



Highlights of [GAO-08-614](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

## Why GAO Did This Study

The financing of the \$299 billion Medicaid program is shared between the federal government and states. States pay qualified providers for covered Medicaid services and receive federal matching funds from the Department of Health & Human Services' (HHS) Centers for Medicare & Medicaid Services (CMS) for expenditures authorized in their state Medicaid plans. In addition to these standard Medicaid payments, most states make supplemental payments to certain providers, which are also matched by federal funds. GAO was asked for information about Medicaid supplemental payments. GAO examined (1) what information states report about supplemental payments on Medicaid expenditure reports and (2) in selected states, how much was distributed as supplemental payments, to what types of providers, and for what purposes. GAO analyzed CMS's Medicaid expenditure reports and surveyed five states that make large supplemental payments.

## What GAO Recommends

GAO recommends that the Administrator of CMS (1) expedite issuance of the final rule implementing additional DSH reporting requirements and (2) develop a strategy to identify all of the supplemental payment programs established in states' Medicaid plans and review those programs that have not been subject to review under CMS's 2003 initiative. CMS generally agreed with these recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-614](#). For more information, contact James C. Cosgrove at (202) 512-7114 or [cosgrovej@gao.gov](mailto:cosgrovej@gao.gov).

## MEDICAID

### CMS Needs More Information on the Billions of Dollars Spent on Supplemental Payments

#### What GAO Found

CMS Medicaid expenditure reports show that states made at least \$23 billion in supplemental payments in fiscal year 2006, with the federal share of these payments totaling over \$13 billion. States made \$17.1 billion in payments through Disproportionate Share Hospital (DSH) programs, which under federal law provide additional reimbursement, up to a cap, to hospitals that serve large numbers of low-income individuals. In addition, states made at least \$6.3 billion in non-DSH supplemental payments, including payments through Upper Payment Limit (UPL) programs, under which states make payments to providers up to the upper limit for obtaining federal matching funds. However, information on non-DSH supplemental payments was incomplete. The exact amount and distribution of fiscal year 2006 non-DSH payments to states are unknown because states did not report all their payments to CMS. CMS officials said that they were updating reporting requirements to collect better information on supplemental payments, including finalizing a rule proposed in 2005 responding to federal law that required states to report more detailed information on DSH payments and seeking improved UPL payment information. As of April 2008, specific implementation dates for these actions were not known. CMS's plans did not include a requirement that states report all UPL payments on a facility-specific basis, as GAO recommended in 2004 (See *Medicaid: Improved Federal Oversight of State Financing Schemes Is Needed*, [GAO-04-228](#)). GAO believes this 2004 recommendation remains valid.

The five states GAO surveyed—California, Massachusetts, Michigan, New York, and Texas—reported making \$12.3 billion in Medicaid supplemental payments in federal fiscal year 2006 through programs with broadly stated purposes, with half of these payments made to local government hospitals. Collectively, the five states reported making payments through 48 supplemental payment programs, with each state operating from 3 to 15 different programs that paid hospitals, nursing facilities, or other providers. The five states reported purposes for their programs that often focused on various categories of eligible providers serving individuals on Medicaid, with low incomes, or without insurance. The state Medicaid plan sections establishing the states' supplemental payments did not always clearly identify how the payments would be calculated. CMS officials said that as part of an oversight initiative started in 2003, CMS ensures that state plans demonstrate a link between the distribution of supplemental payments and Medicaid purposes. However, not all state supplemental payment programs have been reviewed under CMS's initiative. In each of the five states, supplemental payments were concentrated on a small proportion of providers: the 5 percent of providers receiving the largest amount of supplemental payments in individual states received from 53 percent to 71 percent of all supplemental payments. Some providers received substantial payments from more than one supplemental payment program.