

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CALIFORNIA  
MEDICAID MANAGED CARE  
ORGANIZATIONS RECEIVED  
CAPITATION PAYMENTS AFTER  
BENEFICIARIES' DEATHS**

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## Report in Brief

Date: May 2019

Report No. A-04-18-06220

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



### Why OIG Did This Review

The California Department of Health Care Services (California) pays managed care organizations (MCOs) to provide covered health care services in return for a monthly fixed payment for each enrolled beneficiary (capitation payments). The California Medicaid Program (Medi-Cal) is the largest Medicaid program in the Nation. Medi-Cal provides health coverage to almost one-third of California's more than 39 million residents. Approximately 80 percent of Medi-Cal's population is enrolled in managed care. Previous Office of Inspector General reviews found that State Medicaid agencies had improperly made capitation payments on behalf of deceased beneficiaries. We conducted this review of California, which administers Medi-Cal, to determine whether the issue we identified in other States also exists in California.

Our objective was to determine whether California made capitation payments on behalf of deceased beneficiaries.

### How OIG Did This Review

Our audit covered 112,289 Medicaid capitation payments, totaling almost \$74 million (\$56.4 million Federal share) made on behalf of beneficiaries whose dates of death preceded the payment dates. We reviewed capitation payments that California made from July 1, 2014, through December 31, 2017. We selected a stratified random sample of 184 capitation payments totaling \$528,769 (\$387,751 Federal share) for review. Using the results of our sample, we estimated the total value and Federal share of the unallowable capitation payments.

## California Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths

### What OIG Found

California made capitation payments after beneficiaries' deaths. Of the 184 capitation payments in our random sample, 6 payments were correct. For the remaining 178 payments, California made unallowable payments totaling \$433,948 (\$302,755 Federal share). Despite California's efforts to identify and recover unallowable payments, some (29 percent) of these unallowable payments occurred more than 1 year after the beneficiaries' deaths, but the remaining (71 percent) unallowable payments occurred during the first year after the beneficiaries' dates of death.

The unallowable payments occurred because California did not: (1) disenroll beneficiaries after their dates of death were identified during data interface between the eligibility system and the California Death Master file; (2) collaborate with the California Department of Public Health to identify inconsistencies between dates of death and other data (like Social Security Numbers); or (3) regularly use additional sources or alternative procedures to identify, verify or determine dates of death.

On the basis of our sample results, we estimated that California made unallowable payments totaling \$70.9 million (\$53.4 million Federal share) to MCOs during our audit period.

### What OIG Recommends and California Comments

We recommend that California: (1) refund the \$53.4 million to the Federal Government and (2) identify and recover unallowable payments made to MCOs during our audit period on behalf of deceased beneficiaries, which we estimate to be at least \$70.9 million. We also made other procedural and administrative recommendations.

California generally concurred with our findings and described actions that it plans to take to address our recommendations. Regarding our first recommendation, the California will conduct a detailed analysis and provide a refund to the Federal Government after it confirms the dollar amount. California fully concurred with all other recommendations.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The California Department of Health Care Services (State agency) pays managed care organizations (MCOs) to provide covered health care services in return for a monthly fixed payment for each enrolled beneficiary (capitation payments). The California Medical Assistance Program (Medi-Cal) is the largest Medicaid program in the Nation. Medi-Cal provides health coverage to almost one-third of California's more than 39 million residents. Approximately 80 percent of Medi-Cal's population is enrolled in managed care.

Previous Office of Inspector General (OIG) reviews<sup>1</sup> found that State Medicaid agencies had improperly made capitation payments on behalf of deceased beneficiaries. We conducted this review of the State agency, which administers Medi-Cal, to determine whether the issue we identified in other States also exists in California.

### OBJECTIVE

Our objective was to determine whether the State agency made capitation payments on behalf of deceased beneficiaries.

### BACKGROUND

#### The Medicaid Program

The Medicaid program provides medical assistance to certain low-income beneficiaries and individuals with disabilities (Title XIX of the Social Security Act (the Act)). The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Medicaid managed care programs are intended to increase access to and improve the quality of health care for Medicaid beneficiaries. States contract with MCOs to make services available to enrolled Medicaid beneficiaries, usually in return for a predetermined periodic payment, known as a capitation payment. States report capitation payments claimed by MCOs on the States' Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64). The Federal Government pays its share of a State's medical assistance expenditures (Federal share) under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income as

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<sup>1</sup> See Appendix B for related OIG reports.

calculated by a defined formula (42 CFR § 433.10). During our audit period (July 1, 2014, through December 31, 2017), the FMAP in California ranged from 50 to 88 percent.<sup>2</sup>

### **Social Security Administration: Date of Death Information**

The Social Security Administration (SSA) maintains death record information obtained from relatives of deceased beneficiaries, funeral directors, financial institutions, and governmental agencies (local, State, and Federal). SSA processes death notifications through its Death Alert, Control, and Update System (DACUS), which matches the information received from external sources against the Master Beneficiary Record and Supplemental Security Income Record.<sup>3</sup> SSA records the resulting death information in its Numerical Identification System (the Numident).<sup>4</sup> SSA then uses information from Numident to create a national record of death information called the Death Master File (SSA Death Master File).<sup>5, 6</sup> Reported deaths of people who have SSNs are routinely added to the SSA Death Master File. SSA can provide a full SSA Death Master File to States via a data exchange agreement. In comments on a Government Accountability Office (GAO) Medicaid report,<sup>7</sup> the SSA stated that it has:

data sharing agreements with the States . . . under which we provide death indicators based on our complete (or “full”) death data included with all of our State verifications (i.e., State Verification and Exchange System (SVES),<sup>[8]</sup> and

