

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALABAMA WITHDREW EXCESSIVE
FEDERAL MEDICAID FUNDS
FOR FISCAL YEARS
2010 THROUGH 2012**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



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Deputy Inspector General
for Audit Services

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Office of Inspector General

<https://oig.hhs.gov>

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EXECUTIVE SUMMARY

For Federal fiscal years 2010 through 2012, Alabama obtained \$18.9 million more in Federal funds than it expended.

WHY WE DID THIS REVIEW

To fund their Medicaid programs, States receive Federal grant awards that pay for the Federal share of their Medicaid medical and administrative expenditures. An external audit of the Federal fiscal year (FY) 2011 financial statements for the Centers for Medicare & Medicaid Services (CMS) determined that State Medicaid programs owed \$1.3 billion to the Federal Government. We conducted an audit of Alabama because it had one of the highest amounts owed to the Federal Government. This is part of a series of reviews related to States' Federal Medicaid withdrawals.

The objective of this review was to determine whether Federal Medicaid funds that the Alabama Medicaid Agency (State agency) obtained for FYs 2010 through 2012 were supported by net expenditures.

BACKGROUND

Before each quarter, States estimate their Medicaid expenditures. CMS uses the estimates to determine the initial grant awards, which are the Federal fund amounts that will be available to States during the quarter. If a State underestimates the amount of funds it will need during a quarter, it may request additional funds through a supplemental grant award.

The Payment Management System (PMS) is used to account for Medicaid financial activity. Throughout a quarter, States withdraw Federal funds from the PMS accounts to pay the Federal share of Medicaid expenditures. After the end of each quarter, States report expenditures and the associated Federal share on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report). CMS calculates a finalized grant award amount for each State by comparing the initial and supplemental grant awards for the quarter with both the expenditures reported on the CMS-64 report and adjustments to those expenditures that were not included on the CMS-64 report.

The State agency used a workbook that it created, called the cashbook, to record expenditures and the manually calculated Federal shares. The cashbook also included PMS withdrawals. The State agency used the cashbook's ending balance to increase or decrease the Federal funds it obtained.

WHAT WE FOUND

The State agency obtained Federal Medicaid funds for FYs 2010 through 2012 that were not supported by net expenditures. The State agency obtained \$10,981,935,774 in Federal Medicaid funds, but CMS awarded the State agency only \$10,963,019,593 for Medicaid expenditures.

Of the \$18,916,181 difference, the State agency withdrew \$14,824,156 that exceeded net Medicaid expenditures for FYs 2010 through 2012. These inappropriate Medicaid withdrawals occurred because the State agency miscalculated and overstated the Federal share of expenditures in the cashbook, paid for overdrawn balances in previous years' PMS accounts, and withdrew funds for expenditures of another federally funded program.

The State agency inappropriately withdrew the remaining \$4,092,025 from FY 2012 funds to pay for FY 2013 Medicaid expenditures. We are setting these Medicaid funds aside because (1) we did not review the State agency's withdrawals from FY 2013 Medicaid PMS accounts and (2) CMS had not finalized the Federal funds for FY 2013 at the time of our review.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund \$14,824,156 to the Federal Government;
- work with CMS to determine whether the \$4,092,025 withdrawn for FY 2013 Medicaid expenditures should be refunded to the Federal Government and ensure that funds are withdrawn from the appropriate PMS account;
- establish procedures to compare withdrawn Federal funds with actual net Medicaid expenditures;
- review CMS's calculations of final grant awards for accuracy;
- investigate reasons for account balances, particularly if CMS has not finalized the funds and the funds are to be used to pay for overdrawn balances in other PMS accounts; and
- separate Medicaid expenditures from other federally funded program expenditures when calculating Medicaid withdrawals.

STATE AGENCY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the State agency did not concur with our first recommendation and described actions that it has taken to address the final five recommendations.

Regarding our first recommendation, the State agency stated that it "does not concur with OIG's recommendation at this time" and indicated that it is in ongoing discussions with CMS regarding the refund amount and will consider our findings as it continues to work toward a resolution with CMS.

