
CMCS Informational Bulletin

DATE: October 19, 2023

FROM: Daniel Tsai, Deputy Administrator and Director

SUBJECT: **Clarification of Medicaid and Children’s Health Insurance Program (CHIP) Grants Closeout Process**

Purpose

The Centers for Medicare & Medicaid Services (CMS), based on recommendations from the Department of Health and Human Services, Office of Inspector General (OIG)¹, is providing clarification on the grant closeout process and requesting each state’s/territory’s assistance in making improvements to the Medicaid and Children’s Health Insurance Program (CHIP) grant administration process. One of the most critical pieces of the life cycle of a grant award is the final review and closeout of an open grant award in the Payment Management System (PMS). For Medicaid and CHIP, this occurs annually once the state/territory (the grant award recipient) conducts a final review to ensure that the amount that CMS authorized for the grant award(s) matches the amount drawn and the amount reported as spent by the grant award recipient to the appropriate subaccount in PMS.

The grant award recipient’s PMS subaccount must be reconciled for both negative and positive balances. If the recipient’s subaccount has a negative amount, the state or territory should determine the cause of the overdrawn amount and must return the overdrawn federal funds to the appropriate subaccount. If the recipient’s subaccount has a positive amount, the state or territory should determine the cause of the underdrawn amount and must determine if a drawdown is required for the underdrawn federal funds or if the state needs to make any corrections to move draws between subaccounts as needed. If the amounts are not in agreement, the grant award cannot be closed.

Closeout is the final step in the grant process. To complete a grant closeout, the grant award recipient must ensure that the grant awards and associated drawdown amount (federal funds requested and received by the state or territory), *as reported by the state/territory*, agree. The following describes the process for addressing the closeout of state/territory Medicaid and CHIP grant awards and the reconciliation of PMS subaccount balances in accordance with the Office of Management Circular A-136, Section II.4.9, Grants Programs (August 10, 2021).

¹ <https://oig.hhs.gov/oas/reports/region6/61400068.asp>

Background

Enacted on January 28, 2016, the Grants Oversight and New Efficiency (GONE) Act included requirements related to the closeout of grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances, and which have a period of performance that have exceeded two years. Although the GONE Act requirements have expired, the Office of Management Circular A-136, Section II.4.9, Grants Programs (August 10, 2021) requires similar information to be reported.

CMS is issuing this informational bulletin to clarify existing guidance regarding the requirements for the Medicaid and CHIP grant closeout process. Closeout occurs once all expenditures have been certified by the state or territory on the appropriate expenditure and disbursement reports. Medicaid and CHIP expenditures are reported in the Medicaid and CHIP Budget and Expenditure System (MBES/CBES) through the quarterly expenditure Forms CMS-64 and CMS-21, respectively. These expenditures, once finalized, are reported by CMS to HHS' Program Support Center (PSC) as the final grant award authority.

No later than 30 calendar days after each finalized grant award is issued for a quarter, the state/territory should ensure its actual draws for the finalized quarter are reported in PMS to the appropriate PMS subaccount. Effective April 1, 2022, HHS grant award recipients are no longer required to report the legacy Federal Cash Transaction Report (FCTR) data elements through the quarterly cash report in PMS using the Federal Financial Report (FFR) data elements lines 10a through 10c. To assist with the financial closeout of the grant, HHS authorized PMS to adjust the reported disbursements to equal the drawdown associated with the subaccount. The awarding agency is only able to close out these grant awards once the grant award authority (expenditures reported *by the state/territory* on the Form CMS-64 and Form CMS-21) and the associated drawdown are equal. If the amounts are not equal, the awarding agency cannot process a financial closeout action in PMS.

In accordance with 42 C.F.R. 430.30(c), the Form CMS-64 is the accounting statement that the state agency submits each quarter under Title XIX (Medicaid) of the Social Security Act (the Act). The Form CMS-64 is a summary of actual expenditures derived from source documents including invoices, payment vouchers, governmental funds transfers, expenditure certifications, cost reports and settlements, and eligibility records. In accordance with 42 C.F.R. 457.630(c), the Form CMS-21 is the accounting statement that the state agency submits each quarter under Title XXI (CHIP) of the Act. The amounts reported on the Form CMS-64 and Form CMS-21 and attachments must represent actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and which is available at the time the claim is filed. CMS must review that state/territory expenditures claimed for federal matching under Medicaid and CHIP, to include collections, are programmatically reasonable, allowable, and allocable in accordance with existing federal laws, regulations, and policy guidance.

