



Highlights of [GAO-05-836T](#), a testimony before the Committee on Finance, U.S. Senate

# MEDICAID

## States' Efforts to Maximize Federal Reimbursements Highlight Need for Improved Federal Oversight

### Why GAO Did This Study

Medicaid—the federal-state health care financing program covering almost 54 million low-income people at a cost of \$276 billion in fiscal year 2003—is by its size and structure at significant risk of waste and exploitation. Because of challenges inherent in overseeing the program, which is administered federally by the Centers for Medicare & Medicaid Services (CMS), GAO added Medicaid to its list of high-risk federal programs in 2003. Over the years, states have found various ways to maximize federal Medicaid reimbursements, sometimes using consultants paid a contingency fee to help them do so.

From earlier work and a report issued today (GAO-05-748), GAO's testimony addresses (1) how some states have inappropriately increased federal reimbursements; (2) some ways states have increased federal reimbursements for school-based Medicaid services and administrative costs; and (3) how states are using contingency-fee consultants to maximize federal Medicaid reimbursements and how CMS is overseeing states' efforts.

### What GAO Recommends

GAO recommends that CMS improve oversight of contingency-fee projects and states' reimbursement-maximizing methods. Although CMS believes its recent initiatives substantially respond to the recommendations, GAO maintains that additional actions are needed.

[www.gao.gov/cgi-bin/getrpt?GAO-05-836T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-836T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

### What GAO Found

For many years, GAO has reported on varied financing schemes and questionable methods used by states to increase the federal reimbursements they receive for operating their state Medicaid programs. These schemes and methods can undermine Medicaid's federal-state partnership and threaten its fiscal integrity. For example:

- Some states make large supplemental payments to government-owned or government-operated entities for delivery of Medicaid services while requiring these entities to return the payments to the state. This process creates the illusion of valid expenditures in order to obtain federal reimbursement, effectively shifting a portion of the state's share of program expenditures to the federal government and increasing the federal share beyond that established by formula under law.
- Medicaid funding is available for local school districts for certain health services for eligible children and for administrative costs. To claim increased federal Medicaid reimbursement, however, some states and school districts have used methods lacking sufficient controls to ensure that claims were legitimate. GAO also found funding arrangements among schools, states, and private consulting firms where some states retained up to 85 percent of reimbursements for administrative costs. In some cases, school districts paid contingency fees to consultants.

A growing number of states are using consultants on a contingency-fee basis to maximize federal Medicaid reimbursements. As of 2004, 34 states—up from 10 states in 2002—used contingency-fee consultants for this purpose. GAO identified claims in each of five categories of claims (see table) from contingency-fee projects that appeared to be inconsistent with current CMS policy, inconsistent with federal law, or that undermined the fiscal integrity of the Medicaid program. Problematic projects often were in categories where federal requirements were inconsistently applied, evolving, or not specific. CMS has taken steps to improve its fiscal management of Medicaid, but a lack of oversight and clear guidance from CMS has allowed states to develop new financing methods or continue existing ones that take advantage of ambiguity and generate considerable additional federal costs.

**Five Categories of Medicaid Claims Reviewed by GAO**

Category of claims	Service
Supplemental payment arrangements	Payments to a class of health care providers, such as nursing homes, up to a predefined limit
School-based services	Medicaid-covered medical services provided by schools, such as diagnostic screening or physical therapy, or the administrative cost of providing these services
Targeted case management services	Services to help a defined group of beneficiaries gain access to needed medical, social, educational, and other services
Rehabilitation services	Services to reduce a mental or physical disability and restore an individual to the best possible functional level
Administrative costs	Costs the states incur in administering their Medicaid programs

Source: GAO based on CMS information.