The State agency did not dispute that its Medicaid withdrawals exceeded its Medicaid expenditures. Furthermore, State agency officials told us in meetings that the \$14,824,156

associated with the first recommendation should be refunded. We maintain that the State agency should refund that amount.

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 Cashbook	2
How We Conducted This Review	2
FINDINGS	3
Federal Requirements	3
The State Agency Withdrew Funds That Exceeded Net Expenditures	3
The State Agency Miscalculated and Overstated the Federal Share of Expenditures	3
The State Agency Paid for Overdrawn Balances in Previous Years’ Accounts	4
The State Agency Withdrew Funds for Expenditures From Another Federally Funded Program	4
The State Agency Withdrew 2012 Funds for 2013 Medicaid Expenditures	4
RECOMMENDATIONS	5
STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	5
<u>APPENDIXES</u>	
A: AUDIT SCOPE AND METHODOLOGY	7
B: STATE AGENCY COMMENTS	9

INTRODUCTION

WHY WE DID THIS REVIEW

To fund their Medicaid programs, States receive Federal grant awards that pay for the Federal share of their Medicaid medical and administrative expenditures. Before Federal fiscal year (FY) 2010, States had grant award accounts that combined the Medicaid funds from every year. Consequently, yearly balances were not distinguished. Beginning in FY 2010, the Centers for Medicare & Medicaid Services (CMS) implemented annualized accounts for grant awards that had beginning and ending balances to improve the transparency of Medicaid funding. As a part of the CMS Financial Report FY 2011, an external audit of CMS's financial statements determined that State Medicaid programs owed \$1.3 billion to the Federal Government.¹ We conducted an audit of Alabama because it had one of the highest balances owed to the Federal Government. This is part of a series of reviews related to States' Federal Medicaid withdrawals.

OBJECTIVE

Our objective was to determine whether Federal Medicaid funds that the Alabama Medicaid Agency (State agency) obtained for FYs 2010 through 2012 were supported by net expenditures.

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 the Medicaid program. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. In Alabama, 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, States estimate their Medicaid expenditures and report the estimates to CMS on the quarterly Medicaid Program Budget Report (CMS-37 report). CMS uses the estimates to determine the initial grant awards, which are the Federal fund amounts that will be available to States during the quarter. If a State underestimates the amount of funds it will need during a quarter, it may request additional funds by submitting a revised CMS-37 report. The resulting increase in Federal funds is known as a supplemental grant award.

CMS provides the grant award amounts to the Division of Payment Management (DPM), a division within the Department of Health and Human Services, which operates as CMS's fiscal intermediary. DPM uses the Payment Management System (PMS) to account for Medicaid financial activity, such as recording grant award amounts and processing the States' withdrawals.

¹ CMS, *CMS Financial Report Fiscal Year 2011*, Financial Section, Audit Reports, page 121.

Beginning in FY 2010, CMS implemented annualized PMS accounts for the grant awards. As a result, each State has PMS accounts for each FY rather than combining the funds for multiple FYs.

Throughout a quarter, States withdraw Federal funds from the PMS accounts to pay the Federal share of Medicaid expenditures. Within 30 days after the end of each quarter, States report to CMS expenditures and the associated Federal share on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report). The amounts that States report must represent actual expenditures.

CMS calculates a finalized grant award amount for each State by comparing the initial and supplemental grant awards for the quarter with expenditures reported on the CMS-64 report. CMS also includes in its calculation adjustments to expenditures that were not included on the CMS-64 report, such as interest due to CMS and expenditures that CMS disallowed. If a State's initial and supplemental grant awards are less than its expenditures, CMS increases the State's grant award. Conversely, if a State's initial and supplemental grant awards exceed its expenditures, CMS decreases the State's grant award by the difference.

The State Agency's Cashbook

The State agency used a workbook that it created, called the cashbook, to record expenditures for all Federal programs and the manually calculated Federal shares. The cashbook also included PMS withdrawals and credits that decrease expenditures, such as drug rebate amounts paid by drug manufacturers and third-party collections. The State agency used the cashbook's ending balance to increase or decrease the Federal Medicaid funds it obtained on a given withdrawal date. If the ending balance indicated that previous withdrawals had exceeded net expenditures, the State agency decreased the Medicaid withdrawal amount. Conversely, if the ending balance indicated that net expenditures had exceeded previous withdrawals, the State agency increased the Medicaid withdrawal amount.

