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

CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR MEDICAID & CHIP SERVICES

Financial Management Group
Division of Financial Operations West

July 21, 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 Quarterly Statement of Expenditures for the Medical Assistance Program (MAP) and State and Local Administration (ADM) costs submitted on the Form CMS-64 by your Department for the quarter ended March 31, 2026, has been reviewed by this office. As a result of our review, we are taking the following deferral actions to withhold federal funds from the state until additional information or documentation is received from the state regarding the Medicaid costs described below.

Deferral Number	**Deferred FFP Amount**	**Category of Service**	**Current or Prior Period Claim**	**New or Repeat Deferral**
CA/2026/2/E/12/MAP	$8,000,000	IMD Ancillary Services	Current Quarter	REPEAT
CA/2026/2/E/13/MAP	$29,621,539	Group VIII	Current Quarter	REPEAT
CA/2026/2/E/14/MAP	$7,294,000	Uncollected Drug Rebates	Current Quarter	REPEAT
CA/2026/2/E/15/MAP	$12,038,376	UIS Supplemental Payments	Current Quarter	REPEAT
CA/2026/2/E/16/MAP	$4,118,159	FFS Unsupported Claims	Current Quarter	REPEAT
CA/2026/2/E/17/MAP	$39,344	FFS Mismatched Eligibilities	Current Quarter	REPEAT
CA/2026/2/E/18/MAP	$295,062	Managed Care Mismatched Eligibilities	Current Quarter	REPEAT
CA/2026/2/E/19/MAP	$147,213	Family Planning Related Emergency Claims	Current Quarter	REPEAT
CA/2026/2/E/20/MAP	$1,371,991	Pregnancy Gestation Related Emergency Claims	Current Quarter	REPEAT
CA/2026/2/E/21/MAP	$12,088	Insufficient Health Insurance Related Emergency Claims	Current Quarter	REPEAT
CA/2026/2/E/24/MAP	$646,373,682	CFC-PCS (Line 19D/23A)	Current Quarter	REPEAT
TOTAL MAP	**$709,311,454**			

CA/2026/2/E/22/ADM	$131,665,229	15% ADM Claim Reduction	Current Quarter	REPEAT
CA/2026/2/E/23/ADM	$26,488,604	Overstated Costs	Current Quarter	REPEAT
TOTAL ADMIN	**$158,153,833**			

The following detailed information is being provided in accordance with 42 CFR §430.40(b). The state should provide the requested documentation for each deferral within the required timeframe in order 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 CMS-64 submission and reduce your draws in the Payment Management System (PMS) MAP26 - $709,311,454; ADM26 - $158,153,833. A negative grant award was issued in the amount of $867,465,287 in federal share dated July 21, 2026.

CA/2026/2/E/12/MAP- IMD Ancillary Services ($8,000,000)- This is repeat 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' 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 June 30, 2026, referencing Control Number CA/2026/2/E/12/MAP.

CA/2026/2/E/13/MAP- Group VIII ($29,621,539)- This is a repeat deferral for the estimated unallowable amounts included on the CMS-64 due to California erroneously reporting claims at the Affordable Care Act (ACA) enhanced 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 enhanced ACA and regular FMAP rates.

To resolve this deferral, DHCS needs to implement system corrections, determine the actual claim amounts that do not qualify for the ACA enhanced FMAP rate, and make a Line 10B adjustment on the Form CMS-64, Column (H) for quarter ended June 30, 2026, referencing Control Number CA/2026/2/E/13/MAP.

CA/2026/2/E/14/MAP- Uncollected Drug Rebates ($7,294,000)- This is a repeat deferral for drug rebates that haven't been returned for the UIS population on Form CMS-64 for quarter ended March 31, 2026.

To resolve the drug rebate deferrals, the state needs to make appropriate adjustments to return the underreported collections on Line 7 of the Form CMS-64, Column (H) for quarter ended June 30, 2026, referencing Control Number CA/2026/2/E/14/MAP.

CA/2026/2/E/15/MAP- UIS Supplemental Payments ($12,038,376)- 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 Q2 2026 CMS-64 and then reduced our calculation by the state's voluntary reduction of $42,992,833 for Q2 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 June 30, 2026, referencing to Control Number CA/2026/2/E/15/MAP.

