

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
601 East 12th Street, Suite 235
Kansas City, Missouri 64106



Division of Medicaid and Children's Health Operations

June 9, 2011

Charles M. Palmer, Director
Department of Human Services
Hoover State Office Building
1305 East Walnut, 5th Floor
Des Moines, IA 50319-0119

Dear Mr. Palmer:

This letter is being sent as a companion to our approval of your Department's State Plan Amendment (SPA) IA 10-020. Supporting documentation submitted by the State in association with IA 10-020 described the source of state funding for the state-operated Mental Health Institute (MHI) payments. Within the documentation, Iowa indicated that each MHI receives a direct appropriation from the State legislature in an amount equivalent to the State share of the inpatient hospital payments to the MHIs. Once the MHIs receive their total computable Medicaid payment, (i.e. Federal and state share), the State asserts that the up-front appropriation is no longer needed to cover the costs of their Medicaid Services. This appropriation amount is then sent to the Medicaid agency to replenish the Medicaid agency's appropriated funds that were used to match the original Medicaid payment made to the MHIs.

Regulations at 42 C.F.R. 433.51 permit that public funds may be considered as the State's share in claiming federal financial participation (FFP) if the public funds are transferred from other public agencies to the State or local agency and are under its administrative control. Also, section 1903(w)(6)(A) of the Act specifies that the Secretary may not restrict a state's use of funds, where such funds are derived from state or local taxes (or funds appropriated to state teaching hospitals) transferred from or certified by units of government within a state as the non-Federal share of Medicaid expenditures, regardless of whether the unit of government is also a health care provider.

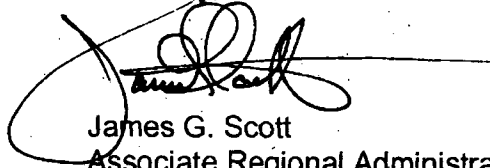
While it is clear from 42 C.F.R. 433.51 and Section 1903(w)(6)(A) of the Act that the funds appropriated to the State MHIs can be used as the non-federal share of Medicaid payments, the methodology for using those funds appears inconsistent with sections 1902(a)(2), 1902(a)(30)(A), 1902(a)(19), and 1905(b) of the Act, and regulations at 42 C.F.R. 433.51 (Attachment A: Relevant Statutory and Regulatory Authorities, provides more detail on these authorities). Therefore, in order to continue to receive FFP for inpatient hospital services at the MHIs, the State should modify the methodology used

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to provide the non-federal share of its Medicaid payments to be consistent with the these statutory and regulatory requirements. To be consistent with the Act and Federal regulations, the MHI appropriations should be transferred to the Medicaid agency before payment is made for Medicaid services and the Medicaid payments received and retained by the MHIs for use by the MHIs to support access to quality Medicaid care and services.

The State has 90 days from June 9, 2011, to address the issues described above. The State should submit a corrective action plan describing in detail how and when the State will resolve the issues identified above in a timely manner. If a SPA is needed to address the inconsistencies within that period, prior to the effective date of the SPA, the State will need to satisfy the public process requirement for any change in rates and methodologies underlying the establishment of the rates, in accordance with section 1902(a)(13)(A) of the Act and guidance identified in the December 10, 1997 State Medicaid Director letter. Failure to respond will result in the initiation of a formal compliance process. During the 90 day period, CMS will provide any technical assistance that is needed to resolve the issues described above. If you have any questions regarding this letter please contact Tim Weidler of my staff at (816) 426-6429.

Sincerely,

A handwritten signature in black ink, appearing to read "James G. Scott", with a large, sweeping flourish extending to the left.

James G. Scott
Associate Regional Administrator
for Medicaid and Children's Health Operations

Enclosure

cc: Jennifer Vermeer