



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX  
Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

July 6, 2005

Report Number: A-09-04-00027

Mr. Anthony D. Rodgers  
Director  
Arizona Health Care Cost Containment System  
801 East Jefferson  
Phoenix, Arizona 85034

Dear Mr. Rodgers:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Enhanced Federal Share Claimed for Family Planning Services in Arizona During Federal Fiscal Years 2000, 2001, and 2002." 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 from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Please refer to report number A-09-04-00027 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

Page 2 – Mr. Anthony D. Rodgers

**Direct Reply to HHS Action Official:**

Mr. Jeff Flick  
Regional Administrator  
Centers for Medicare & Medicaid Services, Region IX  
Department of Health and Human Services  
75 Hawthorne Street, Suite 408  
San Francisco, CA 94105

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ENHANCED FEDERAL  
SHARE CLAIMED FOR FAMILY  
PLANNING SERVICES IN ARIZONA  
DURING FEDERAL FISCAL YEARS  
2000, 2001, AND 2002**



**DANIEL R. LEVINSON**  
Inspector General

**JULY 2005**  
**A-09-04-00027**

# ***Office of Inspector General***

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## **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**

The Social Security Act (the Act) requires States to provide family planning services under Medicaid. The Act also requires the Federal Government to reimburse 90 percent (enhanced Federal share) of State expenditures for family planning services instead of reimbursing at the State's lower Federal medical assistance percentage (FMAP).

The Arizona Health Care Cost Containment System Administration (Medicaid agency) administers the Arizona Medicaid program. The program operates under a research and demonstration waiver, provided for in section 1115 of the Act, which allows the Medicaid agency to operate a statewide managed care system.

The Medicaid agency contracted with managed care organizations, known as health plans. The health plans delivered acute care services, including family planning services, to Medicaid recipients. The Medicaid agency paid the health plans a monthly capitation amount for each enrolled member.

To claim the enhanced Federal share, the Medicaid agency had to identify the portion of the capitation payments that represented family planning services. According to the Centers for Medicare & Medicaid Services' (CMS) "Financial Review Documentation for At-risk Capitated Contracts Ratesetting" (the Checklist), States are required to support health plans' administrative charges for family planning services by documenting "...the portion of [their] rates that are family planning consistent with the CMS Title XIX Financial Management Review Guide #20 Family Planning Services [the Guide]."

### **OBJECTIVE**

Our objective was to determine whether the Medicaid agency claimed the enhanced Federal share for family planning services pursuant to Medicaid regulations and guidelines. We limited our review to \$20.7 million of enhanced Federal share claimed for health plan capitation payments for family planning services during Federal fiscal years (FFYs) 2000, 2001, and 2002.

### **SUMMARY OF FINDING**

The Medicaid agency did not claim the enhanced Federal share for family planning services pursuant to Medicaid requirements.

The Medicaid agency developed family planning rates based on fee-for-service payment data plus an 11-percent component representing the health plans' administration, profit, and contingency expenditures. The Medicaid agency's use of fee-for-service payment data to support the cost of family planning services at the provider level was acceptable. However, the Medicaid agency could not provide support that the 11-percent component was specifically for family planning administration. Use of the unsupported component resulted in reimbursement of \$558,093, the difference between reimbursement calculated at the 90-percent rate and reimbursement calculated at the applicable FMAP rate.

## **RECOMMENDATIONS**

We recommend that the Medicaid agency:

- work with CMS to determine the eligibility of the \$558,093 in payments for the enhanced Federal share claimed for administration of family planning services; and
- ensure that future rates used to identify the family planning portion of the capitation payments for claiming enhanced Federal share for administrative costs be specifically identified and documented as related to family planning services.

## **MEDICAID AGENCY'S COMMENTS**

In its written comments on the draft report, the Medicaid agency disagreed with the finding and recommendations. The Medicaid agency stated that it appropriately claimed the enhanced Federal share for the administration costs of offering, arranging, and furnishing family planning services to Arizona's Medicaid population.

The Medicaid agency asserted that an administrative cost allowance was permissible as a component of the capitation rates for administration costs directly related to providing Medicaid State plan-approved services to Medicaid-eligible members. The Medicaid agency also asserted that capitation payments made to health plans may include a component for administrative services performed by the health plans on behalf of the Medicaid agency. The Medicaid agency stated that item AA.3.2 of the Checklist permitted an administrative cost allowance and that the enhanced Federal share was available for this component in addition to the administrative component included in the fee-for-service rates paid to providers.

