



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



April 16, 2012

**TO:** Marilyn Tavenner  
Acting Administrator  
Centers for Medicare & Medicaid Services

**FROM:** /Gloria L. Jarmon/  
Deputy Inspector General for Audit Services

**SUBJECT:** Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in the U.S. Virgin Islands for the Quarter Ended September 30, 2009 (A-02-11-01004)

Attached, for your information, is an advance copy of our final report on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in the U.S. Virgin Islands for the quarter ended September 30, 2009. We will issue this report to the U.S. Virgin Islands Department of Health within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at [Brian.Ritchie@oig.hhs.gov](mailto:Brian.Ritchie@oig.hhs.gov) or James P. Edert, Regional Inspector General for Audit Services, Region II, at (212) 264-4620 or through email at [James.Edert@oig.hhs.gov](mailto:James.Edert@oig.hhs.gov). Please refer to report number A-02-11-01004.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION II  
JACOB K. JAVITS FEDERAL BUILDING  
26 FEDERAL PLAZA, ROOM 3900  
NEW YORK, NY 10278

April 17, 2012

Report Number: A-02-11-01004

Mercedes K.C. Dullum, M.D.  
Commissioner  
U.S. Virgin Islands Department of Health  
Charles Harwood Memorial Complex  
3500 Estate Richmond  
Christiansted, VI 00820

Dear Dr. Dullum:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in the U.S. Virgin Islands for the Quarter Ended September 30, 2009*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Glenn H. Richter, Audit Manager, at (518) 437-9390, extension 227, or through email at [Glenn.Richter@oig.hhs.gov](mailto:Glenn.Richter@oig.hhs.gov). Please refer to report number A-02-11-01004 in all correspondence.

Sincerely,

/James P. Edert/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE QUARTERLY MEDICAID  
STATEMENT OF EXPENDITURES FOR  
THE MEDICAL ASSISTANCE PROGRAM  
IN THE U.S. VIRGIN ISLANDS FOR THE  
QUARTER ENDED SEPTEMBER 30, 2009**



Daniel R. Levinson  
Inspector General

April 2012  
A-02-11-01004

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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**

#### **Medicaid Program**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved plan (State plan). Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

#### **American Recovery and Reinvestment Act of 2009**

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provided fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provided an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentage.

#### **U.S. Virgin Islands' Medicaid Program**

In the U.S. Virgin Islands, the Department of Health (DOH) administers the Medicaid program. DOH claims Medicaid expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64. The Form CMS-64 is the accounting statement that DOH, pursuant to 42 CFR § 430.30(c), must submit to CMS within 30 days after the end of each quarter. This form shows Medicaid expenditures for the quarter being reported and any prior-period adjustments. It also accounts for any overpayments, underpayments, and refunds received by DOH. The amounts reported must represent actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and that is available at the time the claim is filed.

DOH claimed Medicaid expenditures totaling \$7.9 million (\$4 million Federal share) for the quarter ended September 30, 2009. Our review covered 82 percent of DOH's claimed expenditures for the quarter.

### **OBJECTIVE**

Our objective was to determine whether DOH's claims for Federal reimbursement of Medicaid expenditures were adequately supported by actual recorded expenditures.

## **SUMMARY OF FINDING**

DOH's claims for Federal reimbursement of Medicaid expenditures for the quarter ended September 30, 2009, were not adequately supported by actual recorded expenditures. Of the \$6,478,448 (\$3,239,225 Federal share) in Medicaid expenditures that we reviewed, DOH improperly claimed \$786,632 (\$393,316 Federal share) for expenditures that were improperly calculated because DOH had not established policies and procedures for preparing the Form CMS-64.

## **RECOMMENDATIONS**

We recommend that DOH:

- refund \$393,316 to the Federal Government and
- establish policies and procedures for preparing the Form CMS-64.

## **DEPARTMENT OF HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, DOH did not agree with the amount of the refund in our first recommendation and provided additional supporting documentation. In addition, DOH concurred with our second recommendation and described actions that it planned to take to address it.

After reviewing DOH's comments and additional documentation, we revised our finding and related recommendations accordingly. DOH's comments appear as the Appendix. We redacted personally identifiable information in the comments.



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## INTRODUCTION

### BACKGROUND

#### Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved plan (State plan). Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

#### American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provided fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provided an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentage (FMAP).<sup>1</sup> Section 5000 of the Recovery Act provided for these increases to help avert cuts in health care payment rates, benefits, or services and to prevent changes to income eligibility requirements that would reduce the number of individuals eligible for Medicaid.

