



Highlights of [GAO-08-54](#), a report to congressional requesters

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established a voluntary outpatient prescription drug benefit, which is administered by the Centers for Medicare and Medicaid Services (CMS). CMS relies extensively on contractors to help it carry out its basic mission. Congress appropriated to CMS \$1 billion for start-up administrative costs to implement provisions of MMA. Because CMS had discretion on how to use the appropriation, Congress asked GAO to determine (1) how CMS used the \$1 billion MMA appropriation, (2) whether CMS's contracting practices and related internal controls were adequate to avoid waste and to prevent or detect improper payments, and (3) whether payments to contractors were properly supported as a valid use of government funds. To address objectives two and three above, our review extended beyond contract amounts paid with MMA funds.

What GAO Recommends

GAO makes nine recommendations to improve internal control and accountability in the contracting process and related payments to contractors. In written comments on a draft of this report, CMS stated that it would take action on each of our recommendations and described some steps taken and others planned to address our recommendations. At the same time, CMS disagreed with some of our findings. We continue to believe that our findings fully support our nine recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-54](#). For more information, contact Jeanette Franzel at (202) 512-9471 or franzelj@gao.gov.

CENTERS FOR MEDICARE AND MEDICAID SERVICES

Internal Control Deficiencies Resulted in Millions of Dollars of Questionable Contract Payments

What GAO Found

CMS expended over 90 percent of the MMA appropriation by the end of December 2006. The majority, about \$735 million, was paid to contractors and vendors for a variety of services. For example, because the volume of calls to the 1-800-MEDICARE help line significantly increased with the new outpatient prescription drug benefit, two contractors were paid about \$234 million to support the help line. CMS also made payments to other federal agencies for services such as printing and mailing; to state agencies to fund educating the public; for CMS employee payroll and travel costs; and for purchase card transactions to acquire office supplies, equipment, and outreach materials.

CMS management has not allocated sufficient resources, both staff and funding, to keep pace with recent increases in contract awards and adequately perform contract and contractor oversight. This operating environment created vulnerabilities in the contracting process. Specifically, CMS did not adequately fulfill critical contractor oversight, such as working with contractors to establish indirect cost rates. Further, certain contracting practices, such as the frequent use of cost reimbursement contracts, increased risks to CMS. After contract award, pervasive internal control deficiencies increased the risk of improper payments. Because CMS did not have clear invoice review guidance, invoice review procedures were often flawed or did not take place. CMS also had not taken steps to ensure contracts were closed within required deadlines and had a backlog of approximately 1,300 contracts as of September 30, 2007.

GAO identified numerous questionable payments totaling nearly \$90 million. These payments were for costs not compliant with contract terms, which could be potentially improper; costs for which we could not obtain adequate support to determine whether the costs were allowable; and potential waste caused by risks in CMS's contracting practices. Importantly, in some cases, because we were not able to determine whether or to what extent the costs were allowable, some of the questioned amounts may relate to allowable costs that are not recoverable. The table below summarizes the questionable payments GAO identified.

Summary of Questionable Payments

Dollars in millions	
Type of questionable payment	Amount
Costs not compliant with contract terms and regulations	\$24.5
Unsupported contractor costs	62.7
Potential waste	6.6
Less overlapping amounts ^a	(5.0)
Total	\$88.8

Source: GAO analysis of contractor invoices and data.

^aIn certain instances, a portion of a questionable payment may fall into more than one category (i.e., a payment may be both potential waste and not compliant with contract terms). Therefore, to avoid double counting questionable payment amounts, we reduced the gross questionable payment amount by the overlapping amount (\$5.0 million).