



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, Texas 75242

July 18, 2005

Report Number: A-06-05-00034

Ms. Carolyn Ingram
Director, Medical Assistance Division
New Mexico Human Services Department
P.O. Box 2348
Santa Fe, New Mexico 87504

Dear Ms. Ingram,

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of New Mexico's Personal Needs Allowance for Institutionalized Residents" for the period July 1, 2000 through September 30, 2004. A copy of this report will be forwarded to the HHS action official noted below 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 the HHS action official within 30 days. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-06-05-00034 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Gordon Sato".

Gordon Sato
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 - Ms. Carolyn Ingram

Direct Reply to HHS Action Official:

James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
1301 Young Street, Room 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NEW MEXICO'S
PERSONAL NEEDS ALLOWANCE FOR
INSTITUTIONALIZED RESIDENTS
FOR THE PERIOD JULY 1, 2000
THROUGH SEPTEMBER 30, 2004**



**Daniel R. Levinson
Inspector General**

**July 2005
A-06-05-00034**

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

State plans for medical assistance detail how states will operate their Medicaid programs. State plans provide for a monthly personal needs allowance for institutionalized individuals and couples whose care is paid for by Medicaid. A monthly personal needs allowance is money the individual or couple uses for clothing and other personal needs while in an institution, and is not considered income for the purpose of Medicaid paying for the cost of institutional care. The Social Security Act, Section 1902, Subsections (a)(50) and (q)(1)(A) stipulate the minimum monthly personal needs allowance is \$30 for an individual and \$60 for a couple. States may increase their personal needs allowance annually. To do so properly, they must submit a State plan amendment to the Centers for Medicare & Medicaid Services (CMS) for approval.

The Medical Assistance Division of the New Mexico Human Services Department (the State agency) is responsible for administering the Medicaid program in New Mexico, as well as keeping the State plan updated. CMS requested that we review New Mexico's personal needs allowance for institutionalized residents.

OBJECTIVE

The objective of our audit was to determine whether New Mexico obtained approval before increasing the personal needs allowance for institutionalized residents between July 1, 2000, and September 30, 2004.

SUMMARY OF FINDINGS

From July 1, 2000, through September 30, 2004, the State agency increased the monthly personal needs allowance annually. The State agency obtained CMS approval to increase the monthly personal needs allowance for the July 1, 2000, to June 30, 2001, period from \$30 per person to \$45 per person. However, it did not obtain approval from CMS to increase the allowance from \$45 per person to \$52 per person for the period from July 1, 2001, to September 30, 2004.

The CMS State Medicaid Manual states, "After the U.S. Department of Health and Human Services (HHS) approves the original State plan, the State agency must currently submit all relevant changes to HHS, which will determine whether the plan continues to meet Federal requirements and policies." State agency staff believed that the State plan amendment effective July 1, 2000, included language suggesting that the State agency would increase the personal needs allowance annually, based on the Consumer Price Index. The State plan amendment included no such language.

The unapproved increases in the personal needs allowance resulted in \$391,651 of additional Federal Medicaid payments for the period July 1, 2001, through September 30, 2004.

RECOMMENDATIONS

We recommend that the State agency:

- reimburse the Federal government the \$391,651 it received as a result of unapproved increases in the personal needs allowance for institutionalized individuals; and,
- ensure that it submits a State plan amendment when it makes Medicaid program changes, such as increasing the personal needs allowance for institutionalized individuals.

STATE AGENCY RESPONSE

In its written comments on our draft report, the State agency stated that:

- the facts in the report are accurate;
- the recommendations are reasonable; and
- a reimbursement of \$391,651 will be made to the Medicaid program.

A complete text of the State agency's comments is included in the Appendix.

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INTRODUCTION

BACKGROUND

Personal Needs Allowance for Institutionalized Residents

State plans for medical assistance detail how states will operate their Medicaid programs. State plans provide for a monthly personal needs allowance for institutionalized individuals and couples whose care is paid for by Medicaid. A monthly personal needs allowance is money the individual or couple uses for clothing and other personal needs while in an institution, and is not considered income for the purpose of Medicaid paying for the cost of institutional care. The Social Security Act, Section 1902, Subsections (a)(50) and (q)(1)(A) stipulate the minimum monthly personal needs allowance is \$30 for an individual and \$60 for a couple.

The Medical Assistance Division of the New Mexico Human Services Department (the State agency) is responsible for administering the Medicaid program in New Mexico, as well as keeping the State plan updated. The Centers for Medicare & Medicaid Services (CMS) requested that we review New Mexico's personal needs allowance for institutionalized residents.

States may increase their personal needs allowance annually. To do so properly, they must submit a State plan amendment to CMS for approval. The State agency submitted a State plan amendment effective from July 1, 2000, through June 30, 2001, to raise the monthly personal needs allowance. From July 1, 2001, to September 30, 2004, the State agency continued to increase the personal needs allowance annually. However, the State agency failed to submit any more State plan amendments to CMS for approval.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether New Mexico obtained approval before increasing the personal needs allowance for institutionalized residents from July 1, 2000, through September 30, 2004.

