

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CALIFORNIA CREATED A MEDICAID
PROGRAM VULNERABILITY BY
REPORTING PLACEHOLDERS THAT
DID NOT REPRESENT ACTUAL
EXPENDITURES SUPPORTED BY
DOCUMENTATION**

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A-09-15-02027

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: August 2018

Report No. A-09-15-02027

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

When California cannot process Medicaid expenditures for Federal reimbursement within the timeframe in Federal requirements, it creates placeholders for the related amounts. California reports to the Centers for Medicare & Medicaid Services (CMS) the placeholders as part of its Medicaid expenditures to ensure that it can receive Federal reimbursement once it can process the expenditures. Amounts reported on Form CMS-64 (the CMS-64) must represent actual recorded expenditures, be derived from source documents, and not be based on estimates. We performed this audit because we found in a separate audit of specialty mental health services (SMHS) expenditures that California had estimated some of the placeholders it reported.

Our objective was to determine whether California reported SMHS placeholders that represented actual expenditures supported by documentation.

How OIG Did This Review

For fiscal year (FY) 2013, we reviewed \$47.5 million of placeholders that California reported as part of its SMHS expenditures. We reviewed documentation provided by California to support that actual expenditures were incurred. We also identified placeholders reported for other types of Medicaid expenditures.

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.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Medicaid Program.....	1
Medicaid Funding Process	1
The State Agency’s Reporting of Placeholders	2
The State Agency’s Provision of Specialty Mental Health Services	3
How We Conducted This Review	3
FINDINGS.....	4
Federal Requirements.....	5
The State Agency Reported Placeholders That Did Not Represent Actual Expenditures Supported by Documentation	5
The State Agency Reported Unsupported Placeholders for Specialty Mental Health Services Expenditures	6
The Reporting of Placeholders Created a Program Vulnerability Because the State Agency Was Awarded Federal Funds for Some Placeholders and Could Have Withdrawn Those Funds	6
The State Agency May Have Reported Unsupported Placeholders for Other Types of Medicaid Expenditures and Inappropriately Gained Access to Additional Federal Funds	6
RECOMMENDATIONS	7
STATE AGENCY COMMENTS	7
APPENDICES	
A: Audit Scope and Methodology	8
B: State Agency Comments.....	10

INTRODUCTION

WHY WE DID THIS REVIEW

When the California Department of Health Care Services (State agency) cannot process Medicaid expenditures for Federal reimbursement within the timeframe in Federal requirements, it creates placeholders for the related amounts. The State agency reports to the Centers for Medicare & Medicaid Services (CMS) the placeholders as part of its Medicaid expenditures to ensure that it can receive Federal reimbursement for the amounts once it can process the expenditures. Amounts reported on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64), must represent actual recorded expenditures, be derived from source documents, and not be based on estimates. We performed this audit because we found in a separate audit of specialty mental health services (SMHS) expenditures that the State agency had based some reported placeholders on estimates.

OBJECTIVE

Our objective was to determine whether the State agency reported SMHS placeholders that represented actual expenditures supported by documentation.

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 Medicaid. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. To modify its State plan, a State submits to CMS a State plan amendment.

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, a State estimates its Medicaid medical and administrative expenditures and reports the estimates to CMS on Form CMS-37, Medicaid Program Budget Report (CMS-37). CMS uses the estimates to determine the initial grant award, which is the amount of Federal funding that will be available to the State during the quarter. Throughout the quarter, the State incurs Medicaid expenditures and withdraws Federal funds to cover the Federal share of those expenditures. Within 30 days after the end of each quarter, the State reports to CMS on the CMS-64 its Medicaid expenditures and the associated Federal share. The amounts

reported must represent actual recorded expenditures, be derived from source documents, and not be based on estimates. Additionally, the State must retain records for 3 years from the day it submits the CMS-64 for the last quarter of the fiscal year (FY).

CMS reviews the expenditures reported on the CMS-64 for allowability and may approve them, defer them for further analysis, or disallow them. For approved expenditures, CMS issues a supplemental grant award to increase or reduce a State's available funding to account for the difference between the State's quarterly estimates reported on the CMS-37 and the actual expenditures reported on the CMS-64. For deferred or disallowed expenditures, CMS issues a supplemental grant award to reduce the State's available funding by the amount deferred or disallowed. For deferred expenditures, CMS requests that the State provide additional supporting information to establish the allowability of the expenditures. If CMS subsequently approves expenditures that it had deferred, CMS issues a supplemental grant award to increase a State's available funding by the allowed amount.

