

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CALIFORNIA WITHDREW  
EXCESSIVE FEDERAL MEDICAID  
FUNDS FOR FISCAL YEAR 2010**

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# *Office of Inspector General*

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## EXECUTIVE SUMMARY

*For Federal fiscal year 2010, California obtained \$20.3 million in Federal Medicaid funds that were not supported by net expenditures.*

### WHY WE DID THIS REVIEW

To fund their Medicaid programs, States receive Federal grants to cover the Federal share of their Medicaid expenditures and are authorized to obtain Federal funds as needed to pay for these expenditures. An external audit of the Federal fiscal year (FY) 2011 financial statements for the Centers for Medicare & Medicaid Services (CMS) reported that State Medicaid programs owed approximately \$1.3 billion to the Federal Government. We reviewed California because it was identified as one of the States that owed the Federal Government. This review is part of a series of Office of Inspector General reviews related to States' withdrawal of Federal Medicaid funds.

Our objective was to determine whether Federal Medicaid funds that the California Department of Health Care Services (State agency) obtained for FY 2010 were supported by net expenditures.

### BACKGROUND

Before each quarter, States estimate their Medicaid medical and administrative expenditures. CMS uses the estimates to determine the initial grant awards, which are the Federal fund amounts that will be available to States during the quarter. If a State underestimates the amount of funds it will need during a quarter, it may request additional funds.

The Payment Management System (PMS), a Federal system, is used to account for Medicaid financial activity. CMS establishes PMS accounts for different types of expenditures, such as medical assistance and administration. Throughout a quarter, States withdraw Federal funds from their PMS accounts to cover the Federal share of their Medicaid expenditures. After the end of each quarter, States report these expenditures and the associated Federal share on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). CMS reviews the expenditures reported on the quarterly CMS-64s for allowability and may approve them, defer them for further analysis, or disallow them.

The State agency reconciled the three largest of its six PMS accounts by comparing and identifying any differences in the (1) Federal share of expenditures reported on the CMS-64s, (2) Federal funds awarded according to PMS data, and (3) Federal funds obtained according to PMS data. To reconcile the differences, the State agency determined whether funds should be withdrawn from or refunded to specific PMS accounts or should be transferred between PMS accounts. After completing its reconciliations, the State agency processed transactions to resolve some of the differences for one of its FY 2010 accounts by transferring funds between PMS accounts.

## WHAT WE FOUND

Of the \$27.6 billion in Federal Medicaid funds that the State agency obtained for FY 2010, \$20.3 million was not supported by net expenditures. Specifically, the State agency (1) refunded less to its FY 2010 PMS accounts for certain adjustments to reduce its expenditures than it reported for those adjustments on the CMS-64s and (2) obtained funds for expenditures that it did not report on the CMS-64s. After reconciling the FY 2010 PMS accounts, the State agency did not take appropriate corrective actions for the \$20.3 million because it did not have specific policies and procedures to resolve the differences identified or because it chose not to take action.

Additionally, the State agency reported on its CMS-64s for FY 2010 \$88.5 million of expenditures and \$80 million of adjustments reducing expenditures that need further analysis by CMS and the State agency:

- The State agency did not withdraw \$88.5 million of Federal Medicaid funds from its FY 2010 PMS accounts for expenditures it reported. Instead, the State agency withdrew some funds from its PMS accounts for future FYs and reported adjustments on CMS-64s for future years. However, the documentation supporting the withdrawals and adjustments was unreliable and conflicting.
- The State agency did not reduce by \$80 million the Federal Medicaid funds that it obtained from its FY 2010 PMS accounts for adjustments it reported. State agency officials informed us that the adjustments were incorrectly reported on the CMS-64s for FY 2010, and an offsetting adjustment was reported on a CMS-64 for FY 2012. However, the FY 2012 adjustment did not offset the FY 2010 reporting error, and CMS deferred the FY 2012 adjustment because of concerns about when the adjustment was reported and how the amount was calculated.

Because these amounts need further analysis before their impact on the FY 2010 PMS accounts can be determined, we set aside these amounts for resolution by CMS and the State agency.

