

**State Fiscal Accountability Authority  
Office of the State Auditor**



**Fiscal Year 2024-2025**

**Budget Briefing**

**House Ways & Means  
Constitutional Subcommittee**

**January 10, 2024**



## SFAA - State Auditor

### Key Officials

*Attending Hearing:*

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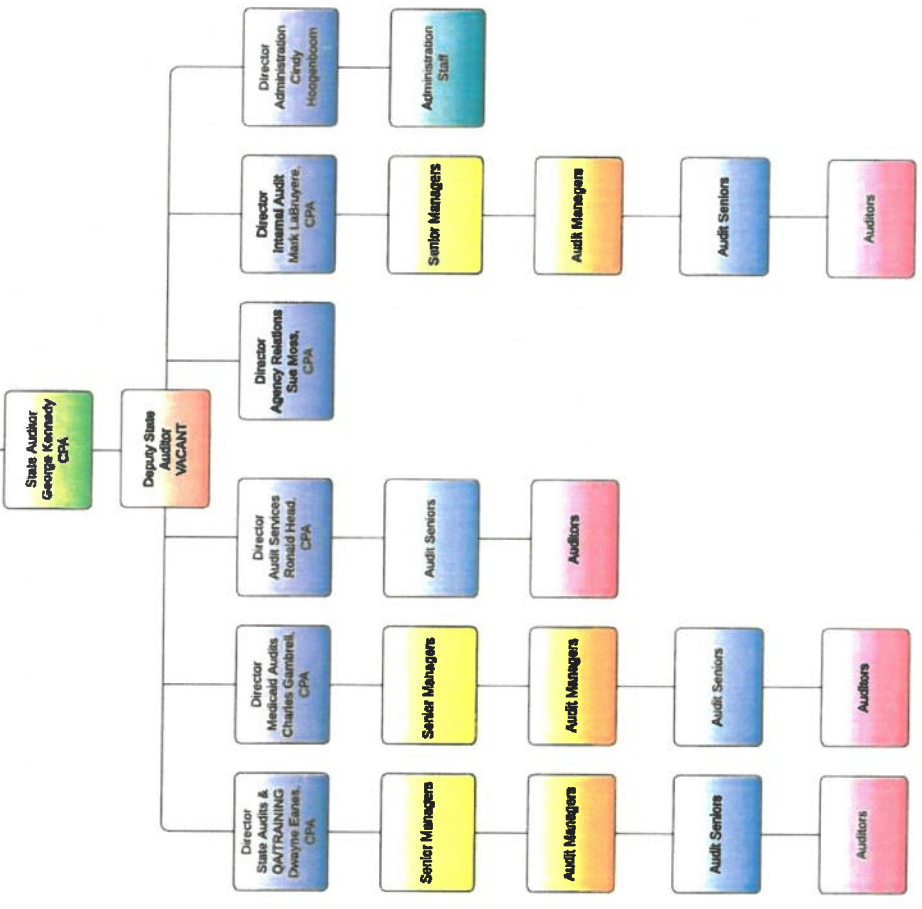
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STATE FISCAL ACCOUNTABILITY AUTHORITY



## Office of the State Auditor 2025 Budget Request

The Office of the State Auditor is asking for the following support for FY 2025:

### ***PRIORITY 1: Personnel Funding Agency Reorganization Executive - \$400,000***

This funding would be supporting executive management salaries and employer contributions for two Directors:

- 1) Program Manager IV Director of Audit Operations (\$150,000 Salary + 33% Employer Contributions)
- 2) Program Manager IV Director of Agency Relations (\$150,000 Salary + 33% Employer Contributions)

