



Medicaid contractor spending increases

Audit also finds fewer fraud probes

By [Jason Stein](#) of the Journal Sentinel

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Madison - As Wisconsin's health programs for the poor have ballooned in recent years, the state has relied increasingly on private contractors to administer the programs, completed fewer investigations into potential fraud and not taken full advantage of cheaper ways of delivering health care, a new audit has found.

The [report](#) released Tuesday by the Legislative Audit Bureau found that as of June, there were at least three times as many contract workers working on Medicaid health programs as there were state workers. Over the past four years, payments to private vendors for Medicaid nearly have doubled and in some cases increased beyond the spending limits written into the state's budget, the audit found.

The audit raises questions about whether, given the growth in the health programs, the state Department of Health Services is able to oversee both its contractors and the overall Medicaid programs. It also found that the state could do more to shift to lower-cost models such as health maintenance organizations, or HMOs, that charge a capped rate for patients.

Sen. Rob Cowles (R-Green Bay) said it was important to cut any wasteful spending in the Medicaid program because growth in that program was accounting for most of the new spending by the state and squeezing out other priorities.

"It's eating up all the seed corn in the state budget," said Cowles, co-chairman of the Joint Audit Committee. "Controlling this is critical to having money for schools or the Department of Natural Resources, or what have you."

The overall Medicaid program has grown to \$7.5 billion a year in state and federal money in fiscal 2011, up from \$5 billion in fiscal 2007, largely because the number of participants has shot up because of the recession and program expansions by state officials. There are now 1.2 million Wisconsin residents, or about one in five, on one of the various Medicaid programs, up from 870,000 in 2007. Those programs range from medical care for poor families to nursing homes and prescription drug programs for the elderly.

The audit found that Wisconsin was toward the upper end of eligibility limits for the program compared with its five neighboring states and over the most recent four-year period had seen the second-largest increases in enrollment and spending, behind only Illinois.

The audit comes as Gov. Scott Walker's administration seeks federal approval for its plans to find \$554 million in savings in the program during over the next year and a half - a proposal that would lead an estimated 65,000 adults and children to either lose their coverage or drop out of programs like BadgerCare Plus.

Health Services deputy secretary Kitty Rhoades said the Walker administration welcomed the audit.

"Taxpayers, health care providers and Medicaid recipients should expect zero tolerance for inefficiency, waste and fraud. Over the last 12 months, we recognized many areas that needed improvement and began looking at ways to change how we operate the program, including conducting thorough reviews of all existing Medicaid contracts, streamlining the way eligibility and ongoing case management is conducted, and creating the Office of the Inspector General to aggressively pursue fraud and abuse," Rhoades said in a statement.

Vendor payments grow

As of June, there were 1,128 private employees working for the largest private contractor handling back office functions for the Medicaid program. By contrast, the number of state DHS workers assigned to Medicaid amounted to 365. That trend toward more private workers was due in part to a state hiring freeze that ran from 2008 through 2010, the audit found.

State payments to vendors have increased to \$115 million in fiscal year 2011 from \$66 million in fiscal year 2007. The payments over those years included \$55 million in spending that wasn't included in the DHS budget, the report found.

Cowles said he found that unauthorized spending on private contracting particularly troubling.

"It has to stop. You have to have authority to do things," Cowles said.

In recent years, the state frequently has chosen to add more services from vendors by expanding its existing pacts with contractors such as Hewlett-Packard and Deloitte Consulting rather than putting those new services out to bid to see if other vendors might do them more cheaply, auditors found.

In a response letter to the audit, state Health Services secretary Dennis Smith said his agency needs the expertise of contractors in many areas but also will be looking for places where using state employees would be cheaper than private contractors.

As the Medicaid program has grown, the state has cut the money available for investigating fraud. The number of investigations of potential fraud by recipients dropped to 1,424 in fiscal 2011 from 2,166 in fiscal 2007 along with the amount of money recovered through such investigations, the audit found.

Smith noted in his letter that the Walker administration and GOP Legislature have reversed that trend and increased funding for investigating fraud.

Rep. Jon Richards (D-Milwaukee) said the audit didn't find widespread fraud in Medicaid and also showed that out-of-state residents weren't moving to Wisconsin to take advantage of its health programs.

"The audit debunked (that) myth," Richards said.

In his response letter, Smith said the Walker administration was committed to restoring funding for investigating fraud as well as creating the inspector general's office to cut down on waste and abuse.

The report also noted that, in general, it's more expensive to use a payment method in which the state pays for each individual service provided to Medicaid recipients, usually called a "fee-for-service" model.

Instead, it's generally cheaper for the state to pay a monthly flat fee to an HMO for each patient enrolled in the state program. That provides an incentive to the HMO to avoid unnecessary medical care and use cheaper preventive care to head off health problems earlier rather than waiting to do more costly and complex procedures later.

Despite that, in fiscal 2010 the states paid \$3.6 billion, or about half of all Medicaid expenses, to fee-for-service providers, the audit found.

Richards said the state needed to move away from fee-for-service models toward other systems that deliver greater value for taxpayers and better health for program participants.

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