutes, "The powers of the office shall be vested in and exercised by a commissioner who shall be appointed by the Governor…" Cristine A. Vogel was appointed Commissioner on January 2, 2004.

Legislative Changes

Public Act 07-149, effective October 1, 2007, redefined several terms OHCA uses to calculate uncompensated care for disproportion share hospital payment system. It applied the law governing hospital negotiated rate discounts to John Dempsey Hospital. It substituted the term "charity care" for "free care" in laws governing disproportion share hospital payment calculations and hospital reporting requirements. Also, it redefined "primary payer" for purposes of annual hospitals audits.

Public Act 08-14, effective July 1, 2008, amended OHCA's Certificate of Need review process by adding a new exemption for capital expenditures for nonclinical purposes if certain conditions are met and changing certain registration and notice periods applicable to exempt facilities and institutions. This Act also specified that, when reviewing Certificate of Need applications for capital expenditures or for the acquisition of equipment by health care facilities, institutions, providers, or persons, OHCA must consider a set of existing statutory principles and guidelines.

RÉSUMÉ OF OPERATIONS

General Fund Revenues and Receipts:

General Fund revenues and other receipts of OHCA totaled $3,889,424 and $4,337,284 for the 2007-2008, and 2008-2009 fiscal years, respectively, as compared to $3,436,104 for the 2006-2007 fiscal year. A comparative summary of General Fund receipts is presented below:

Revenues:			
Expenses recovered from hospitals	$3,951,124	$3,697,407	$3,075,259
Certificate of need filing fees	370,210	184,328	325,568
Petty Cash Returned	7,500	-	-
Miscellaneous	5,231	5,209	4,918
Total Revenues	4,334,065	3,886,944	3,405,745
Refunds of expenditures	3,219	2,480	30,359
Total General Fund Receipts	$4,337,284	$3,889,424	$3,436,104

The major source of revenue is the recovery of OHCA's costs from hospitals as mandated under Section 19a-631, subsection (b), of the General Statutes. That section permits the recovery of OHCA's actual costs during each fiscal year, including the cost of fringe benefits, the amount of central state services attributable to OHCA, and expenditures made on behalf of OHCA from

the Capital Equipment Purchase Fund. Hospitals are assessed for a portion of the costs in relation to each hospital's net revenue as compared to the total net revenue of all hospitals.

General Fund Expenditures

General Fund expenditures of the Office of Health Care Access totaled $2,450,405 and $2,154,413 for the 2007-2008 and 2008-2009 fiscal years, respectively, as compared to $2,067,463 for the 2006-2007 fiscal year. Comparative summaries of General Fund expenditures for the fiscal years under review and the preceding fiscal year are presented below:

	2008-2009	2007-2008	2006-2007
Budgeted Accounts:			
Personal services	$1,995,649	$1,949,101	$1,867,371
Contractual services	145,675	459,334	175,744
Commodities	12,222	28,694	22,728
Sundry Charges	868	2,522	1,620
Equipment	-	10,754	-
Total General Fund Expenditures	$2,154,414	$2,450,405	$2,067,463

Personal services expenditures increased mainly due to the standard cost of living allowance. Also, contractual services increased significantly in fiscal year 2008 due to the purchase of information technology software.

As discussed previously, OHCA recovers its normal operating expenses from the regulated hospitals. An analysis of the amounts recovered from the hospitals and the amounts due from the hospitals at fiscal year-end follows:

	2008-2009	2007-2008	2006-2007
Expenditures to be recovered:	$2,154,414	$2,450,405	$2,067,463
Fringe benefits	1,096,840	1,039,851	645,582
Central State services	508,784	387,364	636,507
Capital Equipment Purchase Fund Expenditures	-	9,477	5,189
Expenditures over/(under) Assessments, Penalties, and Interest	78,787	(92,358)	(38,238)
Total base - recovered expenditures	3,838,825	3,794,739	3,316,503
Amounts receivable, beginning of year	392,756	295,424	54,180
Total due	4,231,581	4,090,163	3,370,683
Less: Assessments received from hospitals	3,951,124	3,697,407	3,075,259
Amounts receivable, end of year	$281,314	$392,756	$295,424

The amount presented as Expenditures over/(under) Assessments, Penalties, and Interest is due to the practice of calculating annual assessments based on anticipated expenditures. After the end of each fiscal year, an adjustment is made to the following year's assessment to either add amounts due from the hospitals or to credit amounts owed to the hospitals. Also, included in that

category are penalties and late charges. These are charges levied against individual hospitals if payment is not received on time.

