DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20201

July 24, 2026

Attorney General Rob Bonta
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California Department of Justice
1300 I Street
Sacramento, CA 95814

Director Jennifer Euler
Medi-Cal Fraud and Elder Abuse Division
Office of the Attorney General
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Dear Attorney General Bonta and Director Euler:

American taxpayers provide nearly half a billion dollars every year to State governments to fund State Medicaid Fraud Control Units (MFCUs or Units), which are obligated by Federal law to use that money to effectively fight Medicaid fraud and protect patients from abuse and neglect. California receives approximately $74.4 million per year from American taxpayers for these purposes. Given this substantial investment in the California MFCU, American taxpayers and the Federal Government expect the Unit and the California Attorney General to use the millions of Federal dollars to effectively fight Medicaid fraud and protect Medicaid patients from abuse and neglect.

The Department of Health and Human Services, Office of Inspector General (OIG) is conditionally recertifying the California MFCU, subject to a special condition. This action reflects OIG's recognition of the Unit's potential and its obligation to ensure that every MFCU operates effectively, uses Federal funds appropriately, and consistently delivers results that protect the integrity of the Medicaid program. Although the California MFCU has taken steps to address challenges that may impede its effectiveness, the Unit must take additional action to improve its performance across key operational and investigative areas. Additional improvement is necessary to ensure compliance with Federal requirements and to ensure that the Unit operates at the standard taxpayers expect. Certain weaknesses persist, particularly in areas essential to the Unit's statutory responsibilities, such as how the Unit's case progression is affecting the Unit's case outcomes.

OIG conducted an onsite inspection of the California MFCU in October 2023 (*California Medicaid Fraud Control Unit: 2023 Inspection*, OEI-06-23-00450, May 2025) (hereafter referred to as the "2023 onsite inspection report"). OIG's inspection covered the 3-year period of fiscal years (FYs) 2021–2023. In that review, OIG identified certain weaknesses involving staffing challenges, inconsistent policies and procedures, lack of referrals from the State's program integrity unit (PIU) and managed care organizations (MCOs), and

fiscal control issues, among other concerns. OIG made seven recommendations to address these concerns, all of which have been implemented.

OIG takes seriously its responsibility to ensure that Units receiving these Federal funds are fulfilling the MFCU mission effectively. As part of that responsibility, OIG evaluates each Unit's performance, operational capacity, investigative outcomes, and overall adherence to statutory and regulatory requirements. This oversight is essential to maintaining public trust and ensuring that every MFCU contributes meaningfully to the broader fight against fraud, waste, and abuse within the Medicaid program.

OIG is conditionally recertifying the California MFCU beginning on July 28, 2026, subject to a special condition. This letter serves as written notice and explanation of OIG's determination to conditionally recertify the Unit with a special condition (42 CFR § 1007.17(d)(1)).

Statutory and Regulatory Background

The Social Security Act (SSA) requires each State to demonstrate that it operates a MFCU that effectively carries out its statutory functions and responsibilities (SSA §§ 1902(a)(61) and 1903(q)). OIG, through delegations from the Secretary of Health and Human Services, is responsible for annually recertifying and funding each Unit (SSA §§ 1903(a)(6), (b)(3), and (q); 44 Fed. Reg. 47809, 47811 (Aug. 15, 1979)). To continue receiving Federal funding, a Unit must be certified. Under SSA §§ 1903(a)(6) and (q) and 42 CFR § 1007.19(d)(1), Federal funding is allowable only if a Unit has been certified and recertified annually by OIG.

OIG may approve or deny a Unit's annual recertification application and must provide written explanation for denials (42 CFR § 1007.17(d)(2)). When making recertification determinations, OIG evaluates whether the Unit has demonstrated that it effectively carries out the functions and requirements described in SSA § 1903(q), as implemented by 42 CFR part 1007. In making these determinations, OIG reviews the information described in 42 CFR §§ 1007.17(a) and (b) and considers the factors in 42 CFR § 1007.17(c).

OIG may impose special conditions or restrictions and may require corrective action, as provided in 2 CFR § 200.208, before approving a reapplication for recertification (42 CFR § 1007.17(d)(1)).

