

Process and Oversight for State Claiming of Federal Medicaid Funds

Medicaid is a shared financial responsibility between states and the federal government, with the federal government matching state funds based on the Federal Medical Assistance Percentage (FMAP). The Centers for Medicare & Medicaid Services (CMS) makes these federal funds available to states based on state submissions of expenditures as described in section 1903(d)(1) of the Social Security Act (the Act).

This issue brief describes the processes used by states to claim federal matching funds and the oversight structure for these financial transfers.¹

Federal Review and Approval of State Medicaid Grant Awards

State Medicaid withdrawals of federal funds are authorized under Section 1903(a)(1) of the Act, which requires the U.S. Department of Health and Human Services (HHS) to make quarterly grant awards matching state costs for medical assistance and administrative activities based on the relevant FMAP.

The process works as follows:

Before each quarter, a state submits the Medicaid Program Budget Report (Form CMS-37) which provides the state's funding requirements for the current and next fiscal year to CMS. States must detail their expected spending for major service categories (e.g., inpatient hospital services, managed care, or home- and community-based services) and administrative services.

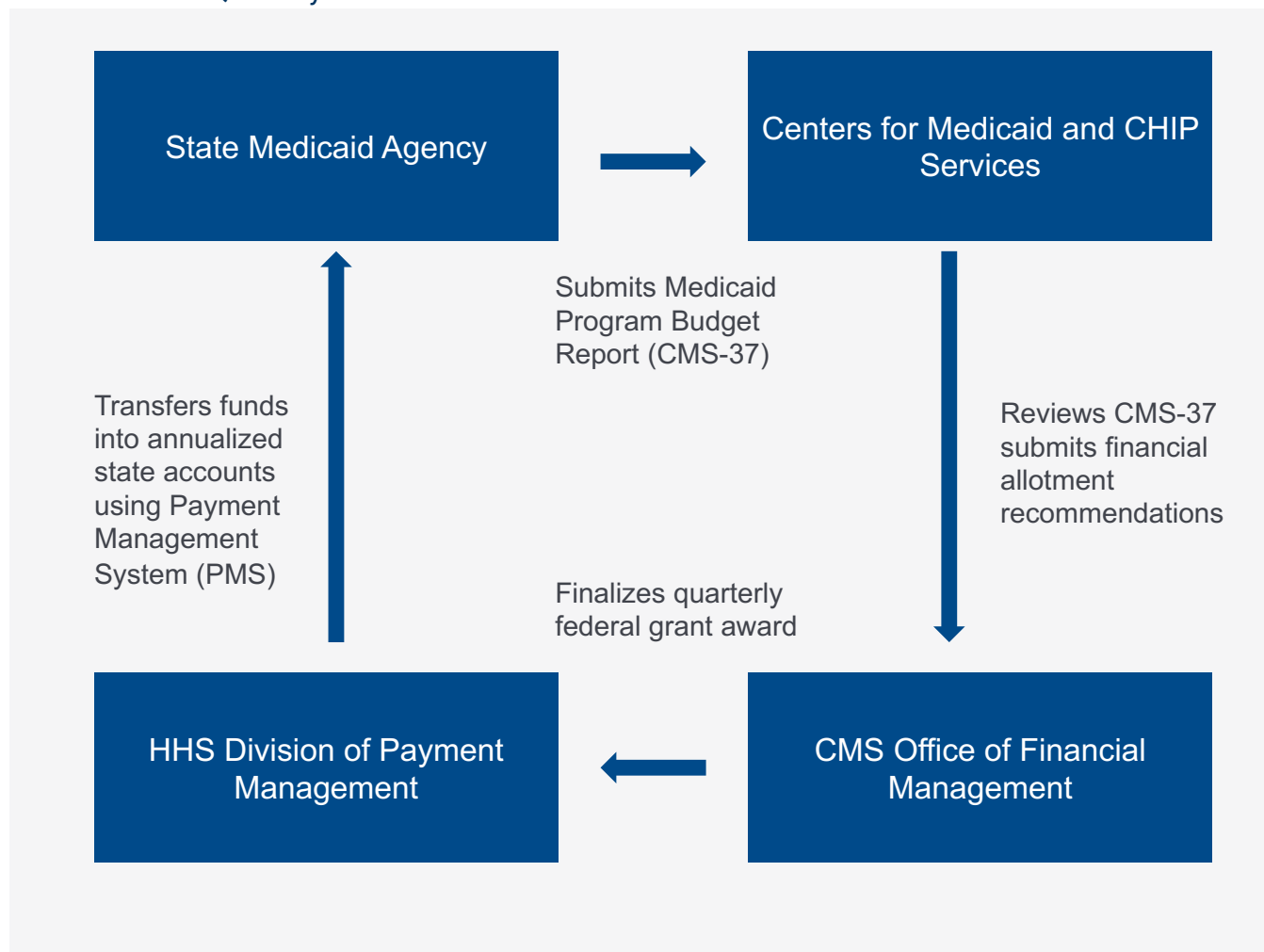
States submit their initial budget to regional administrators of the CMS Center for Medicaid and CHIP Services (CMCS), which prepares a decision report recommending initial state grant allotments. These decision reports are sent to CMS Office of Financial Management (OFM), which finalizes the grant awards for the HHS Division of Payment Management (DPM), HHS's fiscal intermediary which provides grant payment and cash management services to all HHS agencies and its grant or contract recipients. The DPM makes funds available to the states through the HHS Payment Management System (PMS), which the agency uses to account for and track state withdrawals for Medicaid and the State Children's Health Insurance Program and other HHS-funded activities in the state (Figure 1) (OIG 2016).

