DEPARTMENT OF HEALTH & HUMAN SERVICES — Office of Inspector General

Washington, D.C. 20201

APR 21 2008

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson
Inspector General

SUBJECT: Review of the Centers for Medicare & Medicaid Services Grant Closeout Procedures (A-02-06-02001)

The attached final report provides the results of our review of the Centers for Medicare & Medicaid Services (CMS) grant closeout procedures. Pursuant to Federal regulations and policy, CMS is required, as a general matter, to close grants within 180 days after the end of the grant period (the cutoff date).

Within CMS, three components are responsible for managing grants. The Center for Medicaid & State Operations (CMSO) is responsible for Medicaid, State Children's Health Insurance Program (SCHIP), and Medicaid survey and certification grants. The Office of Acquisition and Grants Management (OAGM) is responsible for discretionary grants. (We refer collectively to CMSO and OAGM as the "program offices.") Finally, the Office of Financial Management is responsible for tracking and recording grant activity on the CMS general ledger and instructing the Department's Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). For a grant to be closed in the payment system, the grant award, expenditure, and drawdown amounts must be equal.

Our objective was to determine why CMS grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date.

The 197 grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date for several reasons:

- For 33 grants with unexpended balances totaling $1,154,215,943, the program offices did not initiate closeout. CMSO did not initiate closeout of 10 SCHIP grants, representing 99 percent of these unexpended balances, because it was awaiting the results of legislative proposals to use the expired funds for other SCHIP areas. However, to use the funds for other SCHIP areas, CMSO would have needed to deobligate the expired funds and close the grants. We also found that OAGM did not initiate closeout of the

remaining 23 grants because it lacked an adequate monitoring system to ensure that grants were closed by the cutoff date. As of March 31, 2006, the 33 grants had been open for an average of 479 days beyond the cutoff date.

- For 164 grants with unexpended balances totaling $104,184,680, the program offices did initiate closeout. However, DPM did not complete closeout primarily because of differences among the grant award, expenditure, and drawdown amounts in the payment system. The program offices did not reconcile these differences before initiating closeout or access the payment system to verify that DPM had closed the grants. As of March 31, 2006, the 164 grants had been open for an average of 1,285 days beyond the cutoff date.

We recommend that CMS:

- ensure that the program offices close grants by the cutoff date by establishing a monitoring system that includes procedures for:
    - reconciling grant activity recorded on the CMS general ledger and grant activity recorded in the payment system and
    - periodically accessing the payment system to determine whether DPM has closed grants for which closeout was initiated,
- deobligate any unexpended balances on grants open past the cutoff date, and
- work with DPM to establish a dollar threshold for differences in payment system balances and procedures for closing grants with differences below the threshold.

In its comments on our draft report, CMS generally concurred with our recommendations.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Financial Management and Regional Operations, at (202) 619-1157 or through e-mail at Joseph.Green@oig.hhs.gov. Please refer to report number A-02-06-02001 in all correspondence.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE CENTERS FOR MEDICARE & MEDICAID SERVICES GRANT CLOSEOUT PROCEDURES

Daniel R. Levinson
Inspector General

April 2008
A-02-06-02001

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Three components of the Department of Health and Human Services (HHS), Centers for Medicare & Medicaid Services (CMS), are responsible for managing CMS grants. The Center for Medicaid & State Operations (CMSO) is responsible for Medicaid, State Children's Health Insurance Program (SCHIP), and Medicaid survey and certification grants. The Office of Acquisition and Grants Management (OAGM) is responsible for discretionary grants. (We refer collectively to CMSO and OAGM as the "program offices.") Finally, the Office of Financial Management is responsible for tracking and recording grant activity on the CMS general ledger and instructing the HHS Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). DPM is responsible for recording grant activity in the payment system and closing grants after receiving closeout instructions from the Office of Financial Management.

Pursuant to Federal regulations and policy, CMS is required, as a general matter, to close grants within 180 days after the end of the grant period (the cutoff date). For a grant to be closed in the payment system, the grant award, expenditure, and drawdown amounts must be equal.

In its "Report on Internal Control" for the year ended September 30, 2005, Ernst & Young stated that CMS was not actively reviewing grants eligible for closeout and that CMS lacked a process for ensuring that grant financial activity recorded on the general ledger agreed with activity recorded in the payment system. This finding appeared again in the PricewaterhouseCoopers "Report on Internal Control" for the year ended September 30, 2006.

OBJECTIVE

Our objective was to determine why CMS grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date.

SUMMARY OF FINDINGS

The 197 grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date for several reasons:

- For 33 grants with unexpended balances totaling $1,154,215,943, the program offices did not initiate closeout. CMSO did not initiate closeout of 10 SCHIP grants, representing 99 percent of these unexpended balances, because it was awaiting the results of legislative proposals to use the expired funds for other SCHIP areas. However, to use the funds for other SCHIP areas, CMSO would have needed to deobligate the expired funds and close the grants. We also found that OAGM did not initiate closeout of the remaining 23 grants because it lacked an adequate monitoring system to ensure that grants were closed by the cutoff date. As of March 31, 2006, the 33 grants had been open for an average of 479 days beyond the cutoff date.

- For 164 grants with unexpended balances totaling $104,184,680, the program offices did initiate closeout. However, DPM did not complete closeout primarily because of differences among the grant award, expenditure, and drawdown amounts in the payment system. The program offices did not reconcile these differences before initiating closeout or access the payment system to verify that DPM had closed the grants. In some cases, the discrepancies among the grant awards, expenditures, and drawdowns were $1 or less. As of March 31, 2006, the 164 grants had been open for an average of 1,285 days beyond the cutoff date.

RECOMMENDATIONS

We recommend that CMS:

- ensure that the program offices close grants by the cutoff date by establishing a monitoring system that includes procedures for:

    - reconciling grant activity recorded on the CMS general ledger and grant activity recorded in the payment system and

    - periodically accessing the payment system to determine whether DPM has closed grants for which closeout was initiated,

- deobligate any unexpended balances on grants open past the cutoff date, and

- work with DPM to establish a dollar threshold for differences in payment system balances and procedures for closing grants with differences below the threshold.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its comments on our draft report, CMS generally concurred with our recommendations. CMS also requested that we make certain modifications to our report for purposes of clarity and accuracy. This final report includes the requested modifications.

CMS's comments are included in their entirety as Appendix B (March 3, 2008), Appendix C (November 20, 2007), and Appendix D (August 24, 2007).

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D – CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS DATED AUGUST 24, 2007

INTRODUCTION

BACKGROUND

Three components of the Department of Health and Human Services (HHS), Centers for Medicare & Medicaid Services (CMS), are responsible for managing CMS grants. The Center for Medicaid & State Operations (CMSO) is responsible for Medicaid, State Children's Health Insurance Program (SCHIP), and Medicaid survey and certification grants.[1] The Office of Acquisition and Grants Management (OAGM) is responsible for discretionary grants.[2] (We refer collectively to CMSO and OAGM as "the program offices.") Finally, the Office of Financial Management (OFM) is responsible for tracking and recording grant activity on the CMS general ledger and instructing the HHS Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). DPM is responsible for recording grant activity in the payment system and closing grants after receiving closeout instructions from OFM.

Regulations and Departmental Policies Governing Grant Closeout

Pursuant to 45 CFR § 92.50(a), which applies to most HHS grants to State and local governments, Federal agencies are required to close out the grant award when "all applicable administrative actions and all required work of the grant has been completed." Under 45 CFR § 92.50(b), grantees are required to submit all financial, performance, and other required reports within 90 days after the expiration or termination of the grant. The Federal agency may extend these reporting deadlines upon request. After receiving these reports, the Federal agency must make all adjustments to allowable costs within 90 days (45 CFR § 92.50(c)). Similar regulatory requirements at 45 CFR § 74.71 apply to the closeout of HHS grants awarded to nonprofit organizations. Therefore, CMS generally must close Medicaid, SCHIP, Medicaid survey and certification, and discretionary grants within 180 days after the end of the grant period (referred to as the "cutoff date" in this report).[3] We recognize that there may be certain instances in which CMS, in accordance with regulatory requirements or policy guidance, may need to take further administrative actions that would prevent the closing of a specific grant within 180 days.

