

TREATMENT OF MEDICAID TRANSFERS IN STATE BUDGETING

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ISSUE BRIEF

SUMMARY

Transfers between the Department of Health and other state agencies receiving Medicaid funds overstate Medicaid expenditures when rolled-up in a statewide budget by as much as \$300 million in FY 2010. While the double counting is eliminated in the state’s annual financial report after-the-fact, it confounds upfront budgeting. We recommend more consistent budgeting of Medicaid transfers among state agencies and that the Department of Health assist in identifying potential double-counting in their budget. We also recommend the Legislature consider amending the *Budgetary Procedures Act* to explicitly allow for the transfer of Medicaid funds between departments.

BACKGROUND

Federal regulations require states to have a single state agency to administer all Medicaid funds. In Utah this single state agency is the Department of Health. As such, the Department of Health must collect and expend all Medicaid funds. However, some programs receiving Medicaid funds reside in “host” agencies outside the Department of Health where the programs more closely correspond with agency missions. The largest host agencies are the Department of Human Services and the Department of Workforce Services. These agencies transfer state funds to the Department of Health to draw down matching federal funds. The Department of Health then pays for the Medicaid applicable costs (see Figure 1 below). In practice, these transfers result in a double-counting of Medicaid expenditures in agency budgets.

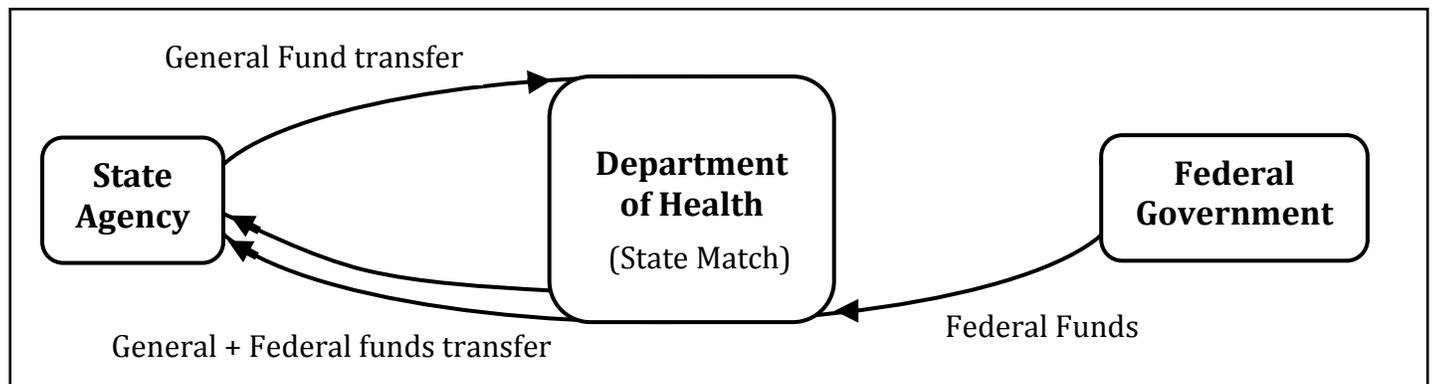


Figure 1

The Department of Health and other agencies receiving Medicaid funding made significant progress in identifying Medicaid transfers through an annual statewide report requested by EAC in April 2010. The report delivered in December 2010 entitled, *Utah Statistical Report of Medicaid and CHIP*, may be found online at http://health.utah.gov/medicaid/pdfs/annual_report2010.pdf.

DISCUSSION AND ANALYSIS

Double Counting Total Medicaid Revenues and Expenditures in the Budget

Both the Department of Health and “host” agencies account for Medicaid expenditures in their respective budgets. When aggregated, Medicaid transfers between agencies double-count Medicaid expenditures in the budget as illustrated in Figure 2.

