



Highlights of [GAO-06-705](#), a report to the Chairman, Committee on Finance, U.S. Senate

## Why GAO Did This Study

Medicaid—the federal-state health care financing program—covered over 56 million people at a cost of \$295 billion in fiscal year 2004, the latest fiscal year for which complete data are available. The Centers for Medicare & Medicaid Services (CMS) is the federal agency responsible for overseeing states' Medicaid programs and ensuring the propriety of expenditures reported by states for federal reimbursement. In 2002, GAO reported on weaknesses in CMS's oversight of Medicaid financial management and made recommendations to CMS to strengthen its oversight process. In fiscal year 2003, CMS started receiving funds from the Health Care Fraud and Abuse Control (HCFAC) program to help improve Medicaid financial management. GAO was asked to evaluate CMS's financial management activities, including following up on prior recommendations. In this report, GAO examined (1) the extent to which CMS has improved its ability to identify and address emerging issues that put federal Medicaid dollars at risk and (2) how CMS used funds for Medicaid from the HCFAC account.

## What GAO Recommends

GAO is making two recommendations to the CMS Administrator to create permanent funding specialist positions and determine what systems projects are needed to further enhance data analysis capabilities. CMS agreed with our findings and recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-705](http://www.gao.gov/cgi-bin/getrpt?GAO-06-705).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (202) 512-8341 or [calboml@gao.gov](mailto:calboml@gao.gov).

# MEDICAID FINANCIAL MANAGEMENT

## Steps Taken to Improve Federal Oversight but Other Actions Needed to Sustain Efforts

### What GAO Found

CMS has undertaken several steps to improve its Medicaid financial management activities, including its efforts to oversee state claims for federal reimbursement and to identify payment errors. CMS hired about 90 funding specialists, thus enhancing its ability to address high-risk state funding practices that inappropriately increase federal costs. CMS also created a new unit that centralized responsibility for approving state plan amendments related to reimbursement. CMS continued to identify billions of dollars in questionable federal reimbursement through focused financial reviews. CMS also set goals aimed at reducing questionable federal reimbursement and holding financial managers accountable and enhanced its internal processes for tracking results of its financial management activities. These and other efforts, such as CMS's approach for measuring payment errors under the Improper Payments Information Act, represent improvements in the processes that CMS uses in its oversight of states. While these actions also address previously identified weaknesses and recommendations from our 2002 report, it is too soon to assess the impact they will have on improving overall financial management and addressing emerging issues that put federal Medicaid dollars at risk because some have just recently been initiated and results are not known yet. Further, there are a number of previously identified weaknesses that the agency has not yet addressed. Specifically, CMS has not instituted mechanisms to measure how the risk of inappropriate federal reimbursement has changed as a result of corrective actions taken. In addition, CMS has not incorporated the use of the Medicaid Statistical Information System database into its oversight of states' claims or other systems projects intended to improve its analysis capabilities. Further, CMS has not developed profiles to document information on state fraud and abuse controls to use in its oversight of state claims. Finally, CMS has not developed a strategic plan specific to its Medicaid financial management activities. Because these issues are important to further improving and sustaining CMS's oversight activities, we reiterate and build on our prior recommendations in these areas.

During fiscal years 2003 through 2005, CMS received almost \$46 million from the HCFAC account that it used to help fund programs related to its oversight of the Medicaid program, including about \$12 million for the funding specialists for fiscal years 2004 and 2005. The funding specialist positions have been funded on an annual basis with appropriations from the HCFAC account. There is the chance that adequate funding might not be provided through the HCFAC process in any given year for the funding specialists; therefore, creating permanent funding specialist positions is important. CMS used the other \$34 million for other projects such as researching options for automating the Medicaid state plan process, and interagency agreements with the OIG to conduct audits of high-risk areas. GAO obtained documentation to support the use of HCFAC funds for these projects.