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[1]Medicaid survey and certification grants provide funding to State governments for inspections of hospitals, nursing homes, and other facilities that serve Medicaid beneficiaries to ensure that the facilities meet established health and safety standards. Medicare survey and certification activities are governed by a contractual arrangement and are therefore outside the scope of this review.

[2]Discretionary grants are awarded under programs that permit CMS, according to specific authorizing legislation, to exercise judgment in selecting recipient organizations through a competitive grant process. An example of a discretionary grant is the "Medicaid Program Demonstration Project: Community-Based Alternatives to Psychiatric Residential Treatment Facilities."

[3]HHS Grants Policy Directive (GPD) 4.02.B.1.d interprets 45 CFR §§ 92.50 and 74.71 to require that grants generally be closed within 180 days of the end of grant support. Although the specific closeout process described in this GPD applies only to discretionary grants (and the GPD governing mandatory grants has not yet been issued), the 180-day cutoff date referred to in GPD 4.02.B.1.d is an interpretation of regulations that apply to both mandatory and discretionary grants.

Grant Life Cycle

At the inception of a grant, the program office issues a Notice of Grant Award to the grantee. OFM receives a copy of the Notice of Grant Award from the program office; establishes the grant award on the CMS general ledger; and then transmits the grant award information to DPM, which establishes the grant in the payment system.

The grantee draws down funds from the payment system electronically and reports expenditures to both CMS and DPM. Regardless of whether the grantee maintains expenditure data on the cash or accrual basis of accounting, the grantee is required to send DPM a quarterly cash-basis report of expenditures, the PSC-272. In addition, the grantee is required to periodically send expenditure data to the program office via the CMS-64 for Medicaid and SCHIP Medicaid expansion grants, the CMS-21 for separate SCHIP grants, the CMS-435 for Medicaid survey and certification grants, and the SF-269 for discretionary grants. Pursuant to 45 CFR §§ 74.71 and 92.50, the grantee must report final expenditures to the program office on the appropriate form within 90 days after the end of a grant period.

The program office provides OFM with the final expenditure data and instructs OFM to initiate the closeout of the grant in the payment system. If the final expenditure data do not equal the grant award amount, OFM adjusts the grant award to match the final expenditure data on the CMS general ledger.[4] OFM then transmits to DPM an adjustment to the grant award and directs DPM to close the grant in the payment system.

For a grant to be closed in the payment system, the award, expenditure, and drawdown amounts must be equal. After receiving directions from OFM to close a grant, DPM's practice is to leave the grant open for up to one quarter until it receives the final PSC-272 from the grantee. If the grant award, expenditure, and drawdown amounts remain in balance after the grantee submits the PSC-272 and there are no transactions on the grant, the grant will automatically close in the payment system. CMS officials stated that CMS had no procedures in place for reconciling expenditure and drawdown data and periodically accessing the payment system to determine whether DPM had actually closed grants for which closeout had been initiated.

State Children's Health Insurance Program Funding Cycle

The SCHIP funding cycle is unique. Pursuant to 42 U.S.C. §§ 1397dd(e) and (f) and subject to certain exceptions, States have 3 years to use each annual SCHIP allotment. Once the 3 years have expired, allotments from States with excess balances are redistributed to States with shortfalls. Absent congressional action, redistributed funds are "available for expenditure by the State through the end of the fiscal year in which they are reallotted" (42 U.S.C. § 1397dd(e)).

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[4]Any increase in the grant award at the end of the grant period must remain chargeable to the appropriation initially obligated and be consistent with the terms of the original grant agreement. To execute such an increase in the award, OFM must receive a Notice of Grant Award from the program office for all grant types. To decrease the grant award, OFM must receive a Notice of Grant Award for Medicaid, SCHIP, and Medicaid survey and certification grants and an SF-269 for discretionary grants.

Prior Reviews of Centers for Medicare & Medicaid Services Grant Closeouts

In its "Report on Internal Control" for the year ended September 30, 2005, Ernst & Young stated that CMS was not actively reviewing grants eligible for closeout and that CMS lacked a process for ensuring that grant financial activity recorded on the general ledger agreed with activity recorded in the payment system.[5] This finding appeared again in the PricewaterhouseCoopers "Report on Internal Control" for the year ended September 30, 2006.[6] Thus, CMS had not taken corrective action to improve its grant closeout procedures or to ensure that the grant financial activity on the general ledger agreed with that in the payment system.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine why CMS grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date.

Scope

Our audit covered 197 CMS grants with unexpended balances totaling $1,258,400,623 that, as of March 31, 2006, had not been closed in the payment system by the cutoff date.[7] We did not perform an indepth review of the internal control structure of CMS or DPM. Instead, we gained an understanding of CMS and DPM grant closeout procedures. We also did not determine whether grantees had submitted final financial reports to the program offices within 90 days after the end of the grant period.

We conducted our fieldwork at CMS headquarters in Baltimore, Maryland, and at DPM headquarters in Rockville, Maryland.

Methodology

To accomplish our objective we:

- reviewed relevant Federal laws, regulations, and guidance;

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[5]"U.S. Department of Health and Human Services Performance and Accountability Report: Fiscal Year 2005," section III: "Financial Section," "Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 2005," page 12. Available online at http://www.hhs.gov/of/reports/account/acct05/pdf/section3.pdf. Accessed on April 5, 2007.

[6]"U.S. Department of Health and Human Services Performance and Accountability Report: Fiscal Year 2006," section III: "Financial Section," "Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 2006," page 7. Available online at http://www.hhs.gov/of/reports/account/acct06/pdf/section3.pdf. Accessed on October 24, 2007.

[7]Unexpended balances represent the difference between the grant award and expenditure amounts in the payment system.

- gained an understanding of the roles of the program offices and OFM in the grant closeout process and DPM procedures for tracking, recording, and reporting grant activity to OFM;

- obtained a file of 517 CMS grants and contracts with unexpended balances totaling $1,424,175,815 that DPM had identified as eligible for closeout as of March 31, 2006;

- eliminated from the file 311 contracts that were outside the scope of this review and 9 grants that were not actually eligible for closeout and obtained a universe of 197 grants with unexpended balances totaling $1,258,400,623 that, as of March 31, 2006, had not been closed in the payment system by the cutoff date;

- determined how long each of the 197 grants remained open in the payment system after the cutoff date; and

- selected a judgmental sample of all 21 SCHIP grants, representing $1,214,669,882 (97 percent) of the total unexpended balances, and, for each sampled grant:

    - reconciled the grant award, expenditure, and drawdown amounts recorded on the CMS general ledger and in the payment system to identify any differences,

    - discussed the differences with either the grantee or CMSO to determine the actions taken to resolve the differences, and

    - accessed the payment system to determine whether the differences had been resolved and the grant had closed as of February 28, 2007.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

The 197 grants identified by DPM as eligible for closeout as of March 31, 2006, were not closed in the payment system by the cutoff date for several reasons:

- For 33 grants with unexpended balances totaling $1,154,215,943, the program offices did not initiate closeout. CMSO did not initiate closeout of 10 SCHIP grants, representing 99 percent of these unexpended balances, because it was awaiting the results of legislative proposals to use the expired funds for other SCHIP areas. However, to use the funds for other SCHIP areas, CMSO would have needed to deobligate the expired funds and close the grants. We also found that OAGM did not initiate closeout of the remaining 23 grants because it lacked an adequate monitoring system to ensure that

grants were closed by the cutoff date. As of March 31, 2006, the 33 grants had been open for an average of 479 days beyond the cutoff date.

