

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop: S2-26-12
Baltimore, Maryland 21244-1850



Financial Management Group
Division of Financial Operations West

May 13, 2026

Tyler Sadwith
State Medicaid Director
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

Dear State Medicaid Director Sadwith:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the Quarterly Statement of Expenditures for the Medical Assistance Program (MAP) and State and Local Administration (ADM) costs your Department submitted on the Form CMS-64 for the quarter ended December 31, 2025. As a result of our review, we are taking the following deferral action to withhold federal funds from California until it provides additional information or documentation regarding the Medicaid expenditures described below. Under CMS’s standard process, when CMS defers questionable or potentially unallowable expenditures, it continues to defer similar claims in subsequent quarters until the state demonstrates that the claims are allowable, ceases the claiming, or implements corrective action to ensure accurate claiming.

Deferral Number	Deferred FFP Amount	Category of Service	Current or Prior Period Claim	New or Repeat Deferral
CA/2026/1/E/01/MAP	\$8,000,000	IMD Ancillary Services	Current Quarter	REPEAT
CA/2026/1/E/02/MAP	\$23,100,437	Group VIII	Current Quarter	REPEAT
CA/2026/1/E/03/MAP	\$7,294,000	Uncollected Drug Rebates	Current Quarter	REPEAT
CA/2026/1/E/04/MAP	\$3,876,387	UIS Supplemental Payments	Current Quarter	REPEAT
CA/2026/1/E/05/MAP	\$220,911	Managed Care Mismatched Eligibilities	Current Quarter	REPEAT
CA/2026/1/E/06/MAP	\$30,086	FFS Mismatched Eligibilities	Current Quarter	REPEAT

Deferral Number	Deferred FFP Amount	Category of Service	Current or Prior Period Claim	New or Repeat Deferral
CA/2026/1/E/07/MAP	\$126,735	FFS Unsupported Claims	Current Quarter	REPEAT
CA/2026/1/E/09/MAP	\$4,638,583	Pregnancy Gestation Related Emergency Claims	Current Quarter	NEW
CA/2026/1/E/11/MAP	\$1,133,487,260	CFC-PCS (Lines 19D/23A)	Current Quarter	NEW
TOTAL MAP	\$1,180,774,399			
CA/2026/1/E/08/ADM	\$130,560,068	15% ADM Claim Reduction	Current Quarter	REPEAT
CA/2026/1/E/10/ADM	\$32,377,507	Overstated Costs	Current Quarter	NEW
TOTAL ADMIN	\$162,937,575			

The following detailed information is being provided in accordance with 42 CFR §430.40(b). The state should provide the requested documentation for this deferral within the required timeframe for CMS to make a proper determination on the allowability of the claim **or** remove the claims by including a Line 10B decreasing adjustment on the next quarterly Form CMS-64 submission and reducing your draws in the Payment Management System (PMS) MAP26 by \$1,180,774,399; ADM26 - \$162,937,575. A negative grant award was issued in the amount of \$1,343,711,974 in federal share dated May 13, 2026.

CA/2026/1/E/01/MAP- IMD Ancillary Services (\$8,000,000)- There are six outstanding deferrals totaling \$45,920,673 federal financial participation (FFP) on this issue and this repeat deferral will bring the total deferred FFP to \$53,920,673 FFP. This deferral is a result of a 1997 agreement with the state to defer an estimate for unallowable expenditures for ancillary services furnished to recipients under the age of 65 who are in IMD. The deferral amount represents CMS’s estimate of the unallowable claims per the aforementioned agreement with California. The state has agreed to submit adjustments for the actual unallowable amounts once they are identified.

Under section 1905(a) of the Social Security Act (the Act), there is a general prohibition on Medicaid payment for any services provided to any individual who is under age 65 and who is residing in an IMD unless the payment is for inpatient psychiatric hospital services for individuals under age 21 pursuant to section 1905(a)(16) of the Act, as defined in section 1905(h) of the Act.