It is the state's or territory's responsibility, as a Grantee, to reconcile its draws to the final grant award authority, once the grant award authority has been reconciled by CMS to actual expenditures that the state/territory has certified on the Form CMS-64 and/or Form CMS-21 for the applicable expenditure reporting period. Drawdown amounts will be the Charges Advanced

(draws) and Disbursements as reported in PMS. To reconcile the draws, a state or territory may need to make correcting adjustments in PMS to the drawdown amounts (i.e., Charges Advanced and Disbursements) to ensure it is equal to the grant award authority once the grant award authority has been reconciled to the actual expenditures certified by the state or territory for the applicable reporting period. The state/territory agency that performs the Charges Advanced (draws) should coordinate with the agency or department that reports the expenditures to CMS to ensure the drawdown amounts reported to PMS agree with the final CMS grant awards that have been reconciled to actual expenditures certified on the Form CMS-64 and/or Form CMS-21.

Federal Requirements

Section 1903 of the Act provides that the Secretary shall pay to each state, which has an approved state plan, an amount equal to the federal medical assistance percentage (FMAP) of the total amount expended during the quarter as medical assistance under the State plan.

Section 2105 of the Act provides that the Secretary shall pay to each state with a plan approved under title XXI, from its allotment under section 2104 of the Act, an amount for each quarter equal to the enhanced FMAP (or, in the case of expenditures described in subparagraph 2105(a)(1)(D)(iv), the higher of 75 percent or the sum of the enhanced FMAP plus 5 percentage points) of expenditures in the quarter.

Federal regulations at 42 C.F.R. 430.30(c) and 42 C.F.R. 457.630(c), provide that with respect to each quarter of the fiscal year, a state must submit the Forms CMS-64/CMS-21 not later than 30 days after the end of the quarter. Federal regulations at 2 CFR 200.344 provide that the HHS awarding agency or pass-through entity will close out the federal award when it determines that all applicable administrative actions and all required work of the federal award have been completed by the non-federal entity. The regulation at 2 C.F.R. 200.344(a) provides that the non-federal entity must submit, no later than 120 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the federal award. Federal regulations at 2 C.F.R. 200.1 define the period of performances to mean the total estimated time interval between the start of an initial Federal award and the planned end date, which may include one or more funded portions, or budget periods. The period of performance is indicated on each grant award letter.

Federal regulations at 31 C.F.R. Part 205 implement the requirements of the Cash Management Improvement Act of 1990 (CMIA) and provide the rules and procedures for efficient transfer of federal financial assistance between the federal agencies and the state/territory. Generally, the CMIA requires, in part, that federal agencies must make timely fund transfers and grant awards to state agencies and state agencies must minimize the time between the deposit of federal funds in the state's account and the disbursement of funds for program purposes.

This informational bulletin is designed to clarify existing guidance and to assist states and territories in drawing and reporting of Title XIX (Medicaid) and Title XXI (CHIP) federal funds from the appropriate PSC's PMS subaccounts.

Grant Award Authority, Charges Advanced (Draws), and Reporting of Disbursements (Expenditures)

Under current policy, for a financial closeout to occur, the final FFR must be reviewed against the “Authorized (AUTH)” (that is, the amount authorized for the grant), the “Charges Advanced (CHG ADV)” (that is, the amount drawn by the grant recipient in the PMS) and the “Disbursement (DISB)” (that is, the amount reported by the grant recipient in the PMS as spent), to ensure all three amounts reconcile. The grant award authority in PMS is reconciled based on state and territory reported expenditures. CMS will finalize the grant award authority once the expenditures are certified in MBES/CBES.

States and territories are required to ensure that their Charges Advanced (draws) in PMS match the grant award authority (which is reconciled to reported expenditures in MBES/CBES). The Charges Advanced (draws) should be reconciled so that the subaccount balance does not result in a positive or negative balance.

Historically, states and territories have been required to report disbursements on the Form PSC-272, (Federal Cash Transactions Report), through PMS. Because state’s expenditures (Disbursements) are reconciled through the quarterly expenditure reports (Forms CMS-64/CMS-21), states/territories have not always reported their expenditures (Disbursements) timely and accurately to PMS. To assist with the grant closeout, PMS revised the state reporting process to have all disbursements automatically populated with the state/territory draw amounts, eliminating state reporting of disbursements to PMS. This effort should assist states/territories with closing out subaccounts that are a result of inconsistent or incomplete state reporting of draws and disbursement. CMS agrees with this approach given that the official grant award authority is based on state-certified expenditures on the Forms CMS-64/CMS-21.

