



Highlights of [GAO-12-674T](#), a testimony before the Subcommittees on Health Care, District of Columbia, Census and the National Archives and Regulatory Affairs, Stimulus Oversight and Government Spending, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Medicaid, a joint federal-state health care program, financed care for about 67 million people at a cost of \$401 billion in fiscal year 2010. At the federal level, CMS, an agency within the Department of Health and Human Services, is responsible for overseeing the design and operations of states' Medicaid programs, while the states administer their respective programs' day-to-day operations. The shared financing arrangement between the federal government and the states presents challenges for program oversight and Medicaid has been on GAO's list of high-risk programs since 2003, in part, because of concerns about the fiscal management of the program. Our prior work has shown that CMS continues to face challenges overseeing the Medicaid program.

GAO was asked to testify on CMS's oversight of Medicaid. GAO's testimony is based on prior work conducted from June 1993 through December 2011 related to CMS's oversight of (1) states' rate setting methodologies for certain managed care arrangements, particularly the requirements that rates be actuarially sound; (2) supplemental payments, which are payments made to certain providers that are separate from and in addition to standard Medicaid payments for services; and (3) program integrity, which focuses on ensuring that payments made are in the correct amount, to the correct provider, for an eligible beneficiary.

View [GAO-12-674T](#). For more information, contact Carolyn L. Yocom at (202) 512-7114 or yocomc@gao.gov.

April 25, 2012

MEDICAID

Federal Oversight of Payments and Program Integrity Needs Improvement

What GAO Found

Oversight of managed care rate-setting has been inconsistent. In August 2010, GAO reported that the Centers for Medicare & Medicaid Services (CMS) had not ensured that all states were complying with the managed care actuarial soundness requirements that rates be developed in accordance with actuarial principles, appropriate for the population and services, and certified by actuaries. For example, GAO found significant gaps in CMS's oversight of 2 of the 26 states reviewed—CMS had not reviewed one state's rates in multiple years and had not completed a full review of another state's rates since the actuarial soundness requirements became effective. Variation in practices across CMS regional offices contributed to these gaps and other inconsistencies in the agency's oversight of states' rate setting. GAO's previous work also found that CMS's efforts to ensure the quality of the data used to set rates were generally limited to requiring assurances from states and health plans—efforts that did not provide the agency with enough information to ensure the quality of the data used. With limited information on data quality, CMS cannot ensure that states' managed care rates are appropriate, which places billions of federal and state dollars at risk for misspending. GAO made recommendations to improve CMS's oversight.

Oversight of supplemental payments needs improvement. GAO has reported on varied financing arrangements involving supplemental payments—disproportionate share hospital (DSH) payments states are required to make to certain hospitals, and other non-DSH supplemental payments—that increase federal funding without a commensurate increase in state funding. GAO's work has found that while a variety of federal legislative and CMS actions have helped curb inappropriate financing arrangements, gaps in oversight remain. For example, while there are federal requirements designed to improve transparency and accountability for state DSH payments, similar requirements are not in place for non-DSH supplemental payments, which may be increasing. From 2006 to 2010, state-reported non-DSH supplemental payments increased from \$6.3 billion to \$14 billion; however, according to CMS officials, reporting was likely incomplete. GAO made numerous recommendations aimed at improving oversight of supplemental payments.

Challenges exist related to CMS's role ensuring program integrity. In December 2011, GAO testified that the key challenge CMS faced in implementing the statutorily established federal Medicaid Integrity Program was ensuring effective coordination to avoid duplicating state program integrity efforts, particularly in the area of auditing provider claims. GAO found that overpayments identified by its audit contractors since fiscal year 2009 were not commensurate with its contractors' costs, and CMS reported in 2011 that it was redesigning its audit program to achieve better results. Data limitations may have hampered the contractors' ability to identify improper claims beyond what states had already identified. With regard to CMS's other core oversight activities—annual assessments and triennial comprehensive state program integrity reviews—GAO found that much of the information collected from the annual assessments duplicated information collected during triennial reviews. Finally, CMS's Medicaid Integrity Institute, a national training program, appears to promote effective state coordination and collaboration.