

Why GAO Did This Study

Medicaid, an over \$500 billion joint federal-state program, provides health care coverage to low-income individuals. Section 1115 of the Social Security Act authorizes the Secretary of HHS to waive certain Medicaid requirements and authorize expenditures not otherwise allowed for demonstration projects likely to promote Medicaid objectives. HHS has approved expenditure authorities to allow states to expand Medicaid coverage to populations not otherwise eligible, as well as for other purposes, such as funding for state programs.

GAO was asked to review approved expenditure authorities in recent section 1115 demonstrations. This report examines (1) expenditure authorities approved for purposes of Medicaid coverage, (2) expenditure authorities approved for purposes other than Medicaid coverage, and (3) the criteria HHS uses to determine whether expenditure authorities for purposes other than Medicaid coverage are likely to promote Medicaid's objectives and the documentation of the basis for its approvals. GAO reviewed approval documents for new, extended, or amended section 1115 demonstrations approved by HHS in all 25 states with approvals between June 2012 and October 2013, and interviewed HHS officials.

What GAO Recommends

GAO recommends that HHS issue criteria for assessing whether expenditure authorities are likely to promote Medicaid objectives and document the use of these criteria in HHS's approvals of demonstrations.

View [GAO-15-239](#). For more information, contact Katherine Iritani at (202) 512-7114 or iritanik@gao.gov.

MEDICAID DEMONSTRATIONS

Approval Criteria and Documentation Need to Show How Spending Furthers Medicaid Objectives

What GAO Found

Under Medicaid section 1115 demonstrations, the Department of Health and Human Services (HHS) authorized expenditures not otherwise allowed under Medicaid for a range of coverage-related purposes. HHS approved expenditure authorities to expand coverage to previously uncovered populations in most of the 25 states' demonstrations that GAO reviewed; however, it also modified existing expenditure authorities to end or limit coverage under states' demonstrations as new coverage became available in 2014 under the Patient Protection and Affordable Care Act (PPACA).

In the 25 reviewed states, HHS approved expenditure authorities for a broad range of purposes beyond Medicaid coverage. Two types of noncoverage-related expenditure authorities were significant in terms of approved spending amounts. In 5 states, HHS approved expenditure authorities allowing the states to spend \$9.5 billion in Medicaid funding during their current demonstration approval periods (about 2 to 5 years) to support about 150 state programs that would not otherwise have been eligible for federal Medicaid funding. The state programs included those providing health services, insurance subsidies, and workforce training. They were operated or funded by a wide range of state agencies, such as state departments of mental health, aging, and developmental disabilities that may be receiving non-Medicaid federal grants and funds. HHS also approved expenditure authorities in 8 states allowing states to spend more than \$26 billion during their current demonstration approval periods (about 15 months to over 5 years) for new types of supplemental payments to hospitals and other providers through capped funding pools for a range of purposes, which included payments to incentivize delivery system or infrastructure improvements.

Although section 1115 of the Social Security Act provides HHS with broad authority to approve expenditure authorities that, in the Secretary's judgment, are likely to promote Medicaid objectives, HHS has not issued specific criteria for making these determinations. Further, HHS's approval documents are not always clear as to what, precisely, approved expenditures are for and how they will promote Medicaid objectives. For example, HHS's approvals in three states authorizing the use of federal Medicaid funds for more than half of the state programs GAO reviewed lacked clear information on how the programs would promote Medicaid objectives, such as how they would benefit low-income populations. In addition, HHS's approvals authorizing funding pools for incentive payments did not always provide clear explanations of how payments to hospitals would promote Medicaid objectives. Finally, approval documentation for some but not all approvals provided assurances that Medicaid funds would not be used for purposes addressed by other federal funding streams. Without clear criteria for assessing how proposed expenditure authorities states are seeking will promote Medicaid objectives, and without clear documentation of the application of those criteria, the bases for HHS's decisions involving tens of billions of Medicaid dollars are not transparent to Congress, states, or the public.

In commenting on a draft of this report, HHS partially concurred with the recommendation on issuing criteria, listing the general criteria it uses. But GAO maintains that more-specific, written guidance is needed. HHS concurred with the recommendation on documentation.