HOW WE CONDUCTED THIS REVIEW

The State agency obtained \$10,981,935,774 in Federal Medicaid funds for FYs 2010 through 2012 (i.e., October 1, 2009, through September 30, 2012). We compared the amounts that the State agency withdrew with the final amounts that CMS awarded for expenditures and reviewed the State agency's cashbook.

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

The State agency obtained Federal Medicaid funds for FYs 2010 through 2012 that were not supported by net expenditures. The State agency obtained \$10,981,935,774 in Federal Medicaid funds, but CMS awarded the State agency only \$10,963,019,593 for Medicaid expenditures.

Of the \$18,916,181 difference, the State agency withdrew \$14,824,156 that exceeded net Medicaid expenditures for FYs 2010 through 2012. These inappropriate Medicaid withdrawals occurred because the State agency miscalculated and overstated the Federal share of expenditures in the cashbook, paid for overdrawn balances in previous years' PMS accounts, and withdrew funds for expenditures of another federally funded program.

The State agency inappropriately withdrew the remaining \$4,092,025 from FY 2012 funds to pay for FY 2013 Medicaid expenditures. We are setting these Medicaid funds aside because (1) we did not review the State agency's withdrawals from FY 2013 Medicaid PMS accounts and (2) CMS had not finalized the Federal funds for FY 2013 at the time of our review.

FEDERAL REQUIREMENTS

Sections 1903(a)(1) and (a)(7) of the Social Security Act make Federal financial participation available only for the total amount expended as medical assistance and for the proper and efficient administration of a CMS-approved State plan. Additionally, 42 CFR § 430.30(d)(3) authorizes States to withdraw Federal funds as needed to pay the Federal share of Medicaid disbursements.

THE STATE AGENCY WITHDREW FUNDS THAT EXCEEDED NET EXPENDITURES

The State agency withdrew \$14,824,156 that exceeded net Medicaid expenditures for FYs 2010 through 2012. These inappropriate withdrawals occurred because the State agency:

- miscalculated and overstated the Federal share of expenditures by \$10,590,796,
- used \$3,688,044 to pay for overdrawn balances in previous years' PMS accounts, and
- withdrew \$545,316 for expenditures from another federally funded program.

The State Agency Miscalculated and Overstated the Federal Share of Expenditures

The State agency withdrew \$10,590,796 more than it needed to cover its Medicaid expenditures because it miscalculated and overstated the Federal share of expenditures in the cashbook by that amount. A State agency official told us that the miscalculations were the result of human errors. The following table shows the Federal share of expenditure overstatements by year.

Table: Overstated Federal Share of Expenditures

Fiscal Year	Federal Share Overstatements
2010	\$3,878,544
2011	5,258,553
2012	1,453,699
Total	\$10,590,796

The State agency did not identify these overstatements because it had no reconciliation procedures to compare amounts withdrawn with actual net expenditures.

The State Agency Paid for Overdrawn Balances in Previous Years' Accounts

The State agency's withdrawals from PMS accounts for FYs before 2010 exceeded Medicaid expenditures for those years, so the accounts were overdrawn. To pay for the previous years' overdrawn balances, the State agency inappropriately used \$3,688,044 in funds from PMS accounts for FYs 2010 through 2012.

The funds were withdrawn from account balances that should not have been available to the State agency. CMS had duplicated some funding when it calculated the final Medicaid grant awards, and the State agency did not review CMS's calculations for accuracy. Also, the State agency used funds from an FY 2012 PMS account before CMS's finalization of that year's funds, and the State agency ultimately was not entitled to those funds.

The State Agency Withdrew Funds for Expenditures From Another Federally Funded Program

The State agency inappropriately withdrew \$545,316 in Medicaid funds that were not supported by Medicaid expenditures. The funds were used to pay for another federally funded program's expenditures. These non-Medicaid expenditures were paid for with Medicaid funds because they were commingled with Medicaid expenditures in the cashbook.

