



January 29, 2010

TO: Charlene Frizzera
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: /Joseph E. Vengrin/
Deputy Inspector General for Audit Services

SUBJECT: Review of Missouri's Claims Associated With the Increased Federal Medical Assistance Percentage Under the American Recovery and Reinvestment Act of 2009 (A-07-09-02762)

Attached is an advance copy of our final report on the review of Missouri's claims associated with the increased Federal medical assistance percentage (FMAP) under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act). We will issue this report to the Missouri Department of Social Services (State agency) within 5 business days.

The Recovery Act, enacted February 17, 2009, provides, among other initiatives, fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provides an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' FMAP.

The amount to be claimed for the temporary increase in FMAP is not based on total Medicaid expenditures. Section 5001(e) of the Recovery Act lists the Medicaid expenditures that do not qualify for the temporarily increased FMAP: disproportionate share hospital payments, Children's Health Insurance Program expenditures, expenditures subject to an enhanced FMAP described in § 2105(b) of the Social Security Act, and some Temporary Assistance to Needy Families expenditures; expenditures for individuals made eligible through income eligibility expansions after July 1, 2008; and expenditures not based on the FMAP. Furthermore, section 5001(f)(5) of the Recovery Act states that no increase in a State's FMAP may result in an FMAP that exceeds 100 percent. For the first and second quarters of fiscal year 2009, the State agency's regular FMAP rate was 63.19 percent, and the temporarily increased FMAP rate was 71.24 percent.

The State agency claimed medical assistance payments of approximately \$2.6 billion for Federal reimbursement on its standard Forms CMS-64, "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (CMS-64) for the period of October 1, 2008, through

March 31, 2009. Recovery Act funds of approximately \$273 million were included in this reimbursement.

Our objectives were to determine whether the State agency's \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act and whether the expenditures were supported by the State agency's accounting records.

The State agency's \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act, and the expenditures were supported by the State agency's accounting records. In addition, the State agency had policies and procedures in place to segregate Medicaid expenditures that qualified for the temporarily increased FMAP and to ensure that those Medicaid expenditures that did not qualify were not being claimed for reimbursement at the temporarily increased FMAP.

However, the State agency had not documented those policies and procedures intended to ensure that its claims were computed on Medicaid expenditures that qualified for the temporarily increased FMAP under the provisions of the Recovery Act. Documenting policies and procedures would increase the likelihood that future claims for Recovery Act funds would qualify and be supported by accounting records.

State agency officials stated that the policies and procedures had not been documented because the Recovery Act is so new and because they were waiting on additional guidance from the Centers for Medicare & Medicaid Services.

We recommend that the State agency document its policies and procedures for claiming the temporary increase in FMAP.

In written comments on our draft report, the State agency concurred with our recommendation and stated that it would update its written procedures by December 31, 2009.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-09-02762.

Attachment



February 4, 2010

Report Number: A-07-09-02762

Mr. Ronald J. Levy
Director
Missouri Department of Social Services
P.O. Box 1527
Jefferson City, Missouri 65102-1527

Dear Mr. Levy:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Missouri's Claims Associated With the Increased Federal Medical Assistance Percentage Under the American Recovery and Reinvestment Act of 2009." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, the final report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact James Korn, Audit Manager, at (303) 844-7153 or through email at James.Korn@oig.hhs.gov. Please refer to report number A-07-09-02762 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MISSOURI'S CLAIMS
ASSOCIATED WITH THE INCREASED
FEDERAL MEDICAL ASSISTANCE
PERCENTAGE UNDER THE
AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009**



Daniel R. Levinson
Inspector General

February 2010
A-07-09-02762

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that
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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a
recommendation for the disallowance of costs incurred or claimed, and
any other conclusions and recommendations in this report represent the
findings and opinions of OAS. Authorized officials of the HHS operating
divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Missouri, the Department of Social Services (State agency) administers the Medicaid program, which includes developing and maintaining internal controls.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provides, among other initiatives, fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provides an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentage (FMAP). The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on that State's relative per capita income.