CA/2026/2/E/16/MAP- Unsupported FFS Medical Claims ($4,118,159)- 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 June 30, 2026, referencing to Control Number CA/2026/2/E/16/MAP.

CA/2026/2/E/17/MAP- FFS Mismatched Eligibilities ($39,344)- 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 June 30, 2026, referencing to Control Number CA/2026/2/E/17/MAP.

CA/2026/2/E/18/MAP- Managed Care Mismatched Eligibilities ($295,062)- 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 June 30, 2026, referencing Control Number CA/2026/2/E/18/MAP.

CA/2026/2/E/19/MAP- Family Planning Related Emergency Claims ($147,213)- This is a repeating deferral relates to family planning services claimed as emergency care. These claims meet California's emergency criteria solely based on the presence of family planning diagnosis codes.

To resolve this deferral, the state needs to provide additional documentation demonstrating that these are true emergency services or submit Line 10B of the Form CMS-64, Column (H) for quarter ended June 30, 2026, referencing Control Number CA/2026/2/E/19/MAP.

CA/2026/2/E/20/MAP- Pregnancy Gestation Related Emergency Claims ($1,371,991)- This is a repeat 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 June 30, 2026, referencing Control Number CA/2026/2/E/20/MAP.

CA/2026/2/E/21/MAP- Insufficient Health Insurance Related Emergency Claims ($12,088)- This is a repeat deferral for the services claimed as UIS emergency care solely based on the presence of insufficient health insurance related codes.

To resolve this deferral, the state needs to provide additional documentation demonstrating that these are true emergency services or submit Line 10B of the Form CMS-64, Column (H) for quarter ended June 30, 2026, referencing Control Number CA/2026/2/E/21/MAP.

CA/2026/2/E/24/MAP- CFC-PCS - Lines 19D / 23A ($646,373,682)- This is the continuous review of Community First Choice Program (CFC) claimed on Line 19D and Personal Care Services (PCS) claimed Line 23A.

The first component ($391,406,342) 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.

The second component ($250,223,401) 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 29, 2026. CMS identified $19,178,403 FFP where the claims were adjudicated more than a year after the date of services, $237,549,233 FFP that were statistical outliers, and $25,149,396 FFP where a provider billed for 4 or more beneficiaries. To arrive at the deferral, the total amount of $281,877,032 FFP was reduced by 11.23% ($31,653,631) to avoid duplication with the significant growth concerns described above, resulting in a deferral of $250,223,401 attributable to program integrity risks.

To resolve the above portion of the deferral, CMS has selected 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. CMS has requested that the state provide the requested sample documentation by July 31, 2026.

The third component ($4,743,939) represents various elimination activities that are removed from our sample universe for Q2 2026 claims review: a) all positive claims for a total of $503,817 FFP with a beginning date of service occurs after the eligibility end date; b) all submitted claims of $397,520 FFP with a beginning date of service that occurs after the beneficiaries date of services; c) claims of $1,638 FFP exceeding 283 hours by recipient per calendar month; and d) claims of $3,840,964 FFP where provider billed during hospitalization that covered billing period. To resolve this portion of the deferral, CMS sent data related to these claims to the state on July 16, 2026. We have requested that the state provided supporting documentation for the allowability of all claims comprising the $4,743,939.

CA/2026/2/E/22/ADM- 15% administrative claim reduction ($131,665,229)- 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 Q2 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 June 30, 2026, referencing to Control Number CA/2026/2/E/22/ADM.

CA/2026/2/E/23/ADM- Overstated Costs ($26,488,604)- This is a repeat deferral. CMS found that the state had overstated total computable costs incurred on Line 22 of the CMS 64.10 Forms and 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 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 date, the state has not yet corrected its practice so a repeat deferral is taken.

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 June 30, 2026, referencing Control Number CA/2026/2/E/23/ADM.

In accordance with 42 CFR § 430.40, you are requested to provide, within 60 days of receipt of this deferral notice, any further documentation to support the deferred claims to avoid disallowance. If the state finds that additional time is required 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 Dorothy Ferguson, Director, at (214) 767-6385 or Brian Burdullis, Branch Chief, at (415) 744-2710.

Sincerely,

Dorothy A. Ferguson -S

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Dorothy Ferguson
Director
Division of Financial Operations West