Finally, the State agency did not obtain Federal funds from the appropriate PMS accounts. Generally, the State agency withdrew funds from the PMS account for the current FY rather than the PMS account for the FY in which the expenditures were reported on the CMS-64s, causing the annual account balances to be incorrect. Although the account balances were incorrect, the amounts obtained do not represent funds that should be refunded to the Federal Government because they were supported with expenditures reported on the CMS-64s. The State agency did not obtain funds from the appropriate PMS accounts because it had not updated its procedures to withdraw funds from the annual PMS accounts.

## **WHAT WE RECOMMEND**

We recommend that the State agency:

- refund to the Federal Government \$20,340,232 that was not supported by net expenditures,
- work with CMS to resolve the \$88,465,923 of expenditures and \$80,004,306 of adjustments reported on the CMS-64s for FY 2010 and determine whether adjustments should be made to the expenditures reported or the funds obtained from the FY 2010 PMS accounts,
- ensure that it obtains funds only for net expenditures reported on the CMS-64s,
- implement policies and procedures to resolve differences between the amounts awarded and obtained and the expenditures reported on the CMS-64s when reconciling its PMS accounts,
- ensure that it can support the amounts it withdraws from its PMS accounts and reports as adjustments on the CMS-64s,
- ensure that it reports the appropriate amounts on the CMS-64s,
- strengthen procedures to obtain funds from the appropriate PMS accounts, and
- review the amounts it obtained from PMS accounts for FY 2011 and later FYs to determine whether they were supported by net expenditures and refund any amounts that were not adequately supported.

## **STATE AGENCY COMMENTS AND OUR RESPONSE**

In written comments on our draft report, the State agency agreed with our first through fourth and sixth through eighth recommendations and provided information on actions that it had taken or planned to take to address those recommendations. The State agency did not address our fifth recommendation.

Regarding our first recommendation, the State agency indicated that it had refunded the FY 2010 PMS accounts in subsequent periods in accordance with a CMS-approved methodology. However, the State agency did not refund to the Federal Government the \$20,340,232 that exceeded net Medicaid expenditures for FY 2010. Instead, it transferred to those accounts \$21,575,873 from PMS accounts for other FYs (i.e., FYs 2009, 2011, and 2012). The State agency did not provide evidence that CMS had approved these transfers in lieu of a refund.

Regarding our third, fourth, sixth, and seventh recommendations, the State agency indicated that policies, procedures, and reconciliations had been implemented in March 2012. We reviewed all of those during our audit and determined that they were not adequate to prevent the issues

identified in our report. The State agency did not provide us additional or updated information with its comments on our report.

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

To fund their Medicaid programs, States receive Federal grants to cover the Federal share of their Medicaid medical and administrative expenditures and are authorized to obtain Federal funds as needed to pay for these expenditures. Before Federal fiscal year (FY) 2010, States had grant award accounts that combined the Medicaid funds from every year. Consequently, yearly balances were not distinguished. Beginning in FY 2010, the Centers for Medicare & Medicaid Services (CMS) implemented annualized accounts for grant awards that had beginning and ending balances to help improve the transparency of Medicaid funding. An external audit of CMS's FY 2011 financial statements reported that State Medicaid programs owed approximately \$1.3 billion to the Federal Government.<sup>1</sup> We reviewed California because it was identified as one of the States that owed the Federal Government. This review is part of a series of Office of Inspector General (OIG) reviews related to States' withdrawals of Federal Medicaid funds. (Appendix A lists related OIG reports.)

### OBJECTIVE

Our objective was to determine whether Federal Medicaid funds that the California Department of Health Care Services (State agency) obtained for FY 2010 were supported by net expenditures.

### BACKGROUND

#### Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. In California, the State agency administers the Medicaid program. Although the State agency has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

#### Medicaid Funding Process

Before each quarter, States estimate their Medicaid expenditures and report the estimates to CMS on Form CMS-37, Medicaid Program Budget Report (CMS-37). CMS uses the estimates to determine the initial grant awards, which are the Federal fund amounts that will be available to States during the quarter. If a State underestimates the amount of funds it will need during a quarter, it may request additional funds by submitting a revised CMS-37.

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<sup>1</sup> *CMS Financial Report Fiscal Year 2011*, "Financial Section, Audit Reports," page 121.

CMS provides each of the grant award amounts to the Division of Payment Management (DPM), a division within the Department of Health and Human Services, which operates as CMS's fiscal intermediary. DPM uses the Payment Management System (PMS), a Federal system, to account for Medicaid financial activity, such as recording grant award amounts and processing the States' withdrawal of Federal funds.