At the beginning of FY24, we reorganized our executive management team to address issues with succession planning, "pool staff" management, scheduling of engagements, and being able to plan for additional audits during the FY. In doing so, and with the approval of DSHR, two of our current FTEs were reclassified to Directors positions. They include the Director of Audit Operations and the Director of Agency Relations. The need for two additional directors' positions primarily focused on the need to spread administrative duties that our Audit Directors were responsible for among these positions. This would allow our executive management team to focus on technical issue related to audits and leading staff in development. In addition, it reorganized our "pool staff" so that they are their own division, reporting to only one director. This would give those staff members the opportunity to receive individualized development. Also, with the addition of these positions, we can expand the number of engagements done each year greatly increasing our overall productivity. Currently, we are funding these positions with current resources that we have. We can do so because we have had several vacancies that we have been unable to fill, have transitioned to a new audit software that has lowered our overall costs for these services, and have experienced reduced costs in training and travel. As we move forward, we are requesting funding to cover these very important roles without having to reduce program costs in the future or by having to refrain from hiring all our vacant FTEs. We are continuing to fill the vacancies we have, and we feel with the latest general increase and the market salary adjustments that were awarded for FY24, we will see our vacant positions filled by the end of the year. The total budget request for these two positions is \$400,000. To break it down, the salaries for each are \$150,000 plus 33% for employer contributions. These salaries are based on job duties, years of experience, certification, and the market for similar positions throughout the country. There are no new or additional FTEs requested.

### ***PRIORITY 2: Increase Funding and Budget Authority for Court Audits Other Funds - \$100,000***

There are two factors that contribute to this request. First, under Proviso 105.4, we currently receive \$250,000 from the State Treasurer to conduct a minimum of fifteen audits annually of county treasurers, municipal treasurers, county clerks of court, magistrates and/or municipal courts as required by Section 141210 of the 1976 Code and allowed by Section 141240. If there are any unused funds at the end of the fiscal year, they are carried forward and expended in the next fiscal year. In the past few years and in order to use carry forward from the previous year, we have planned accordingly in order to conduct more than the required number of audits for the year. We have consistently conducted between 20 to 29 court audits per year. However, by doing this, we have reached a point where there will be no carry forward to use in the next year. With the intention to continue to do the minimum number of audits or more, we are requesting to increase the funding and budget authority for other funds by an additional \$100,000 per year. This would increase our funding and budget authority to \$350,000. The second reason for this request is that the cost of doing business is increasing. With the costs of contractual services with CPA/accounting firms consistently rising we will need to increase our funding to meet those costs. Depending on size and complexity these audits range anywhere from \$12,000 to \$22,000 per audit. We do anticipate these costs to increase 7% to 10% per year for the next few years.

### ***PRIORITY 3: Increase Budget Authority for Single Audit services - OTHER FUNDS BUDGET AUTHORITY ONLY - \$400,000***

In Proviso 105.1, it states that each state agency receiving federal funds are subject to the audit requirements of the Single Audit Acts Amendment of 1996 and the Title 2 US Code of Federal Regulations Part 200, etc. will submit to the State Auditor an amount representing an equitable portion of the expense of conducting the Audit of the federal financial assistance. This means that each year after the audits is conducted our office invoices each state agency that received federal funds for an equitable portion of the expense. We currently base this portion on the percentage of federal financial assistance the agency receives in relation to the total amount all agencies receive for the state. The State Auditor's Office then uses those funds for support services of conducting the audit such as personnel cost, travel to agencies, audit software and technology, and administrative services. By increasing the Budget Authority, it gives our office the ability to invoice for the total amount of the expenses incurred and address that the total amount in federal funding in the state has increased significantly. There are no FTEs related to this request.

**FY 23-24 Budget Priorities Summary**  
**South Carolina Office of the State Auditor**

Budget Priorities		Funding				FTEs					
Priority Type (recurring/non-recurring/other funds adjustment/federal funds adjustment)	Priority Title	Priority Description	Recurring	Non-Recurring	Other	Federal	Total	State	Other	Federal	Total
1 Recurring	Personnel Funding - Agency Reorganization - Executive	<p>At the beginning of FY24, we reorganized our executive management team in order to address issues with succession planning, "pool staff" management, scheduling of engagements, and being able to plan for additional audits during the FY. In doing so, and with the approval of DSHR, two of our current FTEs were reclassified to Directors positions. They include the Director of Audit Operations and the Director of Agency Relations. The need for two additional directors positions primarily focused on the need to spread administrative duties that our Audit Directors were responsible for among these positions. This would allow our executive management team to focus on technical issue related to audits and leading staff in development. In addition, it reorganized our "pool staff" so that they are their own division, reporting to only one director. This would give those staff members the opportunity to receive individualized development. Also, with the addition of these positions, we can expand the number of engagements done each year greatly increasing our overall productivity. Currently, we are funding these positions with current resources that we have. We can do so because we have had several vacancies that we have been unable to fill, have transitioned to a new audit software that has lowered our overall costs for these services, and have experienced reduced costs in training and travel. As we move forward, we are requesting funding to cover these very important roles without having to reduce program costs in the future or by having to refrain from hiring all of our vacant FTEs. We are continuing to fill the vacancies we have and we feel with the latest general increase and the market salary adjustments that were awarded for FY24, we will see our vacant positions filled by the end of the year. The total budget request for these two positions is \$400,000. To break it down, the salaries for each are \$150,000 plus 33% for employer contributions. These salaries are based on job duties, years of experience, certification, and the market for similar positions throughout the country. There are no new or additional FTEs requested.</p>	400,000	0	0	0	400,000	0	0	0	0

2	Other Funds		0	0	100,000	0	100,000	0	0	0	0
3	Other Funds	<p>Increase Budget Authority for Single Audit Services</p> <p>Increase Funding and Budget Authority for Court Audits</p>	0	0	400,000	0	400,000	0	0	0	0
<p>There are two factors that contribute to this request. First, under Proviso 105.4, we currently receive \$250,000 from the State Treasurer to conduct a minimum of fifteen audits annually of county treasurers, municipal treasurers, county clerks of court, magistrates and/or municipal courts as required by Section 141210 of the 1976 Code and allowed by Section 141240. If there is any unused funds at the end of the fiscal year, they are carried forward and expended in the next fiscal year. In the past few years and in order to use carry forward from the previous year, we have planned accordingly in order to conduct more than the required number of audits for the year. We have consistently conducted between 20 to 29 court audits per year. However, by doing this, we have reached a point where there will be no carry forward to use in the next year. With the intention to continue to do the minimum number of audits or more, we are requesting to increase the funding and budget authority for Other funds by an additional \$100,000 per year. This would increase our funding and budget authority to \$350,000. The second reason for this request is that the cost of doing business is increasing. With the costs of contractual services with CPA/accounting firms consistently rising we will need to increase our funding to meet those costs. Depending on size and complexity these audits range anywhere from \$12,000 to \$22,000 per audit. We do anticipate these costs to increase 7% to 10% per year for the next few years.</p> <p>In Proviso 105.1, it states that each state agency receiving federal funds are subject to the audit requirements of the Single Audit Acts Amendment of 1996 and the Title 2 US Code of Federal Regulations Part 200, etc. will submit to the State Auditor an amount representing an equitable portion of the expense of conducting the Audit of the federal financial assistance. This means that each year after the audits are conducted our office invoices each state agency that received federal funds for an equitable portion of the expense. We currently base this portion on the percentage of federal financial assistance the agency receives in relation to the total amount all agencies receive for the state. The State Auditors Office then uses those funds for support services of conducting the audit such as personnel cost, travel to agencies, audit software and technology, and administrative services. By increasing the Budget Authority it gives our office the ability to invoice for the total amount of the expenses incurred and address that the total amount in federal funding in the state has increased significantly. There are no FTEs related to this request.</p>			0	0	400,000	0	400,000	0	0	0	0

**Constitutional Subcommittee Proviso Request Summary FY24-25**

Proviso # in FY 23-24 Act	Renumbered Proviso #	Proviso Title	Short Summary	Agency Recommended Action (keep, change, delete, add)
		SFAA-AUD: Annual Audit of Federal Programs	Each state agency receiving federal funds subject to the audit requirements of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (C.F.R) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) shall remit to the State Auditor an amount representing an equitable portion of the expense of conducting the audit of the State's federal financial assistance. Each state agency's equitable portion of the expense will be determined by a schedule developed by the State Auditor. Such remittance will be based upon invoices provided by the State Auditor. The State Auditor shall retain and expend the funds received and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.	<b>KEEP</b>
105.4A4:ES1	NA	SFAA-AUD: Medical Assistance Audit Carry Forward	The State Auditor's Office shall retain and expend the funds received from the Department of Health and Human Services for the Medical Assistance Audit Program pursuant to Proviso 33.3 of this act and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.	<b>KEEP</b>
105.2	NA	SFAA-AUD: Coordination with Inspector General	In the event the State Auditor's Office identifies instances of fraud, waste, and abuse during any state agency audit, the State Auditor shall refer such instances to the State Inspector General for examination. The State Auditor shall prepare and submit an annual report to the Chairmen of the House Ways and Means Committee and the Senate Finance Committee and the Governor detailing all written referrals of fraud, waste, and abuse submitted to the State Inspector General.	<b>KEEP</b>
105.3	NA			<b>KEEP</b>

