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MEDICAID

More Transparency of and Accountability for Supplemental Payments Are Needed

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-13-48, a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

In 2011, states reported making $43 billion in Medicaid supplemental payments—payments above regular payments for Medicaid services—to certain providers, mainly hospitals. The federal government shares in the cost of these payments. By law, states make certain supplemental payments, known as DSH payments, for uncompensated care costs experienced by hospitals serving large numbers of low-income and Medicaid patients. States also make other supplemental payments—referred to here as non-DSH payments—to hospitals and other providers who, for example, serve high-cost Medicaid beneficiaries. Past GAO reports have found gaps in federal oversight of these high-risk payments: a lack of information on the providers receiving them, inaccurate payment calculation methods, and a lack of assurances the payments were used for Medicaid purposes. CMS has required states to submit annual audits and reports on DSH payments since 2010. GAO was asked to review federal oversight of supplemental payments and examined (1) how information in DSH audits and reports facilitates CMS's oversight of DSH payments, and (2) the extent to which similar information exists for non-DSH payments. GAO analyzed 2010 DSH audits and reports and interviewed CMS officials.

What GAO Recommends

Congress should consider requiring the Administrator of CMS to improve transparency of and accountability for non-DSH supplemental payments by requiring facility-specific payment reporting and annual audits, among other steps.

View GAO-13-48. For more information, contact Katherine Iritani at (202) 512-7114 or iritanik@gao.gov.

What GAO Found

The recently implemented annual audits and reports for states' disproportionate share hospital (DSH) payments could improve oversight by the Centers for Medicare & Medicaid Services (CMS)—the federal agency that oversees Medicaid—by illuminating needed changes. States are required to submit audits and reports to CMS as a condition for receiving federal funds for their DSH payments. The first set of DSH audits was submitted by states in 2010 and covers states' 2007 DSH payments. The audits give CMS information on how well states are complying with six DSH requirements, including whether payments are limited to hospitals' uncompensated care costs and are accurately calculated. Under a transition period, CMS will not act on audit findings until the 2014 audits are complete; however, findings from GAO's analysis of the 2010 DSH audits show that 44 states will likely need to make changes to their DSH payments to come into compliance. For example,

- 41 states made DSH payments to 717 hospitals that exceeded the individual hospitals' uncompensated care costs as calculated by the auditors, and
- 9 states did not accurately calculate the uncompensated care costs of 206 hospitals in those states for purposes of making DSH payments.

The DSH reports can also improve oversight because they provide hospital-specific information that CMS can use to better align capped federal DSH funds with hospitals' uncompensated care costs. Federal law reduces national DSH funding beginning in fiscal year 2014, and requires CMS to implement a method for corresponding reductions in each state's DSH funding. GAO analysis of DSH reports shows that some states' DSH payments are not proportionally targeted to hospitals with the highest uncompensated care.

CMS lacks similar information for overseeing non-DSH payments; available information suggests that better reporting and audits of non-DSH payments could improve CMS's ability to oversee them. Reporting of non-DSH payments that states make to individual hospitals and other providers relative to the providers' Medicaid costs could improve the transparency of these payments. Audits could improve accountability by providing information on how non-DSH payments are calculated and the extent to which payments to individual providers are consistent with the Medicaid payment principles of economy and efficiency. GAO analysis of the limited hospital-specific information available found that 39 states made non-DSH payments to 505 DSH hospitals that, along with their regular Medicaid payments, exceeded those hospitals' total costs of providing Medicaid care by a total of about $2.7 billion. Although regular and non-DSH Medicaid payments are not required to be limited to a provider's costs of delivering Medicaid services, payments that greatly exceed these costs raise questions, for example, as to whether payments are being used for Medicaid. As of November 2012, CMS has no plans to require states to report provider-specific non-DSH payments, clarify permissible methods for calculating non-DSH payments, and require annual independent audits of states' non-DSH payments, because in its view legislation was crucial to implementing similar DSH requirements.

In reviewing a draft of this report, the Department of Health and Human Services agreed with GAO about the need to improve reporting and oversight of non-DSH payments and noted some efforts under way to do so.