Special Revenue Fund:

Capital equipment purchases totaling $9,477 was paid from the Capital Equipment Purchases Fund during the 2007-2008 fiscal year. Purchases were primarily for information technology hardware.

Performance Evaluation:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. We reviewed the hospital billing process at the Office of Health Care Access. Our main focus was to evaluate the implementation of the statutory requirement established by Public Act No. 08-14, which became effective on July 1, 2008. This act was codified as section 19a-681, subsection (b) of the General Statutes.

Each hospital is required to file with OHCA its current pricemaster, which shall include each charge in its detailed schedule of charges. If the billing detail by line item on a patient's bill does not agree with the detailed schedule of charges on file with OHCA for the date of service specified on the bill, the hospital shall be subject to a civil penalty of five hundred dollars per occurrence payable to the state no later than fourteen days after notification. Also, OHCA may issue an order requiring a hospital, no later than fourteen days after the date of notification of an overcharge to a patient, to adjust the bill to be consistent with the schedule of charges on file for the date of service specified on the patient's bill.

Hospital Billing Process:

Criteria: Section 19a-681, subsection (b), of the General Statutes, states that if the billing detail on a patient's bill does not agree with the detailed schedule of charges on file with OHCA for the date of service specified, the hospital shall be subject to a civil penalty of five hundred dollars. OHCA may also require the hospital to adjust the patient's bill to be consistent with the schedule of charges within fourteen days after the notification of an overcharge to a patient.

Condition: We reviewed five of the twenty-five patient complaints received by OHCA during the audited period regarding hospital billing. Of the five complaints reviewed, we found that the complaints were not adequately investigated by OHCA in four cases due to a lack of established policies and procedures to handle such complaints. Complaints were either not followed up on completely or the schedule OHCA had on file did not always match what the patients presented in their complaints. As a result, OHCA could not sufficiently review certain complaints to determine if patients were appropriately charged. Also, in one case, OHCA did not assess a civil penalty on a hospital.

Effect: In some cases, patients may be inaccurately billed for services they receive from hospitals if complaints are not adequately investigated. The state could lose revenues when civil penalties are not assessed and collected.

Cause: There are no formal documented policies and procedures regarding the hospital billing process at OHCA. As a result, it does not appear as if billing complaints were adequately addressed.

Recommendation: In order to comply with Section 19a-638 subsection (b), of the General Statutes, the Office of Health Care Access should improve and document its policies and procedures over the hospital billing process.

Agency Response: "We do not agree with finding. None of these five complaints involved OHCA finding a discrepancy as the result of a cross check of an itemized patient bill submitted to OHCA by the consumer against a hospital pricemaster on file at OHCA. OHCA's jurisdiction to seek a civil penalty is only related to the finding of a billing discrepancy when compared to the pricemaster on file.

Going forward, OHCA will follow up with a consumer if they do not respond to OHCA's initial request for a copy of the bill in a timely manner; OHCA will communicate to find out if the consumer has resolved the issue with the hospital or is having difficulty obtaining the itemized bill. OHCA's follow-up will assure that each consumer matter is closed properly and the record reflects such."

Auditors' Concluding Comments

OHCA never adequately evaluated the complaints to establish whether a billing discrepancy occurred. Based on our review of the four complaints, only one had sufficient documentation to draw a conclusion and should have resulted in a civil penalty. In fact, OHCA has never accessed a penalty.

CONDITION OF RECORDS

Our examination of the records of the Office of Health Care Access disclosed the following conditions:

Internal Controls over Hospital Assessment Accounts Receivable, Receipts, Fines and Penalties:

Criteria: Section 19a-632, subsection (c), of the General Statutes states that each qualifying hospital shall pay quarterly assessments to the Office of Health Care Access on or before December 31st and the following March 31st, June 30th and September 30th, annually.

Section 19a-632, subsection (e), states that a late fee of ten dollars should be added to any assessment not paid when due. It also states that interest at a rate of one-fourth per cent per month, or a fraction thereof, should be paid on such assessment and late fee.

The State Comptroller's State Accounting Manual requires the periodic preparation, where feasible, of accountability reports and reconciliations of accounts receivable trial balances to compare the receipts that were actually recorded with the receipts that should have been accounted for.