If a state underestimates its Medicaid spending for a given quarter, it can revise and recertify the Form CMS-37 along with justification for the change. After review and approval, CMS issues a supplemental grant award for the additional federal funds (CMS 2019a). States may not withdraw an amount greater than the available balance in their applicable PMS subaccount. If a state incurs Medicaid expenditures in



excess of its initial grant but does not submit a timely request for a supplemental grant, it typically either pays using state only funds or delays provider payment until after the fiscal quarter.

FIGURE 1. CMS Quarterly Grant Submission Process



Notes: CMS is Centers for Medicare & Medicaid Services. HHS is U.S. Department of Health and Human Services. CHIP is Children’s Health Insurance Program.

Sources: 42 CFR § 430.30. GAO 2018b.

Throughout the quarter, states can withdraw federal Medicaid funds from their PMS accounts for qualified Medicaid expenditures. Thirty days after the end of the fiscal quarter, states must submit the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) to CMS, reporting actual spending and any spending adjustments from prior periods.² CMS staff compare the Form CMS-64 to the corresponding Form CMS-37, account for any supplemental grant funding, and adjust the grant award to the extent that the state spent more or less than estimated.



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If allowable expenditures exceeded the total grant award for the applicable period, CMS will issue an additional grant award finding through a finalized grant. CMCS financial management staff conducts quarterly reviews of each state’s Form CMS-64 to ensure that state expenditures are programmatically reasonable, allowable, and allocable in accordance with existing federal laws, regulations, and policy guidance. They also work with states to provide technical assistance, resolve errors, enforce compliance, and take corrective actions as needed.

Oversight of Federal Medicaid Transfers to States

States and federal agencies have separate but complementary roles in the oversight of federal spending (Table 1).