The full text of the Medicaid agency's comments is included as an appendix to this report.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

The Medicaid agency increased family planning administration expenditures eligible for the enhanced Federal share by adding a component for the health plans' administration costs that was not specifically identified as related to family planning. According to CMS guidance, the health plans' administration costs are reimbursable at the FMAP rate, not the enhanced rate, unless the costs are specifically identified as related to family planning services.

The Medicaid agency referred to item AA.3.2 of the Checklist as the basis for claiming the enhanced Federal share for the administration component of the capitation rate paid to managed care organizations. However, the Guide, referred to in the Checklist, cited CMS guidance and Departmental Appeals Board (DAB) cases in which the DAB ruled that States must specifically document the services that were for family planning to claim the enhanced Federal share.

## INTRODUCTION

### BACKGROUND

#### Medicaid Program

Medicaid was established in 1965 as a jointly funded Federal and State program providing medical assistance to qualified low-income people under Title XIX of the Act. At the Federal level, CMS, an agency within the Department of Health and Human Services, has oversight of the Medicaid program. Within a broad legal framework, States design and administer their own Medicaid programs.

The Federal Government pays its share of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. This share is known as the FMAP and ranges from 50 percent to 83 percent, depending upon each State's relative per capita income. The Federal payments to States for their medical assistance expenditures are referred to as the Federal share.

CMS reimburses States quarterly for the Federal share of expenditures for medical services, training, and administration. The amount of the quarterly reimbursement is based on information submitted by the State agency on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program. The quarterly statement is the State's accounting of actual recorded expenditures.

Section 1905(a)(4)(C) of the Act requires States to provide family planning services and supplies to individuals of child bearing age who are eligible under the State plan and desire such services and supplies. Section 1903(a)(5) of the Act provides for a 90-percent FMAP for offering, arranging, and furnishing family planning services and supplies.

#### Arizona Medicaid Program

The Medicaid agency administers the Arizona Medicaid program. The program is administered under section 1115 of the Act, which allows the Medicaid agency to operate a statewide managed care system. The Medicaid agency also provides some Medicaid services on a fee-for-service basis.

The Medicaid agency entered into contracts with health plans to deliver acute care services, including family planning services, to Medicaid beneficiaries. The contracts were for a 1-year period, effective October 1997, with annual renewal options for 4 years.<sup>1</sup> The Medicaid agency paid the health plans a monthly capitation amount for each enrolled member.

To claim the enhanced Federal share of 90 percent, the Medicaid agency needed to identify the portion of the capitation payments that represented family planning services. For other medical assistance expenditures, Arizona's FMAP was approximately 65 percent in FFYs 2000, 2001, and 2002.

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<sup>1</sup> The Medicaid agency extended the renewal option period through September 2003.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Medicaid agency claimed the enhanced Federal share for family planning services pursuant to Medicaid regulations and guidelines.

### **Scope**

We limited our review to \$20.7 million of enhanced Federal share claimed for health plan capitation payments for family planning services during FFYs 2000, 2001, and 2002.

To accomplish our objective, it was not necessary to evaluate the Medicaid agency's internal controls.

We conducted fieldwork during the period December 2003 through November 2004, which included site visits to the Medicaid agency's offices in Phoenix, AZ.

### **Methodology**

To accomplish our objective we:

- reviewed the Medicaid agency's Form CMS-64s, the State Medicaid Manual, applicable Federal regulations, Federal Registers, and Title 36 of the Arizona Revised Statutes;
- obtained copies of pertinent documentation and interviewed Medicaid agency personnel and CMS Region IX staff;
- analyzed the Medicaid agency's methodology used to identify the family planning services portion of the health plan capitation payments and to claim enhanced Federal share; and
- analyzed historical claim data used to determine the portion of the health plan capitation payments that were attributable to family planning services.

We performed the audit in accordance with generally accepted government auditing standards.

## **FINDING AND RECOMMENDATIONS**

The Medicaid agency did not claim the enhanced Federal share for family planning services pursuant to Medicaid requirements.

The Medicaid agency developed family planning rates based on fee-for-service payment data plus an 11-percent component representing the health plans' administration, profit, and contingency expenditures. The Medicaid agency's use of fee-for-service payment data to support the cost of family planning services at the provider level was acceptable. However, the Medicaid agency could not provide support that the 11-percent component was specifically for family planning administration. Use of the unsupported component resulted in reimbursement of \$558,093, the difference between reimbursement calculated at the 90-percent rate and reimbursement calculated at the applicable FMAP rate.