Condition: During the fiscal years ending June 30, 2008 and 2009, the Office of Health Care Access received recoveries from hospitals totaling $3,607,497 and $3,951,124, respectively. Internal controls over these receipts do not include preparing periodic accountability reports and accounts receivable trial balances. In addition, no reconciliation to Core-CT is performed.

Lack of reconciliation to Core-CT allows errors to occur that are not detected. A check for $14,496 was miscoded and assessments totaling $37,403 were not collected.

We found that, in some cases, penalties and interest were collected on hospital assessments that were received late. However, in nine quarterly periods, we found that penalties and interest totaling $9,577 were not collected on hospital assessments that were received late.

Effect: The lack of accountability reports and reconciliation to Core-CT increases the risk that amounts due will go uncollected for inordinate lengths of time without being detected.

OHCA lost $46,980 in revenue that could have been collected because it did not collect an assessment or consistently levy interest and penalties on nine late hospital assessment payments.

In addition, inadequate record keeping resulted in incorrect accounts receivable balances.

Cause: A lack of administrative control contributed to this condition. Also, OHCA does not reconcile its records to Core-CT. Effective internal controls are not in place for recording penalties and interest on hospital assessments that are paid late.

Recommendation: The Office of Health Care Access should improve internal controls over hospital assessment receipts by preparing accountability reports and reconciling its accounts receivable records to Core-CT. In addition, the Office of Health Care Access should ensure that penalties and interest are charged on all hospital assessments that are received late. (See Recommendation 2.)

Agency Response: "We agree with this finding. There was an error which occurred that should have been rectified regarding the omission of one check from a hospital for the quarter ending June 30, 2008. During this time period, a consistent "checks and balances" process was not in place. OHCA will develop procedures which will be implemented and maintained in order to receive periodic reconciling reports from DPH business office showing OHCA deposits. OHCA will pursue inaccuracies more vigorously.

We also agree with the auditor's statement regarding collection of interest on late payments. There were a number of cases when interest penalties were not fully collected on late payments during past years. In several of these cases OHCA specifically allowed a late payment without penalty for good cause shown to OHCA. OHCA has improved procedures for the collection of late fees and interest and now adheres to them more consistently. Recordkeeping has been and will continue to be improved to more easily reflect when late fees and interest are due or paid in future quarters. OHCA does note that the auditor's finding regarding a miscoded check was not within OHCA's internal control. OHCA, as a previous Department of Administrative Services (DAS) Small Agency Resource Team (SMART) unit and now as a division within DPH does not specifically control the coding of deposits.

It should be noted that an internal OHCA workgroup in 2009 reviewed hospital assessment internal controls with the objective of improving the notification and collection process. One result of that workgroup is OHCA's current plan to pursue electronic transfers for payments and record keeping."

Timeliness of Deposits:

Criteria: Section 4-32 of the General Statutes generally requires that any state agency receiving money or revenue for the state amounting to $500 or more, must deposit it within 24 hours of receipt.

Condition: We sampled 88 checks valued at $3,407,902 that were comprised of hospital assessments and late payment penalties. At the time of our audit, OHCA was a "SMART" agency of DAS. Therefore, checks were forwarded to DAS for deposit. Six of the checks sampled, valued at $215,040, were deposited between one and four days late. OHCA forwarded three of these checks to DAS for deposits, but DAS did not process the checks promptly. However, OHCA cannot substantiate that the other three checks were sent to DAS in a timely manner.

Effect: The failure to deposit receipts in a timely manner reduces the State Treasurer's opportunity to invest idle money, increases the risk that items awaiting deposit may be misplaced, and represents non-compliance with state law.

Cause: DAS stated that three of the checks were deposited late because the person who handles OHCA's deposits at DAS was on vacation. On the other hand, OHCA's records did not lend themselves to determine when the other three checks were forwarded to DAS for deposit.

Recommendation: The Office of Health Care Access should ensure that deposits are made in a timely manner to ensure compliance with Section 4-32 of the General Statutes. (See Recommendation 3.)