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<sup>2</sup> Because of the Patient Protection and Affordable Care Act’s (ACA) Medicaid expansion, payments for “newly eligible” adults were reimbursed at a 100 percent FMAP during calendar years 2014 through 2016. The FMAP was reduced to 95 percent in 2017 and 94 percent in 2018.

<sup>3</sup> SSA, *Programs Operations Manual System*, GN 02602.060 (May 13, 2011). The Master Beneficiary Record is an electronic record of all beneficiaries as defined in Title II of the Act (Federal Old-Age, Survivors, and Disability Insurance Benefits). The Supplemental Security Record is an electronic record of all beneficiaries as defined in Title XVI of the Act (Supplemental Security Income for the Aged, Blind, and Disabled).

<sup>4</sup> Numident contains personally identifiable information for each individual issued a Social Security Number (SSN). Examples of data elements on a Numident record include name, date and place of birth, parents’ names, and date of death.

<sup>5</sup> SSA, *Programs Operations Manual System*, GN 02602.060.B.1 (May 13, 2011).

<sup>6</sup> SSA maintains death data—including names, SSNs, dates of birth, and States of death—in the SSA Death Master File for approximately 98 million deceased individuals. The more comprehensive file, referred to as the “full DMF,” is available to certain eligible entities and includes State-reported death data. A subset of the SSA Death Master File, called the “public DMF,” is available to the public and does not include State-reported death data.

<sup>7</sup> GAO-15-313, *Additional Actions Needed to Help Improve Provider and Beneficiary Fraud Controls*, May 2015, page 41.

<sup>8</sup> The SVES is a batch query system that provides States and some Federal agencies with a standardized method of SSN verification. SVES allows States to request information from other SSA exchange systems external to SVES (e.g., Beneficiary and Earnings Data Exchange, State Data Exchange) via the SVES request.

State Online Query (SOLQ)<sup>[9]</sup> system). Both SVES and SOLQ systems provide the date of death. In addition, . . . CMS receives the “full [SSA Death Master File]” from us on a weekly basis and could share necessary information with the States to ensure proper payment of Medicaid benefits.

## **Federal and State Requirements**

A capitation payment is a “payment the State agency makes periodically to a contractor on behalf of each beneficiary enrolled under a contract for the provision of medical services under the State plan. The State agency makes the payment regardless of whether the particular beneficiary receives services during the period covered by the payment” (42 CFR § 438.2).

Managed care contracts require an MCO to disenroll a member when “the Member’s eligibility for Medi-cal is ended, including the death of a member.”<sup>10</sup> Additionally, the contracts allow the State the right to recover capitation payments from the MCO in instances in which a member should have been disenrolled in a prior month (Exhibit B, “Recovery of Capitation Payments”).

## **California’s Medicaid Program**

In California, the State agency is responsible for administering Medi-Cal. Medi-Cal provides health insurance coverage to low-income individuals, such as pregnant women, children, parents or caretaker relatives of dependent children, adults aged 65 or older, individuals with disabilities, and adults aged 19 or older who have not yet reached age 65 and whose family’s income is at or below 138 percent of the Federal Poverty level.

### *Managed Care Organization Contracts*

During our audit period, the State agency made capitation payments totaling \$150 billion and had 37 Medi-Cal managed care contracts (contracts) with 23 MCOs to provide covered health care services to eligible Medi-Cal beneficiaries in exchange for a fixed per-member, per-month capitation payment.

### *California: Date of Death Information*

The State agency used the Medi-Cal Eligibility Data Systems (eligibility system) to maintain eligibility information, including date of death. The State agency used the Capitation Payment

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<sup>9</sup> The SOLQ is an online SVES that allows States real-time access to SSA’s SSN verification service and retrieval of Title II and Title XVI data. It enables personnel from State social services and other State benefit programs to rapidly obtain information they need to determine whether individuals are eligible for programs.

<sup>10</sup> Managed Care Contracts Exhibit A, Attachment 16, “Enrollments and Disenrollments.”



Management System to calculate, process, and adjust capitation payments as required by the California Code of Regulations (CCR<sup>11</sup>) and the MCO contracts.

Date of death data are electronically transmitted to the eligibility system through scheduled electronic exchanges and data matches with various State and Federal databases.<sup>12</sup> However, the State agency relied mostly on death information received from the California Department of Public Health (CDPH) Vital Statistics Death Master File (California Death Master File). Normally, the date of death information from the California Death Master File is received through a weekly file of all newly reported deaths in California.<sup>13</sup>

In addition, all Medi-Cal cases managed by the counties require that deaths reported to the counties be forwarded to the eligibility system. Additional sources of identifying dates of death include the State agency's barcoded mail returned to the post office marked "deceased" and reporting by a beneficiary's authorized representative who must request health plan disenrollment by submitting a copy of the decedent's death certificate.<sup>14</sup>

When a beneficiary's date of death is reported to the eligibility system, the State agency updates the beneficiary's eligibility information, effectively ending the beneficiary managed care enrollment. During the next matching cycle between the eligibility system and the Capitation Payment Management System (which normally occurs monthly), the system recoups the capitation payment(s) made on behalf of the deceased beneficiary for each full month after the date of death.<sup>15</sup> The month in which the death occurs is not recouped because the beneficiary was eligible for services during at least a part of that month.