The State Agency's Reporting of Placeholders

The State agency defines placeholders as amounts that it reports on the CMS-64 to ensure that it can receive Federal reimbursement for expenditures that, if reported at a later date, would not meet the Federal requirement that expenditures be reported within 2 years after the quarter in which they were made.¹ When the State agency is unable to process expenditures for Federal reimbursement before the 2-year period ends, such as when it is working with CMS to gain approval for a State plan amendment, it creates placeholders for the related amounts and reports the placeholders as part of its expenditures on the CMS-64. Once the State agency is able to process those expenditures for Federal reimbursement, it withdraws Federal funds, makes payments for the related expenditures, and, if necessary, reports adjustments on the CMS-64 to reduce the placeholder amounts.²

The State agency reports placeholders as part of its medical assistance and administration expenditures for SMHS and certain other types of Medicaid services. The State agency maintains a record to identify and track all placeholders and periodically provides the record to CMS. The record includes information on each placeholder that the State agency reported on the CMS-64, amounts that the State agency paid related to those placeholders, and subsequent adjustments that it reported on the CMS-64 to reduce the placeholder amounts.

Generally, when CMS reviews the placeholder record, it defers the placeholders that the State agency reported on the CMS-64 and follows its deferral procedures until the deferral is

¹ CMS will reimburse a State for an expenditure only if the State files a claim for (i.e., reports) that expenditure within 2 years after the calendar quarter in which it made the expenditure (the Social Security Act § 1132(a) and 45 CFR § 95.7).

² The adjustments are necessary to reduce the placeholder amounts reported on the CMS-64 by the portions of the placeholders that the State agency determines it will not be able to support with actual expenditures.

resolved. CMS did not defer any placeholders in the second quarter of FY 2013 because it did not meet the 60-day deadline to defer expenditures.³

The State Agency's Provision of Specialty Mental Health Services

SMHS are provided to children and adults who meet specific medical necessity requirements related to their diagnosed mental health conditions. These services may be provided by a variety of providers, such as psychiatrists, psychologists, licensed clinical social workers, marriage and family therapists, and licensed professional clinical counselors. They are not provided by primary care physicians.

The State agency provides SMHS under a Medicaid waiver authorized by section 1915(b)(4) of the Social Security Act and approved by CMS.⁴ The State agency contracts with 56 county-run mental health plans (MHPs), which provide, or arrange for, the provision of SMHS. The MHPs deliver SMHS directly through county owned and operated providers or arrange for these services through contracts with private providers.

MHPs must certify that they incurred allowable costs before seeking Federal reimbursement through claims submitted to the State agency. MHPs pay with non-Federal funds (i.e., public funds) for the SMHS they provide or contract to provide and then submit to the State agency claim data so that the State agency can withdraw Federal funds for those services.⁵ After processing the claims, the State agency withdraws the Federal funds and reimburses the MHPs.

HOW WE CONDUCTED THIS REVIEW

For FY 2013 (October 1, 2012, through September 30, 2013), the State agency reported on the CMS-64 \$2,034,103,820 (Federal share) of SMHS expenditures. Of this amount, \$429,657,222 was for placeholders.⁶ In 2014, before the start of our fieldwork, the State agency reduced those placeholders by reporting on the CMS-64 adjustments totaling \$287,510,428. We initially

³ CMS must take action to defer an amount reported on the CMS-64 within 60 days of the date it receives the CMS-64 (42 CFR § 430.40(a)). CMS did not explain why it did not defer the placeholders in the second quarter of FY 2013.

⁴ A 1915(b) waiver allows a State to implement an alternative delivery system for its Medicaid program as long as that system is cost effective, efficient, and consistent with the principles of the program (42 CFR § 431.55).

⁵ Public funds may be considered as a State's share in claiming Federal reimbursement if the contributing public agency certifies those funds as representing expenditures eligible for Federal reimbursement (42 CFR § 433.51). For purposes of the 2-year claiming limit, CMS considers a State's expenditures to have been made in the quarter in which any agency of the State that incurs certified public expenditures, such as an MHP, made or recorded payment to a public provider (45 CFR §§ 95.4 and 95.13(b)).

