



THE KAISER COMMISSION ON **Medicaid and the Uninsured**

Medicaid's Federal-State Partnership: Alternatives for Improving Financial Integrity

The Medicaid program was established as a federal-state program in 1965 to provide health and long-term care coverage for low-income families, seniors, and people with disabilities. Medicaid provides health care coverage for low-income children and their parents, long-term care services, including home and community based care, used largely by seniors and people with disabilities, and fills in gaps in Medicare coverage for 6 million low-income seniors who qualify for both Medicare and Medicaid. The Medicaid program, which will serve an estimated 50 million people in 2003, will cost states and the federal government more than \$275 billion in federal fiscal year 2002.

Medicaid is financed through a combination of state and federal funds. The federal government matches all state spending on Medicaid services at a set rate, which varies by state. This matching system has provided substantial state and federal support for health and long-term care services through Medicaid, and has helped cushion states from the impact of unpredictable changes in program costs as a result of changes such as economic conditions, health care costs, and demographics. The matching system also ensures that both the federal government and the states have a stake in program management and outcomes.

Questions have been raised at a number of points in the program's history about the program's financial management, especially in regard to whether federal matching funds are being spent appropriately. These concerns have been raised by many states' use of "Medicaid maximization" strategies—ranging from the use of provider taxes and donations in the late 1980s to "upper payment limit" strategies more recently—to leverage excess federal Medicaid funds without making comparable increases in state funds.

Although the federal government has reacted to curtail the use of each of these types of Medicaid maximization strategies after they emerged, their recurrence raises questions about whether the federal government is engaged in appropriate financial management activities to prevent and control the use of these strategies. These financial management vulnerabilities could be addressed directly, and without jeopardizing the benefits of its existing federal/state matching structure, through improvements to the program's financial management. In a new report for the Kaiser Commission on Medicaid and the Uninsured, Penny Thompson, former deputy director for the Center for Medicaid and State Operations, used existing models from the private sector and other government programs to assess Medicaid's financial management and to develop options for improvement. This table summarizes the report's findings. These financial management improvements could significantly reduce the

program’s exposure to questionable practices, improve the program’s responsiveness to emerging financial management issues, and control federal costs while maintaining the federal matching payments that have helped the program provide health and long-term care services to low-income Americans.

Summary of Issues, Approaches, and Alternatives for Reform

Dimension of Financial Management	Questions to Assess Current Financial Controls	Alternative Approaches to Improve Financial Controls
Organizational Commitment	<ul style="list-style-type: none"> ➤ Does executive leadership emphasize the importance of financial management and integrity to staff? ➤ Is financial management and integrity part of the organization’s mission statement? ➤ Is there a strategic or tactical plan to guide the organization and provide focus to staff? ➤ Is there appropriate separation of duties to ensure checks and balances? ➤ Does the organization make good on its commitment by devoting adequate resources to financial management? 	<ul style="list-style-type: none"> ➤ Create a CFO for Medicaid ➤ Create a Medicaid Financial Oversight Board ➤ Create a Medicaid Integrity Fund ➤ Complete a Medicaid Comprehensive Financial Management Plan
Standards and Requirements	<ul style="list-style-type: none"> ➤ Are standards clear for what payments will be made, and under what circumstances? ➤ Are they subject to a wide range of interpretation? ➤ Do the standards relate back to the purposes of the program? ➤ Do they contain enough specificity to prevent abuse? ➤ Are they applied consistently? 	<ul style="list-style-type: none"> ➤ Pay no more than costs to government-owned facilities ➤ Further define “economic and efficient.” ➤ Establish facility-specific limits ➤ Establish general principles for reimbursement ➤ Establish “anti-churning rule” ➤ Further specify matching sources ➤ Publish UPL methodology

Risk Assessment and Management	<ul style="list-style-type: none"> ➤ Is there a formal process for assessment of risks? ➤ Are there mitigation plans? ➤ Are risk areas subject to special scrutiny and controls? 	<ul style="list-style-type: none"> ➤ Focus on “related party” transactions ➤ Audit all supplemental payments ➤ Dedicate staff to reviewing high-risk transactions ➤ Reduce staff and emphasis on low-risk transactions ➤ Emphasize “Do It Right”
Reporting and Disclosures	<ul style="list-style-type: none"> ➤ Is information collected that is sufficient and reliable to determine whether standards are met? ➤ Is information collected that is sufficient and reliable to determine the impact of payment decisions? ➤ Is the information certified as to its reliability? ➤ Is information disclosed to the public in sufficient detail to allow stakeholders to understand payment decisions? 	<ul style="list-style-type: none"> ➤ Collect key financial data from states ➤ Report on effective matching rates ➤ Complete effort to collect financial data on amendments
Enforcement	<ul style="list-style-type: none"> ➤ Do penalties exist for errors or misrepresentations? ➤ Are the penalties sufficient to deter conduct that otherwise provides substantial benefits? ➤ Are they applied frequently enough to represent a deterrent to fraud and abuse? 	<ul style="list-style-type: none"> ➤ Institute other remedies ➤ Increase executive-level accountability ➤ Expand accountability ➤ Increase levels of scrutiny or approvals for states with track records of questionable claiming