

Audit Report

Maryland Health Care Provider Rate Stabilization Fund

January 1, 2010 to December 31, 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

March 11, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

As required by the Insurance Article, Section 19-808 of the Annotated Code of Maryland, we have audited the receipts and disbursements of the Maryland Health Care Provider Rate Stabilization Fund for the period beginning January 1, 2010 and ending December 31, 2010.

The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA), and consists primarily of revenues generated by an annual premium tax imposed on health maintenance organizations and managed care organizations. The Fund serves several purposes, including retention of certain health care providers in the State by subsidizing their medical professional liability (malpractice) insurance premiums for a specified number of years, and by increasing certain rates paid to providers by the Maryland Medical Assistance program (Medicaid) and payments to managed care organizations that serve that program. Beginning in fiscal year 2010, Fund revenue is no longer allocated for the purpose of subsidizing malpractice insurance premiums, although eligible subsidy requests applicable to previous years may still be paid.

Our audit did not include procedures designed to verify the propriety of the subsidy payments made to medical professional liability insurers since State law requires MIA to conduct annual audits of each insurer for this purpose.

A schedule of the Fund's financial activity for the 2010 calendar year is included in this report. As disclosed in that schedule, the Fund's cash balance was approximately \$12.9 million as of December 31, 2010.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us during the course of this audit by MIA.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Establishment and Purpose of the Fund

The Insurance Article, Section 19-802 of the Annotated Code of Maryland established the Maryland Health Care Provider Rate Stabilization Fund effective April 1, 2005. The law provides that the Fund will serve several purposes, including retention of certain health care providers in the State, by subsidizing their medical professional liability (malpractice) insurance premiums for a specified number of years, and by increasing fee-for-service rates paid to providers by the Maryland Medical Assistance program (Medicaid) and payments to managed care organizations that serve that program. The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA).

The Fund consists primarily of revenues generated by an annual premium tax imposed on health maintenance organizations and managed care organizations. All revenues are initially deposited into the Fund, and then allocated, in accordance with a schedule established in the law, to two accounts: the Rate Stabilization Account and the Medical Assistance Program Account. Amounts allocated to the Rate Stabilization Account are paid, in accordance with established criteria, to medical professional liability insurers who apply to MIA for rate subsidies on behalf of insured health care providers. Amounts allocated to the Medical Assistance Program Account are paid by MIA to the State's Department of Health and Mental Hygiene to increase payments to Medicaid providers and managed care organizations. The law provides that revenue allocations to the two accounts were to continue through fiscal year 2009. Beginning in fiscal year 2010, all Fund revenues, less certain administrative costs, were allocated to the Medical Assistance Program Account, although eligible subsidy requests applicable to previous years may still be paid.

Financial Information

On page 4 of this report is a summary of the receipts and disbursements for the Maryland Health Care Provider Rate Stabilization Fund for the period beginning January 1, 2010 and ending December 31, 2010, based on the State's accounting records. This summary is not intended to and does not provide the financial position and results of operations in accordance with generally accepted accounting principles. Specifically, certain financial statements and disclosures (for example, balance sheet, summary of significant accounting policies) have not been provided as would be required had this summary been prepared in accordance with generally accepted accounting principles.

SUMMARY OF FINANCIAL ACTIVITY

**January 1, 2010 to
December 31, 2010**

RECEIPTS:

Premium taxes	\$ 97,027,574
Premium tax exemption value ⁽¹⁾	9,799,870
Interest income	401,970

Total receipts	107,229,414
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DISBURSEMENTS:

Payments to medical professional liability insurers	\$ 835,426
Payments to Department of Health and Mental Hygiene	117,513,706
Payments to Office of the Comptroller ⁽²⁾	106,487
Administration expenses	175,520

Total disbursements	118,631,139
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EXCESS OF DISBURSEMENTS OVER RECEIPTS	(11,401,725)
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FUND BALANCE (cash basis), December 31, 2009	24,263,873
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FUND BALANCE (cash basis), December 31, 2010	\$ 12,862,148
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(1) Premium tax exemption value represents amounts paid by non-profit health maintenance organizations in lieu of premium taxes.

(2) Section 19-803 of the Insurance Article of the Annotated Code of Maryland provides that up to \$300,000 shall be allocated to the Office of the Comptroller in fiscal years 2010 and 2011 to pay for mailing applications and enrollment instructions for the Maryland Medical Assistance Program and the Maryland Children's Health Program for families with children.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of the Fund's internal control. Nor did our audit disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MIA that did not warrant inclusion in this report.

A draft copy of this report was provided to MIA. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

As required by the Insurance Article, Section 19-808 of the Annotated Code of Maryland, we have audited the receipts and disbursements of the Maryland Health Care Provider Rate Stabilization Fund for the period beginning January 1, 2010 and ending December 31, 2010. The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA). The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this audit were to examine the Fund's receipts and disbursements and related records and internal control, and to evaluate compliance with applicable State laws, rules, and regulations.

The areas addressed by the audit included cash receipts, cash disbursements, and certain required audits of Fund activity performed by MIA. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of Fund operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

MIA is required by law to annually audit each medical professional liability insurer that applied for a subsidy payment from the Fund to verify application information submitted by the insurer; accordingly, our audit did not include

procedures designed to verify the propriety of the amounts requested by medical professional liability insurers and the disposition of such payments.

Our audit did not include certain support services provided to the Fund by MIA. These support services (such as maintenance of accounting records and related fiscal functions) are included within the scope of our audit of MIA.

MIA's management is responsible for establishing and maintaining effective internal control over the Fund. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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