

North Carolina Department of Health and Human Services

2001 Mail Service Center • Raleigh, North Carolina 27699-2001

Tel 919-733-4534 • Fax 919-715-4645

Beverly Eaves Perdue, Governor

Lanier M. Cansler, Secretary

March 31, 2009

The Honorable William Purcell, Co-Chair
Appropriations on Health and Human Services
North Carolina General Assembly
Room 625, Legislative Office Building
Raleigh, NC 27603

Dear Senator Purcell:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

Please direct all questions concerning this report to Pat Jeter, Assistant Director for Budget Management in the Division of Medical Assistance. She can be reached at 855-4140 or via e-mail at Pat.Jeter@ncmail.net.

Sincerely,

A handwritten signature in black ink, appearing to read "Lanier M. Cansler".

Lanier M. Cansler

LMC:pj

cc: Allen Feezor
Dan Stewart
Tara R. Larson
Sharnese Ransome
Jennifer Hoffmann
Legislative Library (2)





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Lanier M. Cansler, Secretary

March 31, 2009

The Honorable Doug Berger, Co-Chair
Appropriations on Health and Human Services
North Carolina General Assembly
Room 622, Legislative Office Building
Raleigh, NC 27603

Dear Senator Berger:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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March 31, 2009

The Honorable Beverly M. Earle, Chairman
Appropriations Subcommittee on Health and Human Services
North Carolina General Assembly
Room 634, Legislative Office Building
Raleigh, NC 27603

Dear Representative Earle:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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March 31, 2009

The Honorable Bob England, M.D., Chairman
Appropriations Subcommittee on Health and Human Services
North Carolina General Assembly
Room 2219, Legislative Building
Raleigh, NC 27601

Dear Representative England:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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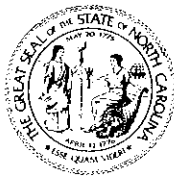
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Beverly Eaves Perdue, Governor

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March 31, 2009

The Honorable Verla Insko, Chairman
Appropriations Subcommittee on Health and Human Services
North Carolina General Assembly
Room 307-B1, Legislative Office Building
Raleigh, NC 27603

Dear Representative Insko:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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Lanier M. Cansler, Secretary

March 31, 2009

Marilyn Chism, Director
Fiscal Research Division
Room 619, Legislative Office Building
Raleigh, NC 27601

Dear Ms. Chism:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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March 31, 2009

The Honorable Marc Basnight, Co-Chair
Joint Legislative Commission on Governmental Operations
North Carolina General Assembly
Room 2007, Legislative Building
Raleigh, NC 27601

Dear Senator Basnight:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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Lanier M. Cansler, Secretary

March 31, 2009

The Honorable Joe Hackney, Co-Chair
Joint Legislative Commission on Governmental Operations
North Carolina General Assembly
Room 2304, Legislative Building
Raleigh, NC 27601

Dear Representative Hackney:

Section 10.10A of S.L. 2008-107 (House Bill 2436), "DMA Budget Flexibility," directs the Department to submit a report to the NC General Assembly on addressing the Division's management of its budget, particularly as it relates to contract expenditures. It is my pleasure to submit the report to you at this time.

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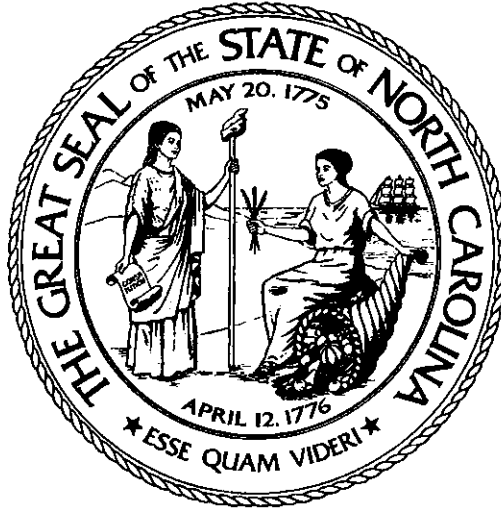
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**Legislative Report
DMA Budget Flexibility
S.L. 2008-107 Section 10.10A**



**State of North Carolina
Department of Health and Human Services
Division of Medical Assistance**



March 2009

A. Legislative Mandate

Session Law 2008-107 Section 10.10A DMA Budget Flexibility directed the Department of Health and Human Services as follows:

"Section 10.10A.(a) Budget approval by the Office of State Budget and Management is required before the Division of Medical Assistance may enter into any new contract and before the Division may renew or amend existing contracts that exceed the existing contract amounts.

Section 10.10A.(b) The Department of Health and Human Services, Division of Medical Assistance, shall make every effort to achieve savings within its operational budget and shall take the steps necessary to achieve overall budget reductions from the General Fund Required by this act. Notwithstanding G.S. 143C-6.4(b)(3), the Department may use funds appropriated to the Division of Medical Assistance to address shortfalls in funds for direct services within the Medical Assistance Payments budget of the Division of Medical Assistance.

Section 10.10A.(c) Notwithstanding G.S. 143-6.4(b)(3), the Department of Health and Human Services may use funds appropriated to the Division of Medical Assistance to address contract shortfalls within the Division of Medical Assistance budget.

Section 10.10A.(d) Not later than March 1, 2009, the Department shall report to the House of Representatives Appropriations Subcommittee on Health and Human Services, the Senate Appropriations Committee on Health and Human Services, the Joint Legislative Commission on Governmental Operations, and the Fiscal Research Division on its efforts to cover the contract shortfall in the Division of Medical assistance."

B. Related Activities

The Division of Medical Assistance took the following actions to mitigate the contractual revenue shortfall:

- 1) Prior to contract execution or posting a Request for Proposal, each new contract is assessed as to whether there are sufficient funds based upon the requirements of the contract. All existing contracts are reviewed based on the previous year's contract budgetary amount, including justification for any budgetary increases. Additionally for existing agreements, contract administrators are required to keep contracts at the current funding level if at all possible.
- 2) The Office of State Budget and Management (OSBM) reviews each contract in which there is an increase in funding needed to support the contract. Prior to approval by OSBM, the Division is required to submit a budget revision identifying the appropriate transfer of funds from an existing Medicaid budgetary line item.
- 3) All of the Division's existing contracts were assessed as to whether they were needed on a go forward basis. The Division identified several contracts which were terminated and/or allowed to expire in December 2008 which will result in less expenditure in the second six months of the state fiscal year.

- 4) The Division determined that a federal regulation related to claiming allowed for a 75% federal match to be drawn on one of its largest contracts verses the previous funding of 50% federal match. All expenditures which were claimed at the 50% federal match and are now allowed to claim the 75% Federal match are being reclassified to the higher federal match. This activity alone will save the State \$5-6 million in state expenditures.

C. Conclusion

Having taken the above actions, the Division of Medical Assistance believes it will be able to fund all of its contracts within its current operational budget for FY 08-09.