

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

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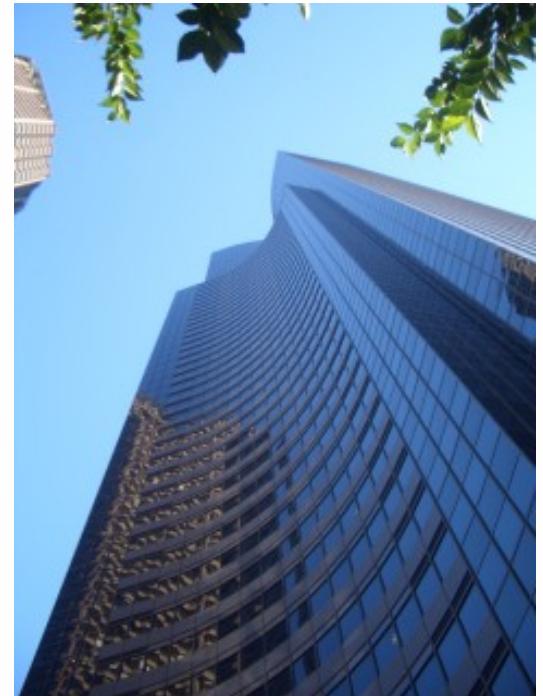
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Overview

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

Introduction

- About GAO

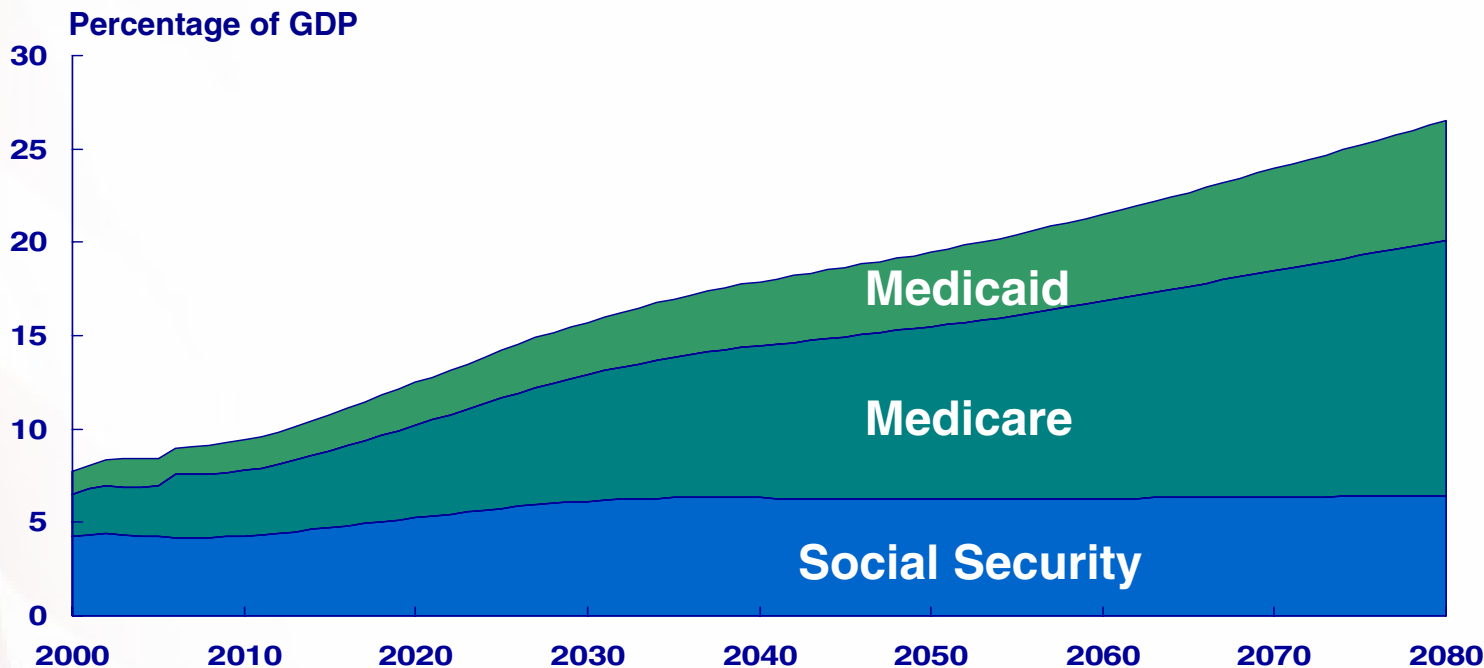


Background on Medicaid

- Purpose and 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.

GAO's High-Risk Series

Background

- In place since 1990
- Focused on major government programs and operations that need urgent attention
- Many areas also require Congressional oversight and/or legislative solutions
- Areas on the current high-risk list
- An estimated \$67 billion in savings from FY 2003 – 2005
- Medicaid added as a high-risk program in 2003

Reasons GAO Designated Medicaid High-Risk

The Short Story

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

GAO Findings in Three Areas of Concern

The Long Story

- In addition to concerns about overall financial management, GAO areas of concern include
 1. State financing methods that leverage federal funds inappropriately
 2. Demonstration programs that inappropriately increase the federal government's financial liability
 3. Inappropriate billing by providers serving program beneficiaries

Why Medicaid is High-Risk: Inappropriate Financing Methods

- 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 maximize federal funds inappropriately
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Inappropriate State Financing Methods

- Selected GAO recommendations
 - Limit Medicaid payments to government providers to actual costs of providing Medicaid services
 - Improve CMS's guidance for states
 - Expedite financial management reviews of states with high-risk arrangements
 - Improve state reporting
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Why Medicaid is High Risk: Demonstration Programs that Increase Federal Costs

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

Demonstration Programs that Inappropriately Increase Federal Costs

- Since the mid-1990's, HHS has permitted states to use questionable methods to demonstrate budget neutrality
 - Significant potential fiscal effects for federal government
- Selected GAO recommendations
 - Improved HHS criteria for reviewing and approving
 - More transparency in the basis for waiver approvals, including the basis for spending limits

Why Medicaid is High-Risk: Inappropriate Billing by Providers Serving Beneficiaries

- A nationwide rate of improper payments has not been estimated
- CMS oversight of state program integrity activities to prevent inappropriate provider billings has been limited
- CMS oversight has been disproportionately small relative to the risk of serious financial loss

CMS Financial Management Oversight

- Other ongoing concerns with CMS's financial management
- Selected GAO recommendations
 - Measure how risks have changed and improve analysis capabilities
 - Develop a strategic plan to guide Medicaid financial management activities

What Actions Have Been Taken?

- CMS has taken some steps to improve its financial management and oversight
 - Hired funding specialists to review states' methods
 - Centralized some key oversight functions
 - Taken steps to measure payment errors
- 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 a comprehensive plan for program integrity

Selected Related GAO Products

- *High-Risk Series: An Update.* GAO-07-310, January 2007.
 - *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.
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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.
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Questions?

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