105.4	NA	SFAA-AUD: Annual Audit of Court Fees and Fines Reports	<p>The State Auditor shall conduct a minimum of fifteen audits annually of county treasurers, municipal treasurers, county clerks of court, magistrates and/or municipal courts as required by Section 14-1-210 of the 1976 Code and allowed by Section 14-1-240; however, the State Auditor shall not be required to spend more than the annual amount of \$250,000, received from the State Treasurer to conduct the said audits pursuant to Section 14-1-210 of the 1976 Code. The State Auditor may contract with one or more CPA/accounting firms to conduct the required audits. The State Auditor shall consult with the State Treasurer to determine the jurisdictions to be audited in the current fiscal year. Jurisdictions may be selected randomly or based on an instance in the current or previous fiscal year of failing to report, incorrectly reporting or under remitting amounts owed. The funds transferred to the State Auditor by the State Treasurer shall not be used for any purpose other than to conduct the described audits and report whether or not the assessments, surcharges, fees, fines, forfeitures, escheatments, or other monetary penalties imposed and/or mandated are properly collected and remitted to the State. Any unexpended balance on June thirtieth of the prior fiscal year shall be carried forward and must be expended for the same purpose during the current fiscal year. The State Auditor shall annually report by October first, its findings of the jurisdictions audited to the Senate Finance Committee and the House Ways and Means Committee.</p>	KEEP
105.5	NA	SFAA-AUD: Special Study of Long-Term Obligations)	<p>The State Auditor shall identify certain long-term obligations by state institutions of higher learning, as defined by Section 59-107-10 of the 1976 Code, and report his findings to the General Assembly. The intent is to identify those obligations which are long-term debt or tantamount to long-term debt, or those which, if not honored, might result in a negative rating action on the institution's or the State's credit rating. Such obligations would not include either general obligation debt or bonded indebtedness issued directly by an institution.</p>	KEEP
105.6	NA	SFAA - AUD: Internal Audit Services SFAA-AUD: AMEND	<p>The State Auditor's Office is authorized to offer internal audit services to state agencies under a cost reimbursement, shared services model. Any state agency that does not have an internal audit function may opt to use the services to conduct such audit. The audit plan will be agreed upon between the State Auditor's Office and the state agency, and cost will be determined by nature, timing, and extent of the audit work.</p>	KEEP
105.7	105.7	WORDING OF SECTION 11-7-50 (B) CODE OF LAWS	<p>For Fiscal Year 2024-2025, the time requirement of Section 11-7-50 (B) that the State Auditor or a member of his staff may not conduct an audit of a program, activity or agency for which he had management responsibility or by which he has been employed is reduced from two years to one year.</p>	ADD





**SFAA - State Auditor  
FTE Positions**

	<b>General Fund</b>	<b>Other Fund</b>	<b>Total</b>
<b>Filled</b>	<b>42</b>	<b>14</b>	<b>56</b>
<b>Vacant</b>	<b>4</b>	<b>0</b>	<b>4</b>
	<b>46</b>	<b>14</b>	<b>60</b>

**As of 1.10.24**

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## **AGENCY'S DISCUSSION AND ANALYSIS**

### **Purpose, Organization and Major Responsibilities**

The Office of the State Auditor (OSA) serves as the independent audit function for the State of South Carolina. The OSA is organized into three service delivery divisions: State Agency, Medicaid and Internal Audit Services, and is supported by an Administration division.

**State Agency Division** - Composed of approximately 14 permanently assigned audit professionals, this division has 4 core responsibilities:

1. Annual audit of the State's Annual Comprehensive Financial Report (ACFR) as prepared by the Office of the Comptroller General.
2. Annual audit of the Schedule of Expenditures of Federal Awards (Single Audit).
3. Attestation engagements of each state agency not separately audited, which are focused on internal controls.
4. Attestation engagements of county and municipal treasurers, county clerks of court, magistrates, and municipal clerks of court to ensure that the imposition, collection, and remittance of court fines, fees, and assessments are in accordance with applicable state laws.