In addition, the State agency takes steps to identify unallowable payments. For example, the State agency matches the SSN in its eligibility files with the California Death Master file and uses other sources of date of death to identify deceased beneficiaries. If inconsistencies are found

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<sup>11</sup> 22 CCR § 53869 (h), "Capitation Payment, Payment Rate Determination/Redetermination."

<sup>12</sup> The State agency used a number of electronic sources of data to obtain date of death information. For example, the State agency used the State Data Exchange, which is a batch data exchange that SSA created to provide Title XVI data to the States for use in determining entitlement and eligibility for federally funded benefit programs—such as Medicare and Medicaid, subsidized housing, the Supplemental Nutrition Assistance Program, and Temporary Assistance to Needy Families—as well as other federally funded, State-administered benefit programs. The State agency also initiated electronic data exchanges with Federal Title II and Medicare Buy-In databases for Medi-Cal beneficiaries potentially covered under those programs. The State agency also received death information from the SVES when it requested verification of a beneficiary's newly reported SSN from that system.

<sup>13</sup> Before October 2017, the file was received monthly.

<sup>14</sup> 22 CCR § 53889 (j)(2)(L), "Enrollment/Disenrollment Processing."

<sup>15</sup> Currently, although neither the MCO contracts nor the CCRs limit how far back the State agency can go when adjusting capitation payments previously paid, the State limits adjustments to 13 months. These 13 months consist of the month the file is sent plus the previous 12 months.

and beneficiaries are deemed deceased, the State agency updates the eligibility information for the deceased beneficiaries and adjusts any unallowable payments.

## **HOW WE CONDUCTED THIS REVIEW**

Our audit covered 112,289 Medicaid capitation payments, totaling \$73,982,275 (\$56,424,335 Federal share) made on behalf of beneficiaries whose dates of death preceded the payment dates. We reviewed capitation payments that the State agency made from July 1, 2014, through December 31, 2017 (audit period). We selected a stratified random sample of 184 capitation payments totaling \$528,769 (\$387,751 Federal share) for review. Using the results of our sample, we estimated the total value and Federal share of the unallowable capitation payments.

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, Appendix C contains the details of our statistical sampling methodology, Appendix D contains our sample results and estimates, and Appendix E contains the Federal and State requirements.

## **FINDINGS**

The State agency made capitation payments after beneficiaries' deaths. Of the 184 capitation payments in our sample, 6 payments were correct. For the remaining 178 payments, the State agency made unallowable payments totaling \$433,948 (\$302,755 Federal share). Despite the State agency's efforts to identify and recover unallowable payments, some (29 percent) of these unallowable payments occurred more than 1 year after the beneficiaries' deaths, but the remaining (71 percent) unallowable payments occurred during the first year after the beneficiaries' dates of death.

The unallowable payments occurred because the State agency did not:

- disenroll beneficiaries after their dates of death were identified during data interface between the eligibility system and the California Death Master file;
- collaborate with CDPH to identify inconsistencies between dates of death and other data (like SSNs); or
- regularly use additional sources or alternative procedures to identify, verify, or determine dates of death.

On the basis of our sample results, we estimated that the State agency made payments totaling at least \$70,989,604 (\$53,425,143 Federal share) to MCOs on behalf of deceased beneficiaries during our audit period. These unallowable payments amounted to less than 1 percent of the \$150 billion in capitation payments that the State agency made to MCOs during our audit period.

## **THE STATE AGENCY MADE UNALLOWABLE PAYMENTS TO MEDICAID MANAGED CARE ORGANIZATIONS**

### **State Requirements**

The CCR states that “any overpayment by the [State agency] shall be recovered by withhold of the amount due from the [MCO]'s next capitation payment . . . .”<sup>16</sup> The CCR adds that “eligibility, shall be discontinued at the end of the month in which a person dies.”<sup>17</sup>

Additionally, the contractual agreements that were current during our audit period between the State agencies and the MCOs allowed adjustments to previously paid rates when capitation payments had been made for enrollees who were determined not to have been eligible. An MCO is required to disenroll a beneficiary when “the Member’s eligibility for Medi-cal is ended, including the death of a member” (Exhibit A, Attachment 16, “Enrollments and Disenrollments”). Additionally, the State has the right to recover capitation payments from the MCO in instances in which a member should have been disenrolled in a prior month (Exhibit B, “Recovery of Capitation Payments”).