- For 164 grants with unexpended balances totaling $104,184,680, the program offices did initiate closeout. However, DPM did not complete closeout primarily because of differences among the grant award, expenditure, and drawdown amounts in the payment system. The program offices did not reconcile these differences before initiating closeout or access the payment system to verify that DPM had closed the grants. As of March 31, 2006, the 164 grants had been open for an average of 1,285 days beyond the cutoff date.

Appendix A contains details on the number of days that grants remained open after the cutoff date.

CLOSEOUT OF GRANTS NOT INITIATED

As shown in Table 1, the program offices did not initiate closeout of 33 grants with unexpended balances totaling $1,154,215,943.

Table 1: Grants for Which Closeout Was Not Initiated

Type of Grant	No. of Grants	Unexpended Balance
SCHIP	10	$1,152,152,265
Discretionary	23	2,063,678
Total	**33**	**$1,154,215,943**

State Children's Health Insurance Program Grants for Which Closeout Was Not Initiated

The 10 SCHIP grants for which CMSO did not initiate closeout were redistribution grants. Pursuant to 42 U.S.C. § 1397dd(e) and absent congressional action, redistributed SCHIP funds are available for expenditure by States through the end of the fiscal year in which they are reallotted. Congress extended the availability of redistributed funds from 1998, 1999, and 2000 allotments, which included the 10 grants, through September 30, 2004 (42 U.S.C. § 1397dd(g)(1)(B)(ii)). Thus, the cutoff date for closing the 10 grants was March 31, 2005. However, the grants were still open a year later.

According to CMS officials, CMSO did not initiate closeout of these grants because it was awaiting the results of legislative proposals to use the expired funds for other SCHIP areas. However, no legislation was enacted. Even if legislation had been enacted, CMSO would have needed to deobligate the expired funds and close the grants to use the funds for other SCHIP areas.

On September 28, 2006, a year and a half after the cutoff date, CMSO deobligated $1,163,180,330 associated with the 10 grants.[8] As of February 28, 2007, eight grants had closed in the payment system, and the remaining two grants were still open.

Other Grants for Which Closeout Was Not Initiated

OAGM did not initiate closeout of the 23 discretionary grants because it lacked an adequate monitoring system to ensure that grants were closed by the cutoff date. As of March 31, 2006, these grants had been open in the payment system for an average of more than 1 year after the cutoff date.

CLOSEOUT OF GRANTS INITIATED BUT NOT COMPLETED

As shown in Table 2, the program offices initiated closeout of, and OFM directed DPM to close, 164 grants with unexpended balances totaling $104,184,680. However, DPM did not close 161 of these grants because of differences among the grant award, expenditure, and drawdown amounts in the payment system. DPM did not close the remaining three grants, even though the grant award, expenditure, and drawdown amounts were equal, because its practice was to leave grants open for up to one quarter after receiving instructions from OFM to close the grants. Although the program offices had the capability to access the payment system for grant-specific information, they did not have procedures requiring them to reconcile expenditure and drawdown data before initiating closeout. Moreover, the program offices did not have follow-up procedures requiring them to periodically access the payment system to determine whether DPM had actually closed grants for which closeout had been initiated.

Table 2: Grants for Which Closeout Was Initiated

Type of Grant	No. of Grants	Unexpended Balance
SCHIP	11	$62,517,617
Medicaid	58	23,394,434
Medicaid survey and certification	70	17,682,982
Discretionary	25	589,647
Total	**164**	**$104,184,680**

State Children's Health Insurance Program Grants for Which Closeout Was Initiated

DPM did not close the 11 SCHIP grants for which closeout had been initiated because of differences among the grant award, expenditure, and drawdown amounts in the payment system:

- For eight grants, the expenditures did not equal the grant awards. (See Table 3.)
- For one grant, the drawdowns did not equal the grant award. (See Table 4.)
- For two grants, neither expenditures nor drawdowns equaled the grant awards.

[8]CMSO deobligated more than the unexpended balance shown in Table 1 because the expenditures in the payment system were incorrect for two grants. One grantee's expenditures reported to DPM were $11,164,606 more than the expenditures reported to CMS, and the other grantee's expenditures reported to DPM were $136,541 less.

Expenditures Did Not Equal Grant Awards

Table 3: Payment System Balances for Eight SCHIP Grants

Grant Awards	Expenditures	Drawdowns
$135,564,689	$73,047,072	$135,564,689

DPM did not close eight SCHIP grants with unexpended balances totaling $62,517,617 ($135,564,689 less $73,047,072) because the expenditure amounts recorded in the payment system differed from the grant awards.

- For five grants with unexpended balances totaling $46,128,706, CMS contacted the grantees to resolve the differences after our review. The grantees subsequently reported the correct expenditures to DPM. As of February 28, 2007, four of these grants had closed in the payment system, and the remaining grant was still open.
- For two grants with unexpended balances totaling $16,388,910, CMS did not contact the grantees. Nevertheless, the grantees reported the correct expenditures to DPM after our review. As of February 28, 2007, one of these grants had closed in the payment system, and the remaining grant was still open.
- For one grant with an unexpended balance of $1, we did not contact the grantee to determine whether CMS had attempted to resolve the difference. As of February 28, 2007, the difference had not been resolved in the payment system, and the grant was still open.

Drawdowns Did Not Equal Grant Award

Table 4: Payment System Balances for One SCHIP Grant

Grant Award	Expenditures	Drawdowns
$1,157,625	$1,157,625	$979,564

DPM did not close one SCHIP grant because the drawdown amount recorded in the payment system differed from the grant award and expenditure amounts. After our review, the grantee resolved the difference by drawing down the $178,061 difference. As of February 28, 2007, this grant was still open in the payment system.

Neither Expenditures nor Drawdowns Equaled Grant Awards

DPM did not close two SCHIP grants with unexpended balances totaling 38 cents because the expenditure and drawdown amounts in the payment system differed from the grant awards. These differences resulted from conflicting requirements for grantee reporting of expenditures. CMSO requires grantees to round to whole dollars when reporting SCHIP expenditures. However, DPM requires grantees to report expenditures in the same manner as they draw funds.

Therefore, if a grantee draws funds in dollars and cents, it is required to report expenditures to DPM in dollars and cents, rather than rounding.

- For one grant, the reported expenditures and drawdowns in the payment system totaled $642,764.85 each. However, the grantee reported $642,765.00 in expenditures to CMSO. As of February 28, 2007, CMSO had not taken action to resolve the 15-cent difference, and the grant was still open in the payment system.

- For the other grant, the reported expenditures in the payment system totaled $1,157,624.77. However, the grantee reported $1,157,625.00 in expenditures to CMSO, a difference of 23 cents. We also noted a 46-cent difference between the drawdowns and expenditures reported in the payment system. As of February 28, 2007, CMSO had not resolved these differences, and the grant was still open in the payment system.

Other Grants for Which Closeout Was Initiated

The program offices initiated closeout of 153 other grants (58 Medicaid grants, 70 Medicaid survey and certification grants, and 25 discretionary grants), and OFM directed DPM to close the grants in the payment system. However, DPM did not close 150 of these grants because of differences among the grant award, expenditure, and drawdown amounts in the payment system. DPM did not close the remaining three grants, even though the grant award, expenditure, and drawdown amounts equaled, because its practice was to leave grants open for up to one quarter after receiving instructions from OFM to close the grants.

CONCLUSION

For 33 of the 197 grants that were still open past the cutoff date, the program offices did not initiate closeout because they were awaiting the results of legislative proposals to use the expired funds for other program purposes (10 SCHIP grants) or because they lacked adequate monitoring procedures to comply with the cutoff date (23 discretionary grants). For the remaining 164 grants, the program offices did initiate closeout, but DPM did not close the grants. For these grants, the program offices did not reconcile grant financial activity on the CMS general ledger with activity recorded in the payment system before initiating closeout. In some cases, the discrepancies among the grant awards, expenditures, and drawdowns were $1 or less. In addition, the program offices did not access the payment system to determine whether DPM had closed grants for which closeout had been initiated. As a result, the 197 grants remained open in the payment system for an average of 3 years beyond the cutoff date.