**Medicaid Division** - Composed of approximately 14 permanently assigned audit professionals, this division performs attestation engagements of financial and statistical reports filed by providers of Medicaid services, primarily nursing facilities. These engagements, performed under contract with the South Carolina Department of Health and Human Services (DHHS), determine if the reimbursement rate based on costs claimed for reimbursement by the provider are free from material misstatements based on South Carolina's State Plan for Medical Assistance, the applicable contract between DHHS and the Medicaid provider and all applicable state and federal laws and regulations. The contract agreement with DHHS requires that an engagement be performed on each provider facility at least once every 4 consecutive cost reporting periods.

**Internal Audit Services Division** – Composed of approximately 7 audit professionals, this division focuses on providing services to the South Carolina Department of Transportation (SCDOT) and performs independent and objective assurance and consulting activities designed to add value or improve SCDOT's operations. The division assists in accomplishing strategic objectives and mission by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

**Administration Division** – Composed of approximately 6 administrative professionals who provide accounting, budgeting, human resource, purchasing, technology, word processing and other administrative support for the agency.

In addition to the permanently assigned staff in the State and Medicaid divisions, 16 staff float between divisions to provide teams with the flexibility to scale team size to fit the needs of the engagement. Three additional positions are agency-wide resources not assigned to a division.

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## Analysis of the Agency

OSA continues to focus on implementing initiatives designed to improve productivity and utilization, increase our value, develop and retain staff and maintain a strategic focus.

### Major Accomplishments

The following accomplishments relate to the agency's core mission:

- The audit of the ACFR for fiscal year June 30, 2022, performed jointly with CliftonLarsonAllen, LLP (CLA), a national public accounting firm, was completed on November 29, 2022, the date mutually agreed to with the Office of the Comptroller General. The total cost for CLA's services was approximately \$355,000, which was reimbursed by state agencies.
- The audit of the State's Schedule of Expenditures of Federal Awards (Single Audit) for the fiscal year ended June 30, 2022, was completed on March 24, 2023. Covering compliance with laws and regulations for nearly \$13 billion in federal award expenditures, the single audit engagement required nearly 14,000 hours to complete in addition to the assistance provided by various state agencies.
- Completion of 50 agreed-upon procedures engagements for state agencies covering fiscal years 2021, 2022, and 2023.
- Completion of 59 reports covering 29 healthcare providers receiving Medicaid reimbursement. Medicaid receivables of \$4.1 million have been established based on these engagement findings.
- Through contracts with three certified public accounting firms, completion of 29 agreed-upon procedures engagements of county and municipal courts.
- Completion of 8 internal audit reports related to SCDOT.

### Other Significant Accomplishments and Initiatives

#### Productivity and Utilization

- During the fiscal year 2023, we continued to be challenged by shifting attitudes in the workplace and high employment levels in our state and across the nation. Eleven staff separated during the year, equating to a 21.6% turnover rate. Our goal is to manage turnover to approximately 10%.
- Recruited 9 new employees, including 1 experienced hire.
- Staff utilization remained stable at 71%. Our goal average utilization is 75%.
- Despite workforce challenges, we continue to build internal resources that allow us to insource work that was previously contracted.
- Of two summer interns in 2022, one was hired full-time in Fall 2022 and the other continues to work part-time as they complete studies at USC.
- Viewing interns as a short-term response to a challenging hiring market, we will continue to employ a summer 2023 intern on a part-time basis after they return to their college studies in the fall.

#### Assuring Value for Those We Serve

- Attempt to seek feedback from stakeholders on how we can better add value to the work we perform. Where practical and in line with our mission, we make adjustments to respond.
- Through planning meetings with agency staff, continue to encourage them to use OSA as a resource to help them identify and address agency risk.

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- Continue to realize value in Medicaid audit services provided to DHHS. Cumulatively over the last 5 fiscal years, our Medicaid Division has identified amounts for recovery equal to nearly 1.4 times the cost of the attest services provided.
- Recognizing that the historic nature of our agreed-upon procedures engagements does not allow agency management to timely react to findings, we are shifting focus to procedures performed on more current, rather than historical, data. This allows us to assist agencies in identifying and correcting issues more timely.
- Continue to build a trusted advisor role between our internal audit team and SCDOT leadership.
- Working to increase awareness of internal audit services to State agencies on a shared service, cost reimbursement basis. Our focus is on smaller agencies that cannot support a full-time internal audit function.
- Completed and issued the Special Study of Long-Term Debt as directed by Proviso 105.5, working closely with the staff of 26 higher education institutions to obtain and report complete and accurate data.
- Issued a special report on state agency compliance with Proviso 117.21 (2022) summarizing the observations we made during our review of compliance with requirements for disbursing contributions outlined in Proviso 118.18 (2022). The report covered 210 contributions made by 23 state agencies.
- As a result of the recommendations of the study committee organized by OSA and as directed by Proviso 105.6 (2021), changes to municipality financial reporting requirements were made by the legislature. These changes were primarily designed to provide relief to smaller municipalities by the requirements of a full-scope audit process.
- Per Proviso 1.3, worked with the Department of Education to develop and maintain a list of auditing firms approved to perform audits of South Carolina school districts and charter schools.