#### U.S. Virgin Islands' Medicaid Program

In the U.S. Virgin Islands (Virgin Islands), the Department of Health (DOH) administers the Medicaid program.<sup>2</sup> DOH uses the Enterprise Resource Planning (ERP) system, a computerized payment and information reporting system, to process and pay Medicaid claims.

Pursuant to the Act, the FMAP for the Virgin Islands is set at 50 percent. Pursuant to 42 U.S.C. § 1308, Federal Medicaid funding in the Virgin Islands and other U.S. territories is subject to a statutory cap, which is increased annually by the percentage increase in the medical care component of the Consumer Price Index for all urban consumers. (We refer to this cap as the "annual cap.") The Federal Government matches every Medicaid dollar spent by DOH up to the annual cap, but expenditures above the annual cap are not matched.

Pursuant to sections 5001(b) and (d) of the Recovery Act, during the recession adjustment period, the Virgin Islands could choose either (1) an increased FMAP that would be no less than its 2008 FMAP increased by 6.2 percentage points plus an additional 15-percent increase in the

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<sup>1</sup> The Education, Jobs, and Medicaid Assistance Act (P.L. No. 111-226) extended the recession adjustment period for the increased FMAP through June 30, 2011.

<sup>2</sup> The Virgin Islands are an organized, unincorporated territory of the United States under the jurisdiction of the Department of the Interior.

annual cap or (2) a 30-percent increase in the annual cap. DOH elected to receive a 30-percent increase in the annual cap. As a result of the increased Recovery Act funding, the Virgin Islands' annual cap for the recession adjustment period was increased by \$8,286,000.

### **Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program**

DOH claims Medicaid expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64. The Form CMS-64 is the accounting statement that DOH, pursuant to 42 CFR § 430.30(c), must submit to CMS within 30 days after the end of each quarter. This form shows Medicaid expenditures for the quarter being reported and any prior-period adjustments. It also accounts for any overpayments, underpayments, and refunds received by DOH.

Pursuant to 42 CFR § 430.30(c) and the CMS *State Medicaid Manual*, § 2500.2, the amounts reported on the Form CMS-64 and its attachments must represent actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and that is available at the time the claim is filed. Further, claims developed on the basis of estimates are not allowable.

### **Oversight of Quarterly Medicaid Statement of Expenditures**

The CMS regional office conducts quarterly reviews of the Form CMS-64. During these reviews, CMS regional office staff members review the accounting records that DOH used to support the Form CMS-64 and perform additional procedures in accordance with the *CMS Financial Review Guide for the Quarterly Medicaid Statement of Expenditures*.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether DOH's claims for Federal reimbursement of Medicaid expenditures were adequately supported by actual recorded expenditures.

### **Scope**

DOH claimed Medicaid expenditures totaling \$7.9 million (\$4 million Federal share) for the quarter ended September 30, 2009. Our review covered three line items<sup>3</sup> on the Form CMS-64 totaling \$6.5 million (\$3.2 million Federal share), or 82 percent of DOH's claimed expenditures for the quarter. Our objective did not require a review of the overall internal control structure of DOH. Therefore, we limited our review to DOH's procedures for accounting for, documenting, and claiming Medicaid expenditures for the three selected lines.

We conducted fieldwork at DOH's offices in Charlotte Amalie, Virgin Islands, from November 2010 through March 2011.

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<sup>3</sup> The three line items were Inpatient Hospital Services-Regular Payments, Outpatient Hospital Services, and Prescribed Drugs.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and the State plan;
- interviewed CMS personnel responsible for monitoring the Form CMS-64 to gain an understanding of the process for submitting the Form CMS-64;
- obtained from CMS the Form CMS-64 that DOH submitted for the quarter ended September 30, 2009;
- interviewed DOH officials to gain an understanding of DOH's policies and procedures for accounting for, documenting, and reporting Medicaid expenditures on the Form CMS-64;
- gained an understanding of the systems that DOH used for reporting Medicaid expenditures on the Form CMS-64;
- reconciled Medicaid expenditures claimed on the Form CMS-64 for the quarter ended September 30, 2009, totaling \$6,478,448 (\$3,239,225 Federal share), to DOH's accounting records for three line items that made up 82 percent of DOH's claimed expenditures for the quarter; and
- discussed our results with DOH officials.

