



Highlights of [GAO-08-87](#), a report to congressional requesters

Why GAO Did This Study

Medicaid, a joint federal and state program, finances health care for 60 million low-income people. Section 1115 of the Social Security Act authorizes the Secretary of Health and Human Services to waive certain federal Medicaid requirements and allow demonstration projects that are likely to promote Medicaid objectives. Under federal policy, states must show that federal spending for proposed demonstrations will be no greater than if the state's existing Medicaid program were continued.

GAO examined the extent to which HHS ensured that recent comprehensive 1115 demonstrations—affecting a broad range of services for beneficiaries statewide—will (1) be budget neutral to the federal government and (2) maintain Medicaid's fiscal integrity. For demonstrations approved in 2005 (Florida and Vermont), GAO obtained information from federal and state officials and also relied on past reviews of other demonstrations.

What GAO Recommends

GAO recommends that the Congress consider (1) requiring HHS to improve the demonstration review and approval process and (2) addressing HHS's authority to approve demonstrations such as Vermont's. GAO recommends that HHS reexamine Florida's spending limit. In its comments, HHS stated that its process was sufficient. GAO believes that the limit allows spending that should not be allowed.

To view the full product, including the scope and methodology, click on [GAO-08-87](#). For more information, contact Marjorie Kanof at (202) 512-7114 or kanofm@gao.gov.

MEDICAID DEMONSTRATION WAIVERS

Recent HHS Approvals Continue to Raise Cost and Oversight Concerns

What GAO Found

HHS did not adequately ensure that Florida's and Vermont's Medicaid demonstrations will be budget neutral to the federal government before approving them. HHS approved spending limits that were higher than the limits that would have been granted if HHS had held the states to limits based on benchmark growth rates, that is, the lower of the state's historical spending growth or nationwide estimates of Medicaid growth. Although HHS allows states to deviate from these benchmarks if states can show that using them would not provide accurate projections, HHS's basis for approving the higher spending limits was not fully supported by documentation. In Florida, HHS approved a \$52.6 billion spending limit for the 5 year demonstration—\$6.9 billion more than the documentation supported. In Vermont, HHS approved a \$4.7 billion spending limit—\$246 million higher than supported.

HHS also did not ensure that the two demonstrations maintain Medicaid's fiscal integrity. In Florida, HHS allowed the state to establish a spending limit using a historical spending base that included payments HHS had previously identified as problematic. In 2005, an HHS review found several problems with the payment arrangement—problems that potentially resulted in inflated and inaccurate payments. In Vermont, where the state proposed operating a managed care organization, HHS agreed to an administrative reimbursement rate higher than what the state received prior to the demonstration. Under this arrangement, the state can use excess revenues to pay for health-related programs that were previously funded by the state and that do not exclusively benefit Medicaid beneficiaries, such as a grant to the University of Vermont medical school. A July 2007 GAO letter to the Secretary discussed concerns about this approval's consistency with federal law and recommended that the Secretary reexamine Vermont's demonstration and, where appropriate, either modify its terms or seek statutory authority for it to continue in its current form.

Concerns about HHS's demonstration approval process in this report are consistent with those GAO has raised in past reviews of other states' demonstration proposals. In 2002 and 2004, GAO recommended that HHS take steps to strengthen its fiscal oversight of Medicaid by improving the Medicaid demonstration review and approval process, in part by (1) clarifying criteria for reviewing and approving states' demonstration spending limits, (2) better ensuring that valid methods are used to demonstrate budget neutrality and (3) documenting and making public material explaining the basis for any approvals. HHS has not taken action on these recommendations and maintains that its process is sufficient. Because HHS continues to disagree with these recommendations and with the need to reexamine the Vermont demonstration, GAO is elevating these issues to the Congress for consideration.