

**MAY 22 2009**

TO: James Scanlon
Acting Assistant Secretary for Planning
and Evaluation

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of the Calculations of Temporary Increases in Federal Medical Assistance Percentages Under the American Recovery and Reinvestment Act (A-09-09-00075)

The attached final report provides the results of our review of the calculations of temporary increases in Federal medical assistance percentages (FMAP) under the American Recovery and Reinvestment Act (ARRA) of 2009, P.L. No. 111-5, enacted February 17, 2009.

The ARRA provides 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 ARRA provides \$87 billion in additional Medicaid funding based on temporary increases in States' FMAPs.

The Office of the Assistant Secretary for Planning and Evaluation (ASPE) calculates the temporary FMAP increases quarterly for the 50 States and the District of Columbia. Section 5001 of the ARRA provides for calculating the temporary increases based on three components: maintenance of the FMAP ("hold harmless"), an across-the-board increase of 6.2 percentage points, and additional relief based on increases in States' average monthly unemployment rates. ASPE provides the resulting FMAPs to the Centers for Medicare & Medicaid Services, which uses them to determine the amount of Federal funds to award to States through its Medicaid grant process.

Our objective was to determine whether ASPE calculated the temporary FMAP increases for the first and second quarters of Federal fiscal year (FY) 2009 in accordance with applicable provisions of the ARRA.

ASPE calculated the temporary FMAP increases for the first and second quarters of FY 2009 for the 50 States and the District of Columbia in accordance with applicable provisions of the ARRA. Specifically, ASPE identified the correct FMAP hold harmless (the higher of the published FMAPs for FYs 2008 and 2009 for each State and the District of Columbia), added the

across-the-board increase of 6.2 percentage points, and properly calculated the additional relief. Consequently, this report contains no recommendations.

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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 e-mail at George.Reeb@oig.hhs.gov. Please refer to report number A-09-09-00075 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE CALCULATIONS
OF TEMPORARY INCREASES IN
FEDERAL MEDICAL ASSISTANCE
PERCENTAGES UNDER THE
AMERICAN RECOVERY AND
REINVESTMENT ACT**



Daniel R. Levinson
Inspector General

May 2009
A-09-09-00075

Office of Inspector General

<http://oig.hhs.gov>

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Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

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

The American Recovery and Reinvestment Act (ARRA) of 2009, P.L. No. 111-5, enacted February 17, 2009, provides 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 ARRA provides \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentages (FMAP). The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on the State's relative per capita income.

The Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE), calculates the temporary FMAP increases quarterly for the 50 States and the District of Columbia. ASPE provides these FMAPs to the Centers for Medicare & Medicaid Services (CMS), which uses them to determine the amount of Federal funds to award to States through its Medicaid grant process. For the first two quarters of Federal fiscal year (FY) 2009, CMS made available to States, beginning February 25, 2009, approximately \$15.2 billion in additional Medicaid funding based on the increased FMAPs.

Section 5001 of the ARRA provides for calculating the temporary FMAP increases based on three components: maintenance of the FMAP ("hold harmless"), an across-the-board increase of 6.2 percentage points, and additional relief based on increases in States' average monthly unemployment rates.

OBJECTIVE

Our objective was to determine whether ASPE calculated the temporary FMAP increases for the first and second quarters of FY 2009 in accordance with applicable provisions of the ARRA.

SUMMARY OF RESULTS

ASPE calculated the temporary FMAP increases for the first and second quarters of FY 2009 for the 50 States and the District of Columbia in accordance with applicable provisions of the ARRA. Specifically, ASPE identified the correct FMAP hold harmless (the higher of the published FMAPs for FYs 2008 and 2009 for each State and the District of Columbia), added the across-the-board increase of 6.2 percentage points, and properly calculated the additional relief. Consequently, this report contains no recommendations.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicaid Program.....	1
Temporary Increases in Federal Medical Assistance Percentages	1
Calculation of Increased Federal Medical Assistance Percentages	2
OBJECTIVE, SCOPE, AND METHODOLOGY	3
Objective	3
Scope.....	3
Methodology	4
RESULTS OF REVIEW	4
APPENDIX	

INCREASED FEDERAL MEDICAL ASSISTANCE PERCENTAGES
FOR THE FIRST TWO QUARTERS OF FEDERAL FISCAL YEAR 2009

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.¹ Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time. Pursuant to section 1101(a)(8)(B) of the Act, the Secretary of Health and Human Services is required to calculate and publish yearly in the Federal Register the FMAPs for the 50 States and the District of Columbia.

Temporary Increases in Federal Medical Assistance Percentages

The American Recovery and Reinvestment Act (ARRA) of 2009, P.L. No. 111-5, enacted February 17, 2009, provides 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 ARRA provides \$87 billion in additional Medicaid funding based on temporary increases in States' FMAPs. Section 5000 of the ARRA 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 \$15.2 billion in additional Medicaid funding based on the increased FMAPs.