RECOMMENDATIONS

We recommend that CMS:

- ensure that the program offices close grants by the cutoff date by establishing a monitoring system that includes procedures for:

- reconciling grant activity recorded on the CMS general ledger and grant activity recorded in the payment system and
- periodically accessing the payment system to determine whether DPM has closed grants for which closeout was initiated,

- deobligate any unexpended balances on grants open past the cutoff date, and

- work with DPM to establish a dollar threshold for differences in payment system balances and procedures for closing grants with differences below the threshold.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its comments on our draft report, CMS generally concurred with our recommendations and stated that it was committed to working cooperatively with the HHS components to resolve all open accounts in the payment system. CMS noted that its actions alone would not fully address the closeout issues that we identified.

CMS requested that we modify the report to clearly state the grant closeout responsibilities of DPM, remove language indicating that the program offices would be responsible for corrective actions resulting from this review, and remove Medicare survey and certification contracts from our universe of grants. This final report includes these requested modifications.

CMS's comments are included in their entirety as Appendix B (March 3, 2008), Appendix C (November 20, 2007), and Appendix D (August 24, 2007).

APPENDIXES

NUMBER OF DAYS THAT GRANTS REMAINED OPEN AFTER CUTOFF DATE

For the 197 grants that were eligible for closeout in the Payment Management System (payment system), we calculated the number of days that the grants remained open from the cutoff date through March 31, 2006.

As shown in Table 1, the 33 grants for which closeout was not initiated remained open in the payment system for an average of 479 days after the cutoff date.

Table 1: Grants for Which Closeout Was Not Initiated

Grant Type	No. of Grants	Unexpended Balance Per DPM[1]	No. of Grants Open After Cutoff Date for:			Average No. of Days Since Cutoff Date
			1–180 Days	181–540 Days	Over 540 Days	
SCHIP[2]	10	$1,152,152,265	0	10	0	367
Discretionary	23	2,063,678	1	12	10	528
Total	**33**	**$1,154,215,943**	**1**	**22**	**10**	**479**

As shown in Table 2, the 164 grants for which closeout was initiated but not completed remained open in the payment system for an average of 1,285 days after the cutoff date.

Table 2: Grants for Which Closeout Was Initiated but Not Completed

Grant Type	No. of Grants	Unexpended Balance Per DPM	No. of Grants Open After Cutoff Date for:			Average No. of Days Since Cutoff Date
			1–180 Days	181–540 Days	Over 540 Days	
SCHIP	11	$62,517,617	1	9	1	367
Medicaid	58	23,394,434	0	10	48	1,483
Medicaid survey and certification	70	17,682,982	0	1	69	1,518
Discretionary	25	589,647	0	12	13	577
Total	**164**	**$104,184,680**	**1**	**32**	**131**	**1,285**

[1]DPM = Division of Payment Management.

[2]SCHIP = State Children's Health Insurance Program.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

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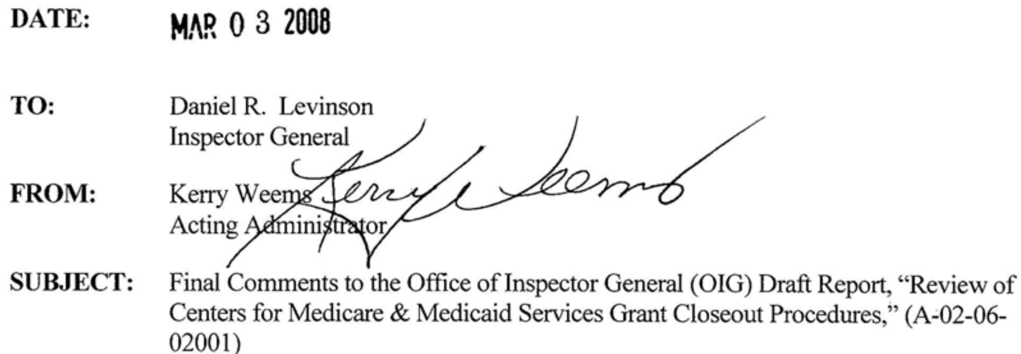

DATE: MAR 0 3 2008

TO: Daniel R. Levinson
Inspector General

FROM: Kerry Weems
Acting Administrator

SUBJECT: Final Comments to the Office of Inspector General (OIG) Draft Report, "Review of Centers for Medicare & Medicaid Services Grant Closeout Procedures," (A-02-06-02001)

Thank you for the opportunity to provide further supplemental final comments concerning the Office of Inspector General's (OIG) draft report on the review of the Centers for Medicare & Medicaid Services (CMS) grant closeout procedures (please see the attached November 20, 2007 supplemental response that was previously sent by CMS). As you know, CMS has engaged in extensive discussions concerning the complex and technical issues raised in the report with the OIG, the Department's Office of General Counsel (OGC), and the Deputy Assistant Secretary for Grants within the Office of Grants (OG) of the Assistant Secretary for Resources and Technology (ASRT). We have reviewed statutory and regulatory requirements as well as internal policies and procedures on mandatory grant closeout. This memo is intended to communicate key points for CMS that have emerged from this process. Please note that although OIG's audit focused on both discretionary and mandatory grants, this response addresses only to mandatory CMS grants. As discussed in the final bullet point, this response does not address the Medicare survey and certification program, since we understand that OIG is in agreement that this contractual arrangement does not constitute a grant program.

The following bullets summarize points that have emerged from CMS's further discussions on the OIG's draft audit report:

- CMS recognizes the need to ensure all parties are in agreement as to what constitutes grant closeout. On a quarterly basis, financial management specialists at CMS conduct a thorough analysis of each state's quarterly expenditure reports and make adjustments for unallowable costs, in order to reconcile grant award finalizations to initial grant award amounts. In this process, a "final reconciliation" for Medicaid and SCHIP grants occurs when the initial grant awards are reconciled with reported expenditures and final grant awards are issued incorporating the corresponding upward or downward adjustments. This final financial

reconciliation adjusts the letter of credit balance available to the grantee state. It is CMS' intention that this final financial reconciliation constitutes the grant closeout required by regulation. The CMS final reconciliation is intended to ensure that excessive funds are not available for the state to draw from the Payment Management System (PMS) accounts maintained by the Program Support Center (PSC), and collections due back to CMS are received on a quarterly basis. We believe that this final reconciliation process fulfills grant closeout requirements; however, we recognize and appreciate the suggestion that stale PMS accounts should be terminated more swiftly. CMS will work with the Department, specifically PSC's Division of Payment Management (DPM) and other operating divisions, to better coordinate the CMS grant closeout process and the PSC process.

- In other words, CMS believes that it is in ongoing compliance with 42 CFR 430.30, AAGAM 1.04.104-3C.2.u, and 45 CFR 92.50 because of the final reconciliation process for Medicaid and SCHIP, but CMS agrees that it could improve its management and monitoring of the grant process by ensuring that PSC terminates PMS accounts that are no longer active.
- CMS appreciates OIG's acknowledgement that the issue of PMS accounts that remain open long after the final financial reconciliation must be addressed consistently across all the OPDIVS within DHHS. Consequently, any resolution to this issue must be reached in collaboration with DHHS. CMS has thus discussed how to better coordinate its grant closeout procedures with PMS processes with the Deputy Assistant Secretary for Grants within ASRT in DHHS. CMS is committed to working with the Department to address this important issue. We agree that the DHHS needs Department-wide processes that prevent "stale" PMS accounts.
- CMS agrees that a reasonable timeframe has to be established for terminating stale PMS accounts related to mandatory grants. CMS and ASRT have agreed to work together with the DPM, as well as other DHHS components as appropriate, to develop and implement policy and procedures that will be used to more swiftly terminate stale PMS accounts. We intend to accept the OIG's recommendation to establish dollar thresholds for terminating inactive PMS accounts with discrepancies below the threshold. We also intend to review the overall process for terminating inactive PMS accounts.
- CMS is developing a letter to States asking them to ensure that the expenditures that are reported on CMS expenditure reports agree with the disbursements reported on the PSC-272 and the associated draws from PMS accounts or include additional information to explain discrepancies. Termination of PMS accounts will be facilitated if States are consistent in expenditure reporting on CMS forms and the PSC-272.
- An agreement between the State and CMS governs federal payment for State survey and certification activities, and this contractual arrangement does not constitute a grant program. As a result, we have reached agreement with OIG that Medicare survey and certification funds will be excluded from the OIG's final report.

