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An Evaluation:

Medical Assistance Program

Department of Health Services

December 2011

Report Highlights

Wisconsin's Medical Assistance recipients totaled 1.2 million in January 2011.

Medical Assistance expenditures increased from $5.0 billion in FY 2006-07 to $7.5 billion in FY 2010-11.

DHS paid vendors $411.9 million for administrative support services from FY 2006-07 through FY 2010-11.

From FY 2006-07 through FY 2010-11, at least 8,975 investigations of potential recipient fraud were conducted.

Additional efforts are needed to budget for and record Medical Assistance expenditures.

The Department of Health Services (DHS) administers the State's Medical Assistance program, which is also known as Medicaid. The program uses state and federal revenue to fund health care subprograms for individuals with low and moderate incomes. Periods of economic recession and the expansion of the types of individuals who are eligible to participate in the program have increased both program costs and the number of recipients. In fiscal year (FY) 2010-11, Medical Assistance expenditures totaled $7.5 billion.

Concerns had been raised about growth in program expenditures and the number of recipients; the quality, usefulness, and availability of management information; and the effects federal health care reforms may have on the program. Therefore, at the request of the Joint Legislative Audit Committee, we reviewed:

- trends in the number of Medical Assistance recipients, by subprogram;
- trends in program expenditures, by funding source, type, and subprogram;
- alternatives for providing services in a more cost-effective manner;
- how Wisconsin's Medical Assistance costs and benefits compare to those of other midwestern states, as well as how states have attempted to control these costs; and
- the potential effects of changes in federal law on the provision of Medical Assistance-funded benefits.

Program Recipients

The total number of recipients in Wisconsin's Medical Assistance program increased from 870,201 in January 2007 to 1.2 million in January 2011.

Key Facts and Findings

Expansion of eligibility and periods of economic recession have increased the number of Medical Assistance recipients.

In January 2011, 61.3 percent of recipients received services through a managed care arrangement.

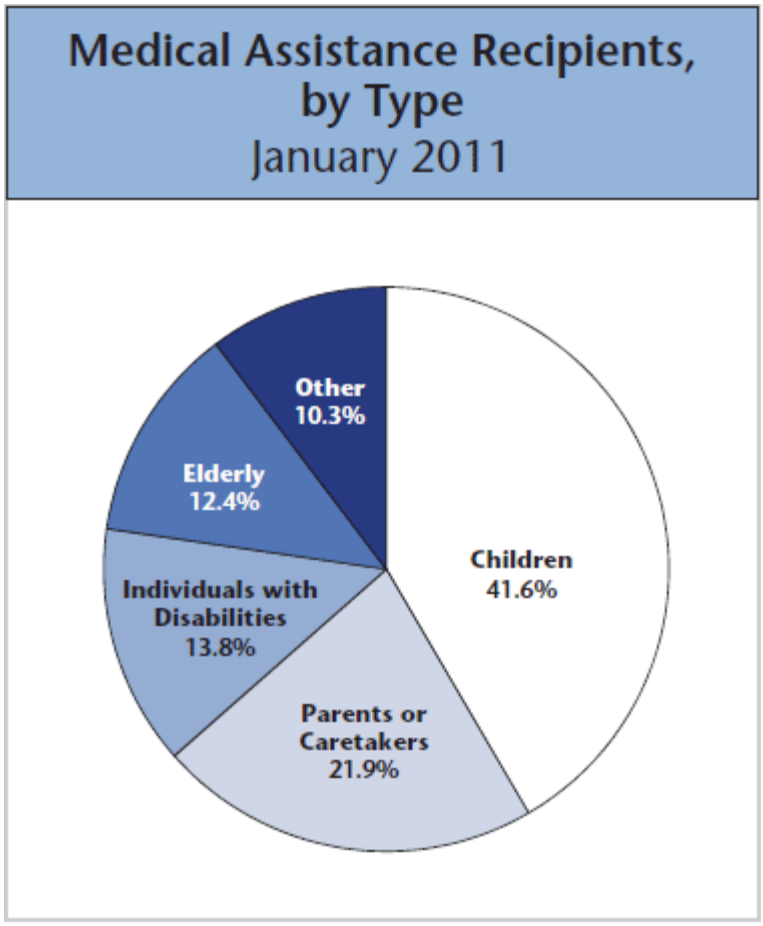
DHS has not always considered its available spending authority when making contracting decisions.

Not all Medical Assistance-funded expenditures are included as part of the Medical Assistance budget or recorded as the program's expenditures.

Data systems and budgetary practices limit the availability of basic information needed to effectively manage and oversee the program.

DHS is seeking a federal waiver that would allow it to eliminate coverage for 42,200 current recipients and reduce benefits for 263,000 others.

Children were the largest group of Medical Assistance recipients.



DHS delivers Medical Assistance services through three primary arrangements: managed care, fee-for-service, and contracts with county governments. Most recipients receive services through managed care arrangements, including care provided by health maintenance organizations (HMOs). However, 445,425 recipients, or 37.7 percent of the total, received care exclusively on a fee-for-service basis in January 2011.

Program Expenditures

Total Medical Assistance expenditures increased from $5.0 billion in FY 2006-07 to $7.5 billion in FY 2010-11. However, 87.0 percent of this increase was funded with federal revenue. Expenditures of state funds increased from $2.1 billion to $2.4 billion during the same period.

