

GAO Highlights

Highlights of [GAO-20-149](#), a report to congressional requesters

Why GAO Did This Study

Section 1115 demonstrations are a significant component of Medicaid spending and affect the care of millions of low-income and medically needy individuals. In 2018, CMS announced a new policy allowing states to test work requirements under demonstrations and soon after began approving such demonstrations. Implementing work requirements can involve various administrative activities, not all of which are eligible for federal funds.

GAO was asked to examine the administrative costs of demonstrations with work requirements. Among other things, this report examines (1) states' estimates of costs of administering work requirements in selected states, and (2) CMS's oversight of these costs. GAO examined the costs of administering work requirements in the first five states with approved demonstrations. GAO also reviewed documentation for these states' demonstrations, and interviewed state and federal Medicaid officials. Additionally, GAO assessed CMS's policies and procedures against federal internal control standards.

What GAO Recommends

GAO makes three recommendations, including that CMS (1) require states to submit projections of administrative costs with demonstration proposals, and (2) assess risks of providing federal funds that are not allowable to administer work requirements and improve oversight procedures, as warranted. CMS did not concur with the recommendations and stated that its procedures are sufficient given the level of risk. GAO maintains that the recommendations are warranted as discussed in this report.

View [GAO-20-149](#). For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

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MEDICAID DEMONSTRATIONS

Actions Needed to Address Weaknesses in Oversight of Costs to Administer Work Requirements

What GAO Found

Medicaid demonstrations enable states to test new approaches to provide Medicaid coverage and services. Since January 2018, the Centers for Medicare & Medicaid Services (CMS) has approved nine states' demonstrations that require beneficiaries to work or participate in other activities, such as training, in order to maintain Medicaid eligibility. The first five states that received CMS approval for work requirements reported a range of administrative activities to implement these requirements.

These five states provided GAO with estimates of their demonstrations' administrative costs, which varied, ranging from under \$10 million to over \$250 million. Factors such as differences in changes to information technology systems and numbers of beneficiaries subject to the requirements may have contributed to the variation. The estimates do not include all costs, such as ongoing costs states expect to incur throughout the demonstration.

Selected States' Estimates of Administrative Costs to Implement Work Requirements in Approved Medicaid Demonstrations and Federal Share of those Costs

State	Number of beneficiaries subject to requirements	Estimated costs (dollars in millions)	Estimated federal share (percentage)
Kentucky	620,000	271.6	87
Wisconsin	150,000	69.4	55
Indiana	420,000	35.1	86
Arkansas	115,000	26.1	83
New Hampshire	50,000	6.1	79

Source: GAO analysis of data reported by selected states and selected state documents. | GAO-20-149

Notes: Estimates of beneficiaries subject to work requirements include those who may be eligible for an exemption. Estimates of costs do not include all costs, and in Kentucky and Wisconsin include some costs not specific to work requirements. Estimates generally cover from 1 to 3 years of costs.

GAO found weaknesses in CMS's oversight of the administrative costs of demonstrations with work requirements.

- **No consideration of administrative costs during approval.** GAO found that CMS does not require states to provide projections of administrative costs when requesting demonstration approval. Thus, the cost of administering demonstrations, including those with work requirements, is not transparent to the public or included in CMS's assessments of whether a demonstration is budget neutral—that is, that federal spending will be no higher under the demonstration than it would have been without it.
- **Current procedures may be insufficient to ensure that costs are allowable and matched at the correct rate.** GAO found that three of the five states received CMS approval for federal funds—in one case, tens of millions of dollars—for administrative costs that did not appear allowable or at higher matching rates than appeared appropriate per CMS guidance. The agency has not assessed the sufficiency of its procedures for overseeing administrative costs since it began approving demonstrations with work requirements.