We appreciate the OIG's review of grant closeout procedures, as well as the discussion and analysis generated by the draft report. CMS shares the OIG's desire to ensure that all federal grants are properly closed out in a timely manner, and we remain committed to working cooperatively with all components of DHHS to resolve all open PMS accounts.

DEPARTMENT OF HEALTH & HUMAN SERVICES — Centers for Medicare & Medicaid Services

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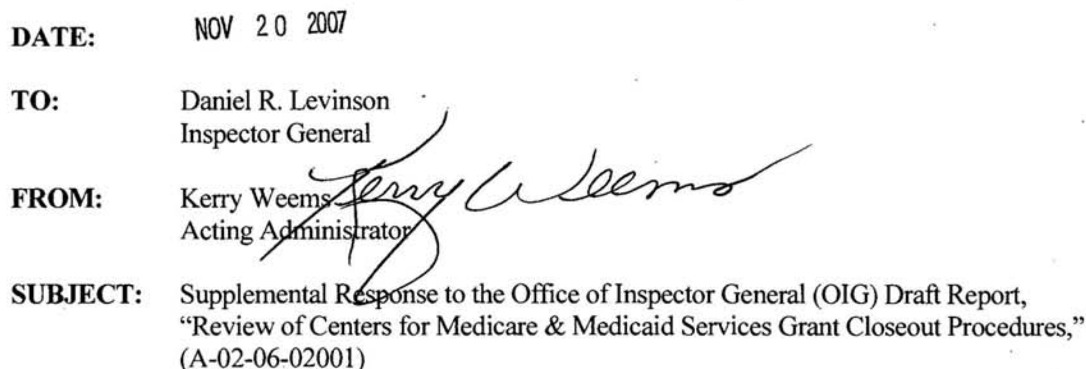

DATE: NOV 20 2007

TO: Daniel R. Levinson
Inspector General

FROM: Kerry Weems
Acting Administrator

SUBJECT: Supplemental Response to the Office of Inspector General (OIG) Draft Report, "Review of Centers for Medicare & Medicaid Services Grant Closeout Procedures," (A-02-06-02001)

Thank you for the opportunity to provide a supplemental response to our August 24, 2007 memo concerning the Office of Inspector General's (OIG) draft report on the review of the Centers for Medicare & Medicaid Services (CMS) grant closeout procedures. After receipt of our August 24 memo, OIG requested additional information from CMS, which led to subsequent meetings between OIG and CMS on September 26 and October 2. In connection with these discussions, we have reviewed statutory and regulatory requirements as well as internal policies and procedures on mandatory grant closeout. Our supplemental response is intended to communicate key points that have arisen during the course of our additional review and discussions with OIG and the Department's Office of General Counsel (OGC). Please note that although OIG's audit focused on both discretionary and mandatory grants, our supplemental response is pertinent only to the mandatory CMS grants discussed herein.

The draft OIG report cites Federal regulations at 45 CFR section 92.50 and internal policy on discretionary grants as the basis for its analysis of CMS grant closeout. The OIG notes that according to the regulatory provisions at 45 CFR section 92.50, grantees are required to submit all financial, performance, and other required reports within 90 days after the expiration of the grant, and that after receiving these reports, the Federal agency must make all adjustments to allowable costs within 90 days. The OIG further cites the HHS internal policy that requires discretionary grants to be closed within 180 days of the end of the grant period and uses this policy to suggest that CMS Medicaid and SCHIP grants, which are mandatory grants, should also be closed within 180 days of the end of the grant period (referenced as the "cutoff date" by OIG). However, as a result of our ongoing discussions and analysis since issuance of the draft report, CMS finds that it is necessary to clarify requirements and processes related to the mandatory CMS Medicaid and SCHIP grants so that the OIG's final report reflects the proper analytic framework for these CMS grants. [1]

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[1] As we explain below, Medicare survey and certification was erroneously included in the draft report as a grant program. Medicare survey and certification is performed by State survey agencies under contracts pursuant to

Below, we discuss our concerns about the application of 45 CFR section 92.50 to Medicaid and State Children's Health Insurance Program (SCHIP) funding to States that is an ongoing, continuous process with separate regulatory requirements and procedures, about the interplay of the Payment Management System (PMS) process with the Medicaid and SCHIP grant process, and about the particular concerns of the survey and certification grant process.

Policy Context

We believe that 45 CFR section 92.50 does not apply to quarterly Medicaid, SCHIP, and Medicaid survey and certification grant awards because of the separate controlling requirements for such awards. In addition, we believe that 45 CFR section 92.50 is limited to situations where all work on the grant has been completed or there has been an "expiration or termination" of a grant. We explain in more detail below.

The Medicaid, SCHIP, and Medicaid survey and certification grant payment systems operate as required by Medicaid, SCHIP, and survey and certification law, which specifically address the Medicaid, SCHIP, and survey and certification payment processes.[2] Consequently, the Medicaid, SCHIP, and Medicaid survey and certification grant processes most likely fall within the exception set forth at 45 CFR section 92.5. Moreover, the codified Medicaid regulations at 42 CFR section 430.30 specifically address the Medicaid grant process, and these regulations were not superseded when Part 92 was issued, specifically because Medicaid was not then subject to Part 92. We note that the Medicaid grant process regulations at 42 CFR section 430.30 are more specific and, all else being equal, would control over the general regulations found at 45 CFR section 92.50.

Moreover, CMS questions whether 45 CFR section 92.50 would be triggered because of the nature of Medicaid, SCHIP, and Medicaid survey and certification grants, inasmuch as they are continuing grants where grant awards function as a cash flow mechanism (as per the law) rather than an initiation or termination of a grant. For that reason, it is not clear that "all applicable administrative actions and all required work of the grant" are completed on a quarterly basis, or that there is an "expiration or termination of the grant," which 45 CFR section 92.50 suggests as triggering points for grant closeout.[3]

The inapplicability of discretionary grant closeout requirements to mandatory CMS grants is reinforced by internal HHS Grants Policy Directives. It is noted that HHS Grants Policy Directive (GPD) 4.02 (entitled "Debt Collection and Closeout"), cited by OIG, requires that discretionary grants be closed within 180 days after the end of the grant period. However, an attempt to apply this HHS internal policy on closeout of discretionary grants to mandatory CMS grants actually contradicts the HHS policy on mandatory grants. The relevant part of the GPD pertinent to mandatory grants, HHS GPD 5.01.C.4.b., reads, "The GPDs in Part 4, After-the-Grant, apply as follows: GPD 4.02, Debt

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section 1864 of the Social Security Act, and is not a grant activity at all. So there can be no question that 45 C.F.R. 92.50 is not applicable to Medicare survey and certification.

[2] Statutory provisions governing Medicaid grants (including Medicaid survey and certification) are found at section 1903 of the Social Security Act (the Act); statutory provisions governing SCHIP grants are found at sections 2104 and 2105 of the Act; and statutory provisions governing Medicare survey and certification payments are found at section 1864 of the Act.

[3] See 45 CFR section 92.50(a) and (b).

Page 3 – Daniel R. Levinson

Collection and Closeout, applies to mandatory grants *only in relation to its coverage of debt collection.*"[4] As written, this part of HHS internal policy for mandatory CMS grants incorporates internal policy on discretionary grants, *except* that the mandatory grants policy *specifically excludes* discretionary grant closeout policy from application to mandatory grants. CMS believes that this exception has been made for mandatory grant closeout because mandatory grant awards function as a cash flow mechanism within an open-ended entitlement program, which is different from discretionary grants that have start dates and end dates.

