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# Why Medicaid is a High-Risk Program: A Federal Perspective

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## Overview

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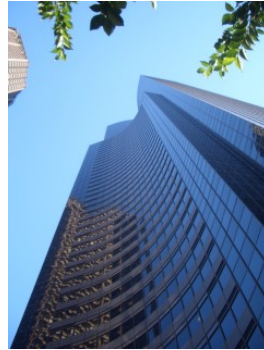
- Introduction
  - Background on the Medicaid program
  - GAO's High-Risk Series
  - Why GAO designated Medicaid as a high-risk program
  - What actions have been taken
  - Ongoing related GAO work
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## Introduction

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- About GAO



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## Introduction

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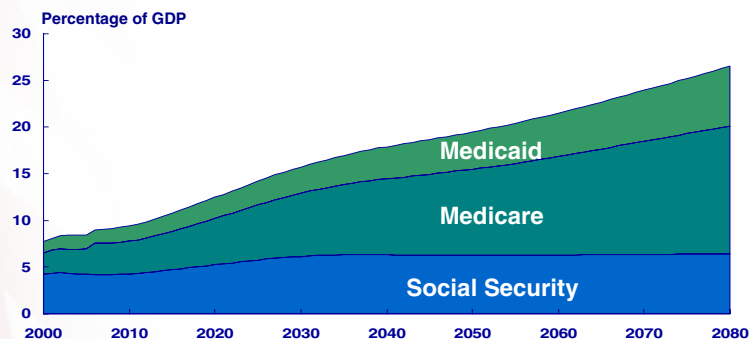
- About GAO
    - The basic authority governing GAO's access to records of government agencies is contained in 31 U.S.C. § 716 (formerly § 313 of the Budget and Accounting Act, 1921):  
  
“(a) Each agency shall give the Comptroller General information the Comptroller General requires about the duties, powers, activities, organization, and financial transactions of the agency. The Comptroller General may inspect an agency record to get the information...”
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## Background on Medicaid

- History and purpose
- Significance to the U.S. health care system
- Program Administration
  - Federal-state program
  - Jointly financed by states and the federal government
- Expenditures over time

## Medicaid Spending Will Reach Over 6 Percent of GDP by 2080

Federal Spending for Entitlement Programs, 2000-2080

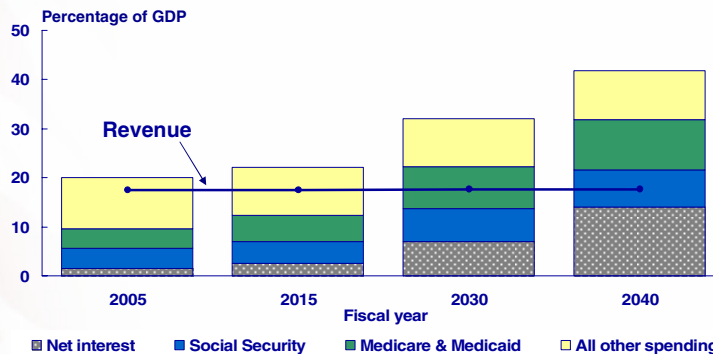


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration (SSA); Office of the Actuary, CMS; and CBO.

Note: Social Security and Medicare projections are based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections are based on CBO's January 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

## Federal Revenue Will Not Cover Costs of Medicare and Medicaid by 2040

Composition of Federal Spending, 2005-2040



Source: GAO's January 2006 analysis.

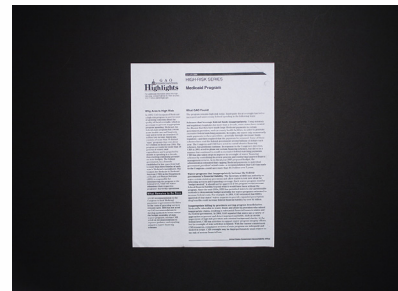
Note: It is assumed that discretionary spending grows with Gross Domestic Product (GDP) after 2006 and all expiring tax provisions are extended, such as the increased AMT exemption amount.

## GAO's High-Risk Series

- Background and Purpose
  - In place since 1990
  - Focused on major programs and operations that need urgent attention to ensure national government functions economically, efficiently and effectively
  - Used by the Administration to shape government wide initiatives
  - Many areas also require Congressional oversight and/or legislative solutions
  - Currently 26 areas on the high-risk list
  - An estimated \$67 billion in savings from FY 2003 - 2005

## Medicaid's Designation as High-Risk

- Medicaid as a high-risk program
  - Added to GAO's high-risk list in 2003



## Reasons GAO Designated Medicaid High-Risk

- Medicaid's size, growth, diversity
- Limited federal oversight and fiscal management weaknesses
- Significant body of GAO work contributing to the designation



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## GAO Findings in Three Areas of Concern

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- GAO reviews found:
    1. State financing schemes that leverage federal funds inappropriately
    2. Waiver programs that inappropriately increase the federal government's financial liability
    3. Inappropriate billing by providers serving program beneficiaries
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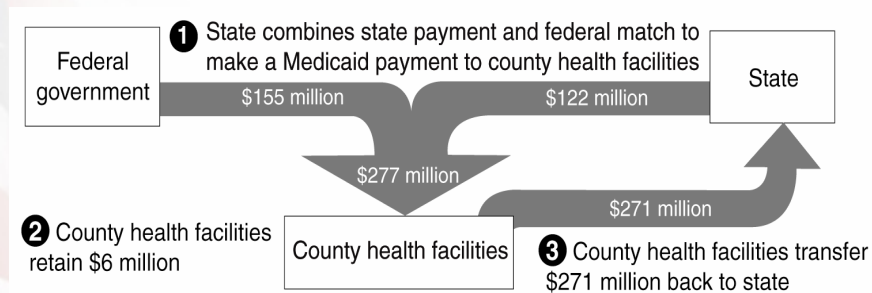
## Why Medicaid is High-Risk: Inappropriate Financing Methods

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- Financing methods that leverage federal funds inappropriately
    - GAO's work spans more than a decade
      - ✓ Upper Payment Limit arrangements
      - ✓ Intergovernmental transfers
      - ✓ Use of consultants on a contingency fee basis to inappropriately maximize federal funds
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## Inappropriate State Financing Methods

- Components of a typical upper payment limit arrangement



Source: GAO analysis.