### **Payments Continued After Beneficiaries’ Deaths**

The State agency did not always stop making capitation payments after a beneficiary’s death, despite its efforts to identify and recover any unallowable payments as is required by the CCR and contractual provisions. Of the 184 capitation payments in our sample, 6 payments were correct. For the remaining 178 payments, the State agency made unallowable payments totaling \$433,948 (\$302,755 Federal share). Some (29 percent) of these unallowable payments occurred more than 1 year after the beneficiaries’ deaths. Specifically, the State agency made:

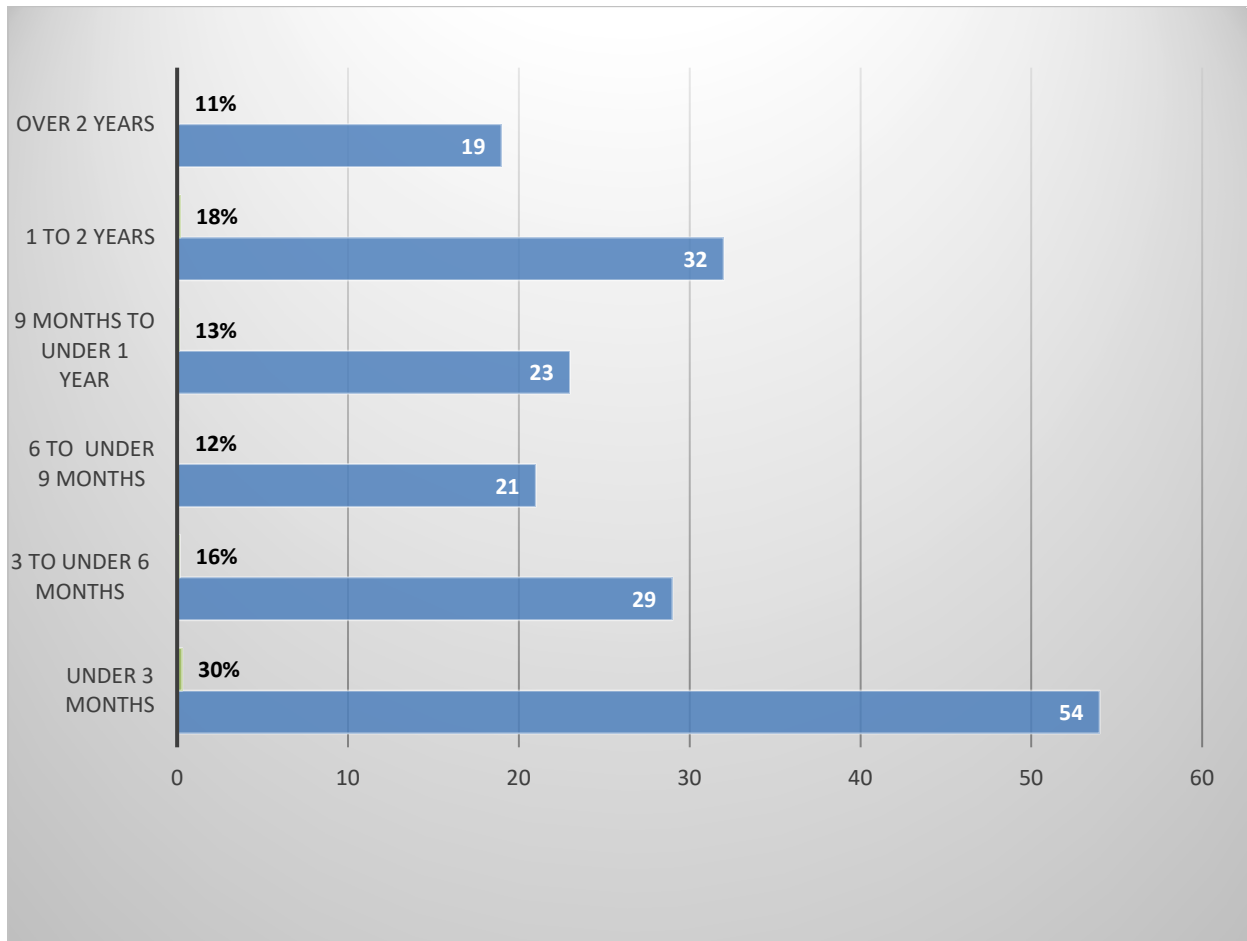
- 127 of the 178 (71 percent) unallowable payments during the first year after the beneficiaries’ dates of death and
- 51 of the 178 (29 percent) unallowable payments more than 1 year after the beneficiaries’ dates of death. (See the figure on the next page.)

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<sup>16</sup> 22 CCR § 53869 (h), “Capitation Payment, Payment Rate Determination/Redetermination.”

<sup>17</sup> 22 CCR § 50176, “Discontinuance Due to Death.”

**Figure: Length of Time After the Dates of Death That the State Agency Made Unallowable Payments**



*The State Agency Made Payments on Behalf of Beneficiaries Whose Dates of Death Were Available in California’s Eligibility System*

Of the 178 unallowable payments in our sample, 104 sample payments (58 percent of the 178 unallowable payments) made on behalf of deceased beneficiaries were associated with beneficiaries who had dates of death in the eligibility system. Nevertheless, the State agency made unallowable payments totaling \$321,917 (\$226,593 Federal share) on behalf of these deceased beneficiaries.