Scope

Our audit covered State agency policies, procedures, and practices regarding the personal needs allowance for the period July 1, 2000, through September 30, 2004.

Our audit was conducted to determine whether additional Federal Medicaid payments resulted from unapproved increases in the personal needs allowance; it would not necessarily disclose all material weaknesses. We did not review the overall internal control structure of the State agency. We limited our internal control review to obtaining

an understanding of the State agency's policies, procedures, and practices used to increase the personal needs allowance.

We conducted fieldwork in March 2005 at the State agency's offices in Santa Fe, New Mexico.

Methodology

To accomplish the objective of our audit, we:

- reviewed the State agency's policies on Medicaid to determine whether the personal needs allowance had been increased;
- reviewed the portion of the State plan related to the personal needs allowance to determine whether the State agency had submitted the required State plan amendments; and,
- obtained the Federal reimbursement percentages and the total number of institutionalized residents affected monthly by the unapproved increases in the personal needs allowance.

We then calculated the improper Federal Medicaid payments resulting from the unapproved increases to the personal needs allowance.

We performed our audit in accordance with generally accepted Government auditing standards.

FINDINGS AND RECOMMENDATIONS

The State agency increased the personal needs allowance annually from July 1, 2001, to September 30, 2004, without obtaining CMS's approval. As a result, institutionalized individuals retained a larger portion of their income for that period and Medicaid paid an additional \$391,651 in payments for the individuals' institutional care.

CMS Requirements

Chapter 13 of the CMS State Medicaid Manual states, "After the U.S. Department of Health and Human Services (HHS) approves the original State plan, the State agency must currently submit all relevant changes to HHS, which will determine whether the plan continues to meet Federal requirements and policies."

State Agency Practices

State agency officials told us that they had increased the personal needs allowance annually between July 1, 2000, and September 30, 2004. Officials explained that until 2000, New Mexico's monthly personal needs allowance was \$30 per person. During its legislative session in 2000, New Mexico passed a law that increased the monthly personal

needs allowance to \$45 per person based on the Consumer Price Index. This law also stipulated that the State agency would continue to increase the personal needs allowance in subsequent years based on the Consumer Price Index.

The State agency submitted a Medicaid State plan amendment to increase the monthly personal needs allowance to \$45 that was effective from July 1, 2000, through June 30, 2001. However, the State agency did not include in this amendment language that would request the personal needs allowance to be increased annually based on the Consumer Price Index.

From July 1, 2001, to September 30, 2004, the State agency increased the monthly personal needs allowance annually, eventually raising it to \$52 per person. However, State agency staff failed to submit a State plan amendment requesting an increase until October 1, 2004. For the years between approved State plan amendments, the State agency increased the monthly personal needs allowance to the following amounts:

- \$47 per person for July 1, 2001, to June 30, 2002;
- \$49 per person for July 1, 2002, to June 30, 2003;
- \$50 per person for July 1, 2003, to June 30, 2004; and
- \$52 per person for July 1, 2004, to September 30, 2004.

Misunderstanding of State Agency Officials

State agency officials told us that they believed that the State plan amendment effective July 1, 2000, included language suggesting that the State agency would annually increase the personal needs allowance based on the Consumer Price Index. The State plan amendment included no such language. State agency officials agreed that the increases to the personal needs allowance were not approved in the State plan, as required.

Additional Federal Medicaid Payments

As a result, the unapproved increases in the personal needs allowance resulted in \$391,651 of additional Federal Medicaid payments for the period July 1, 2001, through September 30, 2004.

RECOMMENDATIONS

We recommend that the State agency:

- reimburse the Federal government the additional \$391,651 it received as a result of unapproved increases in the personal needs allowance for institutionalized individuals; and,
- ensure that it submits a State plan amendment when it makes Medicaid program changes, such as increasing the personal needs allowance for institutionalized individuals.

STATE AGENCY RESPONSE

In its written comments on our draft report, the State agency stated that:

- the facts in the report are accurate;
- the recommendations are reasonable; and
- a reimbursement of \$391,651 will be made to the Medicaid program.

A complete text of the State agency's comments is included in the Appendix.

APPENDIX



New Mexico Human Services Department

Bill Richardson, Governor
Pamela S. Hyde, J.D., Secretary

Medical Assistance Division
Phone: 505-827-3100

June 22, 2005

Mr. Gordon Sato
Regional Inspector General for Audit Services
Department of Health & Human Services
1100 Commerce, Room 632
Dallas, TX 75242

RE: Report Number: A-06-05-00034

Dear Mr. Sato:

Thank you for providing the State of New Mexico with an opportunity to provide written comment relevant to the above report.

The facts stated in the report are accurate. We consider the recommendations made by DHHS to be reasonable and action has been taken to update the State Plan annually as needed when an adjustment to the Personal Needs Allowance is contemplated.

A reimbursement in the amount of \$391,651 will be made to the Medicaid program under separate cover.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Ingram".

Carolyn Ingram, Director

CI/RS/rs