## Inappropriate State Financing Methods

- Selected GAO recommendations
  - Limit Medicaid payments to government providers to actual costs of providing Medicaid services
  - Establish uniform guidance for states, setting forth acceptable calculation methods
  - Expedite financial management reviews of states with upper payment limit arrangements
  - Improve state reporting

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## Why Medicaid is High Risk: Waiver Programs that Inappropriately Increases Federal Costs

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- HHS Secretary has authority to waive certain Medicaid requirements to test new ideas through “waiver programs”
  - Administration’s policy is to approve waivers only if they are “budget neutral” to the federal government
  - GAO’s work on waivers spans more than a decade
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## Waiver programs that inappropriately increase federal costs

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- Since the mid-1990’s, HHS has permitted states to use questionable methods to demonstrate budget neutrality such as:
    - Including inappropriate costs in the baseline projections
    - Projecting costs over time using trend rates that are unsupported
    - Making savings assumptions without a reasonable basis
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## Waiver programs that inappropriately increase federal costs

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- Selected GAO recommendations
    - Clarify criteria for reviewing and approving states' proposed spending limits
    - Documenting and making public the basis for section 1115 demonstration waiver approvals, including the basis for trend rates used to develop spending limits
    - Ensuring states are taking appropriate steps to develop evaluation designs and reporting information to CMS
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## Why Medicaid is High-Risk: Inappropriate Billing by Providers Serving Beneficiaries

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- States have a variety of approaches to prevent and detect improper payments, such as on-site inspections of high-risk providers and criminal background checks
  - CMS has activities to support states' program integrity efforts
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## **Inappropriate billing by providers serving program beneficiaries**

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- CMS oversight of state program integrity activities was limited
    - Compliance reviews were infrequent and limited in scope
    - CMS oversight was disproportionately small relative to the risk of serious financial loss
  - CMS had no strategic plan to address Medicaid financial management activities
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## **CMS Financial Management Oversight**

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- Selected GAO recommendations
    - Measure how risks have changed and improve analysis capabilities
    - Collect and use information on state fraud and abuse activities
    - Develop a strategic plan to guide Medicaid financial management activities
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## What Actions Have Been Taken?

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- CMS has taken action to improve its fiscal oversight
    - Hired funding specialists to review states' methods
    - Centralized some key oversight functions
    - Taken steps to measure payment errors
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## What Actions Have Been Taken?

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- Congress has acted to improve the fiscal integrity of the program, for example, the Deficit Reduction Act of 2005
    - Established the Medicaid Integrity Program and required the Secretary of HHS to develop a comprehensive plan for program integrity
    - Provided the Medicaid Integrity Program with specified funding
    - Required CMS to increase the number of staff dedicated to Medicaid oversight by 100
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## Ongoing work examining issues

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- Review of CMS initiative to oversee states' financing methods
  - Review of recent HHS demonstration waiver approvals
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## Selected Related GAO Products

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- *High-Risk Series: An Update.* GAO-05-207, January 2005.
  - *Medicaid Financial Management: Steps Taken to Improve Federal Oversight but Other Actions Needed to Sustain Efforts.* GAO-06-705, June 22, 2006.
  - *Medicaid Integrity: Implementation of New Program Provides Opportunities for Federal Leadership to Combat Fraud and Abuse.* [GAO-06-578T](#) March 28, 2006
  - *Medicaid Program Integrity: State and Federal Efforts to Prevent and Detect Improper Payments.* GAO-04-707. July 16, 2004.
  - *Medicaid Waivers: HHS Approvals of Pharmacy Plus Demonstrations Continue to Raise Cost and Oversight Concerns.* GAO-04-480. June 30, 2004.
  - *Medicaid: Intergovernmental Transfers Have Facilitated State Financing Schemes.* GAO-04-574T. March 18, 2004.
  - *Medicaid: Improved Federal Oversight of State Financing Schemes Is Needed.* GAO-04-228. February 13, 2004.
-

## Selected Related GAO Products

- *SCHIP: HHS Continues to Approve Waivers That Are Inconsistent with Program Goals.* GAO-04-166R. January 5, 2004.
- *Medicaid and SCHIP: Recent HHS Approvals of Demonstration Waiver Projects Raise Concerns.* GAO-02-817. July 12, 2002.
- *Medicaid Financial Management: Better Oversight of State Claims for Federal Reimbursement Needed.* GAO-02-300. February 28, 2002.
- *Medicaid: HCFA Reversed Its Position and Approved Additional State Financing Schemes.* GAO-02-147. October 30, 2001.
- *Medicaid: State Financing Schemes Again Drive Up Federal Payments.* GAO/T-HEHS-00-193. September 6, 2000.
- *Medicaid Section 1115 Waivers: Flexible Approach to Approving Demonstrations Could Increase Federal Costs.* HEHS-96-44. November 8, 1995.
- *Medicaid: States Use Illusory Approaches to Shift Program Costs to Federal Government.* HEHS-94-133. August 1, 1994.

## Why Medicaid is a High-Risk Program

### Questions?

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