Section 5001(e) of the ARRA states that the temporarily increased FMAPs do not apply to Medicaid disproportionate share hospital, State Children's Health Insurance Program, or TANF expenditures; Medicaid expenditures for individuals made eligible through income eligibility expansions after July 1, 2008; or expenditures subject to an enhanced FMAP.

Pursuant to section 5001(f) of the ARRA, a State is not eligible for an FMAP increase if the State restricted Medicaid eligibility standards, methodologies, or procedures under its State plan

¹The FMAP is also used to determine the Federal Government's share of certain child support enforcement collections, Temporary Assistance for Needy Families (TANF) contingency funds, a portion of the Child Care and Development Fund, and foster care and adoption assistance payments.

after July 1, 2008. In addition, pursuant to sections 5001(f) and (g) of the ARRA, a State is not eligible for an FMAP increase if the State (1) fails to comply with prompt payment requirements, (2) deposits the increased funds in any reserve or rainy day account, or (3) requires increased local government contributions toward the non-Federal share of Medicaid expenditures in a State where local governments are required to contribute.²

Pursuant to section 5001(f)(5) of the ARRA, no increase in a State’s FMAP may result in an FMAP that exceeds 100 percent.

Calculation of Increased Federal Medical Assistance Percentages

The Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE), calculates the temporary FMAP increases quarterly for the 50 States and the District of Columbia.³ ASPE provides the FMAPs to CMS, which uses them to determine the amount of Federal funds to award to States through its Medicaid grant process.

Sections 5001(a), (b), and (c) of the ARRA provide for calculating the temporary FMAP increases based on the following three components:

- First, ASPE determines the maintenance of the FMAP (“hold harmless”) for each State, which ensures that no State’s FMAP will decline as a result of the calculation of the temporary increase. For example, if a State’s published FY 2008 FMAP is higher than its published FY 2009 FMAP, ASPE should use the FY 2008 FMAP as the FMAP hold harmless.
- Second, ASPE adds to the FMAP hold harmless an across-the-board increase of 6.2 percentage points for each State.
- Third, ASPE adds for each State additional relief based on an increase in the State’s average monthly unemployment rate, if applicable.⁴ The following formula illustrates the computation of additional relief:

$\text{Additional Relief} = \left[100\% - \left(\text{FMAP Hold Harmless} + 3.1\% \right) \right] \times \frac{\text{Applicable \% Based on Unemployment Increase}}$
--

²Exclusions based on deposits in any reserve or rainy day account and increased local government contributions do not affect the maintenance of the FMAP.

³Because the ARRA was enacted during the second quarter of FY 2009, the ARRA included a special rule in section 5001(c)(4)(C) with respect to calculating the increased FMAPs for the first two quarters of FY 2009. Based on this calculation, each State’s increased FMAP was the same for both quarters.

⁴ASPE calculates the increase in a State’s average monthly unemployment rate by comparing the State’s average unemployment rate over the most recent 3-consecutive-month period with the State’s average historical low unemployment rate over any 3 consecutive months beginning January 1, 2006.

ASPE uses the most recent average monthly unemployment data provided by the Department of Labor’s Bureau of Labor Statistics (BLS) to determine a State’s applicable percentage. The following table shows the applicable percentages.

Applicable Percentages for Additional Relief

State Unemployment Percentage Increase	Applicable Percentage
Less than 1.5 percentage points	0%
At least 1.5 but less than 2.5 percentage points	5.5%
At least 2.5 but less than 3.5 percentage points	8.5%
At least 3.5 percentage points	11.5%

The following example illustrates the calculation, based on ARRA requirements, of a State’s increased FMAP for the first two quarters of FY 2009.

Example of Increased FMAP Calculation

A State’s published FMAP was 66.2 percent for FY 2008 and 65.77 percent for FY 2009. Because the State’s FMAP for FY 2008 was higher than for FY 2009, the State is held harmless at its FY 2008 FMAP (66.2 percent). The State’s most recent unemployment increase was 2.8 percentage points, which results in an applicable percentage of 8.5 percent for the additional relief calculation.

Increased FMAP = 66.2% + 6.2% + {[100% – (66.2% + 3.1%)] × 8.5% }
 = 66.2% + 6.2% + (30.7% × 8.5%)
 = 66.2% + 6.2% + 2.61%
 = **75.01%**

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether ASPE calculated the temporary FMAP increases for the first and second quarters of FY 2009 in accordance with applicable provisions of the ARRA.

Scope

We reviewed the calculations of the temporary FMAP increases for the first and second quarters of FY 2009 (October 1, 2008, through March 31, 2009) for the 50 States and the District of Columbia. We limited our review of internal controls to obtaining an understanding of ASPE’s policies and procedures related to calculating the increased FMAPs. We performed our fieldwork in March and April 2009 at the offices of ASPE and BLS in the District of Columbia.