⁶ While conducting a separate audit of SMHS expenditures, we identified for review placeholders that the State agency reported for FY 2013 and began this audit in July 2015. Further, we focused this audit on \$429,657,222 in placeholders reported for SMHS medical assistance expenditures for FY 2013.

reviewed the placeholders totaling \$142,146,794 that remained on the CMS-64. In March 2017, during our fieldwork, the State agency reported on the CMS-64 additional adjustments to reduce the placeholders by \$94,621,650. The findings in this report address the \$47,525,144 that remained on the CMS-64 as of December 5, 2017.

We reviewed documentation supporting the placeholders, including the State agency's calculations supporting the placeholders and adjustments reported on the CMS-64. For each placeholder, we requested that the State agency provide documentation to support that actual expenditures were incurred. We also reviewed (1) the Federal funds that the State agency was awarded for its Medicaid expenditures and placeholders and (2) the placeholders that CMS deferred. Lastly, we identified the placeholders that the State agency reported for other types of Medicaid expenditures.⁷ However, we did not review these placeholders because such a review was outside the scope of our audit.

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 A contains the details of our audit scope and methodology.

FINDINGS

Of the \$47,525,144 in SMHS placeholders that the State agency reported for FY 2013, placeholders totaling \$47,484,496 did not represent actual expenditures supported by documentation.⁸ Specifically, the State agency could not provide source documents for the placeholders and based some of those placeholders on estimates. The State agency 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.

The State agency's reporting of placeholders created a program vulnerability. The State agency could have withdrawn funds related to the unsupported placeholders that CMS had not taken action to defer before the 60-day deadline or to disallow. We found that after reporting on the CMS-64 the \$47,484,496 for FY 2013 placeholders, the State agency was awarded Federal funds of \$29,674,175, which it had the ability to withdraw. CMS deferred the remaining placeholders totaling \$17,810,321, for which the State agency was not awarded any Federal funds.

⁷ In this report, other types of Medicaid expenditures were (1) medical assistance expenditures other than SMHS and (2) administrative expenditures.

⁸ Of the \$47,525,144 in placeholders we reviewed, \$40,648 represented actual expenditures that were supported by documentation.

In addition to reporting on the CMS-64 unsupported SMHS placeholders and inappropriately gaining access to Federal funds, the State agency may have reported unsupported placeholders for other types of Medicaid expenditures. As a result, it may have inappropriately gained access to (i.e., had the ability to withdraw) additional Federal funds. According to its placeholder record, the State agency reported on the CMS-64 for FY 2013 additional placeholders totaling \$1,154,016,418. Further analysis is needed to determine whether these placeholders represented actual expenditures supported by documentation and whether Federal funds were or should be awarded. Therefore, we set aside this amount for resolution by CMS and the State agency.

FEDERAL REQUIREMENTS

The CMS-64 is a State's accounting of actual reported expenditures, and the disposition of Federal funds may not be reported on the basis of estimates (42 CFR § 430.30(c)(2)).

CMS guidance states:

The amounts reported on [the CMS-64] must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. . . . [T]he amount claimed on [the CMS-64] is a summary of expenditures derived from source documents such as invoices, cost reports and eligibility records. . . . Claims developed through the use of sampling, projections, or other estimating techniques are considered estimates and are not allowable under any circumstances. Where you are unable to develop and document a claim for expenditures on a current basis, withhold it until the actual amount, supported by final documentation, has been determined. Report that amount on a future Form [CMS-64] as a prior period adjustment.⁹

Records must be retained for 3 years from the day that a State submits to CMS its CMS-64 for the last quarter of the FY (45 CFR § 92.42(b)).¹⁰

THE STATE AGENCY REPORTED PLACEHOLDERS THAT DID NOT REPRESENT ACTUAL EXPENDITURES SUPPORTED BY DOCUMENTATION

The State agency reported as part of its SMHS expenditures placeholders totaling \$47,484,496 that did not represent actual expenditures that were supported by documentation. Specifically, the State agency could not provide source documents for the placeholders and based some of

⁹ CMS *State Medicaid Manual*, Pub. No. 45, § 2500.A.1.