Beginning with FY 2010, to help improve the transparency of Medicaid funding, CMS required that PMS accounts be established and closed annually. Before FY 2010, the PMS accounts for Medicaid accumulated all of a State's Medicaid financial activity, regardless of the period for which the activity applied. With annual PMS accounts, CMS can better monitor the States' financial activity. CMS establishes PMS accounts for different types of expenditures, such as medical assistance and administration.

Throughout a quarter, States obtain Federal funds from their PMS accounts to reimburse the Federal share of their Medicaid expenditures. Within 30 days after the end of each quarter, States report to CMS their Medicaid expenditures and the associated Federal share on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). The amounts that States report must represent actual recorded expenditures and be net of adjustments decreasing expenditures.

CMS reviews the expenditures reported on the quarterly CMS-64s for allowability and may approve them, defer them for further analysis, or disallow them. For expenditures that CMS defers or disallows, CMS issues grant awards to reduce States' available funding by the amount deferred or disallowed. For deferred amounts, CMS requests that States provide additional supporting information to establish the allowability of the expenditures.

After completing its review of each quarterly CMS-64, CMS calculates finalized grant award amounts for each State by comparing the State's available funding for the quarter with the expenditures it reported on the CMS-64. If a State's available funding is less than its expenditures, CMS increases the State's available funding by the difference. Conversely, if a State's available funding exceeds its expenditures, CMS decreases the State's available funding.

When a PMS account has a negative balance, a State may have obtained more Federal funds than it needed to cover the Federal share of its Medicaid expenditures. Conversely, if a PMS account has a positive balance, the State may not have obtained all the Federal funds needed to cover the Federal share of its Medicaid expenditures.

### **The State Agency's Yearly Reconciliations**

For FY 2010, the State agency reconciled the three largest of its six PMS accounts by comparing and identifying any differences in the (1) Federal share of expenditures reported on the CMS-64s, (2) Federal funds awarded according to PMS data, and (3) Federal funds obtained according to PMS data.<sup>2</sup> To reconcile the differences, the State agency determined whether

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<sup>2</sup> State agency officials informed us that the State agency did not reconcile the other three accounts because it devoted its resources to reconciling the larger accounts with negative balances.

funds should be withdrawn or refunded to specific PMS accounts or should be transferred between PMS accounts. After completing its reconciliations, the State agency processed transactions to resolve some of the differences for one of its FY 2010 accounts by transferring funds between PMS accounts.

## **HOW WE CONDUCTED THIS REVIEW**

For FY 2010 (October 1, 2009, through September 30, 2010), we compared the expenditures that the State agency reported on the CMS-64s (\$27,601,576,491), the Federal funds that CMS awarded to the State agency to cover the Federal share of its Medicaid expenditures (\$27,599,469,854), and the Federal funds that the State agency obtained from its six PMS accounts (\$27,566,004,766).<sup>3</sup>

We reviewed documentation supporting the Federal Medicaid funds that the State agency obtained, the State agency's reconciliations, and the transactions that the State agency processed to reduce the balances in its PMS accounts. Additionally, we reviewed transactions that had an impact on the State agency's FY 2010 PMS accounts but occurred before and after FY 2010. However, we did not review the allowability of the expenditures that the State agency reported on the CMS-64s except to determine whether CMS allowed, deferred, or disallowed the expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains the details of our audit scope and methodology.

## **FINDINGS**

Of the \$27,566,004,766 in Federal Medicaid funds that the State agency obtained for FY 2010, \$20,340,232 was not supported by net expenditures. Specifically, the State agency (1) refunded less to its FY 2010 PMS accounts for certain adjustments to reduce its expenditures than it reported for those adjustments on the CMS-64s and (2) obtained funds for expenditures that it did not report on the CMS-64s. After reconciling the FY 2010 PMS accounts, the State agency did not take appropriate corrective actions for the \$20,340,232 because it did not have specific policies and procedures to resolve the differences identified or because it chose not to take action.

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<sup>3</sup> We excluded from our review expenditures totaling \$88,338,939 that the State agency reported on the CMS-64s for FY 2010, CMS deferred, and for which the deferrals had not been resolved by February 2014. We also excluded from our review funds totaling \$273,629 that the State agency withdrew from its FY 2010 PMS accounts for those deferred expenditures.