Whether 45 CFR section 92.50 does or does not apply generally to mandatory grants, our discussion in the last several weeks leads us to conclude that CMS fulfills the basic requirements of the regulation with its existing process for reconciling Medicaid and SCHIP grants. For the Medicaid program, CMS issues grants to States in advance of anticipated expenditures for the upcoming quarter, based on State budget estimates which are reviewed by CMS. Then CMS receives an expenditure report on the CMS-64 form directly from the State Medicaid agency at the end of each quarter. After a detailed review of that report, CMS determines the allowable expenditures that are matchable by the Federal Government, and makes the corresponding upward or downward adjustment [as suggested by 45 CFR section 92.50(c)] to the initial grants by issuing a "finalized" grant for that quarter. Final grant awards may also reflect any disallowed payments from prior period grant awards. The finalizing grant award directly increases or decreases a State's available letter of credit balance and the State's ability to access Federal funds, which has the effect of requiring the adjustment of the State's draws to the final grant award authorization and actual expenditure amount. Through this process of issuing initial and final grants, CMS not only makes "prompt payment to the grantee for allowable reimbursable costs" [as suggested by 45 CFR section 92.50(d)] but also acts in accordance with the regulations at 42 CFR section 430.30, which are specific to the Medicaid program.

A comparable but different process occurs in SCHIP grants due to the allotment nature of the SCHIP program. Based on allotted amounts, CMS issues initial SCHIP grant awards to States to provide Federal funding for SCHIP expenditures on an as-needed basis for the fiscal year; however, all SCHIP allotments are issued by the end of the Federal fiscal year. Under section 2104(e) of the Act, States have a 3-year period of availability to use their federally allotted SCHIP funds. On an annual basis, CMS reconciles draws from the PMS and initial grant awards to the expenditures that were reported (and reviewed by CMS) on the CMS-21 form for the SCHIP allotment in which the period of availability ended. A final grant award is then issued to the State to de-obligate any unexpended funds. Unexpended funds remaining after the period of availability ends are then redistributed to States that had spent all their allotment within the period of availability and need additional funding for their program.[5] Because SCHIP is an allotment program, it is imperative to reconcile grant awards, reported expenditures, and draw amounts. Like Medicaid, however, the finalizing SCHIP grant award directly impacts a State's available letter of credit balance and the State's ability to access Federal funds. Through this process of issuing initial and final grants, CMS not only makes "prompt payment to the grantee for allowable reimbursable costs" [as suggested by 45 CFR section 92.50(d)] but also acts in accordance with the SCHIP statute and regulations.

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[4] GPD 5.01 is in draft form. The Department is performing a systematic update to its GPDs, and although GPD 5.01 has been circulated repeatedly throughout HHS, it has not yet been finalized.
[5] The SCHIP redistribution process is statutorily mandated in section 2104 of the Act.

In light of the above, CMS believes that in the Medicaid and SCHIP programs, the requirements of 45 CFR section 92.50 are effectively met at the time final grant awards are issued to the States. In our initial response to the OIG's draft audit report, we attempted to be more concessionary to OIG's assessment about the timing of grant closeout, but our additional review has revealed the need to clarify the CMS position. We do not find that 45 CFR section 92.50 necessarily applies to mandatory CMS grants; in fact, regulations and HHS policy directives suggest it does not. However, if 45 CFR section 92.50 did apply to mandatory CMS grants, we find that the process of reconciling initial grant awards with reported expenditures and issuing final grant awards incorporating upward our downward adjustments to allowable costs for Medicaid and SCHIP fulfills the regulatory requirements.

PMS Processes

As a result of clarifications reached through our discussion in the last several weeks, we believe that the initial and final grant award processes described in CMS regulations, for example at 42 CFR 430.30, in the context of the Medicaid financial review process, are fully compliant with the requirements of 45 CFR section 92.50. PMS accounts are not controlled by CMS and cannot be closed by CMS, even on the basis of information available to CMS. As we discuss below, only the Division of Payment Management (DPM) in the Program Support Center can close such an account. This is because State reports of their draws of federal funds are submitted on the PSC-272 form to DPM, not to CMS, and do not include information concerning discrepancies in State draws with respect to funding approved in final grant awards. Apparently these reported amounts may not be reconciled by either the State or DPM to specific PMS documents or obligations from CMS. Discrepancies may exist simply because DPM requires reporting PSC-272 disbursements and draws in cents, whereas, States report expenditures on CMS expenditure reports in whole dollars. Moreover, deferrals or disallowances that CMS has taken against States have the effect of adjusting grant award amounts, but States may have already drawn or reported the funds in question on the PSC-272. Finally, discrepancies between grant awards, draws, and expenditures reported on the PSC-272 may occur because the State does not draw its available funds or submits PSC-272 reports and CMS expenditure reports that are inconsistent.

It must be noted that our additional review of the issues disclosed that State agencies which are administering mandatory grant programs at the State level are typically not the drawdown agent for the State. Drawdown functions are commonly delegated to the State Treasurer or Comptroller, who draws funds for all State programs but is usually unfamiliar with each specific Federal grant and its conditions. The Cash Management Improvement Act of 1990 (CMIA) specifies that each State has a State-Treasury Agreement which identifies how and when cash draws will be made. The CMIA covers the timeliness of Federal draws and imposes interest penalties for untimely actions, but notably there is no Federal requirement that States immediately draw Federal dollars made available to them. A number of factors may impact the timing of draws by the State drawdown agent. For instance, some States must have authorization from the State legislature before accessing their Federal letter of credit, or a State may access its own funds first (particularly if there is a State budget surplus) and use the Federal funds made available at a later time. The PSC-272 report of all draws from the PMS account is typically prepared by the State's drawdown agent and is required to be submitted to DPM 45 days after the end of each quarter. Based on designated roles, the State's drawdown agent, the State's single auditor (which examines the timing of Federal draws under the CMIA), and DPM are the agencies that are in a position to undertake a reconciliation of PMS draws.

Further, it is necessary to recognize that the CMS accounting system and financial statements reflect amounts generated directly from the initial and final grants in both the Medicaid and SCHIP programs, a fact which demonstrates that the CMS-64 and CMS-21 expenditure reports (not the PSC-272) are the legitimately controlling reports of State expenditures in these programs. Indeed, the OIG acknowledged the validity of the CMS-64 and CMS-21 expenditure reports during our recent discussions following the release of the OIG's draft report.

Although we appreciate OIG's concern about discrepancies between grant award amounts, amounts reported on the PSC-272, and draws from the PMS account, CMS simply is not in a position to address issues arising in the business relationship between a State's drawdown agent and the PSC's DPM. Nonetheless, OIG's draft report does not include any recommendations for action by DPM or States in the resolution of concerns identified by OIG. CMS maintains that the effective handling of such issues requires the participation of DPM and the States because of their inherent responsibilities in the management of PMS accounts.

Finally, in keeping with the perspective of practicality, please note that many PMS documents related to mandatory CMS grants simply are not "closed" within the 180-day timeframe desired by the OIG. In the Medicaid program, prior period adjustments in a current year must be assigned to prior year documents, which has the effect of delaying PMS "closure" until after the second quarter of the second year following a grant period.[6] This means that a Medicaid PMS document may not be ultimately "closed" for as long as 2 years following the grant period. SCHIP grants require even more time to arrive at the "closure" of the PMS document because States have the statutorily assigned 3-year period of availability described above. These circumstances reinforce CMS' position that the formal "grant closeout" occurs when reconciling final grants are issued by CMS in mandatory programs, not when the ensuing PMS document activity catches up.