#### **Developing and Managing A Professional Workforce**

- Continue to reinforce teamwork, accountability, and feedback as core elements of our culture.
- Continue to encourage staff to challenge legacy thinking through process improvement.
- Use volunteer service such as delivering meals for Meals on Wheels, working at Harvest Hope, and serving meals at Transitions Homeless Center to build comradery among our teams while serving our community.
- Developed Core Concepts I, a multi-day in-house training program for entry-level employees designed to help them better understand the State, OSA, and the work we perform.
- Executive Leadership Team members are actively involved in state and national associations for audit and finance professionals.

#### **Responding to Change by Maintaining a Strategic Focus**

- As a result of a strategic planning process completed in early fiscal 2022, we continue to focus on: strengthening our recruiting and retention strategies; adding to our existing talent by recruiting experienced CPAs from outside of state government; creating enhanced incentives for staff to become certified; providing opportunities for staff growth by offering internal audit services on a shared service, cost reimbursement basis; seeking opportunities to move software applications to the cloud; identifying potential retirements over the next 5 years and planning how best to fill those positions.

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- Created two new director-level positions to strengthen OSA's executive leadership team: Director of Audit Operations and Director of Agency Relations.

#### **Managing Agency Resources Effectively**

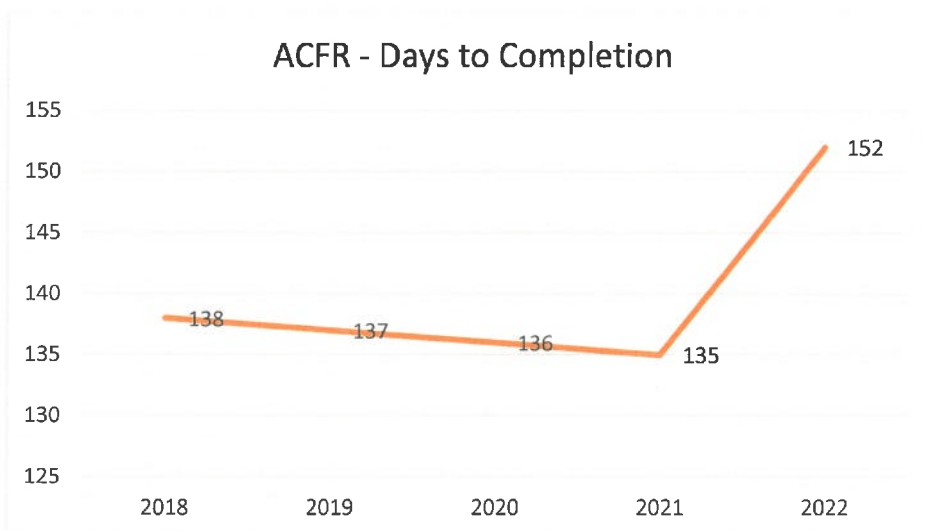
- Continuing to be a good steward of the OSA's resources by investing in the tools that assist us in working more efficiently and effectively.
- Managed OSA's budget conservatively and with accountability.
- Collected a portion of the cost of the statewide single audit from the agencies involved in the audit. These funds are used for technology, training, and retention efforts.
- Proactively seeking opportunities to make OSA more efficient with minimal disruption to workflow.

Performance Comparison to Prior Years

Audit of the State’s ACFR

The State’s ACFR for the fiscal year 2022 was issued 152 days after fiscal year-end, meeting the revised goal issue date agreed to with the Office of the Comptroller General. The additional days over prior years provided time to address disclosure issues and for more robust quality control over the report. The goal for fiscal year 2023 is to complete the ACFR audit within 168 days of fiscal year-end.