Additionally, the State agency reported on its CMS-64s for FY 2010 \$88,465,923 of expenditures and \$80,004,306 of adjustments reducing expenditures that need further analysis before their impact on the FY 2010 PMS accounts can be determined. As a result, we set aside these amounts for resolution by CMS and the State agency.

Finally, the State agency did not obtain Federal funds from the appropriate PMS accounts. Generally, the State agency withdrew funds from the PMS account for the current FY rather than the PMS account for the FY in which the expenditures were reported on the CMS-64s, causing the annual account balances to be incorrect. Although the account balances were incorrect, the amounts obtained do not represent funds that should be refunded to the Federal Government because they were supported with expenditures reported on the CMS-64s. The State agency did not obtain funds from the appropriate PMS accounts because it had not updated its procedures to withdraw funds from the annual PMS accounts.

## **FEDERAL REQUIREMENTS**

Federal financial participation (i.e., the Federal share) is available only for the total amount expended as medical assistance and for the proper and efficient administration of a CMS-approved State plan (Social Security Act §§ 1903(a)(1) and (a)(7)). Additionally, States are authorized to withdraw Federal funds as needed to pay the Federal share of Medicaid disbursements (42 CFR § 430.30(d)(3)).

## **THE STATE AGENCY OBTAINED FEDERAL FUNDS THAT WERE NOT SUPPORTED BY NET EXPENDITURES**

Of the \$27,566,004,766 in Federal Medicaid funds that the State agency obtained for FY 2010, \$20,340,232 was not supported by net expenditures. After reconciling these accounts, the State agency did not take appropriate corrective actions for the \$20,340,232.

### **The State Agency Improperly Obtained Federal Medicaid Funds From Its Fiscal Year 2010 Payment Management System Accounts**

The State agency improperly obtained Federal Medicaid funds of \$20,340,232 from its FY 2010 PMS accounts that were not needed to cover the Federal share of Medicaid expenditures it reported on the CMS-64s for FY 2010. During its reconciliations of the FY 2010 accounts, the State agency identified that it (1) had refunded less to its FY 2010 PMS accounts for certain adjustments to reduce its expenditures than it had reported on the CMS-64s and (2) obtained funds from its FY 2010 PMS accounts for expenditures that it did not report on the CMS-64s. State agency officials acknowledged that they had made errors when obtaining Federal funds and could not provide evidence that the amounts obtained were needed to cover the Federal share of reported expenditures. State agency officials could not explain why these errors were made.

### **The State Agency Did Not Take Appropriate Corrective Actions After Reconciling Its Payment Management System Accounts**

Although the State agency reconciled its three largest PMS accounts for FY 2010, it did not take appropriate corrective actions to resolve the differences between the amounts awarded and

obtained and the expenditures it reported on the CMS-64s. The State agency did not have policies and procedures to reconcile its PMS accounts. As a result, rather than refunding to the FY 2010 PMS accounts the \$20,340,232 that exceeded net Medicaid expenditures for FY 2010, the State agency transferred to those accounts \$21,575,873 from PMS accounts for other FYs (i.e., FYs 2009, 2011, and 2012). The State agency chose not to take corrective actions for the remaining \$1,235,641.

## **THE STATE AGENCY REPORTED EXPENDITURES AND ADJUSTMENTS THAT NEED FURTHER ANALYSIS**

The State agency reported on its CMS-64s for FY 2010 \$88,465,923 of expenditures and \$80,004,306 of adjustments reducing expenditures that need further analysis by the State agency and CMS. Specifically, the State agency (1) did not withdraw \$88,465,923 of Federal Medicaid funds from its FY 2010 PMS accounts for expenditures it reported and (2) did not reduce by \$80,004,306 the Federal Medicaid funds that it obtained from its FY 2010 PMS accounts for adjustments it reported. Because these amounts need further analysis before their impact on the FY 2010 PMS accounts can be determined, we set aside these amounts for resolution by CMS and the State agency.

