

GAO Highlights

Highlights of [GAO-15-372](#), a report to congressional requesters

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) required CMS to select claims administrative contractors through a competitive process and to do so in accordance with the FAR. In fiscal year 2013, MACs processed almost 1.2 billion claims totaling more than \$363 billion in Medicare payments.

GAO was asked to assess CMS's implementation of contracting reform and examine whether CMS could do more to increase MACs' effectiveness. This report evaluates (1) differences in responsibilities among MACs and the costs associated with these responsibilities, including any changes since the implementation of contracting reform; (2) lessons learned, if any, since CMS implemented contracting reform that could be used to increase MAC efficiency and effectiveness; and (3) alternative contracting approaches that CMS could use to enhance contractor performance. To do this work, GAO reviewed the FAR and CMS documents—including contracting documentation and MAC cost reports—and interviewed officials from CMS and selected MACs. GAO also reviewed the FAR to identify alternative contracting approaches.

What GAO Recommends

GAO recommends that CMS conduct an analysis to determine whether alternative contracting approaches could be used to help promote improved contractor performance. In its comments, the Department of Health and Human Services concurred with this recommendation and said it plans to analyze alternative contracting approaches for MACs.

View [GAO-15-372](#). For more information, contact Kathleen M. King at (202) 512-7114 or kingk@gao.gov.

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MEDICARE ADMINISTRATIVE CONTRACTORS

CMS Should Consider Whether Alternative Approaches Could Enhance Contractor Performance

What GAO Found

As of February 2015, 16 Medicare Administrative Contractors (MAC) administered claims submitted by Medicare providers and suppliers. Twelve were A/B MACs that administered Medicare Part A and Part B claims for inpatient hospital care, outpatient physician and hospital services, and home health and hospice care, among other services, in specific jurisdictions. Four other MACs administered claims for durable medical equipment (DME).

GAO found that the A/B and DME MACs are typically expected to carry out similar key responsibilities, a few of which—including claims processing and customer service—have accounted for most of their reported costs. Since the implementation of contracting reform, beginning in 2006, the key responsibilities included in MACs' statements of work have generally remained consistent, with limited exceptions. Further, while similar key responsibilities accounted for the majority of A/B MACs' and DME MACs' costs, there were some differences between A/B MACs and DME MACs in the shares of total costs that were accounted for by certain responsibilities. For example, the DME MACs spent a higher portion on appeals, on average, than did the A/B MACs.

Officials from the Centers for Medicare & Medicaid Services (CMS) and the MACs that GAO interviewed have identified lessons learned since the implementation of contracting reform, and they have made improvements to increase operational efficiency and effectiveness. For example, MACs have developed Internet-based provider portals to reduce expenditures on telephone-based provider customer service. However, both CMS and MAC officials identified challenges for continued improvements in MAC efficiency and effectiveness, such as MACs' desire to protect their competitive advantage by not sharing certain innovations or operational improvements with other MACs.

CMS selected a cost-plus-award-fee contract structure for the MACs when it initially implemented contracting reform. This is a type of cost-reimbursement contract that allows the agency to provide financial incentives for achieving specific performance goals. While CMS has made modifications to its cost-plus-award-fee structure for MAC contracts—such as revising the performance metrics included in MACs' award fee plans and adjusting the distribution of award fees across the metrics to promote performance in areas where MACs have performed poorly in the past—the agency has not formally revisited its MAC contracting approach since the implementation of contracting reform. Moreover, its assessment of alternative contracting approaches has been limited. The Federal Acquisition Regulation (FAR) states that changing circumstances may make different contracting approaches more appropriate later in the course of a series of contracts or a long-term contract than they were at the outset. Further, CMS indicated in its 2007 MAC acquisition strategy that once a baseline cost and level of effort had been established, the agency would reassess whether the cost-plus-award-fee contract structure was still appropriate for the MACs. There are a number of other contracting approaches that could be introduced within or in addition to the cost-reimbursement structure. Without formally assessing the potential benefits and risks of alternative contracting approaches, CMS may be missing opportunities to enhance MACs' efficiency and effectiveness.