The State agency’s Medi-Cal systems regularly interfaced with State and Federal data exchanges that identified dates of death and had internal controls to help identify deceased beneficiaries. The unallowable payments occurred because the State agency did not disenroll beneficiaries after their dates of death were identified during data interface between the eligibility system and the California Death Master file. Without an updated enrollment, the Capitation Payment Management System continued to make payments on behalf of enrolled beneficiaries.

The State agency said that it would be initiating a system change to allow processing of recoupment of capitation payments made on behalf of deceased beneficiaries. The State agency has begun work on this effort and expects to complete the work in 2019.

*The State Agency Made Payments on Behalf of Beneficiaries Whose Dates of Death Were Not Available in California's Eligibility System*

Of the 178 unallowable payments made on behalf of deceased beneficiaries in our sample, 74 (42 percent) were associated with beneficiaries whom the State agency did not identify as deceased. As a result, the State agency made unallowable payments totaling \$112,031 (\$76,163 Federal share). Specifically:

- For 22 of the 74 sampled payments, even though CDPH had death records for the beneficiaries associated with those payments, the State agency did not identify the beneficiaries as deceased and had no dates of death for them in the eligibility system. The unallowable payments occurred because the State agency did not collaborate with CDPH to identify inconsistencies between the dates of death and other data (such as the SSN) that may not have allowed an exact match during the data exchanges. As a result, the State agency made unallowable payments totaling \$51,038 (\$35,279 Federal share) on behalf of these beneficiaries.
- For 52 of the 74 sampled payments, the State agency did not identify the beneficiaries as deceased and had no dates of death for the beneficiaries in the eligibility system. These unallowable payments occurred because the State agency used either additional sources of death information or alternative procedures similar to those that we used in our audit to identify, verify, or determine dates of death on only a limited basis.<sup>18</sup> For example, if the State agency had used the SSA Death Master File to determine date of death, it would have identified the date of death for these beneficiaries. It then could have verified the date of death on a limited basis. As a result, the State agency made unallowable payments totaling \$60,993 (\$40,883 Federal share) on behalf of these beneficiaries.

These unallowable payments occurred because the State agency did not collaborate with CDPH to identify inconsistencies between the dates of death and other data (such as the SSN) that may not have allowed an exact match during the data exchanges. Furthermore, it only rarely used additional sources of dates of death or alternative procedures similar to those that we used in our audit to identify, verify, or determine the dates of death of the beneficiaries for the capitation month in question.

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<sup>18</sup> The State agency said that it had the ability to check public records, such as obituaries, to locate unreported deaths on a limited basis. For example, it uses obituaries if it finds that the California Death Master File has a discrepancy.

## **ESTIMATE OF UNALLOWABLE CAPITATION PAYMENTS**

On the basis of our sample results, we estimated that the State agency made unallowable payments totaling at least \$70,989,604 (\$53,425,143 Federal share) to MCOs on behalf of deceased beneficiaries during our audit period.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$53,425,143 to the Federal Government;
- identify and recover unallowable payments made to MCOs during our audit period on behalf of deceased beneficiaries, which we estimated to be at least \$70,989,604;
- identify capitation payments made on behalf of deceased beneficiaries before and after our audit period and repay the Federal share of amounts recovered;
- perform quarterly reviews of eligibility system records to ensure that beneficiaries with dates of death are removed from Medi-Cal; and
- use additional sources of date of death consistently to help reduce unallowable payments.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency generally concurred with our findings and described actions that it plans to take to address all of our recommendations. Regarding our first recommendation, the State agency will conduct a detailed analysis and provide a refund to the Federal Government after it confirms the dollar amount. The State agency fully concurred with all other recommendations.

State agency comments are included in their entirety as Appendix F.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered 112,289 Medicaid capitation payments to MCOs totaling \$73,982,275 (\$56,424,335 Federal share) made on behalf of beneficiaries whose dates of death preceded the payment dates. We reviewed capitation payments that the State agency made from July 1, 2014, through December 31, 2017 (audit period). We selected a stratified random sample of 184 capitation payments totaling \$528,769 (\$387,751 Federal share) for review.

We did not review the overall internal control structure of the State agency or its Medicaid program. Rather, we reviewed only those internal controls related to our objective. We limited our review to determining whether MCOs in California received capitation payments on behalf of beneficiaries whose dates of death preceded the payment dates.

Our review allowed us to establish reasonable assurance of the authenticity and accuracy of the data obtained from the State agency.

### METHODOLOGY

To accomplish our objective, we:

- reviewed Federal and State laws, regulations, and guidance;
- gained an understanding of the State agency's internal controls over preventing, identifying, and correcting payments after a beneficiary's death;
- reviewed the State agency contracts with the MCOs during the period of our review;
- obtained from the State agency a file of capitation payments made to MCOs on behalf of Medicaid beneficiaries in California for the audit period (the State agency file);
- matched the State agency file to the SSA Death Master File and identified 29,341,813 capitation payments totaling \$4,706,630,118 that the State agency made to MCOs from July 1, 2014, through December 31, 2017, on behalf of Medicaid beneficiaries who were deceased;