¹⁰ The Department of Health and Human Services promulgated new grant regulations and cost principles at 45 CFR part 75 that apply to awards made on or after December 26, 2014. Thus, for awards issued after December 26, 2014, the record retention requirements can be found at 45 CFR § 75.361 (79 Fed. Reg. 75872, 75917 (Dec. 19, 2014)).

those placeholders on estimates. The State agency's reporting of placeholders created a program vulnerability. The State agency could have withdrawn funds related to the unsupported placeholders that CMS had not taken action to defer before the 60-day deadline or to disallow.

The State Agency Reported Unsupported Placeholders for Specialty Mental Health Services Expenditures

The State agency could not provide source documents for placeholders totaling \$47,484,496. Federal regulations and guidance are clear that the amounts reported on the CMS-64 must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. The State agency could not provide us supporting documentation because it 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.

For \$3,733,963 of the placeholders, the State agency provided documentation that identified or State agency officials acknowledged that the placeholders were estimated. Federal regulations and guidance are clear that the amounts reported on the CMS-64 cannot be based on estimates.

The Reporting of Placeholders Created a Program Vulnerability Because the State Agency Was Awarded Federal Funds for Some Placeholders and Could Have Withdrawn Those Funds

The State agency's reporting of placeholders created a program vulnerability. The State agency could have withdrawn funds related to the unsupported placeholders that CMS had not taken action to defer before the 60-day deadline or to disallow. For the \$47,484,496 of FY 2013 placeholders that did not represent actual expenditures supported by documentation, the State agency was awarded Federal funds of \$29,674,175.¹¹ Because this amount was awarded, the State agency could have withdrawn those Federal funds. As of December 5, 2017, those funds remained available to the State agency and will remain available until it reports on the CMS-64 an adjustment to reduce its placeholders by the same amount. The State agency was not awarded Federal funds for the remaining placeholders totaling \$17,810,321 because CMS deferred them.

THE STATE AGENCY MAY HAVE REPORTED UNSUPPORTED PLACEHOLDERS FOR OTHER TYPES OF MEDICAID EXPENDITURES AND INAPPROPRIATELY GAINED ACCESS TO ADDITIONAL FEDERAL FUNDS

In addition to reporting on the CMS-64 unsupported placeholders as part of its SMHS expenditures and inappropriately gaining access to Federal funds, the State agency may have

¹¹ Of this amount, \$29,126,747 was awarded because CMS did not defer the State agency's placeholders before the 60-day deadline in the second quarter of FY 2013.

reported unsupported placeholders for other types of Medicaid expenditures. As a result, it may have inappropriately gained access to additional Federal funds.

According to its placeholder record, the State agency reported on the CMS-64 for FY 2013 additional Medicaid placeholders totaling \$1,154,016,418.¹² Of this amount, \$290,823,370 was reported in the second quarter of FY 2013, when CMS did not defer the State agency's placeholders before the 60-day deadline and likely awarded Federal funds to the State agency. Because further analysis is needed to determine whether the \$1,154,016,418 of placeholders represented actual expenditures supported by documentation and whether Federal funds were or should be awarded, we set aside this amount for resolution by CMS and the State agency.

RECOMMENDATIONS

We recommend that the State agency:

- report adjustments on the CMS-64 to reduce SMHS placeholder amounts by the \$47,484,496 that did not represent actual expenditures that were supported by documentation,
- work with CMS to resolve the \$1,154,016,418 of additional Medicaid placeholders reported on the CMS-64 for FY 2013 and any placeholders reported on the CMS-64 for prior and later FYs and determine whether adjustments should be made to the amounts reported,
- develop and implement policies and procedures to ensure that supporting documentation for placeholders that it reports is (1) available at the time the CMS-64 is filed and (2) retained, and
- report on the CMS-64 only actual expenditures that are supported by documentation.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency 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. The State agency's comments are included in their entirety as Appendix B.

¹² We did not verify whether the State agency reported this amount on the CMS-64, was awarded any Federal funds for this amount, or subsequently reported on the CMS-64 any related adjustments to reduce this amount.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

For FY 2013, the State agency reported on the CMS-64 \$2,034,103,820 (Federal share) of SMHS expenditures. Of this amount, \$429,657,222 was for placeholders.¹³ In 2014, before the start of our fieldwork, the State agency reduced those placeholders by reporting on the CMS-64 adjustments totaling \$287,510,428. We initially reviewed the placeholders totaling \$142,146,794 that remained on the CMS-64. In March 2017, during our fieldwork, the State agency reported on the CMS-64 additional adjustments to reduce the placeholders by \$94,621,650. The findings in this report address the \$47,525,144 that remained on the CMS-64 as of December 5, 2017.