### **REQUIREMENTS FOR CLAIMING ENHANCED FEDERAL SHARE**

Fee-for-service rates represent payment in full for services rendered at the provider level. To be eligible for enhanced Federal share, any additional costs charged for family planning services must be specifically identified as related to family planning services. States are required by the Checklist to support health plans' administrative charges for family planning services by documenting the portion of their capitation rates that are related to family planning services consistent with the Guide.

### **UNSUPPORTED FAMILY PLANNING ADMINISTRATIVE COSTS**

The Medicaid agency developed family planning rates based on fee-for-service payment data plus an 11-percent component representing the health plans' administration, profit, and contingency expenditures. The Medicaid agency's use of fee-for-service payment data to support the cost of family planning services at the provider level was acceptable. However, the Medicaid agency could not support the 11-percent component as specifically related to family planning services.

#### **Development of Family Planning Rates**

In 1998, the Medicaid agency used fee-for-service payment data to calculate the base payment rate for family planning services. The Medicaid agency developed the rate using one health plan's encounter data for prior periods. The encounter data consisted of family planning claims paid based on fee-for-service rates.

To develop family planning rates, the Medicaid agency divided the health plan's fee-for-service family planning payments for 1995, 1996, and the first 9 months of 1997 by family planning member months for the same period, for each rate group.<sup>2</sup> The rates were averaged for the 3 years. The Medicaid agency then added an 11-percent administration component to each rate for health plan administration (9 percent) and profit/contingency (2 percent).

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<sup>2</sup> Rate groups are classifications of enrollees by gender and age.

## **Calculation of Enhanced Federal Share**

To determine the portion of the capitation payments eligible for enhanced Federal share, the Medicaid agency multiplied the family planning rates by rate group enrollment data. The enrollment data were based on member months that an eligible individual was enrolled in the health plan. The Medicaid agency applied the enhanced Federal share to the calculated amounts of family planning expenditures, and claimed the enhanced Federal share on Form CMS-64.

The Medicaid agency used this method throughout the contract period to calculate and claim enhanced Federal share for family planning services. For contract renewal years (1999 through 2003), the Medicaid agency adjusted the original family planning rates for inflation.

## **MEDICAID AGENCY BELIEVED 11-PERCENT COMPONENT WAS ELIGIBLE FOR ENHANCED FEDERAL SHARE**

The Medicaid agency increased expenditures eligible for enhanced Federal share by adding the 11-percent administration component to the family planning rates, developed from fee-for-service payment data. The Medicaid agency believed that the State Medicaid Manual supported adding an administration component for the health plans to the family planning rates. When asked for the rationale used to support adding the component to each family planning rate, Medicaid agency personnel responded, "Although [the Medicaid agency] is not aware of any explicit support for inclusion of a component for administration and profit/risk contingency in the enhanced claim, there is implicit support for the practice included in...the State Medicaid Manual...."

The manual is silent on the procedures that States should follow to identify the portion of expenditures that is attributable to family planning services. However, according to the Checklist and the Guide, the health plans' administration costs had to be specifically identified as related to family planning services to be eligible for the enhanced Federal share.

## **ENHANCED FEDERAL SHARE FOR UNSUPPORTED FAMILY PLANNING EXPENDITURES**

Because the Medicaid agency added an 11-percent component representing administration, profit, and contingency expenditures to the family planning rates, it was reimbursed \$558,093 in unsupported enhanced Federal share. The questioned amount was the difference between the reimbursement for the administration component calculated at the 90-percent rate and the reimbursement calculated at the applicable FMAP rate.

## **RECOMMENDATIONS**

We recommend that the Medicaid agency:

- work with CMS to determine the eligibility of the \$558,093 in payments for the enhanced Federal share claimed for administration of family planning services; and
- ensure that future rates used to identify the family planning portion of the capitation payments for claiming enhanced Federal share for administrative costs be specifically identified and documented as related to family planning services.

## **MEDICAID AGENCY'S COMMENTS**

In its written comments on the draft report, the Medicaid agency disagreed with the finding and recommendations. The Medicaid agency stated that it appropriately claimed the enhanced Federal share for the administration costs of offering, arranging, and furnishing family planning services to Arizona's Medicaid population.