Agency Response: "We do not agree with this finding. The three checks received during the holiday week in July 2007 were all transmitted from OCHA to DAS on the day of OHCA's receipts of the check. According to DAS, those checks were in fact received by DAS on the day OHCA received them but were not deposited due to staff vacation schedules at DAS. The three checks received during the holiday week in December 2007 were also transmitted from OHCA to DAS on the day of OHCA's receipt of the check. OHCA processes its checks in a very timely manner and, in each of these cases, transmitted them to DAS the very same day as receipt by OHCA. The failure of DAS to then deposit these funds within a 24 hour period is and was outside of OHCA's direct control.

It should be noted that OHCA currently hand-delivers the assessment checks to the Business Office of the Department of

Public Health. This removes the delay of DAS being responsible to pick up and deposit the checks."

Auditors' Concluding Comments:

OHCA is correct in stating that three of the checks received during July 2007 were sent to DAS for processing in a timely manner. However, OHCA cannot substantiate that the other three checks received in December 2007 were transmitted timely to DAS for processing.

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2008 and 2009 contained four recommendations. The status of those recommendations is presented below:

Status of Prior Audit Recommendations:

- **In order to comply with Section 19a-638, subsection (a), of the General Statutes, the Office of Health Care Access should improve and document its policies and procedures over the Letter of Intent (LOI) process.** This recommendation will not be repeated because new legislation, which went into effect on October 1, 2010 addressed the issues that required attention during the prior audit.

- **The Office of Health Care Access should improve internal controls over hospital assessment receipts by preparing accountability reports and reconciling its accounts receivable records to Core-CT. In addition, the Office of Health Care Access should ensure that penalties and interest are charged on all hospital assessments that are received late.** This recommendation is being repeated. (See Recommendation 2.)

- **The Office of Health Care Access should ensure that deposits are made in a timely manner as required by Section 4-32 of the General Statues.** This recommendation is being repeated. (See Recommendation 3.)

- **The Office of Health Care Access should improve its controls over the calculation of hospital assessments to ensure that the actual fringe benefit costs are recovered from hospitals.** This recommendation is not being repeated.

Current Audit Recommendations:

1. **In order to comply with Section 19a-681, subsection (b), of the General Statutes, the Office of Health Care Access should improve and document its policies and procedures concerning hospital billing and the collection of civil penalties.**

   Comment:

   Patients may be inaccurately billed for services they receive from hospitals if complaints are not adequately investigated. Also, the state could be losing civil penalties revenues that should have been collected from hospitals.

2. **The Office of Health Care Access should improve internal controls over hospital assessment receipts by preparing accountability reports and reconciling its accounts receivable records to Core-CT. In addition, the Office of Health Care Access should ensure that penalties and interest are charged on all hospital assessments that are received late.**

   Comment:

   The lack of accountability reports and reconciliations increases the risk that amounts will go uncollected for inordinate lengths of time without being detected. Also, the

lack of consistency in collecting penalties and interest on hospital assessments that are paid late caused OHCA to lose revenue it could have collected.

3. **The Office of Health Care Access should ensure that deposits are made in a timely manner as required by Section 4-32 of the General Statues.**

   Comment:

   During our current review, we sampled 88 checks and found that six of these checks were deposited between one and four days late.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of Health Care Access for the fiscal years ended June 30, 2008 and 2009. This audit was primarily limited to performing tests of OHCA's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of OHCA's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to OHCA are complied with, (2) the financial transactions of OHCA are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of OHCA are safeguarded against loss or unauthorized use. The financial statement audits of the Office of Health Care Access for the fiscal years ended June 30, 2008 and 2009 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit 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,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Office of Health Care Access complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

In planning and performing our audit, we considered the Office of Health Care Access internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating OHCA's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of OHCA's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* 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 on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects OHCA's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that

a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by OHCA's internal control. We consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements:

Recommendation 1: OHCA's monitoring of hospital billing needs improvement.

Recommendation 2: OHCA's internal controls over hospital assessment receipts and penalties and interest are weak.

Recommendation 3: OHCA is not in compliance with Section 4-32 of the General Statutes, which require that deposits must be made in a timely manner.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to OHCA's financial operations, noncompliance which could result in significant unauthorized, illegal or unsafe transactions, and/or material financial misstatements by OHCA being audited will not be prevented or detected by OHCA's internal control.

Our consideration of the internal control over OHCA's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Office of Health Care Access complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of OHCA's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Office of Health Care Access response to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Office of Health Care Access response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Office of Health Care Access management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of Health Care Access during the course of our examination.

Andrea E. Evans
Associate Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts