

STATE OF CONNECTICUT



***AUDITORS' REPORT
OFFICE OF HEALTH CARE ACCESS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2005***

AUDITORS OF PUBLIC ACCOUNTS
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TABLE OF CONTENTS

INTRODUCTION	1
COMMENTS	1
Foreword	1
Legislative Changes	2
Résumé of Operations	2
General Fund Revenues and Receipts.....	2
General Fund Expenditures.....	3
Special Revenue Fund – Federal and Other Restricted Accounts	4
CONDITION OF RECORDS	6
Internal Controls over Hospital Assessment Accounts Receivable, Receipts, and the Timeliness of Deposits.....	6
Calculation of Total Operating Costs for Hospital Assessments.....	7
RECOMMENDATIONS	9
INDEPENDENT AUDITORS’ CERTIFICATION	10
CONCLUSION	12

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**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2005**

We have examined the financial records of the Office of Health Care Access (hereafter, OHCA) for the fiscal years ended June 30, 2004 and 2005. 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 assure that adequate health care personnel demographics are readily available;
- Oversee and coordinate health system planning for the state;
- Monitor health care costs;
- Implement and oversee health care reform as enacted by the General Assembly;
- Monitor graduate medical education and its sources of funding; and
- 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...”. Mary M. Heffernan served as Commissioner from January 2003 until her resignation effective December 1, 2003. Cristine A. Vogel was appointed Commissioner on January 2, 2004.

Legislative Changes:

Public Act 05-251, Section 60, subsection (c), allows the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management to develop a plan whereby the Department of Administrative Services (DAS) would merge and consolidate personnel, payroll, affirmative action, and business office functions of selected executive branch State agencies within DAS. The effective date of the Public Act was July 1, 2005. The Office of Health Care Access (OHCA) was selected as one such agency. OHCA payroll, personnel, and business office functions were transferred to DAS. However, OHCA continues to be responsible for Hospital Assessment accounts receivable and collection.

Public Act 04-249, effective July 1, 2004, requires OHCA to regulate outpatient surgical facilities.

RÉSUMÉ OF OPERATIONS:

Public Act 04-02 of the May Special Session of the 2004 General Assembly authorized the establishment of two new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, as a result of the implementation of a new State accounting system and Public Act 04-02, the State Comptroller established a new Special Revenue Fund entitled “Federal and Other Restricted Accounts Funds” to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as restricted contributions and accounts.

General Fund Revenues and Receipts:

General Fund revenues and other receipts of OHCA totaled \$2,813,190 and \$3,314,623 for the 2003-2004 and 2004-2005 fiscal years, respectively, as compared to \$3,785,566 for the 2002-2003 fiscal year. A comparative summary of General Fund receipts is presented below:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Revenues:			
Expenses recovered from hospitals	\$ 2,852,776	\$ 2,584,769	\$ 3,492,381
Expenses recovered from insurance companies	-	22,955	-
Federal grant receivables	-	-	110,030
Certificate of need filing fees	452,258	186,272	104,745
Miscellaneous	9,589	21,137	12,984
Total Revenues	<u>3,314,623</u>	<u>2,815,133</u>	<u>3,720,140</u>
Refunds of expenditures	-	-	2,135
Grant Transfer - Non-Federal Restriction	-	(1,943)	-
Restricted contributions-appropriated	-	-	63,291
Total Receipts	<u>\$ 3,314,623</u>	<u>\$ 2,813,190</u>	<u>\$ 3,785,566</u>

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. Said 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 \$2,047,842 and \$2,075,103 for the 2003-2004 and 2004-2005 fiscal years, respectively, as compared to \$2,431,995 for the 2002-2003 fiscal year. Comparative summaries of General Fund expenditures for the fiscal years under review and the preceding fiscal year are presented below:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Budgeted Accounts:			
Personal services	\$ 1,895,711	\$ 1,845,112	\$ 2,090,474
Contractual services	161,390	182,128	168,601
Commodities	17,851	16,572	19,961
Sundry Charges	-	3,950	330
Equipment	151	80	1,400
Total Budgeted Accounts	<u>2,075,103</u>	<u>2,047,842</u>	<u>2,280,766</u>
Restricted Accounts	-	-	151,229
Total General Fund Expenditures	<u>\$ 2,075,103</u>	<u>\$ 2,047,842</u>	<u>\$ 2,431,995</u>

Personal services expenditures increased mainly due to the standard cost of living allowance.

Auditors of Public Accounts

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:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>
Expenditures to be recovered:	\$ 2,075,103	\$ 2,047,842	\$ 2,280,766
Fringe benefits	744,609	842,772	836,155
Central State services	220,436	129,139	120,873
Capital Equipment Purchase Fund expenditures	25,019	20,870	19,935
Expenditures over/(under)			
Assessments, Penalties, and Interest	(174,691)	(489,724)	214,588
Total base - recovered expenditures	2,890,476	2,550,899	3,472,317
Amounts receivable, beginning of year	117,365	151,235	171,299
Total due	3,007,841	2,702,134	3,643,616
Less: Assessments received from hospitals	2,852,776	2,584,769	3,492,381
Amounts receivable, end of year	<u>\$ 155,065</u>	<u>\$ 117,365</u>	<u>\$ 151,235</u>

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 – Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, restricted accounts that had previously been reported in the General Fund were being reported by the State Comptroller in a newly established Special Revenue Fund. OHCA's Federal and Other Restricted Accounts' receipts totaled \$25,284 and \$163,842 for the fiscal years ended June 30, 2004 and 2005, respectively. These receipts consisted primarily of Federal restricted revenue.

Expenditures in the Federal and Other Restricted Accounts totaled \$163,098 and \$204,948 for fiscal years ended June 30, 2004 and 2005, respectively. A summary of these expenditures follows:

	<u>2004-2005</u>	<u>2003-2004</u>
Personal services	\$ 1,237	\$ 174
Contractual services	199,208	159,233
Commodities	3,854	2,361
Sundry Charges	649	1,330
Equipment	-	-
Total Special Revenue Fund Expenditures	<u>\$ 204,948</u>	<u>\$ 163,098</u>

The increase in expenditures in the 2004-2005 fiscal year resulted from an increase in management consultant services.

In addition to the above Special Revenue Fund expenditures, capital equipment purchases totaling \$20,870 and \$25,019 were paid from the Capital Equipment Purchases Fund during the 2003-2004 and 2004-2005 fiscal years, respectively. Purchases were primarily for data processing equipment.

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, and the Timeliness of Deposits:

Criteria: 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 moneys that were actually recorded with the moneys that should have been accounted for.

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: During the fiscal years ending June 30, 2004 and 2005, the Office of Health Care Access received recoveries from hospitals totaling \$2.6 and \$2.9 million, respectively. Internal controls over these receipts do not include preparing periodic accountability reports and accounts receivable trial balances.

During our current review, we sampled 30 checks valued at \$623,996 that were comprised of hospital assessments and late payment penalties. Thirteen of these checks, valued at \$393,610, were deposited between one and four days late.

Effect: The lack of accountability reports increases the risk that amounts due will go uncollected for inordinate lengths of time without being detected. 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: A lack of administrative control contributed to this condition.

Recommendation: The Office of Health Care Access should improve internal controls over cash receipts by preparing accountability reports and ensuring timely deposits as required by Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: "Office of Health Care Access (OHCA) staff currently follow written procedures to ensure timely deposits as required by Section 4-32 of the Connecticut General Statutes. These procedures also include a process for quarterly reconciliation of checks received. It is clear from the audit report, however, that not all checks are being deposited in a timely manner. OHCA will review its policies

and procedures to improve internal controls and make other revisions as necessary. In addition, OHCA will retrain all staff responsible for handling checks to ensure familiarity with OHCA policies and with the requirements of the State Accounting Manual.”

Calculation of Total Operating Costs for Hospital Assessments:

Criteria:

In accordance with Section 19a-612a of the General Statutes, the Office of Health Care Access is within the Department of Public Health for administrative purposes only.

Section 19a-631, subsection (b), of the General Statutes states that each hospital shall annually pay an amount equal to its share of the actual expenditures made by the Office of Health Care Access. The costs that the Office of Health Care Access may include when calculating annual hospital assessments include those incurred directly by OHCA, as well as allocated central service costs.

