

## Why GAO Did This Study

GAO designated Medicaid a high-risk program because of concerns about its size, growth, and inadequate fiscal oversight. The program cost the federal government and states an estimated \$383 billion in fiscal year 2010. In addition to regular Medicaid payments to providers, states make supplemental payments, including DSH payments, which are intended to offset the uncompensated costs of care provided to uninsured individuals and Medicaid beneficiaries. States also make other supplemental payments, which we refer to as non-DSH supplemental payments, to hospitals and other providers, for example, to help offset the costs of care provided to Medicaid beneficiaries. GAO and others have raised concerns about the transparency of states' Medicaid supplemental payments. GAO was asked to provide information on supplemental payments.

GAO examined (1) how much states reported paying in supplemental Medicaid payments during fiscal year 2010 and (2) how non-DSH supplemental payments reported during 2010 compared with those reported during 2006 and reasons for differences. GAO analyzed CMS's Medicaid expenditure data for all states and information from CMS and other sources about non-DSH supplemental payments in a nongeneralizable sample of 11 states selected to capture a mix of relevant characteristics.

In its comments on a draft of GAO's report, HHS stated that HHS and CMS will continue their ongoing efforts to improve states' reporting of supplemental Medicaid payments.

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## MEDICAID

### States Reported Billions More in Supplemental Payments in Recent Years

## What GAO Found

States reported \$32 billion in Medicaid supplemental payments during fiscal year 2010, but the exact amount of supplemental payments is unknown because state reporting was incomplete. On expenditure reports used to obtain federal funds filed with the Department of Health and Human Services' (HHS) Centers for Medicare & Medicaid Services (CMS), states reported the following:

- A total of \$17.6 billion in Disproportionate Share Hospital (DSH) payments. The 10 states reporting the largest total DSH payments in fiscal year 2010 accounted for more than 70 percent of the nationwide total, with 4 states—New York, California, Texas, and New Jersey—accounting for almost half (47 percent). DSH payments as a percentage of total Medicaid payments varied considerably—ranging from 1 to 17 percent—among the 50 states that reported DSH payments.
- A total of \$14.4 billion in non-DSH supplemental payments to hospitals and other providers. Because not all states reported these payments separately, complete information is not available. Like DSH payments, non-DSH supplemental payments as a percentage of total state Medicaid spending varied considerably—also ranging from 1 to 17 percent—among the 30 reporting states. These payments can also constitute a large portion of states' expenditures for particular categories of services, such as inpatient or outpatient hospital, nursing facility, or physician and surgical services. For example, non-DSH supplemental payments for inpatient hospital services ranged from 1 to 48 percent of state expenditures for these services among reporting states.

CMS officials told GAO that they were taking steps to improve states' reporting of non-DSH supplemental payments, including working with states to train staff on reporting of payments and on identifying and resolving reporting problems.

States' reported non-DSH supplemental payments were more than \$8 billion higher during 2010 than during 2006, the year for which GAO previously reported on the amount of these payments. More complete state reporting of payments and new and modified supplemental payments were factors in this increase. The information available to identify changes from 2006 to 2010 came from 39 states that separately reported non-DSH supplemental payments during either 2006 or 2010 or both. Most of the increase was from the 15 states that reported some payments in both years and reported higher non-DSH supplemental payments during 2010 than 2006. In addition, most of the reported increase was for inpatient hospital services. In 11 selected states, GAO found that new and modified supplemental payments contributed to some increases. For example, new and modified supplemental payments for hospital services in Colorado and Illinois are estimated to increase the states' non-DSH supplemental payments by about \$300 million and \$1 billion per year, respectively. However, data limitations prevented GAO from quantifying the full extent to which the increase was attributable to new and modified payments. In light of the apparent increase in non-DSH supplemental payments, ongoing federal efforts to improve the completeness of reporting are important for effective oversight and to better understand the payments' role in financing Medicaid services.