LGC
Reviewed
in accordance to
G.S. 159-34(a)

APRIL 2022

93.241

STATE RURAL HOSPITAL FLEXIBILITY PROGRAM

State Project/Program: **RURAL HOSPITAL ASSISTANCE PROGRAM / CRITICAL ACCESS HOSPITAL NETWORK DEVELOPMENT**

US DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization:
Balanced Budget Act of 1997, Section 4201, P.L. 105-33
Title XVIII, §1820(g)(1) and (2) of the Social Security Act (42 U.S.C. 1395i-4(g)(1) and (2)), as amended
42 U.S.C. §1395i-4(g)

Department of Health and Human Services
Central Administration/ Office of Rural Health

Agency Contact Person – Program
Nick Galvez
(919) 527-6467
Nick.Galvez@dhhs.nc.gov

Agency Contact Person – Financial
Allison Owen
(919) 527-6447
Allison.Owen@dhhs.nc.gov

Address Confirmation Letters To:
SFY 2022 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address:
https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports
At this site, click on the link entitled "Audit Confirmation Reports (State Fiscal Year 2021-2022). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select "Non-Governmental Audit Confirmation Reports (State Fiscal Years 2020-2022)

The auditor should not consider the Supplement to be "safe harbor" for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a "safe harbor" for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.

This compliance supplement must be used in conjunction with the OMB 2022 Compliance Supplement which will be issued in the summer. This includes "Part 3 - Compliance Requirements," for the types that apply, "Part 6 - Internal Control," and "Part 4 - Agency Program" requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

The Health Resource Services Administration funds the Medicare Rural Hospital Flexibility Program (Flex Program). The Rural Hospital Flexibility Program provides funding to states to help stabilize rural hospitals and improve access to health care services in rural communities. The purpose of this cooperative agreement is to enable state Flex programs to support critical access hospitals (CAHs) in quality improvement, quality reporting, performance improvement, and benchmarking; to assist facilities seeking designation as CAHs; and to create a program to establish or expand the provision of rural emergency medical services (EMS).

The aim of the Flex Program is to provide training and technical assistance to build capacity, support innovation, and promote sustainable improvement in the rural health care system. The overall goal of the Flex Program is to ensure that high quality health care is available in rural communities and aligned with community needs. Health care services include appropriate preventative, ambulatory, pre-hospital, emergent, and inpatient care. High quality rural health care will deliver high value to patients and communities and result in healthier rural people.

The long-term objectives of the Flex Program are to enable CAHs, including CAH-owned clinics, and rural EMS agencies to:

- Show and improve quality of care
- Stabilize finances and maintain services
- Adjust to address changing community needs; and
- Ensure patient care is integrated throughout the rural health care delivery system.

The funds are used to assist rural hospitals that have low hospital-bed occupancy rates by helping them consider, plan for, and receive designation as Critical Access Hospitals (CAHs) – facilities that maintain no more than 25 inpatient beds, keep patients hospitalized no longer than 96 hours, and provide 24-hour emergency care.

II. PROGRAM PROCEDURES

The Rural Hospital Flexibility Program is administered by the NC Department of Health and Human Services, Office of Rural Health (ORH), 2009 Mail Service Center, Raleigh, NC 27699-2009, (919) 527-6440. Funds are received from the U. S. Department of Health and Human Services.

The program helps rural hospitals that want to provide an innovative mix of services and cut administrative costs while providing basic primary and emergency care. The funds are utilized to help states work with their rural communities to decide which hospitals might benefit the most from becoming a Critical Access Hospital (CAH) and how this designation might affect the rest of the community. The contract funds are also expected to support local health care providers and communities as they develop networks of care, especially as they improve and integrate emergency medical services in rural areas.

The ORH generates contracts based upon requests submitted by hospitals and other entities involved in the provision of care to rural areas. Field staff from the ORH work closely with eligible hospitals and others to determine needs. Needs are presented to the Director of the ORH, who makes the final funding decisions.

Once an applicant is selected, a formal contract is prepared by the ORH. The contract details contractor obligations, the funding schedule, reporting requirements and audit requirements. The formal contract serves as the notice of grant award.

During the contract year, ORH staff provide on-going technical assistance to the contractors. Technical assistance includes on-site visitation and other contacts with the contractors during which program goals are reviewed and evaluated. The primary purpose of the Rural Hospital Flexibility Program is to provide states with funds for the designation of limited-service hospitals in rural communities and the development of networks to improve access to care in these communities. The North Carolina program is established specifically to meet this purpose.

States work closely with the Center for Medicare and Medicaid Services (CMS) as they continue to implement this program. The Health Resources and Services Administration is responsible for the program under which states receive funding for the development and implementation of state rural health plans, for network planning and implementation, and for designation of hospitals as CAHs. CMS administers the operating program under which CAHs are certified to provide care and receive payments under Medicare.

