Report in Brief
Date: December 2022
Report No. A-04-21-09003

Why OIG Did This Audit
The Centers for Medicare & Medicaid Services (CMS) is responsible for overseeing States’ design and operation of their Medicaid programs and ensuring that Federal funds are appropriately spent. CMS developed the Payment Error Rate Measurement (PERM) program to measure improper payments in Medicaid and the Children’s Health Insurance Program (CHIP). This is the third in a series of three OIG audits that assessed the adequacy of the PERM program by reviewing the accuracy of determinations for each of its three components.

The objective of this audit was to assess the adequacy of the PERM program by determining whether CMS’s contractor conducted Medicaid Managed Care (MMC) payment reviews that were in accordance with Federal requirements.

How OIG Did This Audit
Our audit covered 407 PERM MMC payments reviewed by CMS’s PERM contractor, totaling $476,065 ($291,356 Federal share), included in the MMC component of the Reporting Year (RY) 2019 PERM program for 3 States. We judgmentally selected these States based on the total amount of the MMC payments and the number of MMC payments reviewed by CMS’s review contractor. We reviewed a random sample of 100 PERM MMC payments for the 3 States.

The Centers for Medicare & Medicaid Services’ Review Contractor Did Not Document Medicaid Managed Care Payment Review Determinations Made Under the Payment Error Rate Measurement Program

What OIG Found
CMS’s review contractor conducted the majority of its MMC payment reviews in accordance with Federal requirements. Of the 100 sampled MMC payments we reviewed, 60 were correctly determined. However, we were not able to determine whether the remaining 40 payment review determinations were correct because the payment reviews were not documented and therefore may be incorrect. Based on the sample results, we estimated 40 percent of the sampled MMC payment determinations made by CMS’s review contractor may not have been correct. We also estimated the total amount related to these 40 claims to be $229,435 ($123,520 Federal share) during our audit period.

CMS’s review contractor did not maintain documentation of its payment review determinations because CMS did not include specific contract and statement of work language requiring its review contractor to maintain all documentation to support its MMC payment review determinations for non-errors.

We are not making recommendations because CMS took action to address the deficiencies we identified. Specifically, after our audit period, for RY 2020, 2021 and 2022 PERM cycles, CMS exercised an optional task for the contract with the review contractor, which added language requiring the review contractor to maintain relevant documentation for non-error (i.e., correct) payments. In its contract renewal occurring in March 2021, CMS replaced the optional task with a permanent requirement for the review contractor to maintain relevant documentation for non-error payments.

The final report will be available on the OIG website.