Basis for Conditionally Recertifying With a Special Condition

OIG conditionally recertifies the Unit subject to a special condition. OIG evaluated whether the Unit demonstrated that it effectively carries out its statutory functions and responsibilities as required by SSA §§ 1902(a)(61) and 1903(q) and implemented in 42 CFR part 1007. OIG considered the following factors and information and determined that the Unit is not effectively carrying out its statutory functions and requirements.

Findings Under Each of the Five Certification Factors in 1007.17(c)(1)-(5)

1. Compliance With Regulations (42 CFR § 1007.17(c)(1)): The California MFCU generally complied with applicable laws and regulations.

2. Compliance With Policy Transmittals (42 CFR § 1007.17(c)(2)): The California MFCU generally complied with OIG policy transmittals.

3. Adherence to Performance Standards (42 CFR § 1007.17(c)(3)): OIG has determined that the California MFCU is not always adhering to the MFCU Performance Standards as published in the *Federal Register* (89 Fed. Reg. 76431, September 2024). OIG assesses a Unit's adherence to all performance standards when assessing recertification of MFCUs. To explain the results of that assessment, OIG provides the following information as examples of the Unit's adherence under four of those performance standards.

- Performance Standard 2: Staffing

The Unit is staffed adequately. The California MFCU employs a total number of professional staff commensurate with the State's total Medicaid program expenditures. Based on California's Medicaid expenditures of more than $173.4 billion in FY 2025, OIG analysis predicts the Unit should have a staff of 200. At the end of FY 2025, the Unit employed 290 staff. The Unit has 351 approved positions.

The 2023 onsite inspection report found that the Unit experienced challenges maintaining adequate staffing levels for its investigators and auditors and had begun efforts to address its recruitment and retention issues. For example, the Unit reclassified all of its criminal investigative auditor positions to special investigator positions. This reclassification was effective October 1, 2025. Since that time, the Unit has been able to hire five special investigators with an additional four in background investigation. In December 2025, the MFCU reported hiring the following 37 new staff: 19 special agents, 17 investigators, and 1 investigative auditor. However, in its FY 2025 recertification information, the Unit reported that it continues to face challenges in hiring and retention and maintained a vacancy rate of approximately 20 percent during the recertification time period.

- Performance Standard 4: Referrals

The Unit has a good quantity of referrals. The 2023 onsite inspection report found that despite the Unit's efforts to increase fraud referrals from the State Medicaid agency's PIU and MCOs, it received few fraud referrals from such sources during the review period. Since the 2023 onsite inspection report, the California MFCU took steps to increase the number of its referrals. To increase the number of fraud referrals, the MFCU made a program recommendation to the PIU for it to require MCOs to send their referrals to both the MFCU and Medicaid PIU simultaneously. This resulted in a 95 percent increase in referrals. Between July 1, 2025, and December 31, 2025, the MFCU reported receiving 31 MCO referrals. In the following 6-month period, between January 1, 2026, and June 26, 2026, the MFCU reported receiving 587 MCO referrals.

- Performance Standard 5: Case Progression

The Unit is not effectively managing its case progression. The 2023 onsite inspection report noted that inadequate access to quality Medicaid data sometimes disrupted investigations and

impeded the Unit's data mining activities. Although the Unit now has direct access (or can extract Medicaid claims data without the PIU's assistance) to the State's Medicaid management information system, the Unit still must request claims data from the PIU for dental and prescription drug claims data. The Unit reported that it is working with the PIU and the State Medicaid agency to resolve this challenge. Although the Unit reports that supervisors review cases every 60 days, at the end of FY 2025, approximately 21 percent (153 of 741) of the Unit's open criminal and non-global cases have been open for more than 3 years. The Unit should take additional steps to improve its case progression, which could help the Unit more effectively investigate and prosecute fraud and patient abuse and neglect.

