November 2009

MEDICAID

Ongoing Federal Oversight of Payments to Offset Uncompensated Hospital Care Costs Is Warranted

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-10-69, a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

In addition to standard Medicaid payments, hospitals receive supplemental payments for uncompensated costs of care provided to uninsured and Medicaid patients. These supplemental payments are referred to as disproportionate share hospital (DSH) payments. Hospitals may also receive non-DSH supplemental payments. In fiscal year 2006, DSH payments totaled about $17 billion and non-DSH supplemental payments exceeded $6 billion. Hospitals' DSH payments are limited to their uncompensated care costs, that is, their costs for covered care less Medicaid and other payments. Concerns have been raised about the accuracy of DSH payment limits, particularly as states may estimate limits using data that are not audited or up to date. GAO was asked to examine (1) how state DSH payments in 2006 compared to DSH payment limits, and (2) certain aspects of states' calculations of 2006 DSH payment limits. In selected states, GAO analyzed state Medicaid payment data and interviewed officials from the states and from the Centers for Medicare & Medicaid Services (CMS), the federal agency that oversees Medicaid.

What GAO Recommends

GAO recommends that CMS ensure that states account for all Medicaid payments, including non-DSH supplemental payments, when calculating DSH payment limits. CMS agreed with GAO's recommendation.

View GAO-10-69 or key components.
For more information, contact Katherine Iritani at (202) 512-7114 or iritanik@gao.gov.

What GAO Found

In four states selected on the basis of their large supplemental payments, state-reported DSH payments varied widely as a percentage of the hospital-specific DSH payment limits that the states calculated. DSH payments to 682 hospitals in California, Michigan, New York, and Texas ranged from less than 1 percent to more than 169 percent of DSH payment limits. GAO identified a small number of hospitals in three states—California, New York, and Texas—that received DSH payments in excess of their hospital-specific DSH payment limits, and officials from these states reported that they had taken or plan to take actions to correct the excess payments. The four states paid government-operated hospitals a relatively high proportion of their estimated DSH payment limits, with state-operated psychiatric hospitals called institutions for mental diseases receiving the largest relative payments in three states.

In examining the four states' calculations of 2006 DSH payment limits, GAO found that two of the four states' hospital-specific DSH limits for 2006 were not calculated appropriately; that is, the states did not take into account all Medicaid payments the hospitals received. Specifically, when estimating hospital uncompensated care costs for the purpose of calculating their 2006 DSH payment limits, for 91 hospitals in California and 88 hospitals in Texas the states did not, as required, take into account the non-DSH supplemental Medicaid payments the hospitals had received. In addition, in light of a series of reports from the Department of Health and Human Services' Office of Inspector General that found that a number of states had used data that did not accurately represent hospitals' costs, GAO examined whether the four states used updated data for calculating DSH payment limits, and had their state-calculated DSH payment limits or the data used to calculate them independently audited. GAO found that none of the four states (1) consistently updated 2006 hospital DSH payment limits and (2) subjected hospital DSH payment limits to an independent audit. However, California, Michigan, and New York had processes to update their DSH payment limits to reflect actual costs and used data from sources subject to an audit for some hospitals. Under a final rule that CMS issued in December 2008, during the course of GAO's review, all states will be required to use actual cost data for hospital-specific DSH payment limits and have their DSH payment limits independently audited. Although the 2008 final rule set a December 2009 deadline for states to report to CMS the results of their independent audits of 2005 and 2006 DSH payments, there will be a transition period before the agency will take any action on such reports. California's experience indicates that implementing the requirements of CMS's 2008 final rule could have a substantial effect on hospital-specific DSH payment limits in the future. In 2006, the state reduced DSH payment limits for 22 hospitals by over 49 percent after applying a methodology based on audited and updated data.