

Why GAO Did This Study

Medicaid has the second-highest estimated improper payments of any federal program that reported such data for fiscal year 2011. Also, the Congress has raised questions about reporting and corrective actions related to the Medicaid program's improper payments. The objectives of this report were to determine the extent to which (1) CMS's methodology for estimating Medicaid improper payments follows OMB guidance and produces reasonable national and state-level estimates and (2) corrective action plans have been developed to reduce Medicaid payment error rates and whether these plans address the types of payment errors identified. To address these objectives, GAO analyzed CMS's policies and procedures against federal guidance and standards for estimating improper payments and developing related corrective actions to address errors. GAO also reviewed the results of all state-level reviews and conducted site visits at selected states that either received relatively large amounts of Medicaid payments or had varying rates of estimated improper payments, including states with possible best practices. GAO also met with cognizant CMS officials and contractors.

What GAO Recommends

GAO is making four recommendations to help improve CMS's reporting of estimated Medicaid improper payments and its related corrective action process. The Department of Health and Human Services concurred with GAO's recommendations and cited a number of actions under way and planned.

View [GAO-13-229](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

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Enhancements Needed for Improper Payments Reporting and Related Corrective Action Monitoring

What GAO Found

The Centers for Medicare & Medicaid Services' (CMS) methodology for estimating a national improper payment rate for the Medicaid program is statistically sound. However, CMS's procedures did not provide for updating state data used in its methodology to recognize significant corrections or adjustments after the cutoff date. The Office of Management and Budget (OMB) requires that federal agencies establish a statistically valid methodology for estimating the annual amount of improper payments in programs and activities susceptible to significant improper payments. CMS developed the Payment Error Rate Measurement (PERM) program in order to comply with improper payment estimation and reporting requirements for the Medicaid program. Under the PERM methodology, CMS places states in one of three cycles, and each year one of the cycles reports new state-level data based on the previous year's samples. CMS then calculates the national Medicaid program improper payment estimate using these new data for one-third of the states and older data for the other two-thirds of the states. CMS's estimated national improper payment error rate for fiscal year 2011 for the Medicaid program was 8.1 percent, or \$21.9 billion. However, CMS's procedures did not provide for considering revisions to state-level Medicaid program error rates used in the CMS methodology for calculating its national Medicaid program error rate. Because corrections to the 2 years of older data after the cutoff date are not officially recognized by CMS, the entire 3-year cycle could be affected. OMB has identified as a best practice that agencies should establish a policy for handling unscheduled corrections to data. Until CMS establishes procedures for considering changes to initially reported state-level error rates that would be significant to the national error rate, CMS is impaired in its ability to ensure that its reported estimate of the extent of national Medicaid improper payments is reliable.

CMS and state agencies developed corrective action plans (CAP) related to identified PERM payment errors. However, GAO identified the following areas where improvements were needed in CMS's written guidance to states on CAPs to ensure efficient and effective actions to reduce improper payments.

- CMS's PERM Manual did not clearly identify the circumstances under which states should consider, and if cost effective include, nonpayment errors (such as certain coding errors that could have but did not result in a payment error) and minimal dollar errors in their CAPs.
- The PERM Manual and the associated website did not provide complete and consistent information on the required elements to include in a state CAP.
- CMS guidance did not clearly delineate CMS officials' roles and responsibilities for conducting oversight of (1) state CAP submissions to ensure that they contained all of the required elements and adequately addressed errors identified in the PERM reviews and (2) states' progress in implementing CAP corrective actions.

Although the nonpayment errors identified in PERM reviews did not result in improper payments, the underlying issues may result in improper payments in future years if not addressed. Also, complete information in state CAPs is necessary for CMS to analyze the progress and effectiveness of the CAPs. Further, clear accountability for continuous monitoring helps ensure that actions are taken to effectively reduce Medicaid improper payments.