- Performance Standard 8: Cooperation

The California MFCU has a productive working relationship with OIG's Office of Investigations (OI) and other Federal partners. OI reported that the California MFCU coordinates and cooperates well with OI agents, and the two agencies investigated 37 cases together during the MFCU's review period. Further, the MFCU reported approximately 343 joint civil cases with U.S. Attorney's Offices. Finally, the MFCU improved upon its timeliness to submit its convictions to OIG within 30 days of sentencing or as soon as practicable if the MFCU encounters delays in receiving the necessary information from the court. During the review period, the MFCU submitted 51 of its 60 convictions within 30 days of sentencing, and the MFCU reported that court delays caused 7 of the 9 late submissions.

4. Effectiveness Investigating and Prosecuting Fraud (42 CFR § 1007.17(c)(4)): The California MFCU is not always using its resources effectively to investigate cases of possible fraud in the administration of the Medicaid program, the provision of medical assistance, or the activities of providers of medical assistance under the State Medicaid plan, or to prosecute cases or cooperate with the prosecuting authorities. Among the factors that OIG has considered in assessing the Unit's effectiveness in investigating and prosecuting fraud are the Unit's case outcomes as reported in the annual statistical report and how the Unit compares with similar-sized peers.

The California MFCU's number of fraud convictions decreased from FY 2024 to FY 2025, from 40 to 33 convictions. For the last 3 years, the California MFCU reported 129 fraud convictions and ranked fourth out of 5 similar-sized Units. As observed in Table 1 on the next page, the MFCU's number of fraud convictions shows a downward trend since FY 2021.

Table 1: Total Fraud Convictions for the California MFCU Compared to Similar-Sized Units (FYs 2021–2025)

Fiscal Year	California MFCU	New York MFCU	Florida MFCU	Texas MFCU	Ohio MFCU	California Rank
2021	53	9	25	48	115	2nd
2022	42	13	43	59	117	4th
2023	56	7	37	55	126	2nd
2024	40	21	48	70	80	4th
2025	33	25	68	75	64	4th
Total from 2023 to 2025	**129**	**53**	**153**	**200**	**270**	**4th**

In contrast, the Unit has been effective at obtaining large criminal and civil recoveries. Whereas it ranked fourth out of five similar-sized Units in FY 2025, it ranked first among its MFCU peers across the 5-year period from FY 2021 to FY 2025 (see Table 2).

Table 2: Total Recoveries From the California MFCU's Criminal and Civil Cases Compared to Similar-Sized Units (FYs 2021–2025)

Fiscal Year	California MFCU	Texas MFCU	New York MFCU	Florida MFCU	Ohio MFCU	California Rank
2021	$72,973,624	$394,766,169	$77,032,036	$13,071,540	$39,905,702	3rd
2022	$108,517,301	$219,876,848	$59,027,604	$88,334,627	$9,342,653	2nd
2023	$362,823,882	$283,141,069	$73,204,518	$18,323,053	$22,607,685	1st
2024	$583,830,457	$111,800,769	$61,950,472	$76,220,595	$17,106,841	1st
2025	$102,126,213	$151,926,474	$110,479,749	$107,607,792	$25,781,578	4th
Total	**$1.23 billion**	**$1.16 billion**	**$381.69 million**	**$303.56 million**	**$114.74 million**	**1st**
2025 State Medicaid Expenditures (most recent available)	$173 billion	$55 billion	$103 billion	$39 billion	$39 billion	

While OIG recognizes the positive impact of those larger criminal cases and its civil results, this evidence does not outweigh the downward trend of the Unit's fraud convictions. The Unit's recent performance history when compared to the size of the California Medicaid program and with the outcomes of similar-sized units demands more progress.

5. Effectiveness Investigating and Prosecuting Patient Abuse and Neglect (42 CFR § 1007.17(c)(5)): The California MFCU is not always using its resources effectively to review and

investigate, refer for investigation or prosecution, or criminally prosecute complaints alleging abuse or neglect of patients or residents in health care facilities receiving payments under the State Medicaid plan and, at the Unit's option, in board and care facilities. Among the factors that OIG has considered in assessing the Unit's effectiveness in investigating and prosecuting patient abuse and neglect are the Unit's case outcomes as reported in the annual statistical report and how the Unit compares with similar-sized MFCUs.

The California MFCU's convictions related to patient abuse and neglect increased from FY 2024 to FY 2025, from 8 to 10 convictions. For the last 3 years, the California MFCU reported 29 convictions related to patient abuse and neglect, and it ranked third out of 5 similar-sized Units. In FY 2025, the California MFCU reported 266 investigations and 27 indictments related to patient abuse and neglect.