The Department of Health and Human Services, Office of Assistant Secretary for Planning and Evaluation (ASPE), calculates the increased FMAP on a quarterly basis for the 50 States and the District of Columbia. ASPE provides these increased FMAPs to CMS, which uses them to determine the amount of Federal funds to award to the States through its Medicaid grant process. In a previous audit, we reviewed the ASPE FMAP calculations ("Review of the Calculations of Temporary Increases in Federal Medical Assistance Percentages Under the American Recovery and Reinvestment Act," A-09-09-00075) and determined that ASPE calculated the increased FMAPs for the first and second quarters of Federal fiscal year (FY) 2009 for all 50 States and the District of Columbia in accordance with applicable provisions of the Recovery Act. In another audit, we reviewed CMS's calculation for the additional FMAP Medicaid funding ("Review of the Calculation of Additional Medicaid Funding Awarded Under the American Recovery and Reinvestment Act," A-09-09-00080) and determined that, for the first two quarters of FY 2009, CMS had calculated the additional Medicaid funding awarded under the Recovery Act in accordance with Federal law.

The amount to be claimed for the temporary increase in FMAP is not based on total Medicaid expenditures. Section 5001(e) of the Recovery Act lists the Medicaid expenditures that do not qualify for the temporarily increased FMAP: disproportionate share hospital payments, Children's Health Insurance Program expenditures, expenditures subject to an enhanced FMAP described in § 2105(b) of the Act, and some Temporary Assistance to Needy Families expenditures; expenditures for individuals made eligible through income eligibility expansions after July 1, 2008; and expenditures not based on the FMAP. Furthermore, section 5001(f)(5) of the Recovery Act states that no increase in a State's FMAP may result in an FMAP that exceeds

100 percent. For the first and second quarters of FY 2009, the State agency's regular FMAP rate was 63.19 percent, and the temporarily increased FMAP rate was 71.24 percent.

The State agency claimed medical assistance payments of approximately \$2.6 billion for Federal reimbursement on its standard Forms CMS-64, "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program," for the period of October 1, 2008, through March 31, 2009. Recovery Act funds of approximately \$273 million were included in this reimbursement.

OBJECTIVES

Our objectives were to determine whether the State agency's \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act and whether the expenditures were supported by the State agency's accounting records.

SUMMARY OF FINDING

The State agency's \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act, and the expenditures were supported by the State agency's accounting records. In addition, the State agency had policies and procedures in place to segregate Medicaid expenditures that qualified for the temporarily increased FMAP and to ensure that those Medicaid expenditures that did not qualify were not being claimed for reimbursement at the temporarily increased FMAP.

However, the State agency had not documented those policies and procedures intended to ensure that its claims were computed on Medicaid expenditures that qualified for the temporarily increased FMAP under the provisions of the Recovery Act. Documenting policies and procedures would increase the likelihood that future claims for Recovery Act funds would qualify and be supported by accounting records.

State agency officials stated that the policies and procedures had not been documented because the Recovery Act is so new and because they were waiting on additional guidance from CMS.

RECOMMENDATION

We recommend that the State agency document its policies and procedures for claiming the temporary increase in FMAP.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation and stated that it would update its written procedures by December 31, 2009. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Pursuant to section 1905(b) of the Act, the Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time.

States report Medicaid expenditures to CMS on the Form CMS-64, "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (CMS-64).

In Missouri, the Department of Social Services (State agency) administers the Medicaid program, which includes developing and maintaining internal controls.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provides, among other initiatives, fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provides an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' FMAPs. Section 5000 of the Recovery Act provides these increases to help avert cuts in health care provider payment rates, benefits, or services and to prevent changes in income eligibility requirements that would reduce the number of individuals eligible for Medicaid. For the first two quarters of Federal fiscal year (FY) 2009, CMS made available to States, beginning February 25, 2009, approximately \$16 billion in additional Medicaid funding based on the increased FMAP for each State. Since then, CMS has provided guidance to State Medicaid agencies (in the form of letters to State Medicaid directors) regarding implementation of the provisions of the Recovery Act, including provisions for the temporarily increased FMAP.