Conclusion

The closeout of a federal award is the final step in the grant process. In order to complete a closeout of a federal award, the grant award recipient, must submit all final financial reports to the appropriate federal agency. States and territories should ensure expenditures certified on the Forms CMS-64 and CMS-21 are equal to the draws in the PMS subaccounts. As part of this process, states and territories are required to monitor and correct any discrepancies in the PMS subaccount and review and take corrective actions on any open PMS subaccount. This will allow the PMS subaccounts to be closed timely and properly.

We look forward to continued efforts and commitment from states and territories in ensuring the timely reconciliation and closeout of the Medicaid and CHIP grant awards as required under federal law. We appreciate your assistance in reconciling any positive or negative balances in the PMS system. If you have any questions regarding Medicaid or CHIP grants, you may contact your Division of Financial Operations Branch analyst. If you need technical assistance regarding draws or reporting disbursements, please contact your PSC representative.

Appendix A: Medicaid and CHIP Draw Process for Closeout

Medicaid Draws (Title XIX)

Federal regulation authorizes states and territories to withdraw federal funds as needed to pay the federal share of disbursements (42 CFR. 430.30(d)(3) and 42 C.F.R. 457.630(c)). For Medicaid and CHIP draw down, CMS defines the term “ as needed”, based on the criteria provided in 31 CFR 205.11(b), to mean that states and territories must limit the amount of funds transferred to the minimum amount required to meet a state’s/territory’s actual and immediate cash needs. State and territories should follow the requirements for funding techniques as provided in 31 CFR 205.11.

Regulations at 2 CFR 200.346 provide that any funds paid in excess of the amount to which the non-federal entity is finally determined to be entitled under the terms of the federal award constitutes a debt to the federal government. Regulation at 2 CFR 200.346 (b) provides that except where otherwise provided by statutes or regulations, the HHS awarding agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (31 C.F.R. parts 900 through 999).

It appears that draws related to the reporting of Medicaid prior period adjustments are often a cause for unbalanced subaccounts. We are providing some examples of how these prior period adjustments need to be associated with the correct grant award and drawn from the correct subaccount. Medicaid expenditures reported on a quarterly expenditure report for a federal fiscal year (FFY), whether for a current or a prior period (increasing or decreasing adjustment), should be drawn from or returned to the PMS subaccount for that FFY.

Example: Medicaid expenditures (increasing or decreasing adjustments for current or prior period FFYs) for medical assistance payments (MAP) or administration (ADM) costs that will be reported on one of the four quarterly expenditure reports for FFY **2023** should ultimately be drawn or returned from the FFY **2023** PMS subaccount. The information below reflects the FFY 2023 accounting data and/or footnote from the grant award that can be used to identify the appropriate FFY subaccount.

<u>PMS Subaccount</u>	<u>Document Number</u>
XIX-MAP23	2305xx5MAP
XIX-ADM23	2305xx5ADM

Similarly, Medicaid expenditures (increasing or decreasing adjustments for current or prior period FFYs) reported on an FFY **2022** expenditure report should ultimately be drawn or returned through the FFY **2022** PMS subaccount. The information below reflects the FFY 2022 accounting data and/or footnote from the grant award that can be used to identify the appropriate FFY subaccount.

<u>PMS Subaccount</u>	<u>Document Number</u>
XIX-MAP22	2205xx5MAP
XIX-ADM22	2205xx5ADM

Please note that particularly at the beginning of a FFY, it is possible that states/territories may need to draw down funds from two different FFYs PMS subaccounts. In accordance with the guidance indicated above, states and territories should ensure that the draws are made from the correct PMS subaccount. For example, a draw made for a \$1,500 MAP expenditure that will be reported on the **quarter 4 FFY 2022** expenditure report, should be drawn from the **XIX-MAP22** PMS subaccount. A draw made for a \$2,000 MAP expenditure that will be reported on the **quarter 1 FFY 2023** expenditure report, should be drawn from the **XIX-MAP23** PMS subaccount.