Table 3: Patient Abuse and Neglect Convictions for the California MFCU Compared to Similar-Sized Units (FYs 2021–2025)

Fiscal Year	California MFCU	New York MFCU	Texas MFCU	Florida MFCU	Ohio MFCU	California Rank
2021	35	3	5	10	41	2nd
2022	24	5	12	23	43	2nd
2023	11	1	5	9	57	2nd
2024	8	2	8	10	49	3rd
2025	10	1	5	14	44	3rd
Total from 2023 to 2025	**29**	**4**	**18**	**33**	**150**	3rd

In FY 2025, the Unit received more than 6,600 patient abuse and neglect referrals, employed 290 staff, and oversaw a Medicaid program that covers more than 14 million individuals. Yet, the Unit has secured only 8 to 11 convictions in the last 3 years. The Unit's recent performance history when compared to the size of the California Medicaid program and with the outcomes of similar-sized units demands more progress.

Effect of Conditional Recertification With a Special Condition

OIG is granting conditional recertification subject to a special condition. To remove this special condition and be recertified, the Unit must take the corrective actions detailed in the Enclosure.

Upon successful completion of the corrective actions, OIG will remove the special condition. If the California MFCU fails to take the required action, OIG may pursue additional certification actions or financial remedies, as necessary (see 42 CFR § 1007.17 and 2 CFR § 200.339).

If you have any questions regarding your Unit's conditional recertification, please call me at (202) 619-3148.

Sincerely,

T. March Bell
Inspector General

Enclosure

Enclosure: Special Condition for Corrective Action

OIG imposes the following special condition on the California MFCU Federal grant. The California MFCU must take corrective actions to come into compliance with the MFCU performance standards (42 CFR § 1007.17(c)(3)). The California MFCU must also demonstrate effectiveness in using its resources to investigate and prosecute criminal Medicaid fraud cases and Medicaid patient abuse or neglect cases (42 CFR § 1007.17(c)(4)-(5)). Upon OIG's determination that the Unit has taken the actions necessary to comply with its regulatory requirements and made sufficient progress for the corrective actions listed below, OIG will remove the special condition and recertify the Unit. Outlined below is an initial list of corrective actions. It should not be interpreted as an all-inclusive list. OIG will continue to work with the California

1. Case Progression:

The Unit must take steps to address the case progression deficiencies described in this letter. Specifically, within 30 days of the date of this letter, the Unit must provide to OIG a case progression plan that details how the Unit will ensure adequate case progression. The plan must include the following actions:

- The Unit must track the amount of time professional employees spend on each case to help enable supervisors to adequately monitor case progression.
- Professional employees must document actions taken on each case at least quarterly.
- Supervisors must document reviews of each stage of the investigation, prosecution, and closure of cases at intervals consistent with the Unit's policies and procedures (but at minimum every 90 days).
- The Unit Director must conduct periodic reviews of the Unit's entire case inventory to assess the Unit's overall case progression.
- The Unit Director must review any case open for more than 3 years and must document a justification for the prolonged duration.
- The Unit must ensure that it conducts both investigative and prosecutorial steps within a timeframe that does not compromise a case, including the collection of evidence and meeting criminal and civil procedure deadlines and any applicable statute of limitations.
- For those cases lacking Unit jurisdiction or viable evidence to successfully prosecute the matter, the Unit must promptly close the case and document the reason for closure.
- Absent documented extenuating circumstances, the Unit must ensure that Unit investigators' caseloads average approximately 10 open cases.
- The Unit must establish a written strategy to increase indictments.

In addition, within 90 days of the date of this letter, the Unit must provide to OIG a progress report that details the steps the Unit has taken in accordance with its case progression plan and a brief description of any new indictments, convictions, settlements, or judgments since the date of this letter. OIG may provide feedback to the Unit on the case progression plan and progress report, as necessary. To obtain recertification, the Unit must do more than merely submit a plan

for improvement and a progress report; it must also demonstrate significant progress toward addressing the case progression deficiencies described in this letter.