To resolve this deferral, CMS requests the state make a decreasing adjustment on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing Control Number CA/2026/1/E/01/MAP.

CA/2026/1/E/02/MAP- Group VIII (\$23,100,437)- This is a repeat deferral for the estimated unallowable amounts included on the Form CMS-64 due to California erroneously reporting claims at the Affordable Care Act (ACA) increased FMAP rates for individuals who were either 65 and older or under 19 years of age at the time they received Medicaid services. These individuals do not meet the age criteria for the ACA Medicaid expansion, which only covers adults aged 19 through 64. The deferred amount represents our best estimate of impacted claims for the difference between the increased ACA and regular FMAP rates.

To resolve this deferral, DHCS needs to determine the actual claim amounts that do not qualify for the ACA increased FMAP rate and make a Line 10B adjustment on the Form CMS-64, Column (H) for quarter ended March 31, 2026, referencing Control Number CA/2026/1/E/02/MAP.

CA/2026/1/E/03/MAP- Uncollected Drug Rebates (\$7,294,000)- This is a repeat deferral for drug rebates that have not been returned for the UIS population on Form CMS-64 for quarter ended December 31, 2025. This is the 25th repeat deferral, bringing the total deferred FFP on this issue to \$120,195,149.

To resolve the drug rebate deferrals, the state needs to make appropriate adjustments to return the underreported collections.

CA/2026/1/E/04/MAP- UIS Supplemental Payments (\$3,876,387)- This is a repeat deferral for Medi-Cal supplemental payment programs that included UIS unallowable services or UIS population data in the calculation of costs. CMS applied the same methodology applied in prior quarters against the actual claims certified on the Q1 2026 Form CMS-64 and then reduced our calculation by the state's voluntary reduction of \$28,103,621 for Q1 2026 supplemental payments to estimate our deferral.

To resolve this deferral, the state needs to provide supporting documentation that the UIS unallowable costs have been fully removed or make a decreasing adjustment on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing to Control Number CA/2026/1/E/04/MAP.

CA/2026/1/E/05/MAP- Managed Care Mismatched Eligibilities (\$220,991)- This is a repeat deferral for managed care eligibility discrepancies where the beneficiaries' service months do not match the month of eligibility or lacked eligibility records.

To resolve this deferral, the state needs to either provide supporting documentation or make decreasing adjustments on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing Control Number CA/2026/1/E/05/MAP

CA/2026/1/E/06/MAP- FFS Mismatched Eligibilities (\$30,086)- This is a repeat deferral for FFS eligibility discrepancies where the date of services for certain claims did not align with the records in the corresponding eligibility file.

To resolve this deferral, the state needs to either provide supporting documentation or make decreasing adjustments on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing to Control Number CA/2026/1/E/06/MAP.

CA/2026/1/E/07/MAP- Unsupported FFS Medical Claims (\$126,735)- This is a repeat deferral for FFS medical claims submitted for the individuals lacking satisfactory immigration status, which appear not to meet the state’s criteria for emergency services.

To resolve this deferral, the state needs to either provide additional supporting documentation or make a decreasing adjustment on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing to Control Number CA/2026/1/E/07/MAP.

CA/2026/1/E/08/ADM- 15% administrative claim reduction (\$130,560,068)- This is a repeat deferral based on the May 30, 2025, letter CMS received from the state indicating the state has initiated a comprehensive review of its methodology and systems for allocating and claiming Medicaid administrative costs related to state-only funded services.

The state excluded certain types of administrative claims from its Q1 2026 voluntary reduction prior to CMS determining whether the exclusion of these claims is appropriate. This deferral reflects the computed 15% reduction against the excluded costs for which the state has not yet submitted adequate support.

To resolve this deferral, the state needs to obtain CMS’s agreement that the allocation methodology for the state-only program has been properly applied or to make decreasing adjustments on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing to Control Number CA/2026/1/E/09/ADM.