- eliminated 28,792,059 capitation payments totaling \$4,632,647,843<sup>19</sup> because of various factors (see Appendix C);
- created a sampling frame from the capitation payment data of 112,289 capitation payments totaling \$73,982,275 (\$56,424,335 Federal share) that the State agency made to MCOs on behalf of beneficiaries whose dates of death preceded the payment dates;
- selected for review a stratified random sample of 184 capitation payments on behalf of deceased beneficiaries totaling \$528,769 (\$387,751 Federal share);
- obtained documentation, for each sample capitation payment, to support:
  - the beneficiaries' first and last names, SSNs, dates of birth (which we ensured matched the SSA Death Master File), and client identification numbers;
  - whether the eligibility system identified the beneficiaries' dates of death;
  - that a capitation payment occurred for the service month (and verified the accuracy of the paid amount); and
  - any adjustments to the sample capitation payment;
- compared the dates of death in the eligibility system and in the SSA Death Master File for 184 sample items;
- used Accurint,<sup>20</sup> obituaries, CDPH death records, or encounter data to verify the accuracy of the SSA Death Master File;
- estimated the value of identified unallowable payments made after a beneficiary's death by using the Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software;
- determined the Federal share of the unallowable payments made after a beneficiary's death by:
  - obtaining the annual FMAP rates from the Federal Register;

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<sup>19</sup> This refinement left 549,754 capitation payments totaling \$73,982,275. We netted all capitation payments made to one MCO on behalf of a single beneficiary during a transaction month because for some beneficiaries the State agency made more than one capitation payment to an MCO for a transaction month. The resulting file consisted of 112,289 net capitation payments totaling \$73,982,275 from which we drew our sample.

<sup>20</sup> Accurint is a LexisNexis data depository that contains more than 20 billion records from more than 10,000 data sources. Accurint's primary source for dates of death is the SSA Death Master File. Accurint also contains death information from obituaries and State death records.



- matching the FMAP rates to the sample capitation payments using the date the payment was originally paid;
  - quantifying the Federal payment by multiplying the payments by the applicable FMAP rate; and
  - estimating the value of unallowable payments identified in our sample by using the OIG/OAS, statistical software program; 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: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Ohio Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths</i>	<a href="#"><u>A-05-17-00008</u></a>	10/04/18
<i>Tennessee Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-04-15-06190</u></a>	12/22/17
<i>Texas Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-06-16-05004</u></a>	11/14/17
<i>Florida Managed Care Organizations Received Medicaid Capitation Payments After Beneficiary's Death</i>	<a href="#"><u>A-04-15-06182</u></a>	11/30/16

## APPENDIX C: STATISTICAL SAMPLING METHODOLOGY

### TARGET POPULATION

The population consisted of Medicaid capitation payments that the State agency made to MCOs from July 1, 2014, through December 31, 2017. The State agency made these payments on behalf of Medicaid beneficiaries who were deceased.

### SAMPLING FRAME

From a database of 29,341,813 capitation payments, totaling \$4,706,630,118, extracted from the State agency Capitation Payment Management and eligibility systems, we removed 28,792,059 capitation payments, totaling \$4,632,647,843, to refine our sampling frame (Table 1).

**Table 1: Capitation Payments Removed From the Sampling Frame**

<b>Number of Capitation Payments</b>	<b>Capitation Payment Amount</b>	<b>Reason for Removal</b>
28,472,246	\$4,596,879,075	Paid during or before month of death—capitation payments were correct.
309,860	35,606,552	Data match was deemed unreliable because of significant differences between the SSA Death Master File and the State agency data files in one or more of the following categories: date of birth, first name, or last name.
9,953	162,216	Capitation payments of less than \$100.
<b>28,792,059</b>	<b>\$4,632,647,843</b>	<b>Total</b>

This refinement left 549,754 capitation payments totaling \$73,982,275 in our sampling frame. We netted all capitation payments made to one MCO on behalf of a single beneficiary during a transaction month because, for some beneficiaries, the State agency made more than one capitation payment to an MCO for a transaction month. The resulting file consisted of 112,289 net capitation payments.

### SAMPLE UNIT

The sample unit was a capitation payment to an MCO on behalf of a single beneficiary during a service month.

## SAMPLE DESIGN AND SAMPLE SIZE

We used a stratified random sample. We divided the sampling frame into five strata, as shown in Table 2.

**Table 2: Categories of Sampling Frame**

<b>Payment Range</b>	<b>Number of Payments in Frame</b>	<b>Amount of Payments in Frame</b>	<b>Sample Size</b>
≥\$100 and <\$545	73,312	\$29,470,800	60
≥\$545 and <\$1625	36,589	28,017,821	60
≥1,625 and <\$3,200	773	1,905,344	30
≥\$3,200 and <\$13,067	1,611	14,480,195	30
≥13,067	4	108,115	4
<b>Total</b>	<b>112,289</b>	<b>\$73,982,275</b>	<b>184</b>

## SOURCE OF RANDOM NUMBERS

We generated the random numbers using the OIG/OAS statistical software.

## METHOD FOR SELECTING SAMPLE UNITS

We consecutively numbered the capitation payments within each stratum. After generating the random numbers for each stratum, we selected the corresponding frame items.

## ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the total value and Federal share of unallowable payments made to deceased beneficiaries during our audit period. To be conservative, we recommend recovery of unallowable payments at the lower limit of a two-sided 90-percent confidence interval. Lower limits calculated in this manner will be less than the actual total of unallowable payments in the sampling frame 95 percent of the time.

**APPENDIX D: SAMPLE RESULTS AND ESTIMATES**

**Table 3: Sample Results**

<b>Stratum</b>	<b>Number of Capitation Payments</b>	<b>Value</b>	<b>Sample Size</b>	<b>Value of Sample</b>	<b>Number of Unallowable Payments</b>	<b>Value of Unallowable Payments</b>
1	73,312	\$29,470,800	60	\$23,731	59	\$23,368
2	36,589	28,017,821	60	48,470	60	48,470
3	773	1,905,344	30	73,649	30	73,649
4	1,611	14,480,195	30	274,803	28	254,744
5	4	108,115	4	108,115	1	33,717
<b>Totals<sup>21</sup></b>	<b>112,289</b>	<b>\$73,982,275</b>	<b>184</b>	<b>\$528,769</b>	<b>178<sup>22</sup></b>	<b>\$433,948</b>

**Table 4: Federal Share Amounts**

<b>Stratum</b>	<b>Number of Capitation Payments</b>	<b>Value</b>	<b>Sample Size</b>	<b>Value of Sample</b>	<b>Number of Unallowable Payments</b>	<b>Value of Unallowable Payments</b>
1	73,312	\$27,492,521	60	\$21,992	59	\$21,647
2	36,589	19,371,088	60	32,336	59	32,336
3	773	1,209,126	30	46,615	30	46,615
4	1,611	8,247,206	30	182,414	27	168,441
5	4	104,395	4	104,395	1	33,717
<b>Totals</b>	<b>112,289</b>	<b>\$56,424,335</b>	<b>184</b>	<b>\$387,751</b>	<b>176</b>	<b>\$302,755</b>

<sup>21</sup> Stratum amounts may not sum to the column totals due to rounding.

<sup>22</sup> The difference between Table 3 and Table 4 in the total “Number of Unallowable Payments” can be attributed to two unallowable sample items in Table 4 that had a \$0 Federal financial participation.

**Table 5: Estimated Value of Payments**  
*(Limits Calculated for a 90-Percent Confidence Interval)*

	<b>Total Amount</b>	<b>Federal Share</b>
<b>Point estimate</b>	\$73,721,416	\$56,424,335
<b>Lower limit</b>	70,989,604	53,425,143
<b>Upper limit<sup>23</sup></b>	73,982,275	56,424,335

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<sup>23</sup> The upper limits calculated using the OIG/OAS statistical software for the total overpayment amount and Federal share were \$76,453,228 and \$59,471,222, respectively. The point estimate for the Federal share was \$56,448,183. We adjusted these estimates downward to reflect the known value of the sampling frame.

## **APPENDIX E: FEDERAL AND STATE REQUIREMENTS**

### **FEDERAL REQUIREMENTS**

The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on the State's relative per capita income as calculated by a defined formula (42 CFR § 433.10).

In the Medicaid managed care program, providers are defined as "any individual or entity that is engaged in the delivery of health care services and is legally authorized to do so by the State in which it delivers the services" (42 CFR § 400.203).

A capitation payment is "a payment the State agency makes periodically to a contractor on behalf of each beneficiary enrolled under a contract for the provision of medical services under the State plan. The State agency makes the payment regardless of whether the particular beneficiary receives services during the period covered by the payment" (42 CFR § 438.2).

### **STATE REQUIREMENTS**

A beneficiary's authorized representative must request health plan disenrollment by submitting a copy of the decedent's death certificate (22 CCR § 53889 (j)(2)(L)). Eligibility shall be discontinued at the end of the month in which a person dies (22 CCR § 50176).

If payments were made after the month a beneficiary dies, the State agency must recover any overpayment by withhold from capitation payments (22 CCR § 53869).

#### **State Agency Contract With Managed Care Organizations**

The State agency entered into contractual agreements with the MCOs. The contracts allow adjustments to funds previously paid. For example, the State-wide managed care contract for calendar years 2014 through 2017 states that an MCO is required to disenroll a beneficiary when "the Member's eligibility for Medi-cal is ended, including the death of a member" ("Exhibit A, Attachment 16, "Enrollments and Disenrollments"). Additionally, the State has the right to recover capitation payments from the MCO in instances in which a member should have been disenrolled in a prior month (Exhibit B, "Recovery of Capitation Payments").

APPENDIX F: STATE AGENCY COMMENTS



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



GAVIN NEWSOM  
GOVERNOR

Ms. Lori S. Pilcher  
Regional Inspector General for Audit Services  
Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, GA 30303

Dear Ms. Pilcher

The California Department of Health Care Services (DHCS) hereby provides responses to the draft findings of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled, *California Medicaid Managed Care Organizations Received Capitation Payments After Beneficiaries' Deaths*. The OIG conducted this audit and issued two findings and five recommendations.

DHCS appreciates the work performed by the OIG and the opportunity to respond to the draft report. If you have any questions, please contact Ms. Nicole Jacot, External Audit Coordination Manager, at (916) 713-8812.