We reviewed documentation supporting the placeholders, including the State agency's calculations supporting the placeholders and adjustments reported on the CMS-64. For each placeholder, we requested that the State agency provide documentation to support that actual expenditures were incurred. We also reviewed (1) the Federal funds that the State agency was awarded for its Medicaid expenditures and placeholders and (2) the placeholders that CMS deferred. Lastly, we identified the placeholders that the State agency reported for other types of Medicaid expenditures. However, we did not review these placeholders because such a review was outside the scope of our audit.

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 identifying placeholders and reporting them on the CMS-64.

We performed fieldwork at the State agency's offices in Sacramento, California, from July 2015 to December 2017.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- held discussions with CMS officials to gain an understanding of CMS's procedures concerning placeholders;
- interviewed State agency officials to obtain an understanding of the State agency's policies and procedures for identifying and reporting placeholders;

¹³ This amount represented the placeholders for only SMHS medical assistance expenditures.

- reviewed the State agency’s placeholder record for amounts reported for FY 2013 for SMHS medical assistance expenditures, including:
 - reconciling those amounts with amounts reported on the CMS-64 and
 - identifying adjustments to reduce the placeholders that the State agency reported on the CMS-64 in 2014 and 2017;
- reviewed documentation supporting the placeholders, including the State agency’s calculations;
- reviewed the grant awards to identify the amounts that CMS awarded and deferred for the placeholders;
- identified placeholders that the State agency reported for FY 2013 for other types of Medicaid expenditures; and
- discussed the results of our review 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 B: STATE AGENCY COMMENTS

Department of Health Care Services'
Responses to The Office of the Inspector General's Draft Report Entitled:
California Created a Medicaid Program Vulnerability by Reporting Placeholders
That Did Not Represent Actual Expenditures Supported by Documentation,
Report Number: A-09-15-02027 (15-41)

Finding 1: The State agency reported as part of its Specialty Mental Health Services' (SMHS) expenditures placeholders totaling \$47,484,496 that did not represent actual expenditures that were supported by documentation. Specifically, the State agency could not provide source documents for the placeholders and based some of those placeholders on estimates. The State agency's reporting of placeholders created a program vulnerability. The State agency could have withdrawn funds related to the unsupported placeholders that the Centers for Medicare & Medicaid Services (CMS) had not taken action to defer before the 60 day deadline or to disallow.

Recommendation 1: Report adjustments on the CMS-64 to reduce SMHS placeholder amounts by the \$47,484,496 that did not represent actual expenditures that were supported by documentation.

DHCS Agreement: Fully Agrees with Finding

Implementation Status: *You must choose one option and fill in the date.*
☐ Fully Implemented:
Implementation Date:
☒ Not Fully Implemented:
Estimated Implementation Date: December 31, 2018
☐ Will Not Implement (*Explain why in Response*)

Response: The Department of Health Care Services (DHCS) agrees with this recommendation. The Department is reviewing necessary expenditure data to determine placeholders. Once identified, DHCS will release the placeholders. DHCS anticipates full implementation by December 31, 2018.

Substantiation: ☐ Attached (Fully Implemented)
☒ Not Applicable (Not Fully Implemented or Will Not Implement)

Finding 2: The State agency could not provide source documents for placeholders totaling \$47,484,496. Federal regulations and

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guidance are clear that the amounts reported on the CMS-64 must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. The State agency could not provide us supporting documentation because it 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. For \$3,733,963 of the placeholders, the State agency provided documentation that identified or State agency officials acknowledged that the placeholders were estimated. Federal regulations and guidance are clear that the amounts reported on the CMS-64 cannot be based on estimates.

Recommendation 2: Develop and implement policies and procedures to ensure that supporting documentation for placeholders that it reports is (1) available at the time the CMS-64 is filed and (2) retained.