The increase in expenditures is largely the result of an increase in the number of Medical Assistance recipients precipitated by the economic downturn and changes in state law that expanded eligibility by an estimated 100,000 recipients from FY 2006-07 through FY 2010-11. Increases in the rates paid to certain providers, such as inpatient hospitals and nursing homes, also contributed to the increase.

Based on limitations in the State's accounting systems, we spent a large portion of our audit effort compiling basic information on expenditures, participation, and service costs in a format that would be useful to legislators and other policymakers. We found that expenditures for acute and primary care subprograms, such as BadgerCare Plus, increased 75.4 percent from $916.1 million in FY 2006-07 to $1.6 billion in FY 2009-10. In addition,

expenditures for long-term care subprograms, such as Family Care, increased 50.5 percent from $948.7 million in FY 2006-07 to $1.4 billion in FY 2009-10.

Administrative Services

DHS relies heavily on vendors to help it administer the Medical Assistance program. From FY 2006-07 through FY 2010-11, DHS paid vendors $411.9 million for administrative support services associated with the Medical Assistance program. We found that vendor oversight and contract monitoring could be improved. For example, DHS has not consistently ensured that adequate funding was available before authorizing additional contract work or that services were obtained at a competitive price.

The number of contract staff working on the Medical Assistance program for the single largest administrative service vendor increased from 598.5 full-time equivalent (FTE) positions in December 2008 to 1,127.5 FTE positions in June 2011. In contrast, DHS had 364.6 FTE positions performing Medical Assistance functions in June 2011.

Vendor services will continue to be needed in the future, and it will be important for DHS to retain adequate flexibility in determining how administrative services are best provided. However, DHS's increasing reliance on vendors may also potentially hamper its ability both to effectively provide guidance to the large number of contracted staff and to maintain adequate administrative oversight.

Managing Service Delivery

Numerous studies completed nationally and in Wisconsin support the use and expansion of managed care in providing health care services, because the coordination of recipients' ongoing health care needs can reduce unnecessary services and encourage the provision of preventative care.

Despite efforts to increase the use of managed care providers, we found that the Medical Assistance program still incurs significant fee-for-service expenditures, which totaled $3.6 billion in FY 2009-10. This includes $421.2 million in fee-for-service expenditures for care provided to 297,909 BadgerCare Plus recipients before their enrollment in an HMO. To further enhance the coordination of recipients' care, DHS could require these recipients to enroll in HMOs more quickly.

Confirming Eligibility

The reported number of investigations of potential recipient fraud declined from 2,166 in FY 2006-07 to 1,424 in FY 2010-11, largely because of a reduction in state funding for fraud investigation activities.

State law generally requires Medical Assistance recipients to be United States citizens and reside in Wisconsin. Lawfully admitted adults who have resided in the United States for less than five years and all other undocumented adult aliens are limited to receiving emergency services for life-threatening conditions or services related to a pregnancy.

From FY 2006-07 through FY 2010-11, Medical Assistance services were provided to 1,225 of these individuals at a total cost of $10.7 million. We

found that the services provided to them were appropriately limited to those related to emergencies and pregnancy.

Future Considerations

The State's budgeting and financial management practices have not kept pace with growth in the size and complexity of the Medical Assistance program. We found that DHS neither includes all Medical Assistance costs in its budget nor records them as the program's expenditures. In addition, DHS neither budgets nor routinely accounts for Medical Assistance expenditures on a subprogram basis. This type of information is crucial because subprograms, such as BadgerCare Plus, are often the focus of proposed programmatic changes.

DHS is attempting to reduce costs by $554.4 million during the 2011-13 biennium. In November 2011, the Joint Committee on Finance approved the portion of DHS's plan that required its approval, including proposals to save $119.6 million in general purpose revenue (GPR) through modifications to Medical Assistance eligibility rules, premiums, and benefits. DHS estimates these changes will eliminate coverage for 42,200 current recipients; lead to the voluntary disenrollment of 22,500 individuals due to increased premiums; and reduce benefits for an additional 263,000 recipients.

The effectiveness of DHS's current efforts to reduce Medical Assistance expenditures depends on the extent to which the federal government approves DHS's proposed eligibility rule modifications, as well as how implementation of the federal Patient Protection and Affordable Care Act will affect future costs and funding.

Recommendations

We recommend that DHS report to the Joint Legislative Audit Committee by July 2, 2012, on its efforts to:

- develop separate accounting codes for administrative expenditures for the Medical Assistance and FoodShare programs *(**p. 36**);*
- ensure it has adequate funding for contractual services before authorizing expenditures *(**p. 36**);*
- use bids to solicit the most appropriate and effective administrative services at the most competitive price *(**p. 36**);*
- review existing contracted services to identify whether cost savings could be achieved by using state employees *(**p. 36**);*
- consider the potential benefits of enrolling recipients into HMOs in a more timely manner *(**p. 45**);*
- account for all Medical Assistance expenditures in determining total program costs *(**p. 57**);* and
- develop a more detailed biennial budget request and financial reporting structure to allow it to routinely budget and account for all Medical Assistance costs by subprogram *(**p. 57**).*

In addition, we recommend that DHS report to the Joint Legislative Audit Committee by January 14, 2013, on how implementation of the federal Patient Protection and Affordable Care Act will affect both participation and costs in Wisconsin's Medical Assistance program *(**p. 69**)*.

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