Survey and Certification Grants

Within the survey and certification area, there are two different types of programs: Medicaid survey and certification grants and Medicare survey and certification contracts. In the Medicare survey and certification program, an agreement between the State and CMS governs federal payment for State survey and certification activities, and this contractual arrangement does not constitute a grant program. Because the OIG draft report addresses grant closeout, we shall address only Medicaid survey and certification grants in this section.

The Medicaid survey and certification grant process is similar to the Medicaid grant process described above. CMS makes funds available for Medicaid survey and certification programs through initial grants issued to States prior to each quarter. Supplemental grants may be subsequently issued to provide additional funding. After the reporting period ends, States use the CMS-435 form to report their expenditures to CMS in the Medicaid survey and certification program on a quarterly basis. CMS then reviews the allowable cumulative expenditures as reported on the CMS-435, compared to the total amount of funding the State received during the quarter, and issues an adjusting final grant based on allowable costs during the relevant period. In Medicaid survey and certification, this final adjusting grant occurs two quarters after the quarter being finalized.

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[6] This is because current year documents must involve only current year expenditures.

The CMS views the finalizing grant for Medicaid survey and certification as being comparable to the Medicaid and SCHIP final grant process described above. We noted previously that 45 CFR section 92.50 does not necessarily apply to mandatory CMS grants, which includes Medicaid survey and certification. However, whether or not 45 CFR section 92.50 does apply to mandatory CMS grants, we find that the process of reconciling initial grant awards with reported expenditures on the CMS-435 and issuing final grant awards incorporating upward our downward adjustments to allowable costs for Medicaid survey and certification fulfills the regulatory requirements.

Despite the similarities in issuing initial and final grants, we have identified an important difference between the Medicaid survey and certification process and the Medicaid/SCHIP processes described herein. This distinction is in the nature of PMS accounts. While this issue does not change our position with respect to the CMS-435 as the controlling expenditure report that dictates the final grant awarded to the State, it does have implications that should be mentioned.

It is important to understand that Medicaid survey and certification grants are deposited into a "pooled" State account at PMS that includes a variety of other Federal grant award money.[7] This commingling of funds within the larger PMS account makes it difficult to isolate amounts associated with Medicaid survey and certification program draws. As a result, DPM uses an algorithm to allocate amounts associated with State draws pertaining to the various programs funded by the account throughout the year. DPM relies upon the State's submission of the PSC-272 for the more precise allocation of draws to the Medicaid survey and certification programs during the year. The algorithmic process of assigning draws within the larger account creates a disparity between the PMS record of draws and the State's PSC-272 report and inherently requires a reconciliation of both by DPM. Such circumstances only serve to potentially complicate and delay the "closure" of an open survey and certification document at PMS. This strengthens CMS' position that any formal Medicaid survey and certification "grant closeout" should be identified as occurring when reconciling final grants are issued by CMS after receipt of the CMS-435, and not when the subsequent document activity at PMS catches up.

Nevertheless, CMS agrees that it is important to bring "closure" to any open Medicaid survey and certification documents at PMS and will continue to work with DPM on methods of improving the process. An idea for improvement that was suggested during our ongoing discussions since receipt of the OIG's draft report is to potentially establish separate sub-accounts for Medicaid survey and certification within PMS. This would abolish DPM's algorithmic allocation of draws and simplify the reconciliation process, enabling "closure" at PMS in a more expedited manner. CMS will pursue the idea of separate survey and certification sub-accounts with DPM following the issuance of OIG's final report.

Conclusion and Next Steps

In response to follow up questions from OIG in the last several weeks, we have reviewed the applicable regulations and procedures, which have manifested the need for CMS to clarify its previous response to the OIG on this draft audit report. When CMS reconciles initial grant awards to allowable reported expenditures from Medicaid, SCHIP, and survey and certification agencies, CMS adjusts the

[7] In contrast, States have separate Medicaid and SCHIP sub-accounts at PMS.

amount of Federal funds made available to the State in a manner that is consistent with laws and regulations governing these entitlement programs. CMS urges the OIG to reexamine the laws, regulations, and policies governing mandatory grant awards to identify the proper procedures and responsibilities within these programs and among the controlling Federal agencies.

Any clarification that arises from such a reexamination will not, however, change the fact that PMS draws and reports may not agree, which would cause PMS documents to stay open. To the extent OIG remains concerned with discrepancies between grant award amounts, amounts reported on the PSC-272, and draws from the PMS account, CMS urges OIG to recommend actions by the parties in a position to address such concerns, DPM and the States, thereby acknowledging the lack of control CMS has over the resolution of such issues.

In our August 24 response to the draft audit report, CMS offered to issue a letter to States asking them to ensure that the expenditures that are reported on CMS expenditure reports (including the CMS-64, the CMS-21, and the CMS-435) agree with the disbursements reported on the PSC-272 and the associated draws from PMS accounts or include additional information to explain discrepancies. CMS remains willing to issue such a letter, subject to compliance with the Paperwork Reduction Act (PRA), as part of a good faith effort to help to address OIG's concern. It is certain that the closure of PMS documents will be facilitated if States are consistent in expenditure reporting on CMS forms and the PSC-272.

Moreover, CMS will contact DPM regarding the potential establishment of separate sub-accounts within PMS for the Medicaid survey and certification program.

We appreciate the OIG's review of grant closeout procedures, as well as the discussion and analysis generated by the draft report. CMS is committed to the effective administration of our programs and we look forward to continuing to work with OIG on ways to improve oversight.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

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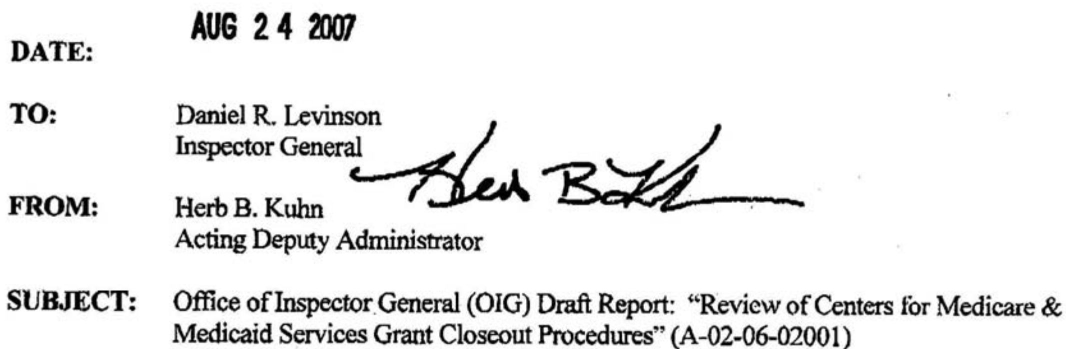

DATE: AUG 24 2007

TO: Daniel R. Levinson
Inspector General

FROM: Herb B. Kuhn
Acting Deputy Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Review of Centers for Medicare & Medicaid Services Grant Closeout Procedures" (A-02-06-02001)

Thank you for the opportunity to review and comment on the subject OIG draft report. The Centers for Medicare & Medicaid Services (CMS) appreciates the insight that the OIG has provided regarding the CMS grant closeout process.

Acknowledging that the grant closeout process is a critical piece of the life cycle of a grant, CMS recognizes the importance of closing grant awards in a timely manner and continues to seek ways to improve our grant administration processes. Both the program offices and Office of Financial Management (OFM) have developed tools to aid in the monitoring of the CMS grants. As these offices continue to work together to enhance monitoring and closing of the eligible CMS open grants, they will pursue incorporating the recommendations offered by the OIG for additional areas of improvement.

OIG Recommendation #1

The CMS should ensure that the program offices close grants by the cutoff date by establishing a monitoring system that includes procedures for:

- Reconciling grant activity recorded on the CMS general ledger and grant activity recorded in the payment system; and

- Periodically accessing the payment system to determine whether the Division of Payment Management (DPM) has closed grants for which closeout was initiated.

