

## AUDIT PROPOSAL

### Examining Distributions from the Health Care Provider Tax

#### SOURCE

This audit proposal was requested by Senator Jim Denning.

#### BACKGROUND

Medicaid pays for health care services for low-income individuals through a mix of state and federal funds. The federal government matches state funding for qualifying Medicaid expenditures.

To increase the amount of federal funds a state is eligible for, the Center for Medicare and Medicaid Services (CMS) allows states to tax health care providers. These taxes, called provider assessments, are imposed by the state on certain health care providers. The revenues the state receives from these taxes are used to increase the rates the state pays providers for qualified Medicaid services. This in turn increases the state's total Medicaid expenditures, and allows the state to draw down more federal match funding as a result.

Kansas taxes health care providers through the Health Care Access Improvement Program (HCAIP). HCAIP requires most Kansas hospitals to pay an annual tax based on their net inpatient operating revenues. Hospital tax revenues are deposited in a HCAIP fund, which the Department of Health and Environment (KDHE) combines with federal matching funds to increase payments to health care providers. Hospital tax revenues are returned to health care providers primarily through an add-on to the payments in the state's Medicaid rate schedule. Larger add-ons were assigned to services KDHE wanted to encourage, such as preventative services. During our 2018 audit, KDHE staff told us that although use of these services had changed over time, the rates had not. The services receiving higher rate increases were more commonly used, dramatically increasing HCAIP expenditures. At the time, program revenues were capped, and our audit found that state general fund monies were used to support the program. The 2020 Legislature passed two bills, HB 2168 and HB 2246, written to address some concerns with the HCAIP fund. One would increase provider tax rates, and one would prohibit use of State General Fund monies to support the program.

Finally, state law requires KDHE to distribute program funds to hospitals and non-hospital providers in specific proportions. In our 2018 audit we noted that a consultant study found HCAIP did not comply with statute's distribution proportions during calendar year 2016.

Legislators have expressed continued concerns with the program regarding the add-on percentages, that distributions to non-hospitals are still not in compliance with state law, and with KDHE's monitoring and reporting of program revenues and expenditures.

#### AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

*The audit objective listed below represent the question that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.*

**Objective 1: What Medicaid services are generating the bulk of payment distributions to non-hospital providers, and what are the add-on percentages for those services?** Our tentative methodology would include the following:

- Interview KDHE officials, or other officials as necessary to understand the Medicaid rate schedule, and their process to match Medicaid rate increases to the additional revenue generated from the provider tax.
- Review KDHE, MCO or other detailed claims data showing which services were paid and at what rate to non-hospitals from HCAIP funds.
  - Compare actual distribution rates and percentages to statutory distribution requirements, which are not less than 80% to hospitals, and no more than 20% to non-hospital entities.
  - Compare the rate paid, and add-on percentages to the state Medicaid rate schedule.
  - Compile a list of the most used procedure codes billed and paid.
  - Compare the current rates paid to current Medicare rates for the same services.
- Share the results of our analysis with KDHE officials and collect their input on what changes to rates or add on percentages might help ensure the statutory distribution requirement is met.

**Objective 2: Does KDHE adequately monitor and report HCAIP expenditures and revenues?** Our tentative methodology would include the following:

- Interview KDHE officials, or other officials (such as the consultant/actuary) as necessary to determine the process KDHE has in place to fully account for all program revenues (including state general fund) and program distributions.
- From the claims and fund data collected in Objective 1, and other data as necessary, determine total HCAIP revenues and expenditures for some recent time period.
- Compare these totals to recent KDHE reports regarding HCAIP program funds and expenditures to determine whether they match.
- Follow up with KDHE officials for any discrepancies we identify.

**ESTIMATED RESOURCES**

We estimate this audit would require a team of **2 staff for 4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).