MEDICAID

Improved Federal Oversight of State Financing Schemes Is Needed

Why GAO Did This Study
For years, some states have taken advantage of a loophole in Medicaid law that allows them to claim billions of dollars in excessive federal matching funds by exploiting the “upper payment limit” (UPL), which is intended to be a ceiling on federal cost sharing. Congress and the Centers for Medicare & Medicaid Services (CMS) acted to curtail UPL financing schemes through law in 2000 and regulation in 2001. CMS recognized that some states had developed a long-standing reliance on UPL funds. The law and regulation authorized transition periods of up to 8 years for states to phase out excessive UPL claims.

What GAO Found
CMS has granted transition periods to 18 states for phasing out excessive claims for federal Medicaid funds obtained through UPL financing schemes. Eight states were granted 1- or 2-year transition periods, seven were granted 5-year transitions, and three states—Nebraska, Pennsylvania, and Wisconsin—were granted the maximum of 8 years. The law permits 8-year transition periods for qualifying states with UPL financing schemes relating to a payment provision established on or before October 1, 1992. Although permissible under the law, CMS’s decisions to grant 8-year transition periods to two of the three states were not consistent with the agency’s stated purpose for the UPL regulation and transition policy, which targeted arrangements with problematic characteristics and states with a long-standing budgetary reliance on excessive federal funds. Neither Nebraska nor Wisconsin had such arrangements or budgetary reliance until after 1997 and 2000, respectively (see figure). Under their 8-year transition periods, these states can claim about $633 million more in federal matching funds than they could have claimed under shorter transition periods consistent with the stated purpose of CMS’s regulation and transition policy.

What GAO Recommends
CMS concurred with GAO’s recommendations that the agency improve its oversight of UPL arrangements, including expediting its financial reviews, establishing uniform guidance for states, and improving state reporting. CMS, Nebraska, and Wisconsin disagreed with GAO’s recommendation that CMS reassess its decisions to grant those two states an 8-year transition period. GAO is suggesting that Congress consider ending, under certain circumstances, the 8-year transition periods for states with excessive nursing home UPL arrangements.

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.