THE STATE AGENCY WITHDREW 2012 FUNDS FOR 2013 MEDICAID EXPENDITURES

The State agency inappropriately withdrew \$4,092,025 from FY 2012 funds to pay for FY 2013 Medicaid expenditures:

- Other agencies within the State government furnish the State share of funds for services that they provide to Medicaid beneficiaries. The State agency held the payment for those services until the other agencies provided the State share. If a payment for services was held until after the end of an FY, the State agency reported the expenditures for those services in the fiscal year in which they were paid. However, the State agency inappropriately withdrew the Federal funds from the previous year's PMS account. After

FY 2012 ended, the State agency withdrew \$3,201,631 for held expenditures that were paid for and reported in FY 2013.

- In addition, at the end of FY 2012, the State agency made a withdrawal from an FY 2012 account to set up a reserve of funds for future expenditures. The State agency eventually used \$890,394 to pay for FY 2013 Medicaid expenditures.

We are setting aside the \$4,092,025 in Medicaid funds because (1) we did not review the State agency's withdrawals from FY 2013 Medicaid PMS accounts and (2) CMS had not finalized the Federal funds for FY 2013 at the time of our review.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$14,824,156 to the Federal Government;
- work with CMS to determine whether the \$4,092,025 withdrawn for FY 2013 Medicaid expenditures should be refunded to the Federal Government and ensure that funds are withdrawn from the appropriate PMS account;
- establish procedures to compare withdrawn Federal funds with actual net Medicaid expenditures;
- review CMS's calculations of final grant awards for accuracy;
- investigate reasons for account balances, particularly if CMS has not finalized the funds and the funds are to be used to pay for overdrawn balances in other PMS accounts; and
- separate Medicaid expenditures from other federally funded program expenditures when calculating Medicaid withdrawals.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency did not concur with our first recommendation and described actions that it has taken to address the final five recommendations.

Regarding our first recommendation, the State agency stated that it "does not concur with OIG's recommendation at this time" and indicated that it is in ongoing discussions with CMS regarding the refund amount and will consider our findings as it continues to work toward a resolution with CMS.

The State agency did not dispute that its Medicaid withdrawals exceeded its Medicaid expenditures. Furthermore, State agency officials told us in meetings that the \$14,824,156

associated with the first recommendation should be refunded. We maintain that the State agency should refund that amount.

The State agency's comments are included in their entirety as Appendix B.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

The State agency obtained \$10,981,935,774 in Federal Medicaid funds for FYs 2010 through 2012 (i.e., October 1, 2009, through September 30, 2012).²

We limited our review of supporting documentation to records supporting the State agency's withdrawing of Federal funds; we did not evaluate the accuracy of the expenditures that the State agency reported on its CMS-64 report. 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 withdrawing Federal Medicaid funds.

We conducted fieldwork at the State agency's offices in Montgomery, Alabama, from April 2013 to February 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- held discussions with CMS officials to gain an understanding of CMS guidance furnished to the State agency concerning the withdrawing of Federal funds;
- interviewed State agency officials to obtain an understanding of the State agency's policies and procedures for withdrawing Federal funds;
- analyzed the State agency's procedures for maintaining the cashbook and reviewed the cashbook;
- obtained and analyzed the PMS account detail, including grant award amounts and actual withdrawals that the State agency made;
- compared the grant award amounts in the PMS for each quarter with Medicaid grant award documents to ensure the accuracy of the PMS data;
- traced the amounts that CMS used to calculate the final grant award amounts for each quarter to the CMS-64 report;
- compared the State agency's documentation supporting its Federal Medicaid fund withdrawals with the withdrawals in the PMS;
- reconciled Federal funds withdrawn with the State agency's net expenditures and identified reasons for discrepancies; and

² The State agency obtained an additional \$6,769,286 in Medicaid funds, but we removed them from our scope because CMS deferred its approval of them.

- discussed our results with the State agency.