	State Agency	Department of Health	Statewide Total
Revenues			
General Fund	\$1,000,000		\$1,000,000
Federal Funds	↓	\$4,000,000	\$4,000,000
Revenue Transfer Out	(\$1,000,000)		(\$1,000,000)
Revenue Transfer In	\$5,000,000	\$1,000,000	\$6,000,000
	\$5,000,000	\$5,000,000	\$10,000,000
Expenditures			
Program Expense	\$5,000,000		\$5,000,000
Transfer		\$5,000,000	\$5,000,000
	\$5,000,000	\$5,000,000	\$10,000,000

Figure 2

For example, an agency receives \$1 million from a General Fund appropriation. The agency records a revenue decrease of \$1 million and sends that money to the Department of Health. Health uses the \$1 million to receive a \$4 million match from the federal government. Health transfers \$5 million to the originating state agency and records the transaction as an expenditure. The state agency records the \$5 million as a revenue transfer in and then as expenditures for assistance, personnel, contracts, etc.

Both the state agency and the Department of Health record \$5 million of expenditures in their budgets. The statewide summary therefore shows \$10 million of expenditures instead of the \$5 million that the state agency projects to spend on Medicaid programs.

While such reporting may be accurate and necessary when viewing an agency in isolation, when all agency budgets are aggregated, such reporting over-represents the total budget. The transfers are eliminated after-the-fact in actual state financial reports, but they are not eliminated up-front in budgets. Using information in the *Utah Statistical Report of Medicaid and CHIP* we estimate that approximately \$300 million in FY 2010 could be double-counted in the statewide budget rollup of the departments of Health, Human Services, and Workforce Services. Additionally, the Department of Health transfers Medicaid funds internally in a similar manner that could potentially lead to an overstatement of expenditure.

Options for Eliminating the Overstatement of Medicaid Expenditures

We have identified three potential options the Legislature may take to address this issue. We recommend the third option.

1. Do nothing – continue showing expenditures and revenues in both the Department of Health and “host” agencies. The state has historically included the transfers and thus trends are accurate, even if over-stated. The Division of Finance eliminates the transfers in financial statements after-the-fact.
2. Require the Division of Finance to implement a standard whereby the Department of Health and “host” agencies receiving and expending Medicaid funds identify those items in the financial system so that the Governor’s Office of Planning and Budget (GOPB) and the Legislative Fiscal Analyst may exclude expenditures from the Department of Health and revenues from host agencies in a statewide budget roll-up.
3. Require the Department of Health to identify Medicaid expenditures to other state agencies in their budget submission so that GOPB and the Legislative Fiscal Analyst may exclude the expenditures and revenues from the Department of Health in a statewide roll-up. The Department of Health and “host” agency budget submissions would not change from the current practice.

Budget Differences among Agencies

State agencies use different methods of budgeting and accounting for the Medicaid transfers discussed previously. In some cases, divisions within an agency differed in the way they accounted for Medicaid transfers in their budget submission. For example some agencies/divisions show two revenue transfers (one negative going to Health and the other positive coming from Health) while others net the two together and only show one net transfer. We recommend that the Governors' Office of Planning and Budget, in their annual budget guidelines, require agencies to adhere to a more consistent standard of budgeting Medicaid revenue transfers between agencies.

Budgetary Procedures Act

The *Budgetary Procedures Act* (Title 63J, Chapter 1) stipulates that "money may not be transferred from one item of appropriation to any other item of appropriation (63J-1-206(f)(i))." Even though the Legislature approves and includes transfers between the Department of Health and other host agencies in annual appropriations acts these transfers are not explicitly authorized in statute. We recommend the Legislature create an exemption for Medicaid transfers to allow departments to transfer them across line items like it has for the Minimum School Program (63J-1-206(f)(ii)).

RECOMMENDATIONS

We recommend:

1. The Department of Health identify Medicaid expenditures to other state agencies in their budget submission so that the Governor's Office of Planning and Budget and the Legislative Fiscal Analyst may exclude the expenditures and revenues from the Department of Health in a statewide roll-up.
2. Requesting the Governors' Office of Planning and Budget implement a statewide standard for budgeting revenue transfers among state agencies that would provide more consistency in the way agencies account for Medicaid transfers.
3. The Legislature create a statutory exemption from the *Budgetary Procedures Act* for Medicaid transfers to allow departments to transfer funds between line items.