The Department of Health and Human Services, Office of Assistant Secretary for Planning and Evaluation (ASPE), calculates the increased FMAP on a quarterly basis for the 50 States and the District of Columbia. ASPE provides these increased FMAPs to CMS, which uses them to determine the amount of Federal funds to award to the States through its Medicaid grant

process. In a previous audit, we reviewed the ASPE FMAP calculations (“Review of the Calculations of Temporary Increases in Federal Medical Assistance Percentages Under the American Recovery and Reinvestment Act,” A-09-09-00075) and determined that ASPE calculated the increased FMAPs for the first and second quarters of FY 2009 for all 50 States and the District of Columbia in accordance with applicable provisions of the Recovery Act. In another audit, we reviewed CMS’s calculation for the additional FMAP Medicaid funding (“Review of the Calculation of Additional Medicaid Funding Awarded Under the American Recovery and Reinvestment Act,” A-09-09-00080) and determined that, for the first two quarters of FY 2009, CMS had calculated the additional Medicaid funding awarded under the Recovery Act in accordance with Federal law.

The amount to be claimed for the temporary increase in FMAP is not based on total Medicaid expenditures. Section 5001(e) of the Recovery Act lists the Medicaid expenditures that do not qualify for the temporarily increased FMAP: disproportionate share hospital payments, Children’s Health Insurance Program expenditures, expenditures subject to an enhanced FMAP described in § 2105(b) of the Act, and some Temporary Assistance to Needy Families expenditures; expenditures for individuals made eligible through income eligibility expansions after July 1, 2008; and expenditures not based on the FMAP.

Pursuant to section 5001(f)(5) of the Recovery Act, no increase in a State’s FMAP may result in an FMAP that exceeds 100 percent. For the first and second quarters of FY 2009, the State agency’s regular FMAP rate was 63.19 percent, and the temporarily increased FMAP rate was 71.24 percent.

The State agency claimed medical assistance payments of approximately \$2.6 billion for Federal reimbursement on its CMS-64s for the period of October 1, 2008, through March 31, 2009. Recovery Act funds of approximately \$273 million were included in this reimbursement.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency’s \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act and whether the expenditures were supported by the State agency’s accounting records.

Scope

We reviewed the amount claimed on the CMS-64s for the first two quarters of FY 2009 (October 1, 2008, through March 31, 2009). We reviewed the State agency’s internal controls to the extent necessary to accomplish our objective.

We did not audit expenditures made by the State agency during this period to assure that they qualified for Federal Medicaid reimbursement.

We performed fieldwork at the State agency's offices in Jefferson City, Missouri, from May to June 2009.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and CMS guidance;
- reviewed the State agency's policies and procedures for segregating the Medicaid expenditures that qualified for the temporarily increased FMAP from those that did not;
- reviewed the State agency's State Medicaid plan;
- reviewed Missouri's FY 2008 A-133 audit¹ and interviewed personnel in the Missouri State Auditor's Office for insight on possible internal control weaknesses found during that office's review of the State agency;
- interviewed State agency personnel in charge of compiling the CMS-64s to understand the procedures used to calculate the reported Medicaid expenditures;
- identified the Medicaid expenditures that qualified for the temporarily increased FMAP, as well as those that did not qualify for the temporarily increased FMAP, as reported on the CMS-64s for the first two quarters of FY 2009;
- traced selected Medicaid expenditure line item amounts (both those that qualified for the temporarily increased FMAP and those that did not qualify) as reported on the CMS-64s to the high-level accounting records and supporting documentation; and
- discussed our finding with State agency officials.

We conducted this performance audit 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 finding and conclusions based on our audit objectives.

¹The Office of Management and Budget (OMB) issued Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156, to set forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and nonprofit organizations expending Federal awards. A single audit requires an audit of the State's financial statements and expenditures of Federal awards.

