

# Audit Report

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## **Maryland Health Care Provider Rate Stabilization Fund**

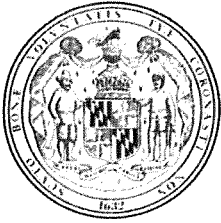
January 1, 2011 to December 31, 2011

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

February 28, 2012

Bruce A. Myers, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, 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, 2011 and ending December 31, 2011.

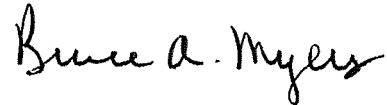
The Fund is administered by the Maryland Insurance Commissioner and consists primarily of revenues generated by an annual premium tax imposed on health maintenance organizations and managed care organizations. The Fund was established by law to serve several purposes, including retention of certain health care providers in the State by subsidizing their medical professional liability (malpractice) insurance premiums for a specified number of years, and by increasing 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, all Fund revenue, less certain administrative costs, is used to increase payments to Medicaid providers and managed care organizations. Fund revenue is no longer used to subsidize malpractice insurance premiums, although eligible subsidy requests applicable to previous years may still be paid.

A schedule of the Fund's financial activity for the 2011 calendar year is included in this report. As disclosed in that schedule, the Fund's cash balance was approximately \$27.1 million as of December 31, 2011.

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 the Maryland Insurance Administration.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive style with a large, stylized "B" and "M".

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 Maryland Insurance Commissioner.

The Fund consists primarily of revenues generated by an annual premium tax imposed on health maintenance organizations and managed care organizations. Beginning in fiscal year 2010, all Fund revenues, less certain administrative costs, are allocated to the Medical Assistance Program Account. Revenues allocated to this Account are paid by the Maryland Insurance Administration (MIA) to the State's Department of Health and Mental Hygiene to increase payments to Medicaid providers and managed care organizations.

Prior to fiscal year 2010, a portion of the revenues was also allocated to the Rate Stabilization Account. Revenues allocated to the Rate Stabilization Account were paid, in accordance with established criteria, to medical professional liability insurers who applied to MIA for rate subsidies on behalf of insured health care providers. Although eligible subsidy requests applicable to previous years may still be paid, no such payments were made to medical professional liability insurers during calendar 2011.

### **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, 2011 and ending December 31, 2011, 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, 2011 to  
December 31, 2011**

### RECEIPTS:

Premium taxes	\$ 96,808,450
Premium tax exemption value <sup>(1)</sup>	10,534,933
Interest income	200,623

<b>Total receipts</b>	<b>107,544,006</b>
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### DISBURSEMENTS:

Payments to medical professional liability insurers <sup>(2)</sup>	\$ (153,158)
Payments to Department of Health and Mental Hygiene	93,236,033
Payments to Office of the Comptroller <sup>(3)</sup>	98,134
Administration expenses	123,845

<b>Total disbursements</b>	<b>93,304,854</b>
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<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>	<b>14,239,152</b>
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<b>FUND BALANCE (cash basis), December 31, 2010</b>	<b>12,862,148</b>
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<b>FUND BALANCE (cash basis), December 31, 2011</b>	<b>\$ 27,101,300</b>
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(1) Premium tax exemption value represents amounts paid by non-profit health maintenance organizations in lieu of premium taxes.

(2) MIA received refunds related to previous payments to medical professional liability insurers during calendar year 2011 and no new subsidy payments were made.

(3) 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. A less significant finding was 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, 2011 and ending December 31, 2011. The Fund is administered by the Maryland Insurance Commissioner. 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 the Maryland Insurance Administration (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.

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.



AUDIT TEAM

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