### **The State Agency Did Not Withdraw Federal Funds for Expenditures It Reported on the CMS-64s**

The State agency did not withdraw \$88,465,923 of Federal Medicaid funds from its FY 2010 PMS accounts for the expenditures it reported on the CMS-64s for FY 2010. According to the State agency's records, the State agency withdrew some of this amount from PMS accounts for future FYs and reported adjustments on the CMS-64s to reduce the expenditures it reported for future FYs. However, the information that the State agency provided to support the withdrawals and adjustments was conflicting and unreliable. For example, one document identified that the State agency withdrew approximately \$65 million from PMS accounts for future FYs, but other documents indicated that the State agency withdrew approximately \$61 million from the accounts for future FYs.

Because the supporting information was conflicting and unreliable, the impact on the FY 2010 accounts could not be determined. Therefore, we set aside the \$88,465,923 of reported expenditures for resolution by CMS and the State agency.

### **The State Agency Did Not Reduce the Federal Funds It Obtained for Adjustments It Reported on the CMS-64s**

The State agency did not reduce by \$80,004,306 the Federal Medicaid funds it obtained from its FY 2010 PMS accounts for adjustments it reported on the CMS-64s for FY 2010 that reduced its expenditures. State agency officials informed us that the \$80,004,306 of adjustments were incorrectly reported on the CMS-64s for FY 2010 and that an adjustment to increase the State agency's expenditures in FY 2012 was processed to offset the incorrectly reported amount. However, the adjustment that the State agency reported for FY 2012 did not offset the erroneous adjustments reported for FY 2010. Additionally, CMS deferred the FY 2012 adjustment because

of concerns about when it was reported and how it was calculated. As of February 2014, this deferral had not been resolved.

Because CMS had not determined whether the FY 2012 adjustment was allowable and the appropriate amount, its impact on the FY 2010 PMS accounts could not be determined. Therefore, we set aside the \$80,004,306 for resolution by CMS and the State agency.

### **THE STATE AGENCY DID NOT OBTAIN FEDERAL FUNDS FROM THE APPROPRIATE PAYMENT MANAGEMENT SYSTEM ACCOUNTS**

The State agency did not obtain Federal Medicaid funds from the appropriate PMS accounts. Generally, the State agency withdrew funds from the PMS account for the current FY rather than the PMS account for the FY in which the expenditures were reported on the CMS-64s, causing the annual account balances to be incorrect. For example, the State agency withdrew funds from an FY 2010 PMS account for expenditures it reported for FY 2009. Although the account balances were incorrect, the amounts obtained do not represent funds that should be refunded to the Federal Government because they were supported with expenditures reported on the CMS-64s. The State agency did not obtain funds from the appropriate PMS accounts because it had not updated its procedures to withdraw funds from the annual PMS accounts.

### **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$20,340,232 that was not supported by net expenditures,
- work with CMS to resolve the \$88,465,923 of expenditures and \$80,004,306 of adjustments reported on the CMS-64s for FY 2010 and determine whether adjustments should be made to the expenditures reported or the funds obtained from the FY 2010 PMS accounts,
- ensure that it obtains funds only for net expenditures reported on the CMS-64s,
- implement policies and procedures to resolve differences between the amounts awarded and obtained and the expenditures reported on the CMS-64s when reconciling its PMS accounts,
- ensure that it can support the amounts it withdraws from its PMS accounts and reports as adjustments on the CMS-64s,
- ensure that it reports the appropriate amounts on the CMS-64s,
- strengthen procedures to obtain funds from the appropriate PMS accounts, and

- review the amounts it obtained from PMS accounts for FY 2011 and later FYs to determine whether they were supported by net expenditures and refund any amounts that were not adequately supported.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency agreed with our first through fourth and sixth through eighth recommendations but did not address our fifth recommendation. The State agency's comments are included in their entirety as Appendix C.

### **STATE AGENCY COMMENTS**

The State agency provided the following information on actions that it had taken or planned to take to address our recommendations:

- Regarding our first recommendation, the State agency indicated that it had refunded the FY 2010 PMS accounts in subsequent periods in accordance with a CMS-approved methodology.
- Regarding our second recommendation, the State agency indicated that it would continue to work with CMS to resolve the expenditures and adjustments and was awaiting a response from CMS.
- Regarding our third, fourth, sixth, and seventh recommendations, the State agency indicated that policies, procedures, and reconciliations had been implemented in March 2012.
- Regarding our eighth recommendation, the State agency indicated that it had reconciled its grant awards through FY 2014 but was awaiting grant award finalization letters from CMS.

