



JUL 29 2009

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

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

SUBJECT: Review of the Calculation of Additional Medicaid Funding Awarded Under the American Recovery and Reinvestment Act (A-09-09-00080)

The attached final report provides the results of our review of the Centers for Medicare & Medicaid Services' (CMS) calculation of additional Medicaid funding awarded 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 approximately \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentages (FMAP).

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. ASPE provides the increased FMAPs to 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.

Our objective was to determine whether CMS calculated the additional Medicaid funding awarded under the ARRA for the first two quarters of FY 2009 in accordance with Federal law.

For the first two quarters of FY 2009, CMS calculated the additional Medicaid funding awarded under the ARRA in accordance with Federal law. Specifically, for each State and the District of Columbia, CMS used the reported actual or estimated expenditures, deducted the expenditures identified in section 5001(e) of the ARRA (to which the increased FMAPs do not apply) if the State reported the expenditures, and multiplied the remaining expenditures by the correct percentage-point increase in the FMAP. Consequently, this report contains no recommendations.

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. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

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. Please refer to report number A-09-09-00080 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE CALCULATION
OF ADDITIONAL MEDICAID
FUNDING AWARDED UNDER
THE AMERICAN RECOVERY
AND REINVESTMENT ACT**



Daniel R. Levinson
Inspector General

July 2009
A-09-09-00080

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

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 the increased 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.

Pursuant to section 1903(d)(1) of the Social Security Act, CMS calculates Medicaid funding quarterly based on estimated Medicaid expenditures reported by each State. For the first quarter of FY 2009, most States had reported actual expenditures by the time the additional funding was calculated; for the second quarter of FY 2009, States had reported only estimated expenditures.

OBJECTIVE

Our objective was to determine whether CMS calculated the additional Medicaid funding awarded under the ARRA for the first two quarters of FY 2009 in accordance with Federal law.

SUMMARY OF RESULTS

For the first two quarters of FY 2009, CMS calculated the additional Medicaid funding awarded under the ARRA in accordance with Federal law. Specifically, for each State and the District of Columbia, CMS used the reported actual or estimated expenditures, deducted the expenditures identified in section 5001(e) of the ARRA if the State reported the expenditures, and multiplied the remaining expenditures by the correct percentage-point increase in the FMAP. Consequently, this report contains no recommendations.

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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.¹ To ensure that adequate funds are available for the efficient operation of the Medicaid program, section 1903(d)(1) of the Act requires the Secretary of Health and Human Services to estimate quarterly each State's Federal share based on the estimated expenditures reported by the State.

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 approximately \$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.

Section 5001(e) of the ARRA states that the temporarily increased FMAPs do not apply to Medicaid disproportionate share hospital (DSH), 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.

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. In a previous audit, we found that ASPE calculated the increased

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

FMAPs for the first two quarters of Federal fiscal year (FY) 2009 in accordance with applicable provisions of the ARRA.²

Calculation of Additional Medicaid Funding

ASPE provides the increased FMAPs to 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 FY 2009, CMS made available to States, beginning February 25, 2009, approximately \$15.2 billion in additional Medicaid funding based on the increased FMAPs.

To calculate the additional Medicaid funding for each State, CMS uses information from its Medicaid Budget and Expenditure System (MBES). The MBES contains the actual and estimated Medicaid expenditures reported by States on Forms CMS-64, “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program,” and CMS-37, “Medicaid Program Budget Report,” respectively. For the first quarter of FY 2009, most States had reported actual expenditures by the time the additional funding was calculated; for the second quarter of FY 2009, States had reported only estimated expenditures.

For the first quarter of FY 2009, CMS used actual expenditures from the MBES for each of 44 States and the District of Columbia and used estimated expenditures from the MBES for each of 6 States that had not yet reported actual expenditures. CMS then deducted reported expenditures identified in section 5001(e) of the ARRA (to which the increased FMAPs do not apply) and multiplied the remaining expenditures by the percentage-point increase in the FMAP. The percentage-point increase is the difference between the State’s FMAP before enactment of the ARRA and the increased FMAP.

$$\text{First Quarter Additional Funding} = \left(\text{Actual or Estimated Expenditures} - \text{Section 5001(e) Expenditures} \right) \times \text{Percentage-Point Increase}$$

For the second quarter of FY 2009, CMS used estimated expenditures from the MBES for each of the 50 States and the District of Columbia, deducted estimated Medicaid DSH expenditures, and multiplied the remaining expenditures by the percentage-point increase in the FMAP. CMS could not deduct the other types of section 5001(e) expenditures to which the increased FMAPs do not apply because States do not report these expenditures separately on Form CMS-37.

$$\text{Second Quarter Additional Funding} = \left(\text{Estimated Expenditures} - \text{Estimated Medicaid DSH Expenditures} \right) \times \text{Percentage-Point Increase}$$

²“Review of the Calculations of Temporary Increases in Federal Medical Assistance Percentages Under the American Recovery and Reinvestment Act” (A-09-09-00075, issued May 22, 2009).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether CMS calculated the additional Medicaid funding awarded under the ARRA for the first two quarters of FY 2009 in accordance with Federal law.

Scope

We reviewed CMS's calculation of the additional \$15.2 billion in Medicaid funding for the 50 States and the District of Columbia for the first and second quarters of FY 2009 (October 1, 2008, through March 31, 2009). We did not verify the accuracy of the data in the MBES. We limited our review of internal controls to obtaining an understanding of CMS's policies and procedures related to calculating the additional Medicaid funding awarded under the ARRA.

We performed our fieldwork in April and May 2009 at CMS in Baltimore, Maryland.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal law,
- discussed with CMS officials the methodology for calculating the additional Medicaid funding based on the increased FMAs,
- validated the arithmetic of CMS's calculation of the additional Medicaid funding,
- verified that CMS used actual or estimated expenditures from the MBES,
- determined whether CMS deducted the expenditures identified in section 5001(e) of the ARRA,
- verified that CMS used the correct percentage-point increase in the FMAP for each State and the District of Columbia, and
- verified that the amounts calculated by CMS had been awarded to the 50 States and the District of Columbia by reviewing the grant award documents.

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

For the first two quarters of FY 2009, CMS calculated the additional Medicaid funding awarded under the ARRA in accordance with Federal law. Specifically, for each State and the District of Columbia, CMS used the reported actual or estimated expenditures from the MBES, deducted the expenditures identified in section 5001(e) of the ARRA if the State reported the expenditures, and multiplied the remaining expenditures by the correct percentage-point increase in the FMAP. Consequently, this report contains no recommendations.

EXPENDITURES DEDUCTED

For the second quarter of FY 2009, CMS deducted only estimated Medicaid DSH expenditures when calculating the additional Medicaid funding because States do not separately report on Form CMS-37 the other types of section 5001(e) expenditures to which the increased FMAPs do not apply. CMS officials informed us that CMS would exclude from reimbursement the other types of expenditures when States submit actual second-quarter expenditures on Form CMS-64. We noted that the other types of expenditures that CMS was able to deduct for the first quarter of FY 2009 were immaterial when compared with the total Medicaid expenditures for the quarter.

For the third quarter of FY 2009 and subsequent quarters, CMS officials informed us that they had requested States to report all types of estimated section 5001(e) expenditures. CMS intends to deduct these expenditures in its award calculations.

ADDITIONAL FUNDS AWARDED

CMS awarded the additional Medicaid funding to the 50 States and the District of Columbia in two separate grants for the first and second quarters of FY 2009. The total amounts awarded for the two quarters ranged from approximately \$15.9 million for one State to approximately \$2.1 billion for another State. See the Appendix for a list of the additional Medicaid funding awarded to the 50 States and the District of Columbia for the first two quarters of FY 2009.

APPENDIX

APPENDIX

**ADDITIONAL MEDICAID FUNDING FOR THE FIRST TWO QUARTERS
OF FEDERAL FISCAL YEAR 2009**

State	First Quarter Grant Award	Second Quarter Grant Award	Total Grant Award
Alabama	\$81,615,779	\$88,169,539	\$169,785,318
Alaska	20,467,177	21,106,952	41,574,129
Arizona	168,982,012	182,499,055	351,481,067
Arkansas	51,224,023	58,650,425	109,874,448
California	833,039,312	1,158,868,222	1,991,907,534
Colorado	71,267,921	69,643,662	140,911,583
Connecticut	148,958,969	125,659,208	274,618,177
Delaware	29,620,832	31,031,709	60,652,541
District of Columbia	28,835,182	30,046,848	58,882,030
Florida	363,105,761	453,921,134	817,026,895
Georgia	170,032,100	169,576,097	339,608,197
Hawaii	34,405,614	36,167,419	70,573,033
Idaho	26,069,571	27,368,640	53,438,211
Illinois	200,565,668	270,336,568	470,902,236
Indiana	118,168,075	128,995,328	247,163,403
Iowa	43,385,452	45,712,724	89,098,176
Kansas	36,723,291	34,851,936	71,575,227
Kentucky	112,864,203	92,436,999	205,301,202
Louisiana	115,442,032	114,517,056	229,959,088
Maine	48,003,854	46,543,348	94,547,202
Maryland	136,990,226	138,518,372	275,508,598
Massachusetts	325,874,353	268,382,826	594,257,179
Michigan	235,765,917	228,598,392	464,364,309
Minnesota	149,716,575	206,474,569	356,191,144
Mississippi	62,985,248	74,076,103	137,061,351
Missouri	134,227,955	136,300,910	270,528,865
Montana	15,069,511	19,179,435	34,248,946
Nebraska	22,473,769	25,369,594	47,843,363
Nevada	44,104,262	46,206,228	90,310,490
New Hampshire	16,004,441	15,526,846	31,531,287
New Jersey	182,669,195	179,565,311	362,234,506
New Mexico	45,216,717	50,022,990	95,239,707
New York	968,018,240	1,102,814,358	2,070,832,598
North Carolina	226,417,227	213,152,932	439,570,159
North Dakota	9,218,829	9,618,464	18,837,293
Ohio	247,570,548	252,599,088	500,169,636
Oklahoma	87,713,751	87,044,262	174,758,013
Oregon	74,198,292	81,628,317	155,826,609
Pennsylvania	331,224,582	349,054,339	680,278,921
Rhode Island	48,131,492	45,377,862	93,509,354
South Carolina	88,487,607	84,471,061	172,958,668
South Dakota	9,929,717	10,566,598	20,496,315
Tennessee	174,710,630	156,573,414	331,284,044
Texas	443,046,843	509,139,578	952,186,421
Utah	25,173,065	28,189,718	53,362,783
Vermont	23,201,237	22,263,095	45,464,332
Virginia	124,651,901	128,007,220	252,659,121
Washington	165,689,853	173,640,864	339,330,717
West Virginia	36,994,424	39,485,175	76,479,599
Wisconsin	72,737,967	90,371,696	163,109,663
Wyoming	8,497,819	7,424,314	15,922,133
Total	\$7,239,489,021	\$7,965,746,800	\$15,205,235,821