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The Arc of California Condemns Federal Deferral of $867.5 Million in Medicaid Funding
Federal government's own guidance confirms payment errors are not fraud rates

SACRAMENTO, CA. The Arc of California today condemned the federal government's decision to defer approximately $867.5 million in Medicaid payments to California, warning that broad and unsupported allegations of fraud threaten services that allow children and adults with disabilities and older Californians to live safely in their homes and communities.

The U.S. Department of Health and Human Services (HHS) announced the deferral on July 21, describing California's claims as "high-risk" and stating that payments would remain deferred while the state provides additional documentation. HHS characterized the action as part of a crackdown on fraud, waste and abuse, **but did not provide evidence demonstrating that the deferred California claims were fraudulent.**

It remains unclear whether the new $867.5 million deferral is separate from, or overlaps with, the $1.3 billion in California Medicaid payments deferred by the federal government in May.

"No one disputes that actual fraud should be investigated, prosecuted and recovered," said Jordan Lindsey, Executive Director, The Arc of California. "But the federal government has not demonstrated that the hundreds of millions of dollars it is withholding represent fraud. Centers for Medicare & Medicaid Services (CMS) own guidance recognizes that documentation errors and improper payments are not the same as fraud. Californians with disabilities should not become collateral damage while the federal government attempts to prove allegations it has yet to substantiate."

The latest action largely targets claims connected to California's In-Home Supportive Services (IHSS) programs. HHS cited California's increased spending on home care as a reason for questioning the claims. **But increased spending alone is not evidence of fraud.**

California has intentionally expanded Home and Community-Based Services (HCBS) so more people with disabilities and older adults can remain at home instead of entering more costly nursing homes and other institutional settings. These services help people with everyday needs such as getting out of bed, bathing, eating, working and participating in their communities.

"In-home care growth reflects intentional, federally encouraged expansion, not improper spending," said Anthony Cava, spokesperson for the California Department of Health Care Services (DHCS). "California is calling on CMS to stop threatening care for California's most vulnerable residents."

Governor Gavin Newsom also rejected the federal government's characterization, saying: "California isn't being targeted because Trump has evidence of fraud. We are being targeted for political reasons, and because Dr. Oz doesn't understand that we are saving taxpayers money by keeping seniors and people with disabilities out of far more expensive nursing homes. We hate fraud. That's not what this is."

CMS Says Payment Errors Are Not Fraud Rates

The federal government's own guidance directly contradicts attempts to treat improper-payment figures as evidence of fraud.

The Centers for Medicare & Medicaid Services' Payment Error Rate Measurement program states: "The improper payment rate is not a 'fraud rate' but simply a measurement of payments made that did not meet statutory, regulatory, or administrative requirements."

"The federal government cannot responsibly use the language of fraud to describe statistical anomalies, documentation questions and administrative errors," Lindsey said. "Investigate actual fraud and correct legitimate errors, but **do not manufacture a fraud crisis to justify withholding funding for essential services already delivered**."

The Arc of California supports strong oversight and aggressive action against individuals or providers who intentionally defraud Medicaid. But fraud prevention and protecting access to essential services are not competing goals. Both can and must be accomplished without imposing broad financial penalties based on unproven allegations.

"For families, this is not an abstract dispute between governments," said Pat Hornbecker, Board President, The Arc of California. "They experience it as uncertainty about whether the services that help their son get dressed, their daughter get to work or their aging family member remain safely at home will still be there tomorrow. That uncertainty carries a real human cost."

The Arc of California is calling on HHS and CMS to provide full transparency about the claims under review, clearly distinguish administrative and documentation issues from actual fraud, and immediately release all funding for claims that have not been shown to be improper. **Community living is not wasteful spending. It is one of Medicaid's most important and cost-effective investments.**

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About The Arc of California

Established in 1950, The Arc of California promotes and protects the human rights of people with intellectual and developmental disabilities and actively supports their full inclusion and participation in the community throughout their lifetimes. The Arc of California provides supports and services to thousands of individuals with disabilities and their families through its 20 chapters across the state.