Sincerely,

Jennifer Kent  
Director

Enclosure

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Ms. Lori Ahlstrand  
Page 2

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**The Department of Health Care Services'**  
**Responses to the Office of the Inspector Generals' Draft Report Entitled:**  
**California Medicaid Managed Care Organizations Received Capitation Payments**  
**After Beneficiaries' Deaths**  
**Report Number: A-04-18-06220 (18-13)**

**Finding 1:** On the basis of the sample results, it was estimated that the Department of Health Care Services (DHCS) made payments to Managed Care Organizations (MCO) on behalf of deceased beneficiaries totaling at least \$70,989,604 (\$53,425,143 Federal share) during our audit period. These unallowable payments amount to less than one percent of the \$150 billion in capitation payments that DHCS made to MCOs during the audit period.

**DHCS Agreement:** Partially Agrees with Finding

**Recommendation 1:** DHCS should refund \$53,425,143 to the Federal Government.

**DHCS Agreement:** Partially Agrees with Recommendation

**Response:** With respect to the finding and recommendation, DHCS will conduct a detailed analysis and provide a refund to the Federal Government of the dollar amount confirmed by the detailed analysis.

**Implementation Status:**  Fully Implemented:  
Implementation Date:  
 Not Fully Implemented:  
Estimated Implementation Date: March 31, 2020.  
 Will Not Implement

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

**Recommendation 2:** DHCS should identify and recover unallowable payments made to MCOs during the audit period on behalf of deceased beneficiaries, which was estimated to be at least \$70,989,604.

**DHCS Agreement:** Fully Agrees with Recommendation

**Response:** DHCS is currently designing a solution to recover all capitation payments made on behalf of deceased

**The Department of Health Care Services'**  
**Responses to the Office of the Inspector Generals' Draft Report Entitled:**  
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**After Beneficiaries' Deaths**  
**Report Number: A-04-18-06220 (18-13)**

beneficiaries. This solution is targeted to implement prior to the end of the 2019 calendar year.

**Implementation Status:**  Fully Implemented:  
Implementation Date:  
 Not Fully Implemented:  
Estimated Implementation Date: December 31, 2019  
 Will Not Implement

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

**Recommendation 3:** DHCS should identify capitation payments made on behalf of deceased beneficiaries before and after the audit period and repay the federal share of amounts recovered.

**DHCS Agreement:** Fully Agrees with Recommendation

**Response:** DHCS is currently designing a solution to recover all capitation payments made on behalf of deceased beneficiaries. This solution is targeted to implement prior to the end of the 2019 calendar year. The solution will validate the estimated amount of the audit and the confirmed amount will be returned.

**Implementation Status:**  Fully Implemented:  
Implementation Date:  
 Not Fully Implemented:  
Estimated Implementation Date: December 31, 2019  
 Will Not Implement

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

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**Finding 2:** DHCS made capitation payments after beneficiaries' deaths. Of the 184 capitation payments sampled, six payments were

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correct. For the remaining 178 payments, DHCS made unallowable payments totaling \$433,948 (\$302,755 Federal share). Despite DHCS' efforts to identify and recover unallowable payments, 29 percent of these unallowable payments occurred more than one year after the beneficiaries' deaths, and 71 percent of the unallowable payments occurred during the first year after the beneficiaries' dates of death.

The unallowable payments occurred because DHCS did not:

- Disenroll beneficiaries after their dates of death were identified during data interface between the eligibility system and the California Death Master file.
- Collaborate with California Department of Public Health to identify inconsistencies between dates of death and other data.
- Regularly use additional sources or alternative procedures to identify, verify, or determine dates of death.

**DHCS Agreement:** Fully Agrees with Finding

**Recommendation 4:** DHCS should perform quarterly reviews of eligibility system records to ensure that beneficiaries with dates of death are removed from Medi-Cal.

**DHCS Agreement:** Fully Agrees with Recommendation

**Response:** DHCS will utilize existing death match sources to implement a quarterly review process to identify records in eligibility systems with a date of death, and ensure that these records are terminated from the systems timely. These reviews will be leveraged to detect unreported deaths and ensure eligibility is terminated timely. DHCS will work to expand this quarterly review process, as additional death match sources become available.

**Implementation Status:**  Fully Implemented:  
Implementation Date:  
 Not Fully Implemented:

**The Department of Health Care Services'**  
**Responses to the Office of the Inspector Generals' Draft Report Entitled:**  
**California Medicaid Managed Care Organizations Received Capitation Payments**  
**After Beneficiaries' Deaths**  
**Report Number: A-04-18-06220 (18-13)**

Estimated Implementation Date: Fall 2019  
 Will Not Implement

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

**Recommendation 5:** DHCS should use additional sources of date of death consistently to help reduce unallowable payments.

**DHCS Agreement:** Fully Agrees with Recommendation

**Response:** To increase detection of deceased Medi-Cal beneficiaries, DHCS is in the final stages of securing full access to the following death match data sources: the Social Security Administration Death Master File; Out of state Obituaries; credit reporting agencies; and banking information. DHCS will incorporate these additional data sources into our quarterly review process.

**Implementation Status:**  Fully Implemented:  
Implementation Date:  
 Not Fully Implemented:  
Estimated Implementation Date: Fall 2019  
 Will Not Implement

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