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

Regarding our first recommendation, the State agency did not refund to the Federal Government the \$20,340,232 that exceeded net Medicaid expenditures for FY 2010. Instead, it transferred to those accounts \$21,575,873 from PMS accounts for other FYs (i.e., FYs 2009, 2011, and 2012). The transfers represented movements of funds among PMS accounts but not a return of funds to the Federal Government. The State agency did not provide evidence that CMS had approved these transfers in lieu of a refund.

Regarding our third, fourth, sixth, and seventh recommendations, we reviewed the State agency's policies, procedures, and reconciliations during our audit and determined that they were not adequate to prevent the issues identified in our report. The State agency did not provide us additional or updated information with its comments on our report.

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid.

**APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Wisconsin Inappropriately Withdrew Federal Medicaid Funds for Fiscal Years 2010 Through 2012</i>	<a href="#"><u>A-05-13-00045</u></a>	10/15/2015
<i>Alabama Withdrew Excessive Federal Medicaid Funds for Fiscal Years 2010 Through 2012</i>	<a href="#"><u>A-06-13-00026</u></a>	9/8/2014
<i>Illinois' Federal Medicaid Withdrawals Were Supported by Net Expenditures for Fiscal Years 2010 Through 2012</i>	<a href="#"><u>A-06-13-00032</u></a>	8/7/2014
<i>Maryland Withdrew Excessive Federal Medicaid Funds for Fiscal Years 2009 Through 2011</i>	<a href="#"><u>A-06-12-00051</u></a>	12/20/2013

## **APPENDIX B: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

For FY 2010, the State agency reported \$27,601,576,491 of expenditures on the CMS-64s, was awarded \$27,599,469,854 by CMS to cover the Federal share of its Medicaid expenditures, and obtained \$27,566,004,766 from its six PMS accounts.<sup>4</sup>

We limited our review of supporting documentation to records supporting the Federal funds the State agency obtained, the expenditures the State agency reported on the CMS-64s, and the grant funds CMS awarded. However, we did not review the allowability of the expenditures that the State agency reported on the CMS-64s except to determine whether CMS allowed, deferred, or disallowed the expenditures.

Our objective did not require a review of the overall internal control structure of the State agency. Therefore, we limited our internal control review to the State agency's procedures for obtaining Federal Medicaid funds and reconciling its PMS accounts.

We performed fieldwork at the State agency's offices in Sacramento, California.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- held discussions with CMS officials to gain an understanding of CMS guidance furnished to the State agency concerning obtaining Federal Medicaid funds;
- interviewed State agency officials to obtain an understanding of the State agency's policies and procedures for requesting and obtaining Federal funds and reconciling its PMS accounts;
- reviewed the State agency's reconciliations and actions taken to reduce the balances in its PMS accounts;
- obtained and analyzed the PMS account details, including grant award amounts and the Federal funds that the State agency obtained;
- compared the grant award amounts in the PMS for each quarter with Medicaid grant award documents to verify the accuracy of the PMS data;

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<sup>4</sup> We excluded from our review expenditures totaling \$88,338,939 that the State agency reported on the CMS-64s for FY 2010, CMS deferred, and for which the deferrals had not been resolved by February 2014. We also excluded from our review funds totaling \$273,629 that the State agency withdrew from its FY 2010 PMS accounts for those deferred expenditures.

- traced the amounts that CMS used to calculate the final grant award amounts for each quarter to the CMS-64s;
- reviewed CMS's grant awards to identify the amounts that CMS deferred and disallowed;
- reviewed documentation supporting the Federal funds that the State agency obtained;
- compared the Federal funds that the State agency obtained according to its supporting documentation with the Federal funds that it obtained according to PMS;
- reviewed the amounts that the State agency reported on the CMS-64s for FY 2010 and adjustments that it reported on the CMS-64s after FY 2010;
- reviewed a judgmental sample of the largest dollar-amount transfers that the State agency identified in its FY 2010 reconciliations and either made before our audit or had not made;
- reviewed the Federal funds that the State agency obtained and expenditures that the State agency reported before or after our audit period and that had an impact on the FY 2010 accounts; and
- discussed our results with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C: STATE AGENCY COMMENTS



State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

September 9, 2015

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Audit Services, Region IX  
90-7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled *California Withdrew Excessive Federal Medicaid Funds for Fiscal Year 2010*.

DHCS appreciates the work performed by OIG and the opportunity to respond to the draft report. Please contact Ms. Sarah Hollister, Audit Coordinator, at (916) 650-0298 if you have any questions.

Sincerely,

[Jennifer Kent]

Jennifer Kent  
Director

Enclosure

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**Department of Health Care Services Response to the OIG Audit Report  
Entitled: California Withdrew Excessive Federal Medicaid Funds for Fiscal  
Year 2010**

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**Finding #1: The State Agency improperly obtained Federal Medicaid Funds from its  
fiscal year 2010 Payment Management System (PMS) Accounts**

**Recommendation 1:**      **Refund to the Federal Government \$20,340,232 that was not  
supported by net expenditures.**

**Response:**                      The State Agency agrees with this recommendation.  
  
The State Agency refunded the 2010 PMS account per CMS  
approved methodology in subsequent periods.

**Recommendation 2:**      **Ensure that it obtains funds only for net expenditures reported  
on the CMS-64s.\***

**Response:**                      DHCS agrees with the recommendation.  
  
DHCS has implemented policies, procedures, and reconciliations to  
ensure that funds drawn from PMS are for net expenditures  
reported on the CMS-64. The policies, procedures, and  
reconciliations have been in place since March 2012.

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**Finding #2: The State Agency did not take appropriate corrective actions after  
reconciling its Payment Management System Accounts**

**Recommendation 3:**      **Implement policies and procedures to resolve differences  
between the amounts awarded and obtained and the  
expenditures reported on the CMS-64s when reconciling its  
PMS accounts.**

**Response:**                      DHCS agrees with the recommendation.  
  
DHCS has implemented policies and procedures to ensure the  
appropriate corrective actions are taken after reconciling its PMS  
accounts. The policies and procedures have been in place since  
March 2012.

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**Finding #4: The State Agency did not reduce the federal funds it obtained for  
adjustments it reported on the CMS-64s.**

**\*OIG Note:** The State agency numbered the recommendations differently from our report. The State agency's references to recommendations 2, 3, and 5 correspond to our third, fourth, and second recommendations, respectively. The State agency did not address our fifth recommendation.

**Recommendation 5:** DHCS should work with CMS to resolve the \$88,465,923 of expenditures and \$80,004,306 of adjustments reported on the CMS-64s for FY 2010 and determine whether adjustments should be made to the expenditures reported or the funds obtained from the FY 2010 PMS accounts.

**Response:** DHCS agrees with the recommendation.

DHCS will continue to work with CMS on resolving the \$88,465,923 of expenditures and \$80,004,306 of adjustments. As noted in the report, "Because CMS had not determined whether the FY 2012 adjustment was allowable and the appropriate amount, its impact on the FY 2010 PMS accounts could not be determined." Estimated time of completion is pending as DHCS is awaiting a response from CMS.

**Recommendation 6:** Ensure that it reports the appropriate amounts on the CMS-64s

**Response:** DHCS agrees with the recommendation.

DHCS agrees with the recommendation and that is the goal when we file our quarterly CMS-64 reports. DHCS has implemented a reconciliation process that reconciles our grant awards, what was reported on the CMS-64 and what was drawn from PMS quarterly. This reconciliation was implemented in March 2012.

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**Finding #5: The State Agency did not obtain Federal Funds from the Appropriate Payment Management System Accounts**

**Recommendation 7:** Strengthen procedures to obtain funds from the appropriate PMS accounts.

**Response:** DHCS agrees with the recommendation.

DHCS has implemented policies, procedures and reconciliations to ensure Federal Funds are withdrawn from the appropriate accounts. The policies, procedures and reconciliations were implemented in March 2012.

**Recommendation 8:** Review the amounts it obtained from PMS accounts for FY 2011 and later FYs to determine whether they were supported by net expenditures and refund any amounts that were not adequately supported.

**Response:** DHCS agrees with the recommendation.

DHCS reconciles its grant awards, what was reported on the CMS-64, and what was drawn from PMS annually. DHCS has reconciled thru FFY 2014, but is awaiting grant award finalization letters from

CMS to complete the reconciliations. Estimated time of completion is pending as DHCS is awaiting the grant award finalization letters from CMS.