

GAO Highlights

Highlights of [GAO-15-715T](#), a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

The long-term sustainability of the \$500 billion joint federal-state Medicaid program is important for the low-income and medically needy populations that depend on it. Section 1115 of the Social Security Act provides the Secretary of Health and Human Services with broad authority to waive certain Medicaid requirements and to authorize federal and state expenditures that would not otherwise be allowed under Medicaid, for experimental or pilot projects likely to promote Medicaid objectives. Spending under section 1115 demonstrations has increased rapidly from about one-fifth of Medicaid expenditures in fiscal year 2011 to close to one-third in fiscal year 2014. Expenditure authorities in approved demonstrations have been used by states to expand Medicaid coverage to individuals and for other purposes. HHS policy requires that demonstrations not increase federal costs for the Medicaid program.

This testimony addresses (1) the types of expenditure authorities HHS has approved for non-coverage-related purposes and whether the approval documentation shows how they promote Medicaid objectives, and (2) HHS's policy and processes for ensuring demonstrations are not likely to raise federal costs. The testimony is based on GAO's April 2015 report on expenditure authorities in demonstrations approved from June 2012 through mid-October 2013 ([GAO-15-239](#)) and several GAO reports issued from 2002 to 2014 addressing HHS's policies and practices for ensuring demonstrations are budget neutral.

View [GAO-15-715T](#). For more information, contact Katherine M. Iritani at (202) 512-7114 or iritanik@gao.gov.

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MEDICAID DEMONSTRATIONS

More Transparency and Accountability for Approved Spending Are Needed

What GAO Found

In April 2015, GAO found that under Medicaid section 1115 demonstrations—experimental or pilot projects to test new ways of providing services which account for nearly one-third of Medicaid expenditures—the Department of Health and Human Services (HHS) had authorized expenditures not otherwise allowed under Medicaid for a broad range of purposes beyond expanding coverage. How these expenditure authorities promoted Medicaid objectives was not always apparent. In the 25 states' demonstrations GAO reviewed, two types of non-coverage-related expenditure authorities—state-operated programs and funding pools—were significant in the amounts of spending approved. GAO found that

- HHS allowed five states to spend up to \$9.5 billion in Medicaid funds to support over 150 state-operated programs. The programs were wide-ranging in nature, such as workforce training, housing, and public health programs, and operated by a wide range of state agencies, such as educational institutions, corrections, aging, and public health agencies, and could have received funding from other sources.
- HHS allowed eight states to spend more than \$26 billion to establish capped funding pools through which states could make payments to hospitals and other providers for a range of purposes, including payments to incentivize hospital infrastructure or other improvements.

How the approved expenditures for the state-operated programs and funding pools would promote Medicaid objectives was not always clear in HHS's approval documentation. For example, some state programs approved for funding appeared to be only tangentially related to health coverage for low-income individuals. Although section 1115 of the Social Security Act provides HHS with broad authority in approving expenditure authorities that, in the Secretary's judgment, are likely to promote Medicaid objectives, GAO found that HHS has not issued specific criteria for making these determinations.

In multiple reports, issued from 2002 to 2014, GAO also found that HHS's policy and process for approving state spending limits under demonstrations have lacked transparency and have not ensured that demonstrations will be budget neutral to the federal government. The criteria and methods used to set spending limits were not always clear or well supported, such that approved spending limits for some demonstrations were billions of dollars higher than what was supported. For example, for five demonstrations GAO reviewed in 2013 and 2014, using assumptions suggested by HHS's policy, GAO found that spending limits would have been \$33 billion lower than what was actually approved.

In its 2015 report and prior work, GAO has made multiple recommendations to HHS aimed at (1) improving the transparency of approved spending and how it furthers Medicaid purposes and (2) ensuring Medicaid demonstrations do not increase federal costs. HHS generally agreed to improve its expenditure authority approval documentation, but did not agree with several other recommendations aimed at improving its approval policies and processes and transparency. GAO maintains that, unless HHS takes the actions necessary to implement GAO's prior recommendations, tens of billions of dollars could be at risk.