

# GAO Highlights

Highlights of [GAO-24-106202](#), a report to congressional addressees

## Why GAO Did This Study

In 2022, spending for managed care represented more than half of the \$800 billion spent on Medicaid. The percentage is expected to continue growing in the next decade. With few exceptions, states may not direct managed care plans' payments to providers. However, CMS began allowing a new exception in 2017: state directed payments. Since then, states have made widespread use of directed payments; for example, to increase payments to safety net providers to ensure beneficiary access.

Among other issues, this report describes estimated spending for, and state financing of, state directed payments, and examines CMS's policies and procedures for approving these payments.

GAO analyzed information on approved state directed payments in effect in 2022, and interviewed CMS and Medicaid officials from five states. These states were selected, in part, based on having a directed payment estimated at \$1 billion or more in 2022. GAO assessed CMS's policies and procedures against agency guidance and federal internal controls.

## What GAO Recommends

GAO is making four recommendations to CMS, including to enhance the agency's fiscal guardrails for approving state directed payments, review outcome information at renewal, and make publicly available additional approval documents. The Department of Health and Human Services agreed with two recommendations. It neither agreed nor disagreed with the other two recommendations, but noted CMS actions underway to address them.

View [GAO-24-106202](#). For more information, contact Catina B. Latham at (202) 512-7114 or [lathamc@gao.gov](mailto:lathamc@gao.gov).

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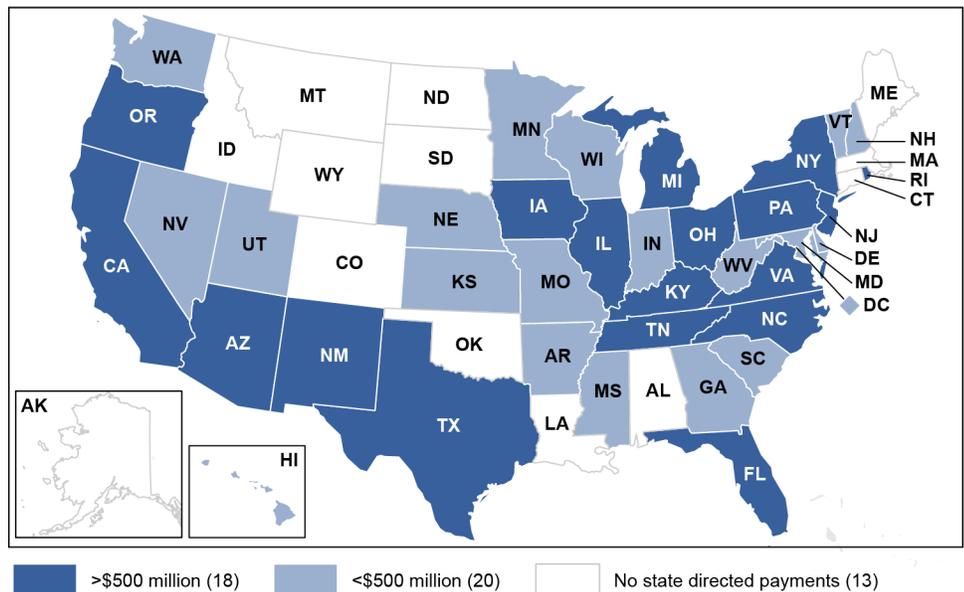
# MEDICAID MANAGED CARE

## Rapid Spending Growth in State Directed Payments Needs Enhanced Oversight and Transparency

### What GAO Found

Using state directed payments, states can direct how Medicaid managed care plans pay providers in certain circumstances. This includes requiring payments in addition to the base payment rates negotiated between plans and providers. State directed payment spending has grown to at least \$38.5 billion in 2022, the sixth year of state use, and further growth is expected.

Estimated 2022 Spending for State Directed Payments, by State



Source: GAO analysis of Centers for Medicare & Medicaid Services data (data); MapResources (map). | GAO-24-106202

Note: For more details, see figure 3 in GAO-24-106202.

States often relied on taxes on providers, instead of state general funds, to finance the nonfederal share of state directed payments. States' limited stake in the cost of state directed payments raises concerns for GAO given the weaknesses GAO identified in the Centers for Medicare & Medicaid Services' (CMS) policies and procedures for approving such payments.

- **Weak fiscal guardrails.** CMS has indicated that payments must be reasonable and appropriate, but has not established and communicated a definition of, or standards for, assessing that. CMS has set no other limits on spending under directed payments.
- **No consideration of payment outcomes when renewing.** CMS does not appear to consider state evaluation results or any other outcome information when deciding whether to approve a renewal of a directed payment.
- **Gaps in transparency.** CMS recently made payment applications publicly available, but does not post other information, such as attachments including important financing information, evaluation plans, and evaluation results.

These weaknesses leave the agency at risk of approving ineffective payments.