

Publications

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Lights, Camera, Action: Is D.C. Setting the Stage for a Sequel to Medicaid Changes?

Key Takeaways:

- Federal regulators have intensified Medicaid oversight as H.R. 1 approaches its one-year anniversary, targeting expenditure reporting, Section 1115 waiver budget neutrality and state Medicaid fraud control operations.
- Congress is weighing another reconciliation package that could pair anti-fraud measures with additional Medicaid and health care changes. Proposals under review could significantly reduce federal spending and reshape eligibility, billing and state compliance obligations.
- Medicaid stakeholders should track agency actions and emerging legislative text through year-end. Measures with formal scores or committee consideration may advance as standalone bills or become part of larger spending packages.

As the One Big Beautiful Bill Act (H.R. 1) nears its one-year anniversary, federal regulators and lawmakers continue to shine an uninterrupted spotlight on Medicaid spending and program integrity. Actions by the Department of Health and Human Services (HHS) and Centers for Medicare & Medicaid Services (CMS), as well as ongoing deliberations by congressional Republicans, appear to be on dual tracks in the Trump administration's effort to root out waste, fraud and abuse in federal programs.

How are federal agencies maintaining their focus on Medicaid?

HHS and CMS have made several important announcements so far in June 2026:

- The HHS-OIG issued a report¹ concluding that CMS inconsistently applied its own policies to overseeing quarterly Medicaid state expenditure reporting. These irregularities in how disallowed and deferred payments had been tracked resulted in more than \$1.6 billion in unresolved disputes.
- CMS wrote to state Medicaid directors² advising that the agency will step up examination of Medicaid Section 1115 waivers to ensure that demonstrations and pilot programs conform with budget neutrality requirements enacted by H.R. 1. The letter previews CMS's anticipated policies ahead of rulemaking and H.R. 1's Jan. 1, 2027 implementation date for this provision. These policies include the requirement

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that CMS's Chief Actuary independently certify a demonstration's budget neutrality and that states demonstrate budget neutrality through better beneficiary health outcomes.

- CMS decertified Hawaii's Medicaid Fraud Control Unit (MFCU). This move followed the HHS Office of Inspector General's May correspondence to each state attorney general forecasting a thorough examination of each state's MFCU and warning of potential corrective action for entities that "have been happy to rake in taxpayer dollars without fighting fraud."³ The decision suspended \$3 million in federal funding to Hawaii for its MFCU operations.

What is Congress saying about the prospect of more Medicaid legislation?

House Republican leadership is maintaining a push for a third budget reconciliation bill that could include federal anti-fraud measures and additional healthcare measures. The chairman of the House Budget Committee backed a subsequent reconciliation bill — which requires only a 51-vote threshold for Senate passage — by stating, "I don't know of anything that will motivate and energize voters more right now than the affordability paid for by the war on fraud."⁴ The conservative House Republican Study Committee has gathered with official congressional tax and budget scorekeepers to review potential deficit reduction items and is relying on its blueprint from earlier this year as a policy menu. Medicaid proposals include:⁵

- Imposing site-neutral payment requirements on hospital billing in the Medicaid program. *Score: \$172 billion reduction in spending*
- Expanding language included in the Working Families Tax Cuts Act to make all noncitizen foreign nationals ineligible for Medicaid, the Supplemental Nutrition Assistance Program (SNAP), housing assistance and other forms of government benefits. *Score: \$231 billion reduction in spending*
- Implementing a 20% FMAP penalty for states that refuse to prohibit illegal aliens from participating in state Medicaid programs. *No score provided*
- Prohibiting federal funding for illegal aliens temporarily enrolled in Medicaid prior to their formal immigration verification or enrolled via hospital presumptive eligibility. *Score: \$14.1 billion reduction in spending*

How realistic is it that we'll see another massive bill this year, and how should my organization be viewing these developments?

Despite the challenges presented by the congressional calendar and even the reticence of some Senate Republicans to tackle a third comprehensive bill, stakeholders would be well-served to pay close attention to these discussions. A unified government with same-party control of the White House and Congress still holds the cards through year-end. Further, the prospect of a potential shift in the balance of power post-election may lend added urgency to complete one final lawmaking sprint.

Several anti-fraud bills beyond the list provided above are active and the administration's complementary focus on federal program oversight could provide additional justification for this legislative pursuit. Additionally, any work that yields actual legislative text or an official score by the Congressional Budget Office or Joint Committee on Taxation represents a serious exercise. Developed and vetted bills could go through the committee process and earn a floor vote either as standalone measures or part of other packages — like the "omnibus" annual spending bills that Congress has resorted to passing en bloc for the last several years.

The Polsinelli Public Policy Group helps clients navigate the political, legislative, and

regulatory landscape impacting Medicaid and other federal programs, issue spot and identify policy areas of interest, and execute tailored policy campaigns as another avenue for achieving your organization's goals. Should you have questions regarding the information discussed, please reach out to Sylvia Kornegay, Mark Weller, Michael Gaba, Julius Hobson, Jr., Steve Stranne or your preferred Polsinelli attorney.

[1] <https://oig.hhs.gov/documents/audit/11685/A-06-23-09006.pdf>

[2] <https://www.medicaid.gov/federal-policy-guidance/downloads/smd26003.pdf>

[3] <https://ccf.georgetown.edu/wp-content/uploads/2026/05/HHS-OIG-letter-to-Attorney-General-of-California-re-MFCU-Oversight-1.pdf>

[4] <https://punchbowl.news/article/house/arrington-fod-recap/>

[5] <https://rsc-pfluger.house.gov/media/press-releases/icymi-rsc-rolls-out-reconciliation-20-framework-restore-american-dream>