The Medicaid agency asserted that an administrative cost allowance was permissible as a component of the capitation rates for administration costs directly related to providing Medicaid State plan-approved services to Medicaid-eligible members. The Medicaid agency also asserted that capitation payments made to health plans may include a component for administrative services performed by the health plans on behalf of the Medicaid agency. The Medicaid agency stated that item AA.3.2 of the Checklist permitted an administrative cost allowance and that the enhanced Federal share was available for this component in addition to the administrative component included in the fee-for-service rates paid to providers.

The full text of the Medicaid agency's comments is included as an appendix to this report.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

The Medicaid agency increased family planning administration expenditures eligible for enhanced Federal share by adding a component for the health plans' administration costs that was not specifically identified as related to family planning. According to CMS guidance, the health plans' administration costs are reimbursable at the FMAP rate, not the enhanced rate, unless the costs are specifically identified as related to family planning services.

The Medicaid agency referred to item AA.3.2 of the Checklist as the basis for claiming the enhanced Federal share for the administration component of the capitation rate paid to managed care organizations. However, the Guide, referred to in the Checklist, cited CMS guidance and DAB cases in which the DAB ruled that States must specifically document the services that were for family planning to claim the enhanced Federal share.

# **APPENDIX**



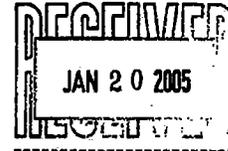
***Our first care is your health care***  
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

*Janet Napolitano, Governor*  
*Anthony D. Rodgers, Director*

801 East Jefferson, Phoenix AZ 85034  
PO Box 25520, Phoenix AZ 85002  
phone 602 417 4000  
www.ahcccs.state.az.us

January 14, 2005

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Region IX  
Office of Audit Services  
50 United Nations Plaza, Rm. 171  
San Francisco, CA 94102-4912



RE: OIG Report Number A-09-04-00027

Dear Ms. Ahlstrand:

Thank you for the opportunity to review and comment on the U.S. Department of Health and Human Services, Office of Inspector General draft report entitled "Review of Enhanced Federal Share Claimed for Family Planning Services in Arizona During Federal Fiscal Years 2000, 2001, and 2002." We appreciate the efforts made by Melanie Prince and James Nycum in their review of Arizona's Medicaid claims for enhanced federal funding for family planning services. Below are our responses to the recommendations in the report.

**Recommendation 1:** Refund to the Federal Government \$558,093 in payments for enhanced Federal share for improperly claimed family planning services.

**Response:** We do not concur with this recommendation and contend that AHCCCS has appropriately claimed 90% enhanced federal share for the administration costs of offering, arranging and furnishing family planning services to Arizona's Medicaid recipients.

The key to understanding the AHCCCS administration costs is understanding the relationship between administration costs incurred directly by AHCCCS and the administration costs incurred indirectly through AHCCCS' contracts with managed care organizations (MCO).

AHCCCS contracts with MCOs, known as health plans, to offer, arrange and furnish Medicaid-covered services to eligible recipients under a Section 1115 Waiver from CMS. These contracts are comprehensive risk contracts as defined in 42 CFR 438.2. The health plans maintain and monitor a network of appropriate providers sufficient to provide adequate access to all services covered under the contract. The providers within this network furnish the medical services to AHCCCS capitated members.

Under the Balanced Budget Act of 1997 (BBA) AHCCCS is required to submit to CMS "Financial Review Documentation for At-Risk Capitated Contracts Ratesetting" (the checklist) prior to any revision or renewal of capitation rates. This document is used by CMS in the rate approval process. Per the checklist, an administrative cost allowance is permissible as a

Lori A. Ahlstrand  
January 14, 2005  
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component of the capitation rate for administration costs directly related to the provision of Medicaid State Plan approved services to Medicaid-eligible members. Item AA.3.2, Administrative cost allowance calculations, of the checklist discusses the ability to request Federal reimbursement, including enhanced matching for family planning services for the administration component of the capitation rate paid to managed care organizations. The following is an excerpt from this checklist item:

Family planning and Indian health services enhanced matching FMAP rates and rules do apply to family planning and Indian Health services in capitated contracts. For family planning, the State must document the portion of its rates that are family planning...