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

## **FINDING AND RECOMMENDATIONS**

DOH's claims for Federal reimbursement of Medicaid expenditures for the quarter ended September 30, 2009, were not adequately supported by actual recorded expenditures. Of the \$6,478,448 (\$3,239,225 Federal share) in Medicaid expenditures that we reviewed, DOH improperly claimed \$786,632 (\$393,316 Federal share) for expenditures that were improperly calculated because DOH had not established policies and procedures for preparing the Form CMS-64.

### **IMPROPERLY CALCULATED EXPENDITURES**

DOH employees use summary data from ERP to calculate expenditures on the Form CMS-64. However, DOH officials stated that a new employee incorrectly calculated summary data from ERP when preparing the Form CMS-64 for the quarter ended September 30, 2009. The incorrect

calculation occurred because DOH had not established policies and procedures for preparing the Form CMS-64. As a result, DOH improperly claimed expenditures totaling \$786,632 (\$393,316 Federal share).

## **RECOMMENDATIONS**

We recommend that DOH:

- refund \$393,316 to the Federal Government and
- establish policies and procedures for preparing the Form CMS-64.

## **DEPARTMENT OF HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, DOH did not agree with the amount of the refund in our first recommendation and provided additional supporting documentation. In addition, DOH concurred with our second recommendation and described actions that it planned to take to address it.

After reviewing DOH's comments and additional documentation, we revised our finding and related recommendations accordingly. DOH's comments appear as the Appendix. We redacted personally identifiable information in the comments.

# **APPENDIX**

## APPENDIX: DEPARTMENT OF HEALTH COMMENTS



GOVERNMENT OF  
THE VIRGIN ISLANDS OF THE UNITED STATES  
VIRGIN ISLANDS DEPARTMENT OF HEALTH

**ST. CROIX OFFICE**  
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CHRISTIANSTED, ST. CROIX, V.I. 00820-4370  
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March 7, 2012

**ST. THOMAS OFFICE**  
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Mr. James P. Edert  
Regional Inspector General for Audit Services  
U.S. Department of Health and Human Services  
Region II  
Jacob Javits Federal Building  
26 Federal Plaza – Room 3900  
New York, New York 10278  
[James.Edert@oig.hhs.gov](mailto:James.Edert@oig.hhs.gov)

Dear Mr. Edert:

Thank you for the extension granted until March 7, 2012, and for the opportunity to comment on the above mentioned draft report "*Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in the US Virgin Islands for the Quarter Ended September 30, 2009*" which was issued to the VI Department of Health on January 23, 2012.

The January 23, 2012 Draft Report No. A-02-11-01004 indicated that 133 of 640 paper invoices necessary to support the \$3,239,225 federal share claimed on Line 3 of the Quarterly Medicaid Statement of Expenditures Form (CMS-64) for the quarter ended September 30, 2009 could not be located by the Department of Health, and that therefore these expenditures were unsupported. The recommendation is that the Virgin Islands refund \$1,238,925 to the federal government.

The report further indicated that the Virgin Islands improperly claimed expenditures totaling \$727,414 federal share due to an error in summarizing data from the ERP system for entry on the Quarterly Medicaid Statement of Expenditures Form (CMS-64) for the quarter ended September 30, 2009.

The Government of the Virgin Islands' response to the report is attached as Exhibit I, which reflects partial concurrence with the finding, along with explanations for non-concurrence or corrective measures, as applicable, for the specific recommendations ranging from addressing the return of funds to establishing policies and procedures.

The V. I. Department of Health and particularly its Medical Assistance Program are committed to implementing the Medicaid Management Information System (MMIS) and taking actions such as developing the requisite policies that are necessary to enhance timely access to its data and information.

Thank you again for the opportunity to comment on the report. I appreciate the opportunity to work with [REDACTED] and the members of your staff to resolve these matters.

If you have any further questions or concerns, please do not hesitate to contact me or Renée Joseph-Rhymer, the Director of the Bureau of Health Insurance and Medical Assistance (BHIMA).

