



Highlights of [GAO-04-574T](#), a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Medicaid, the federal-state health financing program for many of the nation's most vulnerable populations, finances health care for an estimated 53 million low-income Americans, at a cost of \$244 billion in 2002. Congress structured Medicaid as a shared fiduciary responsibility of the federal government and the states, with the federal share of each state's Medicaid payments determined by a formula specified by law. In 2002, the federal share of each state's expenditures ranged from 50 to 76 percent under this formula; in the aggregate, the federal share of total Medicaid expenditures was 57 percent.

Some states have used a number of creative financing schemes that take advantage of statutory and regulatory loopholes to claim excessive federal matching payments. GAO was asked to summarize prior work on how some of these schemes operated, including the role of intergovernmental transfers (IGT), which enable government entities—such as the state and local-government facilities like county nursing homes—to transfer funds among themselves. GAO was also asked to discuss these schemes' effects on the federal-state Medicaid partnership and to discuss what can be done to curtail them.

www.gao.gov/cgi-bin/getrpt?GAO-04-574T.

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.

MEDICAID

Intergovernmental Transfers Have Facilitated State Financing Schemes

What GAO Found

For many years states have used varied financing schemes, sometimes involving IGTs, to inappropriately increase federal Medicaid matching payments. Some states, for example, receive federal matching funds on the basis of large Medicaid payments to certain providers, such as nursing homes operated by local governments, which greatly exceed established Medicaid rates. In reality, the large payments are often temporary, since states can require the local-government providers to return all or most of the money to the states. States can use these funds—which essentially make a round-trip from the states to providers and back to the states—at their own discretion.

States' financing schemes undermine the federal-state Medicaid partnership, as well as the program's fiscal integrity, in at least three ways.

- The schemes effectively increase the federal matching rate established under federal law by increasing federal expenditures while state contributions remain unchanged or even decrease. GAO estimated that one state effectively increased the federal matching share of its total Medicaid expenditures from 59 percent to 68 percent in state fiscal year 2001, by obtaining excessive federal funds and using these as the state's share of other Medicaid expenditures.
- There is no assurance that these increased federal matching payments are used for Medicaid services, since states use funds returned to them via these schemes at their own discretion. In examining how six states with large schemes used the federal funds they generated, GAO found that one state used the funds to help finance its education programs, and others deposited the funds into state general funds or other special state accounts that could be used for non-Medicaid purposes or to supplant the states' share of other Medicaid expenditures.
- The schemes enable states to pay a few public providers amounts that well exceed the costs of services provided, which is inconsistent with the statutory requirement that states ensure economical and efficient Medicaid payments. In one state, GAO found that the state's proposed scheme increased the daily federal payment per Medicaid resident from \$53 to \$670 in six local-government-operated nursing homes.

Although Congress and the Centers for Medicare & Medicaid Services have acted to curtail financing schemes when detected, problems persist. States can still claim excessive federal matching funds for payments exceeding public facilities' actual costs. GAO suggests that Congress consider a recommendation open from prior work, that is, to prohibit Medicaid payments that exceed actual costs for any government-owned facility.