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the federal agency, noted as "Y," on the "Matrix of Compliance Requirements" located in Part 2 of the OMB 2022 Compliance Supplement; however, the State Agency may have added the Type and this is noted by "Y." If the State determines that the federal requirement does not apply at the local level or if the State modifies the federal requirements, this is noted in the supplement under the type of compliance requirement. If the federal and/or State agencies have determined that the type is not applicable, it is noted by "N."

If the Matrix indicates "Y," the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2022 Compliance Supplement, Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

If there is no program listed on the "Matrix" in Part 2 or Part 4, the State has determined the Type that is applicable. If a Type is determined to be direct and material, the auditor should refer to the requirements found in Part 3 and listed in this supplement.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	N	Y	Y	N	Y	Y	Y

A. Activities Allowed or Unallowed

Rural Hospital Flexibility funds may be used to:

- Help rural hospitals consider, plan for, and achieve designations as CAHs
- Support new and grandfathered CAHs, providers, and communities as they develop and implement rural health networks
- Support the establishment or expansion of programs to improve and integrate rural emergency medical services in communities with CAH designation or surrounding EMS agencies
- Develop or enhance quality improvement activities
- Develop or enhance financial and operational improvement activities
- Develop population health management plans and strategies for NC CAHs and their associated communities
- Unallowable activities will be determined by the HRSA project officer based on the workplan, budget and an associated change great than 15%.

B. Allowable Costs/Cost Principles

Services provided by and costs allowable under a Rural Hospital Flexibility Grant through the ORH are limited to those activities budgeted by the contractor and approved by the ORH.

Compliance Requirement – Funds may be expended only for those items specified in the budget that are generally attached to the contract or may be included in a letter of request attached to the budget. No line-item may be increased by more than fifteen (15) percent without the written approval of the ORH. This requirement relates to the contractor's expenditures as of the date of the balance sheet compared to the budget approved by the ORH.

Suggested Audit Procedure – Review the contractor's budget as approved by the ORH, including any subsequent amendments. Determine that any revisions exceeding fifteen (15) percent of the budget line-item have been approved in writing.

C. Cash Management

Funds are paid on a contractual basis. Generally, funds are reimbursed monthly for approved expenses incurred during the previous month. Funds may only be paid in advance upon completion and signature of a Certification of Cash Needs.

E. Eligibility

Rural hospitals certified as CAHs or seeking such designation are eligible. In addition, organizations with expertise with rural hospitals, networks, and emergency services in areas of CAHs are eligible to apply.

H. Period of Performance

All funds must be expended within the contract period specified in the formal notice of grant award.

I. Procurement and Suspension and Debarment

Contractor cannot be suspended or debarred, nor can it make subawards under covered transactions to parties that are suspended or debarred. This rule applies any time the non-Federal entity procures goods or services with funds that have been approved in the budget. Suspension and debarment apply to both procurements and subawards.

L. Reporting

Reports of expenditures or audit reports (depending upon the size of the contract) are required in accordance with Uniform Guidance Appendix XI to Part 200. Additional reports may be required by the individual contracts to confirm that the funds were spent in accordance with the budgeted expenditures.

M. Subrecipient Monitoring

Grantees that pass funding through to other entities must perform monitoring activities on each subrecipient to include: reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, reviewing eligibility determinations for enrollees, and reviewing each subrecipient's single audit or program-specific audit results to ensure the subrecipient is in compliance.

Suggested Audit Procedure - Obtain a list of all subrecipients with which the grantee has agreements. Select a sample and verify that all monitoring activities are documented.

N. Special Tests and Provisions

All non-State entities (except those entities subject to the audit and other reporting requirements of the Local Government Commission) that receive, use or expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are subject to the financial reporting requirements of Uniform Guidance Appendix XI to Part 200. These requirements include the submission of a Notarized Conflict of Interest Policy and a written statement (if applicable) that the entity does not have any overdue tax debts as defined at the federal, State or local level. All non-State entities that provide State funding to a non-State entity (except any non-State entity subject to the audit and other reporting requirements of the Local Government Commission) must hold the sub-grantee accountable for the legal and appropriate expenditure of those State grant funds.

Audit Objective – Before receiving and disbursing State funds, determine whether the grantee (1) has adopted a conflict of interest policy and has it on file and (2) whether the grantee has any overdue tax debts at the federal, State or local level.

Suggested Audit Procedures -

1. Ascertain that the grantee has a conflict of interest policy as described above
2. Check the policy and verify through board minutes that the policy was adopted before the grantee received and disbursed State funds
3. Verify as to whether or not the grantee has any overdue tax debts at the federal, State or local level by reviewing tax reports filed with the appropriate government agencies and confirming via an inspection of the accounting records that all taxes were paid timely.