FINDING AND RECOMMENDATION

The State agency's \$273 million in claims associated with the temporarily increased FMAP was computed using the Medicaid expenditure base specified in the Recovery Act, and the expenditures were supported by the State agency's accounting records. In addition, the State agency had policies and procedures in place to segregate Medicaid expenditures that qualified for the temporarily increased FMAP and to ensure that those Medicaid expenditures that did not qualify were not being claimed for reimbursement at the temporarily increased FMAP.

However, the State agency had not documented those policies and procedures intended to ensure that its claims were computed on Medicaid expenditures that qualified for the temporarily increased FMAP under the provisions of the Recovery Act. Documenting policies and procedures would increase the likelihood that future claims for Recovery Act funds would qualify and be supported by accounting records.

State agency officials stated that the policies and procedures had not been documented because the Recovery Act is so new and because they were waiting on additional guidance from CMS.

FEDERAL GUIDANCE

OMB Circular A-87, Attachment A, § A.2.a.(1) states: "Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices."

The General Accounting Office's "Standards for Internal Control in the Federal Government" identifies sound management practices that can be applied by non-Federal entities. It states (in the Control Activities section, page 11): "Internal control activities help ensure that management's directives are carried out" and (in the Examples of Control Activities section, page 15): "Internal control . . . and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals"

POLICIES AND PROCEDURES

For the first two quarters of FY 2009, the State agency computed its Medicaid claims of \$273 million associated with temporarily increased FMAP using the Medicaid base specified in the Recovery Act and had records to support its claims. The State agency did so by segregating the Medicaid expenditures that qualified for the temporarily increased FMAP and by ensuring that those Medicaid expenditures that did not qualify were not being claimed for reimbursement at the temporarily increased FMAP.

Although the State agency had developed and implemented policies and procedures as part of its internal controls to ensure that it claimed only Medicaid expenditures that qualified for the temporarily increased FMAP under the provisions of the Recovery Act, these policies and procedures had not been documented.

Documenting policies and procedures would increase the likelihood that future claims for Recovery Act funds would qualify and be supported by accounting records. Documenting operational policies and procedures helps ensure that operations are performed effectively and efficiently by eliminating oversights, giving new personnel sufficiently detailed instructions, assuring continuity, and specifying quality assurance functions.

State agency officials stated that the policies and procedures had not been documented because the Recovery Act is so new and because they were waiting on additional guidance from CMS.

RECOMMENDATION

We recommend that the State agency document its policies and procedures for claiming the temporary increase in FMAP.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation and stated that it would update its written procedures by December 31, 2009. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



JEREMIAH W. (JAY) NIXON, GOVERNOR • RONALD J. LEVY, DIRECTOR

P.O. BOX 1527 • BROADWAY STATE OFFICE BUILDING • JEFFERSON CITY, MO 65102-1527
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December 16, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Offices of Audit Services, Region VII
601 East 12th Street, Room 249
Kansas City, MO 64106

Re: *Review of the Missouri's Claims Associated With the Increased Federal Medicaid Assistance Percentage Under the American Recovery and Reinvestment Act, Report No. A-07-09-02762*

Dear Mr. Cogley:

The Missouri Department of Social Services hereby responds to the draft report of the above-referenced audit dated November 19, 2009. The draft report asked that we present any comments and include a statement of concurrence or non-concurrence with the recommendation.

The audit found that although the State agency had policies and procedures in place to correctly claim Medicaid expenditures that qualified for the temporary increased FMAP they had not fully documented them because additional guidance was forthcoming from CMS.

We concur with the recommendation that the State agency document its policies and procedures for claiming the temporary increase in FMAP and will have our written procedures updated by December 31, 2009.

Please do not hesitate to contact Jennifer R. Tidball at (573)751-7533 if you have any questions about the foregoing response.

Sincerely,

Ronald J. Levy
Director

RJL:RB:bsb

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