Public Act 05-251, Section 60, subsection (c), effective July 1, 2005, allowed the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, to merge and consolidate personnel, payroll, affirmative action, and business office functions of selected executive branch State agencies within DAS. The Office of Health Care Access was selected as one such agency.

In accordance with Section 4-70e of the General Statutes, the executive financial officer of the Office of Policy and Management (OPM) is charged with responsibility for the review of agencies’ financial staffing needs, along with the review of agencies’ financial systems and operations.

Condition:

During the audited period, the Office of Health Care Access’ calculation of hospital assessments did not include the no-cost services it received under a Memorandum of Understanding with the Department of Public Health (DPH). Since OHCA was not charged for the services, and the services were not provided through a central service agency, it is not clear if the DPH’s costs associated with these services meet the statutory definition of those expenses that OHCA can assess against the hospitals.

As a result of Public Act 05-251, the Department of Administrative Services (DAS) assumed the functions formerly provided by DPH, still at no cost to OHCA. Furthermore, OHCA’s two business office positions were eliminated and most of the former employees’ responsibilities were assumed by DAS. This has inadvertently reduced hospital assessments for the amount of the

salary and fringe benefit costs of the two former employees. These costs totaled \$192,763 during the 2004-2005 fiscal year. Since OHCA is not charged for the DAS' services, and the services are not provided through a central service agency, it is not clear if these costs meet the statutory definition of those expenses that OHCA can assess against the hospitals.

In its oversight role as delineated by Section 4-70e, the Office of Policy and Management is positioned to evaluate the options available to recoup these costs.

Effect: The State is incurring an undetermined cost for OHCA's operations that is not being recovered through hospital assessments. This cost increased by at least \$192,763, effective July 1, 2006.

Cause: The Office of Health Care Access has not considered the potential to recover these costs.

Recommendation: The Office of Health Care Access should consult with the Office of Policy and Management and the Department of Administrative Services to determine the optimum methodology for determining total administrative costs and attempting to include those costs in hospital assessments. (See Recommendation 2.)

Agency Response: "The Office of Health Care Access is consulting with the Office of Policy and Management and the Department of Administrative Services regarding the agency's administrative functions and associated costs to develop a methodology for hospital reimbursement of those costs."

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2002 and 2003, contained two recommendations. The status of those recommendations is presented below:

Status of Prior Audit Recommendations:

- The Office of Health Care Access should take steps to improve internal controls over cash receipts by preparing accountability reports and ensuring timely deposits as required by Section 4-32 of the General Statutes. This recommendation is being repeated. (See Recommendation 1.)
- The Office of Health Care Access should consult with the Office of Policy and Management to determine the optimum methodology for determining the total administrative costs and attempting to include those costs in hospital assessments. This recommendation is being repeated. (See Recommendation 2.)

Current Audit Recommendations:

- 1. The Office of Health Care Access should improve internal controls over cash receipts by preparing accountability reports and ensuring timely deposits as required by Section 4-32 of the General Statutes.**

Comment:

The lack of accountability reports increases the risk that amounts will go uncollected for inordinate lengths of time without being detected. During our current review, we sampled 30 checks and found that 13 of these checks were deposited between one and four days late.

- 2. The Office of Health Care Access should consult with the Office of Policy and Management and the Department of Administrative Services to determine the optimum methodology for determining the total administrative costs and attempting to include those costs in hospital assessments.**

Comment:

The State is incurring an undetermined cost for OHCA's operations that is not being recovered through hospital assessments.

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, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, and contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, and contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency 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, 2004 and 2005 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 grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Office of Health Care Access is the responsibility of the Office of Health Care Access's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, 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 the Agency's financial operations for the fiscal year ended June 30, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Office of Health Care Access is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, and contracts applicable to the Agency.

In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Office of Health Care Access's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following to be reportable conditions: noncompliance with statutory depositing requirements and lack of accountability reports.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we do not believe that the reportable conditions described above are material or significant weaknesses.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for 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.

Ramona Weingart
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts