Centers for Medicare & Medicaid Services: Temporary Increase in Medicaid DSH Allotments

A. Funding Table

(Outlays in Millions)

Project/Activity	Program Level Estimate	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate	FY 2012 – FY 2019
DSH Allotment Increase	$595	$75	$520	$0	$0

* These amounts represent HHS Office of the Actuary cost estimates of the temporary increase in Medicaid DSH allotments.

B. Objectives

The purpose of the temporary increase in Medicaid Disproportionate Share Hospital (DSH) payment allotments is to provide additional State fiscal relief through easing the strain on hospitals that provide uncompensated care to vulnerable populations. Eligible hospitals that serve a disproportionate share of low-income or uninsured individuals are entitled to receive DSH payments. States receive an annual allotment to make payments to DSH hospitals to account for higher costs associated with treating uninsured and low-income patients. This annual allotment is calculated by law and includes requirements to ensure that the DSH payments to hospitals are not higher than the actual costs incurred by the hospitals to provide the uncompensated care. These payments are in addition to the regular payments such facilities receive for providing care to Medicaid beneficiaries.

C. Activities

Prior to the Recovery Act, the FY 2009 Federal Medicaid DSH allotments for all States totaled approximately $11.1 billion. After the 2.5% increase authorized by the Recovery Act, the total DSH allotments increased by $268.8 million to a total of $11.3 billion. Notice of State allotments for FY 2010 were issued on April 23, 2010, through the Federal Register notice CMS-2300-N.

D. Characteristics

Section 5002 provides additional fiscal relief to States by increasing most States Federal fiscal year (FFY) 2009 and 2010 Medicaid DSH allotments by 2.5 percent. The Medicaid DSH allotment calculation is based upon a statutory formula in section 1923 of the Social Security Act. Increased DSH allotments are provided to States through a grant process on an annual basis. States will continue to report to CMS on the use of such funds as usual though submission of the quarterly expenditure reports.

E. Delivery Schedule

HHS announced the revised preliminary calculations for the FY 2009 Medicaid DSH allotments in March 2009. CMS announced the revised preliminary DSH allotments

for FY09 and FY10 through Federal Register Notice CMS-2300-N, issued on April 23, 2010. Any additional funds requested by States for Medicaid DSH payments are handled through separate Medicaid grant awards.

States will have to first exhaust their original FY 2009 and FY 2010 Federal Medicaid DSH allotments (un-adjusted by the Recovery Act) before they can access the increased portion of their Federal Medicaid DSH allotments as authorized under the Recovery Act.

F. Environmental Review Compliance

The CMS and Department of Health and Human Services are committed to sustainable operations of its activities and facilities through sound environmental stewardship including preferential procurement of environmentally preferred products and electronic stewardship of IT and data center operations.

As programs are developed, CMS will incorporate contract and/or grant language to mitigate the environmental impacts of acquisition of IT and other products and equipment and services and provide guidance to encourage the following:

- Green procurement' based on the HHS Affirmative Procurement Plan and similar guidance from the Environmental Protection Agency (EPA) and the President's Council on Environmental Quality (CEQ)

- Electronic Stewardship including the use of electronic products that are Energy Star® compliant and Electronic Product Environmental Assessment Tool (EPEAT) Silver registered or higher when available; the activation of Energy Star® features on all equipment, when available; environmentally sound 'end-of-life' management practices (including reuse, donate, sell, or recycle 100% of electronic products;) and best operation and management practices for energy efficient data centers.

G. Measures

Outcome / Achievement	FY 09	12/31/09	3/31/10	6/30/10	9/30/10	Program End
Number of States drawing temporary increase in Medicaid DSH funds. Reported quarterly.	14	16	22			

*Data source: Payment management system. States' expenditures are reported on a quarterly basis to CMS. States report to CMS through the quarterly expenditure process how much of the increased Medicaid DSH allotment they expended. States have to first demonstrate that they expended the full amount available under the regular Medicaid DSH allotments before drawing Recovery Act DSH funds.

H. Monitoring and Evaluation

The CMS programs are assessed for risk to ensure that appropriate internal controls are in place. These assessments are done consistent with the statutory requirements of the Federal Manager's Financial Integrity Act and the Improper Payments Information Act, as well as OMB's circular A-123 "Management's Responsibility for Internal Control" (including Appendices A, B & C).

