Highlights of GAO-05-452, a report to congressional committees

June 2005

HEALTH CENTERS AND RURAL CLINICS

State and Federal Implementation Issues for Medicaid's New Payment System

Why GAO Did This Study

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) established a prospective payment system (PPS) for Medicaid payments to Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC), giving providers a financial incentive to operate efficiently. BIPA requires that BIPA PPS rates be adjusted for inflation and changes in scope of services. States also may use an alternative methodology if it pays no less than the BIPA PPS rate. In response to a BIPA mandate, GAO reviewed states' implementation of the new payment requirements, the need to rebase or refine the BIPA PPS, and the Centers for Medicare & Medicaid Services' (CMS) oversight of states' implementation. GAO surveyed the states about their payment methodologies, did a targeted review in four states, and reviewed indexes used to reflect medical care inflation.

What GAO Recommends

GAO recommends that CMS explore the development of a more appropriate inflation index for the BIPA PPS and improve its guidance for states and its oversight of states' payment methodologies. CMS said it will take steps related to its oversight but disagreed on the need to issue additional guidance. CMS also disagreed on the need to develop an inflation index; GAO maintained the recommendation and also elevated the issue to a matter for congressional consideration.

www.gao.gov/cgi-bin/getrpt?GAO-05-452.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

What GAO Found

GAO's review of states' implementation of Medicaid's new payment system—the BIPA PPS and alternative methodologies—for FQHCs and RHCs identified certain issues regarding the appropriateness of some states' methodologies. Most states used the BIPA PPS and about half of states used an alternative methodology—generally cost-based reimbursement or a PPS with features slightly different from those required for the BIPA PPS—to pay at least some of their FQHCs, RHCs, or both. States took an average of slightly more than a year from the legislation's January 1, 2001, effective date to implement their BIPA PPS, and a few states had not completed implementation as of June 1, 2004. GAO identified three significant issues with states' new Medicaid payment systems. First, some states' BIPA PPS payment rates may be inappropriate because they did not include all Medicaid-covered FQHC and RHC services in the rates as required by law. Second, as of June 1, 2004, over half the states using the BIPA PPS had not determined how they would make the required adjustment to BIPA PPS rates for a change in scope of services. Third, some states did not ensure that their alternative methodologies resulted in payments no lower than what the FQHCs and RHCs would have received under the BIPA PPS.

Evidence to date is insufficient to determine the need to rebase or refine the BIPA PPS. Concerns exist that the statutorily specified annual inflation index used to adjust the BIPA PPS is inappropriate because it not only increases more slowly than do many FQHCs' and RHCs' costs but also does not reflect the services these providers deliver. Other indexes GAO reviewed had a similar shortcoming. GAO's analysis determined that no inflation index has been developed that reflects the services typically provided by FQHCs and RHCs. Because many states no longer require FQHCs and RHCs to submit cost reports, comprehensive and current Medicaid cost data are no longer available to help inform an evaluation of the need to rebase or refine the BIPA PPS. Although GAO's comparison of cost-based and BIPA PPS rates from four states showed that cost-based rates generally exceeded BIPA PPS rates, not all factors contributing to the higher rates are known. Differences between cost-based and BIPA PPS rates varied widely within and among the states reviewed, which also limited the ability to draw conclusions about the need to rebase or refine rates.

CMS guidance and oversight regarding the new BIPA payment requirements were inadequate to ensure consistent state compliance with the law. CMS guidance did not fully address certain requirements, and as states developed their new payment systems, they lacked important information clarifying the new requirements. As a result, uncertainties exist regarding how states were to implement some BIPA requirements, such as how to adjust BIPA PPS rates to account for a change in scope of services. CMS has conducted limited oversight of states' implementation and therefore was unaware of compliance issues with some states' payment systems.