CA/2026/1/E/09/MAP- Pregnancy Gestation Related Emergency Claims (\$4,638,583)- This is a new deferral for the services claimed as UIS emergency care solely based on the presence of weeks gestation of pregnancy-related codes.

To resolve this deferral, the state needs to reclassify the not time-barred claims to Title XXI or submit Line 10B of the Form CMS-64, Column (H) for quarter ended March 31, 2026, referencing Control Number CA/2026/1/E/10/MAP.

CA/2026/1/E/10/ADM- Overstated Costs (\$32,377,507)- This is a new deferral. During our review of California’s Q1 2026 Form CMS-64 submission, CMS found that the state had overstated total computable costs incurred on Line 22 of the CMS 64.10 Forms. CMS provided guidance to the state during our review that its practice of reporting higher total computable costs than the actual costs incurred by its sister agency is not appropriate. Any claims qualifying for an enhanced match should be reported on the correct lines of the Form CMS-64, identify the correct total computable costs incurred, and have the necessary supporting documentation readily

available. California's practice of inflating total computable costs above what was incurred by the state, to effectively claim enhanced FFP at a 50% matching rate, is not appropriate.

To resolve this deferral, the state needs to re-claim amounts to the correct line(s) at the proper matching rate or make decreasing adjustments to accurately report the incurred total computable costs. These adjustments should be reported on Line 10B of the Form CMS-64, Column (H) for the quarter ended March 31, 2026, referencing Control Number CA/2026/1/E/10/ADM.

CA/2026/1/E/11/MAP- CFC-PCS - Lines 19D / 23A (\$1,133,487,260) – On April 2, 2026, CMS sent California a formal information request for detailed claims data to support the allowability of more than \$4.4 billion FFP claimed on Line 19D for the Community First Choice Program and Line 23A for Personal Care Services (CFC-PCS). CMS requested that the state provide the data no later than April 16, 2026. On April 15, 2026, the state requested an extension to provide the data; to avoid delays to the review timelines, CMS denied that request.

California provided CMS some data on May 3, 2026, and also indicated the need for corrections to some of the claims reported on the Form CMS-64. The state provided the remaining data that CMS requested on May 7, 2026. Since California had not provided the necessary data for CMS to conduct its review in a timely manner, CMS derived the deferral amounts via the following estimation processes, evaluating the potential FFP at risk.

The first component (\$501,311,456) of our deferral relates to the significant growth observed in California's CFC-PCS claiming, which between federal fiscal year (FFY) 2023 and FFY 2025 exceeded the average growth rate of all other states by 11.23%. This computation was made only to estimate the questionable claims related to our concerns with the growth rate and was used for deferral purposes since the state did not timely provide the requested data.

The second component (\$632,175,804) of our deferral relates to significant CFC-PCS-related program integrity risks. This amount was derived by applying program integrity metrics to the data California provided on May 3, 2026. CMS identified \$698,921,567 FFP that were statistical outliers and an additional \$13,225,413 FFP where the claims were adjudicated more than a year after the date of service. To arrive at the deferral, the total amount of \$712,146,980 FFP was reduced by 11.23% (\$79,971,176) to avoid duplication with the significant growth concerns described above, resulting in a deferral of \$632,175,804 attributable to program integrity risks.

To resolve this deferral, CMS intends to take a statistically valid sample to confirm the allowability of all amounts claimed for CFC-PCS through a review of the supporting documentation of the sampled claims. This sample will be taken once the state provides complete data.

In accordance with 42 CFR § 430.40 and to avoid a disallowance, within 60 days of receipt of this deferral notice you are requested to provide any further documentation to support the deferred claims. If California finds that it requires additional time to make further documentation available for our review, you may request, in writing, an extension of up to 60 days.

Should you require further details regarding these deferrals, please contact [REDACTED] [REDACTED]
[REDACTED]

Sincerely,

[REDACTED]
[REDACTED]