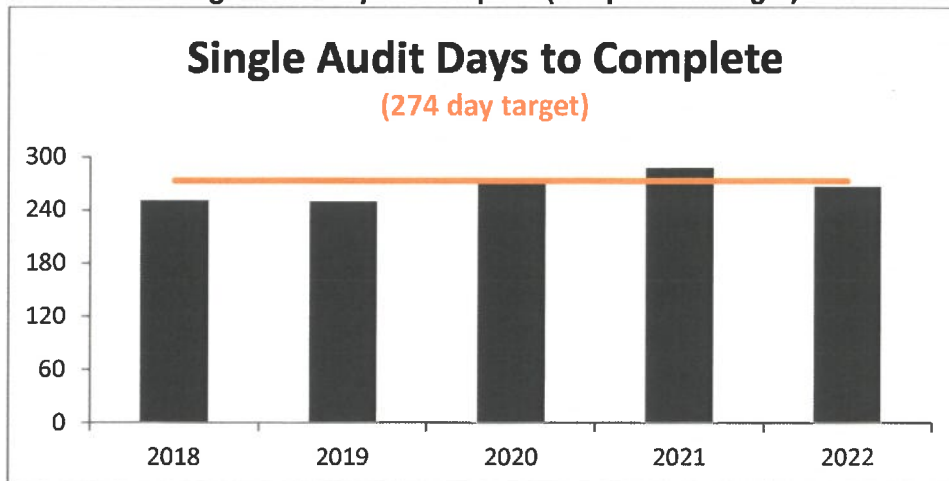
Figure 1  
ACFR Days to Complete



Audit of Expenditures of Federal Awards (Single Audit)

The Single Audit for the fiscal year 2022 was completed in 267 days, exceeding the 274-day (March 31) goal for issuance. The size of this engagement has grown by just over 40% due to pandemic-related federal stimulus programs, making it challenging to complete by the target date. OSA pushes to complete this report by March 31 to minimize the impact on work already scheduled for the remainder of the year.

Figure 2  
Single Audit Days to Complete (compared to target)





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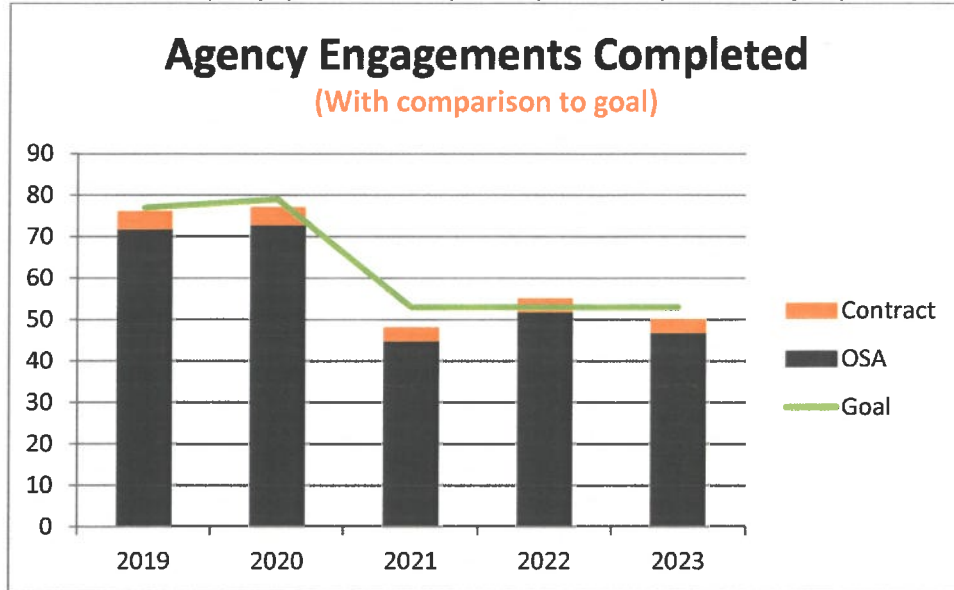
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### Agency Engagements Completed

An attest engagement should be completed for each agency annually. These engagements are primarily performed between March and September. Figure 3 illustrates all engagements completed during the fiscal year.