Sincerely,



Mercedes K.C. Dullum, M.D.  
Commissioner

Pc: Honorable John P. deJongh, Jr., Governor, USVI  
Ms. Pamela Berkowsky, Chief of Staff, Office of the Governor  
Mr. Angus Drigo, CFO, VI Department of Health  
Ms. Debra Gottlieb, Director, VI OMB  
Ms. Renée Joseph-Rhymer, Acting Director of BHIMA  
Ms. Taetia Phillips-Dorsett, Coordinator Health Reform, Office of the Governor, USVI



Exhibit I

**Government of the Virgin Islands Response  
to the  
Draft Audit Report by the U.S. Department of Health and Human Services,  
Office of Inspector General (OIG)  
Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance  
Program in the U.S. Virgin Islands for the Quarter Ended September 30, 2009  
( A-02-11-01004, dated January 2012)**

**FINDING #1: Unsupported Expenditures/Improperly Calculated Expenditures**

The V.I. Department of Health's (VIDOH) claims for Federal reimbursement of Medicaid expenditures for the quarter ended September 30, 2009, were not adequately supported by actual recorded expenditures. Of the \$6,478,448 (\$3,239,225 Federal share) in Medicaid expenditures reviewed, DOH improperly claimed \$3,932,677 (\$1,966,339 Federal share). Specifically, DOH claimed reimbursement for: (1) expenditures (\$1,238,925 Federal share) for which supporting documentation could not be located because VIDOH had not established a record retention policy; and (2) expenditures (\$727,414 Federal share) that were improperly calculated because VIDOH had not established policies and procedures for preparing the Form CMS-64.

**Recommendation**

1. Refund \$1,966,339 to the Federal Government.
2. Establish a record retention policy.
3. Establish policies and procedures for preparing the Form CMS-64.

**Government's Response**

VIDOH partially concur with this finding.

*Unsupported Expenditures*

However, VIDOH does not concur with Recommendation #1. On February 1, 2011, [REDACTED], HHS came to the Virgin Islands and Medicaid program personnel provided the missing invoices for review. As a result, it is VIDOH's understanding from [REDACTED] that the OIG will be removing the finding and recommendation for the VI to refund \$1,238,925 from the final report. Because claims retrieval currently is an extremely laborious

Exhibit I

manual process, obtaining the 133 invoices took considerably more time than was available during the first OIG visit. However, VIDOH anticipates submitting in March to CMS for approval, an Implementation Advanced Planning Document (IAPD), that will facilitate the United States Virgin Islands Medicaid Program's ability to operate a Medicaid Management Information System (MMIS).

It is anticipated that subject to CMS approval, the MMIS will be operational in the United States Virgin Island during the first or second quarter of Fiscal Year 2013. This electronic claims processing, storage, and retrieval system will greatly enhance VIDOH's ability to satisfy similar requests for data in the future.

*Improperly Calculated Expenditures*

The report indicated that the Virgin Islands improperly claimed expenditures totaling \$727,414 federal share due to an error in summarizing data from the ERP system for entry on the Quarterly Medicaid Statement of Expenditures Form (CMS-64) for the quarter ended September 30, 2009.

From a recent conversation with the OIG, it is VIDOH's understanding that OIG will be revising the amount of this finding downward based upon the additional documentation provided to the auditor during the on-site visit on February 1, 2012. As a result, VIDOH will reserve any further comment on this finding until the final amount of the finding and the related calculations are determined. At that time the finding will be reviewed and a final response will be provided.

† VIDOH concurs with Recommendation # 2 that a systematic written policy on record retention is required as a corrective measure to preclude similar issues in the future.

VIDOH concurs with Recommendation # 3 that written policies and procedures for preparing the Quarterly Medicaid Statement of Expenditures Form (CMS-64) are necessary.

**Corrective Action**

VIDOH staff will develop a written record retention policy to address the proper recording, storage and retrieval process for invoices submitted to the Medicaid Program. The draft policy will be transmitted to CMS for review and comments prior to finalization and distribution in VIDOH. Additionally, VIDOH's Medical Assistance Program (MAP) and related VIDOH staff will be thoroughly trained regarding the formal policies and procedures for record retention in accordance with the approved policy. The written policy coupled with the training should enhance MAP's ability to timely provide supporting invoices or data. Further, future

† Office of Inspector General note: We removed this recommendation from the final report because DOH was able to provide supporting documentation.

Exhibit I

implementation of the MMIS will allow for even greater enhancement to the system by having real-time access to Medicaid data and information for the U.S. Virgin Islands.

VIDOH will prepare a protocol on the proper preparation of the Form CMS-64. Additionally, staff will be thoroughly trained on the formal policies and procedures. This training was already initiated back in the fall of 2011 when Medicaid financial staff attended a CMS sponsored training conducted in Puerto Rico.

**Implementation Date(s):** February 2012

**Due Date(s):** 3<sup>rd</sup> quarter FY 2012

**Responsible Party(ies):** Director, Bureau of Health Insurance and Medical Assistance (BHIMA),  
and Administrator, Fiscal Services - DOH