



Highlights of [GAO-10-637T](#), a testimony before the Ad Hoc Subcommittee on Contracting Oversight, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

In November 2007, GAO reported significant deficiencies in internal control over certain contracts the Centers for Medicare and Medicaid Services (CMS) awarded under the Federal Acquisition Regulation (FAR). This Subcommittee and others in Congress asked GAO to perform an in-depth review of CMS's contract management practices. This testimony is based on GAO's October 2009 report on these issues and summarizes GAO's findings on the extent to which CMS (1) implemented effective control procedures over contract actions, (2) established a strong contract management control environment, and (3) implemented GAO's 2007 recommendations.

GAO used a statistical random sample of 2008 CMS contract actions to assess CMS internal control procedures. The results were projected to the population of 2008 CMS contract actions. GAO reviewed contract file documentation and interviewed senior acquisition management officials.

### What GAO Recommends

GAO's October 2009 report included 10 recommendations to improve oversight and strengthen CMS's control environment and reaffirmed 7 recommendations from our November 2007 report. CMS concurred with the new recommendations, but generally disagreed with GAO's assessment of progress on the 2007 recommendations. GAO's analysis confirmed only limited progress at that time.

[View GAO-10-637T](#) or [key components](#). For more information, contact Kay L. Daly at (202) 512-9095 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

## CENTERS FOR MEDICARE AND MEDICAID SERVICES

### Pervasive Internal Control Weaknesses Hindered Effective Contract Management

#### What GAO Found

GAO reported in October 2009 that pervasive deficiencies in CMS contract management internal control increased the risk of improper payments or waste. Specifically, based on a statistical random sample of 2008 CMS contract actions, GAO estimated that at least 84.3 percent of fiscal year 2008 contract actions contained at least one instance where a key control was not adequately implemented. For example, CMS used cost reimbursement contracts without first ensuring that the contractor had an adequate accounting system, as required by the FAR. These deficiencies were due in part to a lack of agency-specific policies and procedures to help ensure proper contracting expenditures.

These control deficiencies stemmed from a weak overall control environment characterized primarily by inadequate strategic planning for staffing and funding resources. CMS also did not accurately capture data on the nature and extent of its contracting, hindering CMS's ability to manage its acquisition function by identifying areas of risk. Finally, CMS did not track, investigate, and resolve contract audit and evaluation findings for purposes of cost recovery and future award decisions. A positive control environment sets the tone for the overall quality of internal control and provides the foundation for effective contract management. Without a strong control environment, the specific control deficiencies GAO identified will likely persist.

As of the date of GAO's October 2009 report, CMS had not substantially addressed seven of the nine recommendations made by GAO in 2007 to improve internal control over contracting and payments to contractors.

**GAO's 2009 Assessment of CMS Actions to Address Prior Recommendations**

	GAO recommendation	GAO assessment
1	Develop policies for pre-award contract activities.	No action taken
2	Develop policies regarding cognizant federal agency responsibilities.	Actions insufficient
3	Develop policies that clarify roles and responsibilities during the invoice review process.	Completed
4	Develop guidelines regarding sufficient detail to support contractor invoices.	No action taken
5	Establish criteria for negative certification for payment of invoices.	No action taken
6	Provide training on the invoice review policies.	Actions insufficient
7	Develop a centralized tracking mechanism for employee training.	Completed
8	Develop a plan to reduce the backlog of contracts eligible for closeout.	Actions insufficient
9	Review the questionable payments identified in GAO's 2007 report.	Actions insufficient

Source: GAO. See [GAO-10-60](#) for further details.

To the extent that CMS has continuing weaknesses in contracting activities, it will continue to put billions of taxpayer dollars at risk of improper payments or waste.