TRUMP ADMINISTRATION EYES TIGHTER OVERSIGHT OF HOSPITAL COST REPORTS

The Medicare Payment Advisory Commission (MedPAC) The White House budget office is ramping up scrutiny of the Centers for Medicare and Medicaid Services (CMS) audits of hospital cost reports following a new Department of Health and Human Services (HHS) watchdog report that raised concerns about auditors' performance, revealing in an internal budget document that it plans to ask CMS how many hospitals are currently audited and what it would cost to expand those audits to ensure the agency correctly reimburses hospitals under Medicare prospective payment systems.

The recently leaked Office of Management and Budget (OMB) document refers to a March report from the HHS Office of Inspector General (OIG) that found Medicare Administrative Contractors (MACs) failed to adequately oversee hospitals' cost reporting. Those reports help determine Medicare payments to hospitals.

Hospital cost reports are detailed financial documents that hospitals must submit to CMS each year, outlining their expenses, patient volume, wages, and other key operational data. CMS uses these reports to calculate Medicare reimbursement rates, and they're often subject to audits.

But the Trump administration wants to know what percentage of these hospital cost reports are actually audited, according to the leaked OMB document. The April 10 document outlines a sweeping HHS downsizing proposal that would slash the agency's discretionary budget by 30%, or about $40 billion, in fiscal 2026.

The leaked draft HHS budget request, which would require congressional approval, requests $941 million for fiscal 2026 to fund the Health Care Fraud and Abuse Control (HCFAC) program, which supports a wide range of efforts to crack down on fraud, waste, and abuse in Medicare and Medicaid. That was the same amount authorized for fiscal 2025 -- and, once again, $190 million of it would be set aside specifically to strengthen the auditing power of MACs to help ensure more accurate reimbursements.

According to the March 2025 audit from the HHS OIG, MACs failed to meet CMS performance standards for cost report oversight across all 12 jurisdictions between fiscal years 2019 and 2021. The watchdog identified 287 audit failures, including incomplete reviews, miscalculations in education reimbursements, errors in cost center allocations, and bad debt assessments.

The OIG recommended that CMS give MACs clearer feedback on their audit performance, update its audit protocols to align with current guidance, and provide targeted training and best practices to strengthen oversight of hospital cost reports.

CMS agreed with all three recommendations and said it had already started making improvements, such as expanding sample sizes and launching individualized trainings for MACs.