

*Story last updated at 8:24 a.m. Wednesday, August 2, 2006*

## Shutting down Medicaid shell games

**By Matthew Hisrich**

Two years ago Thomas Lenz warned Governor Sebelius that the days of Kansas state government taking advantage of the federal Medicaid program were coming to an end. It turns out that Lenz, a regional administrator for the Centers for Medicare and Medicaid Services (CMS), accurately predicted the future.

Following multiple audits, Kansas state officials have agreed to refund over \$32 million to the U.S. government this year alone. Faced with such a stark fiscal reality, it is time to ask a couple of very important questions. First, how did the Kansas Medicaid program get into this position, and second, how can it get out?

At the time of Lenz's initial statement, Governor Sebelius made the claim that Kansas was in a state of war. "Basically, there is a war between the Centers for Medicaid Services and states around the country," she stated. "Practices, policies, procedures that have been long recognized, long in place, never questioned, are coming under question on all fronts."

To an extent, Sebelius was correct. Medicaid is a joint federal-state program, where the federal government kicks in approximately 60 cents on the dollar for every 40 cents the states pay out. This 60-40 split creates a powerful incentive for states to spend more than they should in order to pull down more federal funding.

In a context where spending is encouraged in general, "creative financing" became a common practice. Practices, policies and procedures along these lines included such tactics as accepting claims that should not have been paid out and routing funds through various health care institutions in an effort to gather more federal money along the way. The fact that the federal government largely ignored these practices up until recently has fostered a belief that such behavior was tolerated, if not openly accepted.

In 2004, Lenz told reporters that CMS was cleaning up its act and such practices would no longer be tolerated. "There has been a strengthening of the financial management oversight of Medicaid," he stated.

The strength of that claim has since been called into question. The U.S. General Accounting Office (GAO) recently issued a report that questions whether CMS is indeed taking adequate measures to prevent abuse. While acknowledging the improvements gained as a result of greater oversight, the GAO cautions that significant work still remains for Medicaid to avoid the abuses of the past.

"We can't let these dollars be squandered and lost to fraud, waste and abuse," stated Senator Charles Grassley of Iowa, the Republican chairman of the Senate Finance Committee who requested the GAO review.

Increased pressure from Congress and greater oversight from federal agencies is likely to improve a culture within Medicaid that for too long focused on how to "work the system." But such a cultural shift brings with it serious implications for a program already facing significant financial strain.

Economist Michael Bond reports in the Flint Hills Center study, "What's Wrong with Medicaid in Kansas?" that even if there were no external constraints, Medicaid spending in Kansas is on a course to overwhelm the state budget. The program is growing by hundreds of millions of dollars per year.

From 1991 to 2001, for instance, the average annual growth in Medicaid spending in Kansas was 12 percent - a growth rate that exceeds the national average. The Kaiser Family Foundation currently ranks spending per Medicaid enrollee in Kansas at 16th highest in the nation. In this context, the \$135 million in federal aid currently under review represents a significant external constraint.

This new era of Medicaid financing requires new tools. No longer able to rely on "creative financing" to shore up the budget, policymakers in Kansas should begin to turn their attention to other states that are meeting the challenge head on. Neighboring Oklahoma is experimenting with waivers to gain greater flexibility. South Carolina and Florida are doing the same, moving forward with plans that both empower Medicaid beneficiaries with greater control over their own care and also incorporate market competition to bring costs down.

The effort to bring financial accountability to Medicaid does not have to lead to a declaration of war. Medicaid was never meant to be a chance for state officials to play games with taxpayer funds. Instead, better financial oversight at the federal level can serve as an opportunity to remold Medicaid at the state level into what it was always intended to be - a stable and secure safety net for those truly in need.

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