DHCS Agreement: Fully Agrees with Finding

Implementation Status: *You must choose one option and fill in the date.*
☐ Fully Implemented:
Implementation Date:
☒ Not Fully Implemented:
Estimated Implementation Date: September 30, 2018
☐ Will Not Implement (*Explain why in Response*)

Response: DHCS agrees with the recommendation and has discontinued the process of placeholders except in rare cases as of Fiscal Year (FY) 2017 Quarter 4. The Department will formally document our policies and procedures to ensure all supporting documentation are: 1) in accordance with CMS guidelines, 2) available, and 3) retained. DHCS anticipates full implementation by September 30, 2018.

Substantiation: ☐ Attached (Fully Implemented)
☒ Not Applicable (Not Fully Implemented or Will Not Implement)

Department of Health Care Services'
Responses to The Office of the Inspector General's Draft Report Entitled:
California Created a Medicaid Program Vulnerability by Reporting Placeholders
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Report Number: A-09-15-02027 (15-41)

- Finding 3:** According to its placeholder record, the State agency reported on the CMS-64 for FY 2013 additional Medicaid placeholders totaling \$1,154,016,418.12. Of this amount, \$290,823,370 was reported in the second quarter of FY 2013, when CMS did not defer the State agency's placeholders before the 60-day deadline and likely awarded Federal funds to the State agency. Because further analysis is needed to determine whether the \$1,154,016,418 of placeholders represented actual expenditures supported by documentation and whether Federal funds were or should be awarded, we set aside this amount for resolution by CMS and the State agency.
- Recommendation 3:** Work with CMS to resolve the \$1,154,016,418 of additional Medicaid placeholders reported on the CMS-64 for FY 2013 and any placeholders reported on the CMS-64 for prior and later FYs and determine whether adjustments should be made to the amounts reported.
- DHCS Agreement:** Fully Agrees with Finding
- Implementation Status:** *You must choose one option and fill in the date.*
☐ Fully Implemented:
Implementation Date:
☒ Not Fully Implemented:
Estimated Implementation Date: December 31, 2020
☐ Will Not Implement (*Explain why in Response*)
- Response:** DHCS is currently working with CMS on resolving all outstanding placeholders. DHCS has resolved a total of \$1,002,850,336 of the \$1,154,016,418 as of June 15, 2018. This is under a Special Terms & Conditions (STC 164) of the 2020 Waiver. Per the STC, all deferrals, including placeholders, will be resolved by December 31, 2020.
- Substantiation:** ☐ Attached (Fully Implemented)
☒ Not Applicable (Not Fully Implemented or Will Not Implement)
-

Department of Health Care Services'
Responses to The Office of the Inspector General's Draft Report Entitled:
California Created a Medicaid Program Vulnerability by Reporting Placeholders
That Did Not Represent Actual Expenditures Supported by Documentation,
Report Number: A-09-15-02027 (15-41)

Finding 4: The State agency's reporting of placeholders created a program vulnerability. The State agency could have withdrawn funds related to the unsupported placeholders that CMS had not taken action to defer before the 60-day deadline or to disallow. For the \$47,484,496 of FY 2013 placeholders that did not represent actual expenditures supported by documentation, the State agency was awarded Federal funds of \$29,674,175.11. Because this amount was awarded, the State agency could have withdrawn those Federal funds. As of December 5, 2017, those funds remained available to the State agency and will remain available until it reports on the CMS-64 an adjustment to reduce its placeholders by the same amount. The State agency was not awarded Federal funds for the remaining placeholders totaling \$17,810,321 because CMS deferred them.

Recommendation 4: Report on the CMS-64 only actual expenditures that are supported by documentation.

DHCS Agreement: Fully Agrees with Finding

Implementation Status: *You must choose one option and fill in the date.*
☒ Fully Implemented:
Implementation Date: July 23, 2015
☐ Not Fully Implemented:
Estimated Implementation Date:
☐ Will Not Implement (*Explain why in Response*)

Response: DHCS agrees with the recommendation and has discontinued the process of placeholders except in rare cases as of FFY 2017 Q4. In July 2015, a placeholder template memo was published on the Department's website to address the information needed to properly claim a placeholder. DHCS and CMS continue to work together to ensure only actual expenditures that are supported by documentation are reported on the CMS-64.

Substantiation: ☒ Attached (Fully Implemented)
☐ Not Applicable (Not Fully Implemented or Will Not Implement)