CMS' risk management process fits within the overall governance structure established at HHS to address Recovery Act program risks. The HHS Risk Management and Financial Oversight Board provides executive leadership and establishes accountability for the risk assessment process related to internal controls over financial reporting, and the HHS Senior Assessment Team (SAT) ensures that risk assessment objectives are clearly communicated throughout the Department. The CMS has a risk management and Financial Oversight committee, comprised of cross-functional senior leadership, to oversee and manage program implementation, and to address risk across the agency, including risk that impacts financial management. It meets monthly to monitor and assess the effectiveness of mitigation strategies, identify emerging risks and ensure the correction of program weaknesses. The CMS SAT performs an annual assessment in accordance with HHS' guidance regarding OMB circular A-123, Appendix A, Internal Control Over Financial Reporting.

In addition, CMS will present its high level risks to the Recovery Act Implementation Team. Chaired by the Deputy Secretary and comprised of senior policy officials from throughout the Department, the Implementation Team convenes monthly to monitor progress in carrying out Recovery Act programs and address the obstacles and risks that could impact their success.

States' expenditures will be monitored on a quarterly basis by both the States' and CMS. In accordance with the guidelines established by OMB, any funding to States related to the increased DSH allotment will be issued in a separate account specifically designated by the Treasury for the Recovery Act funds and the States will have to draw these funds from that separate account. The handling of these grant awards will follow the processes CMS has established for issuance of regular Medicaid grant awards as well as reconciliation at the end of the quarter to actual allowable Medicaid DSH expenditures. These processes are well documented in the Medicaid Cycle memo which documents the processes as well as details internal controls in place to mitigate risk.

As part of the regular quarterly expenditure reporting process, CMS evaluates which portion of Medicaid DSH expenditures are a result of the increased Medicaid DSH allotments. Further, in order to access the additional increased DSH allotment, States have to demonstrate through their quarterly budget and expenditure reporting mechanism that they have fully expended their regular DSH allotment.

CMS uses its existing internal control infrastructure to implement these provisions, i.e., CMS examines actual expenditures claimed for appropriateness within the

Medicaid DSH program requirements. To the extent CMS finds Medicaid DSH expenditures that are not allowable under the Medicaid statute; CMS will initiate recovery of any unallowable funds.

I. Transparency

CMS is open and transparent in all of its contracting and grant activities involving Recovery Act funding; the Agency is in compliance with statute and OMB guidance on transparency.

The actual increased DSH allotments are published through the Federal Register. The actual amounts of funding made available to States as a result of the increased DSH allotments are also available on www.hhs.gov/recovery/.

Finally, States must report to CMS on a quarterly basis their Medicaid expenditures, including expenditures related to Medicaid DSH payments. In accordance with the guidelines established by OMB, any funding to States related to the increased DSH allotment will be issued in a separate account specifically designated by the Treasury for the Recovery Act funds and the States will have to draw these funds from that separate account.

J. Accountability

To ensure that managers are held to high standards of accountability in achieving program goals under the Recovery Act, CMS has built upon and strengthened existing processes. Senior CMS Center for Medicaid, CHIP and Survey & Certification officials meet regularly with senior Department officials to ensure that projects are meeting their program goals, assessing and mitigating risks, ensuring transparency, and incorporating corrective actions. The personnel performance appraisal system also incorporates Recovery Act program stewardship responsibilities for program and business function managers.

In addition, CMS uses its existing financial management oversight mechanisms to require the return of any Federal funds to which a State was not entitled. Such mechanisms include the disallowance of Medicaid DSH expenditures funded under the increased DSH allotment. This disallowance action would involve formal notice to the State as well as provide the State an opportunity for a hearing to the Departmental Appeals Board.

K. Barriers to Effective Implementation

Changes were made to the Federal Medicaid Expenditure reporting system (Medicaid Budget and Expenditure System MBES) to allow for separate expenditure reporting of the increased DSH funds. In addition, States are required to separately document and justify the need for the funding available under the increased Medicaid DSH allotment in their routine budget request. Any additional reporting for States is a resource issue for them.

L. Federal Infrastructure

Not applicable.

Summary of Significant Changes:

- Updated Section A to reflect actual 09 outlays and estimated FY10 outlays.
- Added a chart to Section G to identify the actual Number of States drawing temporary increase in Medicaid DSH funds per quarter.
- Updated Sections F, H and I to reflect updated HHS policies on Environmental Review Compliance, Monitoring and Evaluation, and Transparency.