CMS Response

The CMS receives reports from DPM based on payment system data concerning draws and disbursements for discretionary and mandatory grants. These reports serve to facilitate the monitoring

of the various grants projects. Please note that although the closeout procedures for the discretionary and mandatory grants offices differ, CMS uses this tool to closely monitor discretionary and mandatory grant activities to ensure that grants are closed in a timely manner in accordance with applicable HHS grant policies and procedures. OFM will continue to work with the program offices for any additional requests for information from the accounting and payment systems that will facilitate the monitoring and closing of open grants. In addition, the CMS discretionary grants office will also periodically monitor the Payment Management System (PMS) to determine whether grants have been closed out by DPM, as requested. While CMS may be involved in such monitoring, it must be noted that CMS actions alone will not fully address the issues identified in the OIG audit report.

Specifically, OIG's recommendations do not anticipate action by the HHS Program Support Center, DPM, despite OIG's references to the involvement of DPM in grant closeout activities. We would suggest that OIG clearly state the DPM responsibilities in achieving the designed outcomes as CMS does not have authority to require States to complete or submit reports to another agency.

CMS is also concerned about the requirement regarding discretionary grant closeout as the applicable standard for the treatment of mandatory grant closeout. Specifically, HHS Grants Policy Directive 5.01.C.4.b. reads, "The GPDs in Part 4, After-the-Grant, apply as follows: GPD 4.02, Debt Collection and Closeout, applies to mandatory grants *only in relation to its coverage of debt collection*."[1] As shown, HHS internal policy on closeout for discretionary grants does not cover closeout requirements for mandatory grants. Consequently, OIG's suggestion that a 180-day "cutoff date" exists for Medicaid, SCHIP, and survey and certification grants is not valid. Although a 180-day "cutoff date" for mandatory grants does not exist, CMS agrees in principle that these types of grants should be closed out in a timely fashion, in accordance with established regulations.

On page two of the audit report, the OIG writes that CMS officials stated that CMS had no procedures in place for reconciling expenditure and drawdown data and periodically accessing the payment system to determine whether DPM had actually closed grants for which closeout had been initiated. The report further indicates that the officials stated the program offices would be responsible for these actions if such procedures were in place. Currently, CMS is exploring the appropriate assignment of responsibility for corrective actions resulting from this review. We would recommend that the OIG remove from the audit report that the decision has been made, thus allowing CMS officials to determine the appropriate placement of the responsibility.

On page four of the audit report, OIG observes that for 230 grants with unexpended balances totaling $105,922,985, the program offices did initiate closeout. The report acknowledges that DPM did not complete closeout primarily because of differences among the grant award, expenditure, and drawdown amounts in the payment system. The OIG states that program offices did not reconcile these differences before initiating closeout or access the payment system to verify that DPM had closed the grants.

Due to the allotment nature of the SCHIP program, the Center for Medicaid and State Operations (CMSO) reconciles PMS draws and grant award to the expenditures that are reported for the SCHIP

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[1] Grants Policy Directive 5.01 is in draft form. The Department is performing a systematic update to its Grants Policy Directives, and although GPD 5.01 has been circulated repeatedly throughout HHS, it has not yet been finalized.

allotment in which the period of availability ends. A grant award is signed and forwarded to OFM to deobligate the unexpended funds. Through this reconciliation process the grant award, expenditures and draw amounts are in agreement.

With respect to Medicaid, each quarter CMS performs an indirect reconciliation of State cash draws to quarterly expenditure reports by issuing a finalizing grant award that directly impacts a State's available letter of credit balance and the State's ability to access Federal funds. This has the effect of adjusting the States' draws to the final grant award authorization and actual expenditure amount. Additionally, in June 2006, CMSO issued revised Financial Review Guides for Regional Office reviews of States' CMS-64 and CMS-21 reports. The revised guides include a required step for Regional Office financial management staff to compare cash draws to reported expenditures, and follow-up on all material variances.

Finally, the Medicaid Survey and Certification program reconciles the initial grant award to the State's actual expenditures with a finalizing grant award. The Medicare Survey and Certification program is reconciled using final, cumulative, end-of-year expenditure reports.

The CMS notes that when grant closeout was initiated for Medicaid and SCHIP grants, the grants were always closed in a timely fashion when the grant awards equaled both draws and reported expenditures on the PSC-272 (except for the ten SCHIP grants that were deliberately held pending potential legislative action as described below). Therefore, we believe that the OIG should note that our existing procedures for the closeout for Medicaid and SCHIP grants work effectively whenever grant awards, draws, and expenditures reported on the PSC-272 are in agreement.

Upon further review, we find there are three primary reasons that grant awards, draws, and expenditures reported on the PSC-272 would not be in agreement. First, discrepancies may exist because DPM requires reporting PSC-272 disbursements and draws in cents, whereas States report expenditures on CMS expenditure reports in whole dollars. This may be corrected by requiring States to draw and report PSC-272 disbursements in whole dollars as they already do on CMS expenditure reports. Because such a change may not be immediately feasible for DPM, as an interim solution, OFM could deobligate any current discrepancy amounts under a threshold established pursuant to OIG Recommendation #3. Second, deferrals or disallowances that CMS has taken against States have the effect of adjusting grant award amounts, but States may have already drawn or reported the funds in question on the PSC-272. Third, discrepancies between grant awards, draws, and expenditures reported on the PSC-272 may occur because the State does not draw its available funds or submits PSC-272 reports and CMS expenditure reports that are inconsistent. To address the second and third issues, CMSO will develop and issue a letter to States requesting that the expenditures that are reported on the CMS-64, CMS-21 and CMS-435 agree with the disbursements reported on the PSC-272 and the associated draws.

In addition to the letter to States from CMS, we believe it would be helpful if DPM sent a similar letter requesting that States complete their PSC-272 reports using the same amounts that are reported on CMS expenditure reports after the grant period is over. Such reinforcement from DPM would encourage compliance among the States, demonstrate enhanced coordination among the Federal agencies involved in this process, and would likely produce better results in State reporting.

OIG Recommendation #2

CMS should deobligate any unexpended balances on grants open past the cutoff date.

CMS Response

The CMS agrees with the recommendation. Once relevant financial reports have been reviewed and reconciled, CMS will deobligate all unexpended funds.

To facilitate in this process, the OFM has developed a report that shows discretionary grants that are open past the cutoff ending date. This report is sent to the discretionary grants office on a monthly basis and used by the grants team to verify that grants have been closed out as requested.

OIG Recommendation #3

The CMS should work with DPM to establish a dollar threshold for differences in payment system balances and procedures for closing grants with differences below the threshold.

CMS Response

The CMS agrees to pursue the OIG recommendation with DPM to establish a dollar threshold for differences in payment system balances and procedures for closing grants with differences below the threshold. If it is deemed feasible upon further investigation with DPM, OFM will implement procedures for closing grants with differences below an established dollar threshold.

Additional CMS Comments

In addition to the above, please note the following comments from CMS concerning the draft OIG audit report.

Grants for which Program Offices Did Not Initiate Closeout

On page four of the audit report, OIG observes that CMS did not initiate closeout of 10 State Children's Health Insurance Program (SCHIP) grants, representing 99 percent of the cited unexpended balance of $1,168,156,402, because it was awaiting the results of legislative proposals to use the expired funds for other SCHIP areas. The OIG further states that to use the funds for other SCHIP areas, CMS would have needed to deobligate the expired funds and close the grants.

Please be advised that the SCHIP 1998, 1999, and 2000 redistribution funds that expired at the end of FY 2004 were deobligated in September 2006. At the time, there was concern that Congress would act, as it had in the past, to further extend those funds, particularly in the context of potential State shortfalls. (Congress had previously extended the period of availability for 1998, 1999, and 2000

redistribution funds through September 30, 2004, under Public Law 108-74.) Consequently, CMS waited to ensure that legislation would not be enacted to extend the period of availability of the States' expired allotments. At the end of FY 2004, CMS acted to freeze all access by the States to these expired funds. CMS did not have the authority to deobligate the expired SCHIP funds to use for other SCHIP areas.