



Highlights of [GAO-08-17](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

In fiscal year 2006, outlays for Medicaid were about \$324 billion; about \$185 billion was paid by the federal government. Because GAO previously identified abusive and criminal activity associated with government contractors owing billions of dollars in federal taxes, the subcommittee requested GAO expand our work to Medicaid providers.

GAO was asked to (1) determine if Medicaid providers have unpaid federal taxes, and if so, the magnitude of such debts; (2) identify examples of Medicaid providers that have engaged in abusive or criminal activities; and (3) determine whether the Centers for Medicare & Medicaid Services (CMS) and the states prevent health care providers with tax problems from enrolling in Medicaid or participating in the continuous levy program to pay federal tax debts.

To perform this work, GAO analyzed tax data from the Internal Revenue Service (IRS) and Medicaid data from seven selected states based on magnitude of Medicaid payments and geography. GAO also performed additional investigative activities.

## What GAO Recommends

GAO is recommending that IRS conduct a study to determine whether Medicaid payments can be incorporated in the continuous levy program and evaluate 25 cases for additional collection action and criminal investigation. IRS agreed with our recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-17](#). For more information, contact Greg Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## MEDICAID

### Thousands of Medicaid Providers Abuse the Federal Tax System

#### What GAO Found

Over 30,000 Medicaid providers, about 5 percent of those paid in fiscal year 2006, had over \$1 billion of unpaid federal taxes. These 30,000 providers were identified from a nonrepresentative selection of providers from seven states: California, Colorado, Florida, Maryland, New York, Pennsylvania, and Texas. This \$1 billion estimate is likely understated because some Medicaid providers have understated their income or not filed their tax returns.

We selected 25 Medicaid providers with high federal tax debt as case studies for more in-depth investigation of the extent and nature of abuse and criminal activity. For all 25 cases we found abusive and related criminal activity, including failure to remit individual income taxes or payroll taxes to IRS. Rather than fulfill their role as “trustees” of federal payroll tax funds and forward them to IRS, these providers diverted the money for other purposes. Willful failure to remit payroll taxes is a felony under U.S. law. Individuals associated with some of these providers diverted the payroll tax money for their own benefit or to help fund their businesses. Many of these individuals accumulated substantial assets, including million-dollar houses and luxury vehicles, while failing to pay their federal taxes. In addition, some case studies involved businesses that were sanctioned for substandard care of their patients. Despite their abusive and criminal activity, these 25 providers received Medicaid payments ranging from about \$100,000 to about \$39 million in fiscal year 2006.

**Examples of Medicaid Providers with Abusive and Criminal Activity**

Type of business	Fiscal year 2006		Description of activity
	Unpaid tax debt	Medicaid payments	
Nursing home	\$2 million	\$6 million	Owner fined for jeopardizing health and safety of patients.
Counselor	\$200,000	\$200,000	Owner indicted for fraud for several hundred thousands of dollars relating to a federal program.
Ambulance service	\$300,000	\$300,000	All business's assets were seized by a law enforcements agency for money laundering.

Source: GAO analysis of IRS, CMS, public, and other records.

CMS and our selected states do not prevent health care providers who have federal tax debts from enrolling in Medicaid. CMS officials stated that such a requirement for screening potential providers for unpaid taxes could adversely impact states' ability to provide health care to low income people. Further, federal law generally prohibits the disclosure of taxpayer data to CMS and states.

No tax debt owed by Medicaid providers has ever been collected through the continuous levy program. During our audit, IRS had not made a determination on whether Medicaid payments are considered “federal payments” and thus eligible for its continuous levy program. For fiscal year 2006, if an effective levy was in place for the seven selected states, GAO estimates that the federal government could have collected between \$70 million and \$160 million.