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



ROBERT BENTLEY
Governor

Alabama Medicaid Agency

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STEPHANIE MCGEE AZAR
Acting Commissioner

June 19, 2014

Ms. Patricia Wheeler
Regional Inspector General
For Audit Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

RE: Draft Report Number A-06-13-00026

Dear Ms. Wheeler:

The Alabama Medicaid Agency (Alabama Medicaid) welcomes the opportunity to comment on the recommendations contained in the draft report from the Office of Inspector General (OIG) entitled "Alabama Withdrew Excessive Federal Medicaid Funds for Fiscal Years 2010 Through 2012" (Draft Report).

As requested in your letter dated May 22, 2014, Alabama Medicaid is providing a statement of concurrence or non-concurrence to each of the recommendations contained in the Draft Report.

- **OIG Recommendation:** Refund \$14,824,156 to the Federal Government.

Alabama Medicaid Comment: Alabama Medicaid respectfully does not concur with OIG's recommendation at this time. The amount at issue is the subject of ongoing discussions with CMS. As noted in the Draft Report, CMS duplicated certain expenditures when it calculated the final Medicaid grant awards for the State. CMS reversed these duplicated expenditures in mid-2013 and requested that Alabama Medicaid return \$15,483,957. Alabama Medicaid will consider OIG's findings as it continues to work toward a resolution with CMS on this issue.

- **OIG Recommendation:** Work with CMS to determine whether the \$4,092,025 withdrawn from FY 2013 Medicaid expenditures should be refunded to the Federal Government and ensure that funds are withdrawn from the appropriate PMS account.

Alabama Medicaid Comment: Alabama Medicaid is currently in discussions with CMS on this issue. Alabama Medicaid was drawing funds in accordance with our understanding of CMS policy and procedures. When Alabama Medicaid was notified by OIG that this was not the correct way to draw the funds in these situations, Alabama Medicaid immediately changed its

Ms. Patricia Wheeler

June 19, 2014

procedures to account for the expenditures going forward. Alabama Medicaid will continue to work with CMS to ensure that Alabama Medicaid draws these funds properly and in accordance with CMS instructions.

OIG Recommendations: Establish procedures to compare withdrawn Federal funds with actual net Medicaid expenditures; Review CMS's calculations of final grant awards for accuracy; Investigate reasons for account balances, particularly if CMS has not finalized the funds and the funds are to be used to pay for overdrawn balances in other PMS accounts; and separate Medicaid expenditures from other federally funded program expenditures when calculating Medicaid withdrawals.

Alabama Medicaid Comment: Alabama Medicaid has addressed each of these recommendations as follows:

- Alabama Medicaid implemented a new accounting system that replaced the manual cash book. This system automatically separates transactions by specific fund and provides trial balance and operational reporting by fund. It also automatically calculates the state and federal share of expenditures based on funding tables set up within the system.
- Alabama Medicaid has established procedures to reconcile, on a weekly basis, amounts drawn from PMS accounts to amounts recorded in the accounting system. This includes reconciling the outstanding grant balance in the PMS system.
- Alabama Medicaid has established procedures to reconcile the agency's internal cash statement of activities with the CMS 64 reported expenditures on a quarterly basis.
- Alabama Medicaid has established procedures to reconcile between amounts drawn from PMS, expenditures reported on the CMS 64 and amounts recorded to cash in the agency's accounting system.
- Alabama Medicaid reviews all grants issued by CMS for accuracy and analyzes their impact on current and prior year grant balances. Alabama Medicaid estimates future CMS grant finalizations and investigates if the estimated amount of the finalization is materially different from the actual finalization issued by CMS.
- Alabama Medicaid has established enhanced supervisory review procedures over draws and reported expenditures, and has also established new procedures for the methodology by which Federal funds are drawn.
- Alabama Medicaid has made staff changes and organizational changes to improve review and coordination of draws and expenditure reporting.

Ms. Patricia Wheeler

June 19, 2014

Thank you for the opportunity to discuss the recommendations contained in OIG's Draft Report. If you have any questions regarding the above comments, please contact Mr. Flake Oakley at Flake.Oakley@medicaid.alabama.gov.

Sincerely,

/Stephanie McGee Azar/

Stephanie McGee Azar
Acting Commissioner