The capitation rates paid to the MCO include an administration component and a medical component. The administration component pays the costs that the MCO incurs for offering and arranging Medicaid covered services and the medical component pays the medical claims submitted to the MCO by the providers. The MCO pays the providers for medical services while retaining the administrative component. The medical payments made to the providers by the MCO are similar in nature to those made by AHCCCS for fee-for-service members. For the AHCCCS fee-for-service members, AHCCCS is the organization that bears the cost of offering and arranging for Medicaid covered services, i.e. the administration cost.

The administration component of the fee-for-service rate is paid to the provider for furnishing the medical services. The administration component of the capitation rate is paid to the MCO for offering and arranging the medical services. The enhanced family planning matching rate of 90 percent is available under Medicaid "attributable to the offering, arranging and furnishing (directly or on a contract basis) of family planning services and supplies." (Section 1903(a)(5) of the Act).

Effective for federal fiscal year 2004, the CMS regional office is required to review and approve AHCCCS' MCO contracts. Federal financial participation (FFP) is not available in an MCO contract that does not have prior approval from CMS. (42 CFR 138.806, (c)). The managed care regulations outlined in 42 CFR 438.6 contain references to the administration component of capitation rates in addition to the amount that would otherwise be paid by the Medicaid agency on a fee-for-service basis. The state must provide an actuarial certification of the capitation rates, an assurance that all payment rates are "based only upon services covered under the State plan (or costs directly related to providing these services, for example, MCO...administration)." (42 CFR 438.6, (c), (4), (i) and (ii), (A)). Special contract provisions for reinsurance, stop-loss limits or other risk-sharing methodologies must be computed on an actuarially sound basis. If risk corridor arrangements result in payments that exceed the approved capitation rates, these excess payments will not be considered actuarially sound to the extent that they result in total payments that exceed the amount Medicaid would have paid, on the fee-for-service basis, for the State plan services actually furnished to enrolled individuals, plus an amount for MCO administrative costs directly related to the provision of these services. (42 CFR 438.6, (c), (5), (i) and (ii)). As evidenced in these regulations, CMS recognizes that capitation payments made to MCOs may include a component for administrative services performed by the MCO on behalf of

Lori A. Ahlstrand

January 14, 2005

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the Medicaid agency that are in addition to the administrative component of the fee-for-service rate paid to the provider.

**Recommendation 2:** Ensure that the rates used to identify the family planning portion of the capitation payments for future periods only include consideration for administration, profit and contingency expenditures once.

**Response:** We do not concur with this recommendation and contend that AHCCCS is not paying administration costs twice. As described in our response to Recommendation 1, the amount paid to the health plan for administration, profit and contingency are appropriately paid in addition to the administration component of the fee-for-service rate. The administrative services provided by the health plans are services that would otherwise be provided by AHCCCS if AHCCCS paid for the medical services on a fee-for-service basis. Examples of administrative services provided by the health plan on behalf of AHCCCS include, but are not limited to, administration of the health plan operation including medical and financial management, quality and utilization management, maternal health and EPSDT coordination, behavioral health coordination, prior authorization, concurrent review, member services management, provider services management claims administration and processing, encounter processing, grievance coordination and clerical and support functions of the health plan operations. These administrative activities are not performed at the provider level and are not included in the administrative component of the fee-for-service rates. Therefore, we strongly assert that the rates paid to the health plans are fiscally sound and the family planning component of the capitation appropriately includes an administrative component as provided by 42 CFR 438.6, (c), (4), (ii), (A) and enhanced Federal share at 90% is available.

Additionally, the last sentence of the last paragraph on page 1 of the report states "However, the amount for family planning services was not separately identified in the capitation rates." This statement is not totally accurate. The AHCCCS claim for enhanced family planning services (FPS) is comprised of the following two components: 1) the component described in this report which represents a carve out of FPS from the acute care capitation rates paid to the health plans for all medical services and 2) actuarially certified capitation rates paid to the health plans for members that are only eligible for SOBRA Family Planning Services. The SOBRA Family Planning Services capitation rates are approved by CMS and contain an administrative component as provided by 42 CFR 438.6, (c), (4), (ii), (A). This fact, which was provided to your staff, should be acknowledged in the report.

Should you or your staff have any questions regarding this response, please feel free to contact Jim Cockerham at (602) 417-4059 or Kari Price at (602) 417-4625.

Sincerely,



Anthony D. Rodgers  
Director

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**\*Auditor's Note: The sentence quoted has been deleted from the audit report.**