TABLE 1. Federal and State Oversight of State Withdrawals of Federal Medicaid Funds

Entity	Responsibility
State Medicaid agencies	<ul style="list-style-type: none"> • Determine eligibility for participants. • Submit relevant budget and expenditure reports to CMS. • Withdraw appropriate federal match funds to reimburse for Medicaid.
CMS Center for Medicaid and CHIP Services (CMCS)	<ul style="list-style-type: none"> • Develops, interprets, and applies specific law, regulations, and policies that directly govern the financial operation and management of the Medicaid program. • In collaboration with CMCS regional administrators, review state budgets (Form CMS-37) and expenditure submissions (Form CMS-64) quarterly and determine any needed corrective financial actions. • Recommends Medicaid grant awards to be issued to states to CMS Office of Financial Management. • Identifies inappropriate federal fund withdrawals and recommends corrective actions where appropriate.
CMS Office of Financial Management	<ul style="list-style-type: none"> • Performs financial reconciliation of state Medicaid outlays with actual expenditures and analyzes financial transfer processes of Medicaid activities. • Responsible for all CMS disbursements including the submission of state Medicaid grant information to HHS Division of Payment Management. • Records Medicaid financial activities, such as disbursements to states and state Medicaid spending accruals to federal financial systems.

TABLE 1. (continued)

Entity	Responsibility
HHS Division of Payment Management	<ul style="list-style-type: none"> Provides grant payments to the states and cash management services for CMS. Oversees states' quarterly reporting of fund draws and available obligations.
U.S. Department of the Treasury	<ul style="list-style-type: none"> Enforces regulations regarding the timing and scope of fund withdrawals.
HHS Departmental Appeals Board	<ul style="list-style-type: none"> Handles all federal financial participation disallowance appeals filed by the state against CMS.
HHS Office of Inspector General	<ul style="list-style-type: none"> Oversees annual financial audit of Medicaid activities. Performs program and financial audits.
State auditors and independent public accountants	<ul style="list-style-type: none"> Perform or oversee state audits and reviews of Medicaid funding.
HHS Audit Resolution Division	<ul style="list-style-type: none"> Tracks single audit reporting from state auditors and independent public accountants.

Notes: CMS is Centers for Medicare & Medicaid Services. HHS is U.S. Department of Health and Human Services

Sources: 42 CFR § 430.42. OIG 2016. OIG 2006a.

Review and reconciliation of quarterly spending

OFM and CMCS use several methods to oversee and reconcile reported expenditures and withdrawals and flag states for further review:

Quarterly review of state expenditures. Quarterly reviews of state submissions of the Form CMS-64 are conducted to ensure federal financial participation (FFP) Medicaid funds are programmatically reasonable, allowable, and allocable in accordance with existing federal laws, regulations, and policy guidance. CMCS reviews specific expenditure types using different review techniques. These expenditure types include, but are not limited to, waiver expenditures, disproportionate share hospital and other supplemental payments, prior period adjustments, and outpatient prescription drug spending. Review techniques include comparing spending for a category to supporting documentation or checking to ensure that expenditures were claimed in accordance with the statutory two-year time limit (GAO 2018).

Variance analyses. CMCS also conducts multiple variance analyses as part of its review process. This includes review of quarterly spending and enrollment growth or decline, and review of specific expenditure categories with enhanced federal matching rates such as cervical cancer services, family planning, and the Medicaid new adult group. CMCS also reviews the total variance between what was budgeted for the



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quarter compared to actual quarterly spending, as well as compare reported expenditures with PMS withdrawals. The threshold where a variance analysis signals a need for further investigation is at the discretion of each regional office.

Medical claims. To ensure that the states expenditures are allowable, including whether the claim's FFP was made at the correct federal matching rate, reviewers may collect and review a sample of medical claims. This approach is used as part of the regular quarterly review of Form CMS-64, including verifying a state's justification for a prior period adjustment and claims at increased FMAP associated with the new adult group. CMS has placed special emphasis on ensuring that FFP paid to states for the new adult group is accurate, including conducting enhanced reviews of new adult group expenditures. To assist in reviewing prior period adjustments, reviewers review a medical claim's date of service and payment as part of ensuring the claims is within the statutory two-year filing limit and applied to the correct fiscal year.