Methodology

To accomplish our objective, we:

- reviewed Federal laws,
- discussed with ASPE its methodology for calculating the increased FMAPs,
- validated the arithmetic of ASPE's calculations of the increased FMAPs,
- verified that ASPE used the correct FMAP hold harmless for each State and the District of Columbia by comparing the FYs 2008 and 2009 FMAPs published in the Federal Register,
- obtained from BLS the most recent published unemployment rates,
- traced the unemployment rates that ASPE used in its calculations of the additional relief to BLS's supporting data, and
- interviewed BLS 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 findings and conclusions based on our audit objective.

RESULTS OF REVIEW

ASPE calculated the temporary FMAP increases for the first and second quarters of FY 2009 for the 50 States and the District of Columbia in accordance with applicable provisions of the ARRA. Specifically, ASPE identified the correct FMAP hold harmless (the higher of the published FMAPs for FYs 2008 and 2009 for each State and the District of Columbia), added the across-the-board increase of 6.2 percentage points, and properly calculated the additional relief. Consequently, this report contains no recommendations.

The FMAP increases ranged from 6.2 to 13.9 percentage points. See the Appendix for a list of the increased FMAPs for the 50 States and the District of Columbia for the first and second quarters of FY 2009.

During our review of ASPE's calculations of the additional relief, we noted that the average monthly unemployment data provided by BLS were not from an official published source. BLS provided the data in an electronic file with no text identifying BLS as the source. We met with BLS officials and verified that BLS's published monthly employment figures were the basis of the data provided to ASPE. BLS officials readily acknowledged that the data provided to ASPE did not look as if they were from an official source. For future calculations of the increased

FMAPs, BLS agreed to provide ASPE with officially transmitted documentation, including both the average monthly unemployment data and the supporting published monthly figures.

APPENDIX

APPENDIX

**INCREASED FEDERAL MEDICAL ASSISTANCE PERCENTAGES
FOR THE FIRST TWO QUARTERS OF FEDERAL FISCAL YEAR 2009**

State	Federal Fiscal Year (FY) 2009 Federal Medical Assistance Percentage (FMAP)	Increased FMAP for the First and Second Quarters of FY 2009	Percentage Point Increase
Alabama	67.98%	76.64%	8.66
Alaska	50.53%	58.68%	8.15
Arizona	65.77%	75.01%	9.24
Arkansas	72.81%	79.14%	6.33
California	50.00%	61.59%	11.59
Colorado	50.00%	58.78%	8.78
Connecticut	50.00%	60.19%	10.19
Delaware	50.00%	60.19%	10.19
District of Columbia	70.00%	77.68%	7.68
Florida	55.40%	67.64%	12.24
Georgia	64.49%	73.44%	8.95
Hawaii	55.11%	66.13%	11.02
Idaho	69.77%	78.37%	8.60
Illinois	50.32%	60.48%	10.16
Indiana	64.26%	73.23%	8.97
Iowa	62.62%	68.82%	6.20
Kansas	60.08%	66.28%	6.20
Kentucky	70.13%	77.80%	7.67
Louisiana	71.31%	80.01%	8.70
Maine	64.41%	72.40%	7.99
Maryland	50.00%	58.78%	8.78
Massachusetts	50.00%	58.78%	8.78
Michigan	60.27%	69.58%	9.31
Minnesota	50.00%	60.19%	10.19
Mississippi	75.84%	83.62%	7.78
Missouri	63.19%	71.24%	8.05
Montana	68.04%	76.29%	8.25
Nebraska	59.54%	65.74%	6.20
Nevada	50.00%	63.93%	13.93
New Hampshire	50.00%	56.20%	6.20
New Jersey	50.00%	58.78%	8.78
New Mexico	70.88%	77.24%	6.36
New York	50.00%	58.78%	8.78
North Carolina	64.60%	73.55%	8.95
North Dakota	63.15%	69.95%	6.80
Ohio	62.14%	70.25%	8.11
Oklahoma	65.90%	74.94%	9.04
Oregon	62.45%	71.58%	9.13
Pennsylvania	54.52%	63.05%	8.53
Rhode Island	52.59%	63.89%	11.30
South Carolina	70.07%	78.55%	8.48
South Dakota	62.55%	68.75%	6.20
Tennessee	64.28%	73.25%	8.97
Texas	59.44%	68.76%	9.32
Utah	70.71%	77.83%	7.12
Vermont	59.45%	67.71%	8.26
Virginia	50.00%	58.78%	8.78
Washington	50.94%	60.22%	9.28
West Virginia	73.73%	80.45%	6.72
Wisconsin	59.38%	65.58%	6.20
Wyoming	50.00%	56.20%	6.20