



# Department of Medicaid Hospital Care Assurance Program and Hospital Franchise Fee Assessments Audit

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**Audit Period: July 2017 through May 2018**

## Results Summary:

Objective	Conclusion*
HCAP and HFF Assessment Payment Processing	Well-Controlled

\* Refer to Appendix A for classification of audit objective conclusions.



## Executive Summary

### Background

The Ohio Department of Medicaid (ODM) works collaboratively with a network of various provider types to deliver health care services to more than three million residents in Ohio on a daily basis. Hospital providers are located throughout all of Ohio actively playing a key role in the health care of Ohio families by providing inpatient and outpatient services. In addition to providing key services, assessments are collected from hospital providers to help fund various programs administered by ODM. ODM collects these assessments through the Hospital Care Assurance Program (HCAP) and the Hospital Franchise Fee Program (HFF). The fees are assessed against the hospitals according to prescribed formulas; non-government hospitals remit payment to ODM for both the HCAP and HFF assessments, via Electronic Funds Transfer, while government hospitals make intergovernmental transfers to ODM.

The HCAP is used to comply with the Medicaid Disproportionate Share Hospital Program established by the federal government, requiring state Medicaid programs to make subsidy payments to hospitals that provide uncompensated, or charity, care to low-income and uninsured individuals at or below 100% of the federal poverty level. Under HCAP, to ensure adequate funding is collected to cover the state match and fully fund the program, hospitals are assessed a one-time assessment amount per program year (October 1-September 30), with the amount being payable to ODM in two equal installments. The assessment is based on the hospital's total facility costs. Upon receipt of the fee payments, ODM redistributes and disburses back to hospitals the money generated by the assessments, intergovernmental transfers, and federal matching funds based on uncompensated care costs. There is approximately \$238 million and \$199 million appropriated in the FY 2018 and FY 2019 budget, respectively, for the HCAP program. During SFY 2018 (July 2017 – June 2018), 200 hospitals were assessed a total of \$234,491,105.

The HFF program is used to support Medicaid expenditures. A portion of the HFF is used to provide supplemental Medicaid payments for fee-for-service hospital services, Medicaid managed care incentive payments, and inpatient and outpatient hospital rates. Hospitals are assessed a one-time assessment amount per program year (July 1 - June 30), with the amount being payable in four installments. ODM calculates the assessment amounts based on the provisions stated in ORC § 5168.20 - 5168.28, and the program is subject to renewal with each biennial budget. During SFY 2018, 215 hospitals were assessed a total of \$641,915,201.

During the audit, OIA identified opportunities for ODM to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODM staff and management for their cooperation and time in support of this audit.



This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

## **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the HCAP and HFF Assessment collection process. This work was completed April through June 2018. The scope of this audit included assessment installment payments received by ODM during FY18 for the 2017 HCAP program year and the 2018 HFF program year

The objective of the review was to evaluate the design and effectiveness of controls over the HCAP and HFF Assessment Collection Process.

In addition to evaluating the controls over the assessment collection process, ODM requested OIA's assistance in identifying process efficiency opportunities in ODM's accounting for the HCAP and HFF payments received by the Treasurer of State. These recommendations have been provided to management in a separate communication entitled 'Other Matters for Management's Consideration'.

## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations identified during the course of the engagement would be discussed with individual agency management and would not be part of this report. However, there were no high, moderate, or low comments identified for this engagement.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee