California Created a Medicaid Program Vulnerability by Reporting Placeholders That Did Not Represent Actual Expenditures Supported by Documentation

What OIG Found
California reported SMHS placeholders totaling $47.5 million for FY 2013 that did not represent actual expenditures supported by documentation. Specifically, California could not provide source documents for the placeholders and based some of those placeholders on estimates. California did not have policies and procedures to ensure that supporting documentation for the placeholders was (1) available at the time the CMS-64 was filed and (2) retained.

California’s reporting of placeholders created a program vulnerability: California could have withdrawn funds related to the unsupported placeholders that CMS had not taken action to defer before the 60-day deadline as required by Federal regulations or to disallow.

According to its placeholder record, California reported for FY 2013 additional placeholders totaling $1.2 billion for other types of Medicaid expenditures.

What OIG Recommends and California Comments
We recommend that California (1) report adjustments on the CMS-64 to reduce SMHS placeholder amounts by the $47.5 million that did not represent actual expenditures supported by documentation, (2) work with CMS to resolve the $1.2 billion of additional Medicaid placeholders reported for FY 2013 and any placeholders reported for prior and later FYs and determine whether adjustments should be made, (3) develop and implement policies and procedures to ensure that supporting documentation for reported placeholders is available at the time the CMS-64 is filed and that the supporting documentation is retained, and (4) report on the CMS-64 only actual expenditures that are supported by documentation.

In written comments on our draft report, California fully agreed with our findings, agreed with our recommendations, and provided information on actions that it had taken or planned to take to address our recommendations.