

# GAO Highlights

Highlights of [GAO-14-817T](#), a testimony before the Subcommittee on Energy Policy, Health Care and Entitlements, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

Medicaid is a joint federal and state program for which the federal government matches state Medicaid expenditures. Total program costs were about \$432 billion in federal fiscal year 2012. States use various sources of funds to finance the nonfederal share, such as state funds and funds from health care providers and local governments. Medicaid has been on GAO's list of high-risk programs since 2003, in part, because of concerns about federal oversight of complex state Medicaid financing arrangements where states seek funds from the providers for the nonfederal share of the payments, and oversight of large supplemental payments that states often make to government providers. States may have incentives to overpay providers that help finance the nonfederal share to maximize federal matching funds.

This statement highlights (1) findings from GAO's report being issued today on how states' reliance on health care providers and local governments to finance Medicaid changed from state fiscal years 2008 through 2012, and implications of these changes; and (2) preliminary results from GAO's ongoing work on what is known about data to oversee state Medicaid payments to government and private providers. For this work, GAO surveyed states, interviewed CMS and state officials, and reviewed information in three states selected, in part, on the basis of size, Medicaid payments, and geographic diversity. GAO shared information on its preliminary observations with CMS and incorporated comments as appropriate.

View [GAO-14-817T](#). For more information, contact Katherine M. Iritani at (202) 512-7114 or [iritanik@gao.gov](mailto:iritanik@gao.gov).

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## MEDICAID

### Completed and Preliminary Work Indicate that Transparency around State Financing Methods and Payments to Providers Is Still Needed for Oversight

## What GAO Found

In its report being issued today ([GAO-14-627](#)), GAO found that states' reliance on funds from health care providers and local governments to finance Medicaid has increased in recent years, with implications for federal costs. In state fiscal year 2012, while most of the nonfederal share was from state general funds, states used funds from health care providers and local governments to finance 26 percent, or over \$46 billion, of the total nonfederal share of Medicaid payments. States' reliance on funds from health care providers and local governments to finance the nonfederal share increased by over 21 percent from state fiscal years 2008 through 2012. States' increasing use of funds generated from health care provider taxes was one main contributing factor to this increase. States' increasing reliance on providers and local governments to finance Medicaid can effectively shift costs from the state to the federal government, as illustrated by GAO's work in three selected states. For example, in one state, a \$220 million payment increase for private nursing facilities funded by a tax on private nursing facilities resulted in an estimated \$110 million increase in federal matching funds and no increase in state general funds, and a net payment increase to the facilities, after paying the taxes, of \$105 million.

GAO's preliminary results from ongoing work related to state Medicaid payments to government providers shows that data needed for overseeing Medicaid payments are lacking. Federal payment data do not capture on a provider-specific basis certain large supplemental payments states often make and generally lack information on provider ownership. At the state level, preliminary results in three selected states suggest that payment data primarily maintained by states are not always reliable and can be challenging to obtain and assess. GAO's preliminary analysis of Medicaid payments to government hospitals in one state suggests the need for and value of better data for oversight. GAO estimates that on an average per day basis, the state's 2011 inpatient hospital payments were higher for local government hospitals than for private hospitals. For local government hospitals, the higher average payment was largely due to supplemental Medicaid payments the state made to two local government hospitals. State officials said these hospitals served patients with greater needs. However, the state's own estimate of what Medicare would have paid these hospitals for similar services was \$100 million, much less than the \$416 million in supplemental Medicaid payments and \$70 million in regular payments that the hospitals received. Documentation from the Centers for Medicare & Medicaid Services' (CMS) payment review process did not identify the actual supplemental payments these hospitals received. GAO plans to issue its final report later this year.

In GAO's past reports and the report being released today ([GAO-14-627](#)), GAO has made recommendations to CMS to improve Medicaid payment oversight and develop a data collection strategy to improve the transparency of state financing methods. CMS has taken steps to improve the transparency and oversight of Medicaid financing and payments but has not implemented all of GAO's prior recommendations, and has generally disagreed with GAO's new recommendation. CMS believes that additional action is not needed. As discussed in the statement, GAO continues to believe that provider-specific information on state Medicaid financing and payments is needed.