Quarterly focused expenditure reviews for the 20 highest-spending states. CMCS conducts a more focused review of spending for the 20 states with the highest federal Medicaid expenditures, reviewing all administrative and medical assistance categories every quarter. For the remaining states, CMS reviews a subset of administrative and service categories once a year. Examples of expenditure categories that are reviewed quarterly for high-spending states but reviewed annually for low-spending states include third-party liability collections and verification that the federal share of inappropriate spending has been returned to the government.

CMCS also conducts focused financial management reviews (FMR) of high-risk expenditure categories (e.g., spending for the new adult group, information technology spending on eligibility and enrollment systems, or hospital supplemental payments). These reviews go into greater depth and detail than what can be reasonably accomplished within the time frame of a quarterly review and can be used to further investigate reported spending on Forms CMS-37 and CMS-64 (GAO 2018). As a consequence of various expenditure errors found in these FMRs, CMS was able to reduce federal spending by \$5.1 billion between fiscal years (FYs) 2014 and 2017.

Corrective action

CMS may employ corrective action if states withdraw federal funds inappropriately. Such an action is approved by either the CMCS director or CMCS Financial Management Group director on a case-by-case basis. In addition, states can also take corrective action by making a voluntary adjustment on Form CMS-64 prior to the deferral or disallowances described below.

Deferral of federal funds. CMS can defer claims for federal Medicaid funds withdrawals if additional information is needed to determine if a state expenditure claimed on the Form CMS-64 was allowable. For example, documentation at the claims level may be needed to assess that the correct FMAP is being applied.

Disallowance of federal funds. When a state expenditure is determined to be unallowable, CMS can issue a disallowance, and the state must refund the federal government through a debit on subsequent withdrawals of federal funds. If the state and CMS agree that an expenditure amount should be disallowed,



the states can submit an adjusted Form CMS-64 or adjust prior period spending in a subsequent reporting period. However, states often contest disallowances by formally requesting that CMS reconsider the disallowance or seeking a review of the disallowance by the HHS Departmental Appeals Board. The board may affirm, reverse, or modify the disallowance, or remand the disallowance to CMS, the state, or the HHS Office of Inspector General (OIG) for further consideration. Depending on the specific circumstances and the outcome of possible state appeals, a subsequent grant award will be issued in the amount of the financial increase or decrease for the revised fiscal period (42 CFR § 430.42).

Financial audits

Formal audits of state withdrawals of federal funds are under the purview of OIG and state auditors (Table 1). Each state Medicaid program must be audited once a year by state auditors (OMB Circular A-133 § B.200) These audits must confirm the accuracy and reliability of all health and non-health related state expenditure reports, such as Form CMS-64 (OMB Circular A-133 § E.500). States share these audit findings with HHS, which in turn tracks findings and provides any routine follow-up through the Audit Resolution Division. If the audit findings uncover deficiencies in states' Medicaid financial management practices, then CMS is responsible for following up and tracking state-level progress towards correcting deficiencies identified in the audit (OIG 2019b, OIG 2006a, OIG 2006b,).

OIG also has the authority to audit state PMS accounts and review that the scope and size of reported expenditures are aligned with withdrawals of federal funds. OIG may choose to audit states for a variety of reasons, which can include a history of poor reporting or large balances owed to the federal government. (OIG 2016, OIG 2015).³

Endnotes

¹ This issue brief only includes federal Medicaid funding transfers to states and does not include federal funding for U.S. territories or State Children's Health Insurance Program (CHIP).

² In a few situations, states will use federal CHIP funding to finance some Medicaid expenditures which are outlined on Form CMS-37 and Form CMS-64. These can include Medicaid expenditures in states that expanded Medicaid eligibility for children prior to the enactment of State Children's Health Insurance Program (CHIP) in 1997, for CHIP enrollees who were transitioned to Medicaid as part of the Affordable Care Act (ACA), or for children that moved from CHIP to Medicaid due to the 5 percent of federal poverty level Modified Adjusted Gross Income deduction.

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