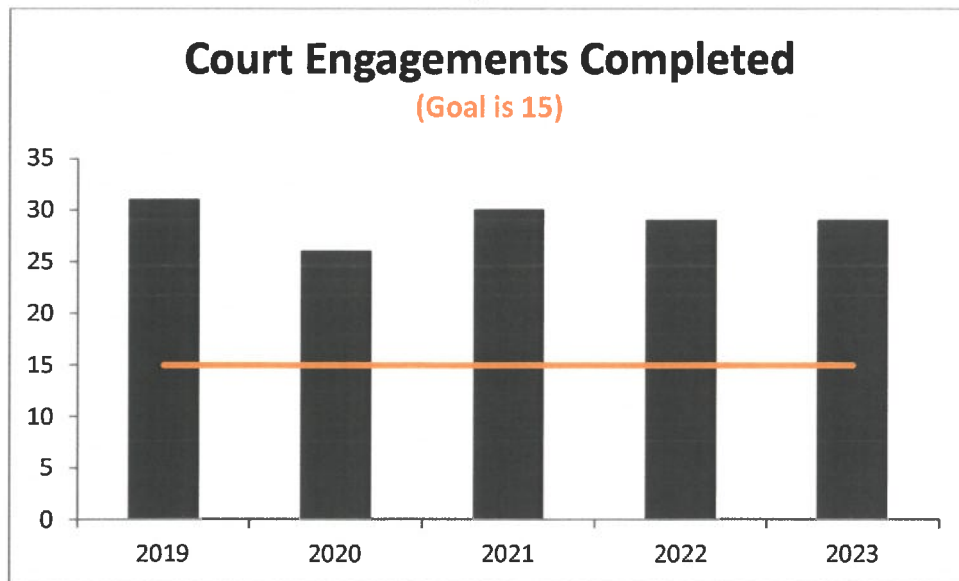
Figure 3  
Agency Engagements Completed (With comparison to goal)



### Court Engagements

For the fiscal year 2023, 29 court engagements were issued, exceeding our goal of 15.

Figure 4  
Court Engagements Completed (Goal = 15)





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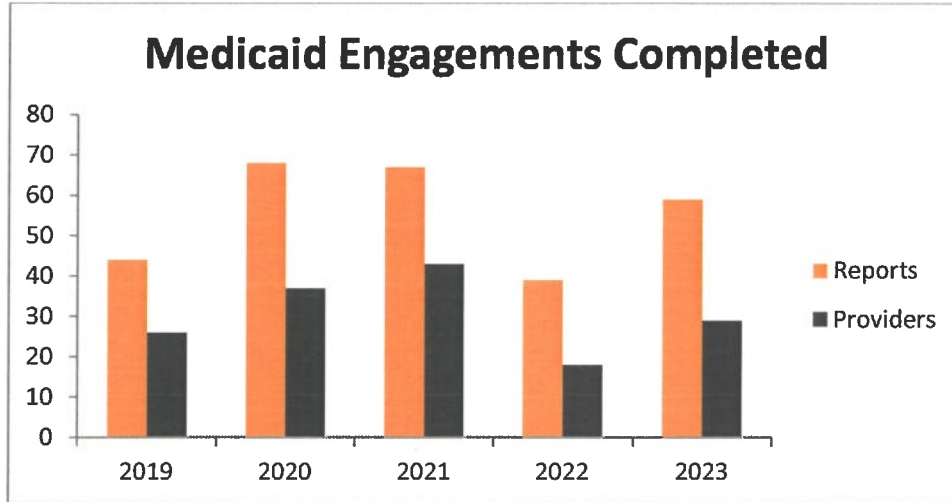
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### Medicaid Engagements Completed

For the fiscal year 2023, reports for 59 Medicaid engagements were issued, covering 29 healthcare providers. Our contract with the DHHS requires that an engagement be conducted for each nursing home provider at least once every four consecutive reporting periods. Report issuance numbers can vary greatly between fiscal years due in large part to work related to large chain operations and length of engagements.

Figure 5  
Medicaid Engagements Completed



### Medicaid Receivables Established

For the fiscal year 2023, Medicaid receivables of \$4.1 million to date have been established by DHHS, based on the findings in reports we issued. As illustrated in Figure 6, Medicaid receivables can vary significantly from one year to the next. These receivables are not predictive and have no direct correlation to the number of reports issued. The degree of provider compliance with program rules and regulations when reporting cost claimed for reimbursement will always be the determining factor in the amounts established.

Figure 6  
Medicaid Receivables Established (\$ in millions)

