



Highlights of [GAO-05-748](#), a report to the Chairman, Committee on Finance, U.S. Senate

## Why GAO Did This Study

Medicaid—the federal-state health care financing program covering nearly 54 million low-income people at a cost of \$276 billion in fiscal year 2003—is by its size and structure at risk of waste and exploitation. Because of challenges inherent in overseeing the program, administered federally by the Centers for Medicare & Medicaid Services (CMS), GAO in 2003 added Medicaid to its list of high-risk federal programs. To help administer the program, states may employ consultants in a number of roles, sometimes under contracts whereby payment is contingent upon the consultant's performance.

GAO was asked to report on states' use of contingency-fee consultants. GAO examined the extent to which (1) states are using contingency-fee consultants for projects to maximize federal Medicaid reimbursements, (2) claims from contingency-fee projects in selected states are consistent with federal law and policy, and (3) states and CMS are overseeing claims from such projects.

## What GAO Recommends

GAO recommends that CMS improve oversight of contingency-fee projects and states' reimbursement-maximizing methods. In comments, CMS said its initiatives substantially respond to the recommendations, and the states said that their projects comply with law. GAO maintains that additional actions are needed.

[www.gao.gov/cgi-bin/getrpt?GAO-05-748](http://www.gao.gov/cgi-bin/getrpt?GAO-05-748).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

# MEDICAID FINANCING

## States' Use of Contingency-Fee Consultants to Maximize Federal Reimbursements Highlights Need for Improved Federal Oversight

### What GAO Found

As of 2004, 34 states—up from 10 states in 2002—used contingency-fee consultants to implement projects to maximize federal Medicaid reimbursements. Projects varied widely, and because of certain risk factors—including a nationwide growth in dollars—GAO focused on claims in five categories (see table). Contingency-fee consultants in the 2 states GAO reviewed, Georgia and Massachusetts, have developed projects in all five categories. From these and other projects, for state fiscal years 2000 through 2004, Georgia obtained an estimated \$1.5 billion in additional federal reimbursements and Massachusetts obtained an estimated \$570 million. These states paid contingency fees of more than \$90 million.

In Georgia, Massachusetts, or both states, GAO identified claims from contingency-fee projects in the five categories reviewed that were problematic because they appeared to be inconsistent with current policy or were inconsistent with federal law; others undermined Medicaid's fiscal integrity. For example, for services provided to children in state custody residing in private facilities, a Georgia project claimed increased federal Medicaid reimbursements on the basis of the facilities' estimated costs, which were often higher than the state's actual payments to the facilities. Problematic projects often involved categories of claims where federal law and policy were inconsistently applied, evolving, or not specific. Problematic projects also involved Medicaid payments to government entities, which can facilitate the inappropriate shifting of state costs to the federal government.

The states and CMS have provided limited oversight of claims associated with contingency-fee projects. CMS has not routinely collected information enabling it to identify claims or projects developed by contingency-fee consultants to maximize federal reimbursements, despite long-standing recognition that such claims are at risk of being inconsistent with federal requirements. Problems GAO identified illustrate the urgent need to address broader issues in oversight and financial management. CMS has taken steps to strengthen its financial oversight of Medicaid, but the agency can do more to reduce the risk of current and emerging financing schemes, including responding to prior GAO recommendations.

### Five Categories of Medicaid Claims Reviewed by GAO

Category of claims	Service
Targeted case management services	Services to help a defined group of beneficiaries gain access to needed medical, social, educational, and other services
Rehabilitation services	Services to reduce a mental or physical disability and restore an individual to the best possible functional level
Supplemental payment arrangements	Payments to a class of health care providers, such as nursing homes, up to a predefined limit
School-based services	Medicaid-covered medical services provided by schools, such as diagnostic screening or physical therapy, or the administrative cost of providing these services
Administrative costs	Costs the states incur in administering their Medicaid programs

Source: GAO based on CMS information.