CHIP Draws (Title XXI)

CHIP allotments are available for expenditures by a state or territory through the end of the succeeding FFY. Payments for expenditures are applied to reduce the earliest FFY CHIP allotments before the payments are applied to reduce later FFY CHIP allotments. For example, for FFY 2023, a state would have available for expenditures any FFY 2022 CHIP allotment that remained unexpended at the end of FFY 2022, and the FFY 2023 CHIP allotment. Such CHIP allotment amounts are available for expenditures that will be reported on one of the four Form CMS-21 and/or Form CMS-64 quarterly expenditure reports for FFY 2023. Using the same example for FFY 2023, states and territories should draw from the unexpended FFY 2022 CHIP allotment (CHIP22 subaccount), if any, until exhausted, and then draw from the FFY 2023 CHIP allotment (CHIP23 and/or CHIP23-3002 subaccounts) for expenditures that will be reported on one of the four quarterly expenditure reports for FFY 2023. If at the end of FFY 2023, a state does not expend its full FFY 2022 CHIP allotment, the unexpended amount of FFY 2022 CHIP allotment as shown on the quarter ending September 30, 2023, Form CMS-21C will be recovered by CMS through a negative grant award (de-obligated) once expenditures are finalized in the following FFY. States that do not expend the full amount of FFY 2022 CHIP allotment based on expenditures reported and applied to allotments as shown on the quarter ending September 30, 2023, Form CMS-21C should be careful **not** to draw down any unexpended FFY 2022 CHIP allotment remaining in the CHIP22 subaccount for expenditures that will be reported on one of the four FFY 2024 quarterly expenditure reports.

Appendix B: Grants Closeout Steps for States and Territories

The following Action Steps, 1 through 6, describe the stages in the FFY grants closeout process.

Action Steps for Quarter 4

1. No later than 30 days after the end of the fourth quarter, a state/territory must submit the Form CMS-64/CMS-21.
2. No later than 30 calendar days after the end of the fourth quarter, the state/territory:
 - a. Should assess the subaccount balances to determine if there are any discrepancies between the subaccount authority and draw balance.
 - b. If there are discrepancies, identify the reasons (i.e. pending future reconciling items such as an audit finding or deferral related issue) and notify CMS of any pending items that may delay the timely closeout of the PMS subaccount.
3. Approximately 180 calendar days after the end of the fourth quarter, states/territories receive a finalized grant award which will provide the final authority in PMS for the FFY. *(The final authority is the reconciled expenditures as certified by states/territories on the Form CMS-64/CMS-21 expenditure reports in MBES/CBES for the FFY.)*
4. No later than 30 calendar days after receiving the finalized grant award, the state/territory should reconcile the authority to the draws in PMS, if not reconciled, and work with CMS to resolve any discrepancies.

Reconciliation to Closeout PMS Subaccount Balances After Quarter 4 of the FFY

5. For all open PMS subaccounts, current and prior FFYs, CMS will send an email to the state or territory including an excel file containing the following information regarding the draw balance in the PMS subaccount(s). The state and territory should ensure that the subaccount(s) are reconciled within 30 days of the email notification.
 - PMS subaccount information identifying the grant award requiring closure.
 - Finalized Grant Award Authority based on state/territory certified expenditures
 - State Disbursements to date (automatically populated with state reported charges (draw) amount
 - State Charges Advanced (draws) posted to date in PMS
 - Draw Balance to date – difference between reconciled Grant Award Authority and Charges Advanced (draws)
6. CMS will request that the state or territory respond to CMS within 10 workdays of receiving the grant closeout email providing a relevant analysis, explanation relating to the overdrawn amounts, and a corrective action plan or request an extension of up to 20 days to provide this information. CMS may follow up with the state or territory to discuss the issue, determine if any further information is needed, and address any actions or

preparation of action plans that may need to be completed by the state or territory to address the grants closeout of the PMS subaccount.

CMS and State/Territory Can Make No Further Progress

Federal regulations at 2 C.F.R. 200.344(a) require recipients to complete all closeout requirements not later than 120 calendar days after the end date of the period of performance, unless an extension has been approved as referenced in the guidance identified above. CMS has made a concerted effort since the enactment of the 2016 GONE Act to work with states/territories to close all expired awards on a timely basis. However, when despite CMS efforts to work cooperatively with a state/territory to closeout a PMS subaccount that remains open, further progress cannot be made, CMS will initiate a demand letter to resolve a negative subaccount balance.