

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**VIRGINIA MADE
INCORRECT MEDICAID ELECTRONIC
HEALTH RECORD INCENTIVE
PAYMENTS TO HOSPITALS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Brian P. Ritchie
Assistant Inspector General
for Audit Services**

October 2016
A-03-14-00404

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

Virginia made incorrect Medicaid electronic health record incentive payments to hospitals, resulting in a total overpayment of \$37,614.

WHY WE DID THIS REVIEW

To improve the quality and value of American health care, the Federal Government promotes the use of certified electronic health record (EHR) technology by health care professionals and hospitals (collectively, “providers”). As an incentive for using EHRs, the Federal Government is making payments to providers that attest to the “meaningful use” of EHRs. The Congressional Budget Office estimates that, from 2011 through 2019, spending on the Medicare and Medicaid EHR incentive programs will total \$30 billion; the Medicaid EHR incentive program will account for more than a third of that amount, or about \$12.4 billion.

The Government Accountability Office has identified improper incentive payments as the primary risk to EHR incentive programs. These programs may be at greater risk of improper payments than other programs because they are new and have complex requirements. Other U.S. Department of Health and Human Services, Office of Inspector General reports describe the obstacles that the Centers for Medicare & Medicaid Services (CMS) and States face overseeing the Medicare and Medicaid EHR incentive programs. The obstacles leave the programs vulnerable to making incentive payments to providers that do not fully meet requirements.

The Virginia Department of Medical Assistance Services (the State agency) made approximately \$125.2 million in Medicaid EHR incentive program payments to providers between July 1, 2012, and June 30, 2014. Of this amount, the State agency paid approximately \$47.0 million to health care professionals and \$78.2 million to hospitals. This review is one in a series of reports focusing on the Medicaid EHR incentive program for hospitals.

The objective of this review was to determine whether the State agency made Medicaid EHR incentive program payments to eligible hospitals in accordance with Federal and State requirements.

BACKGROUND

The Health Information Technology for Economic and Clinical Health Act (HITECH Act), enacted as part of the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5, established Medicare and Medicaid EHR incentive programs to promote the adoption of EHRs. Under the HITECH Act, State Medicaid programs have the option of receiving from the Federal Government 100 percent of their expenditures for incentive payments to certain providers. The State agency administers the Medicaid program and monitors and makes EHR incentive payments.

To receive an incentive payment, eligible providers attest that they meet program requirements by self-reporting data using the CMS National Level Repository. The National Level Repository is a provider registration and verification system that contains information on providers participating in the Medicare and Medicaid EHR incentive programs. To be eligible for the

Medicaid EHR incentive program, providers must meet Medicaid patient-volume requirements. In general, patient volume is calculated by dividing the provider's total Medicaid patient encounters by the provider's total patient encounters. For hospitals, patient encounters are defined as discharges, not days spent in the hospital.

Hospital incentive payments are based on a one-time calculation of a total incentive payment, which is distributed by States over a minimum of 3 years and a maximum of 6 years. The total incentive payment calculation consists of two main components: the overall EHR amount and the Medicaid share.

HOW WE CONDUCTED THIS REVIEW

From July 1, 2012, through June 30, 2013, the State agency paid \$78,217,155 to 73 eligible hospitals in Virginia for Medicaid EHR incentive payments. We (1) reconciled hospital incentive payments reported by the State agency on Form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) with the National Level Repository and (2) identified for further review 15 hospitals that each received total incentive payments exceeding \$1 million. However, because the State agency contracted with a public accounting firm to perform desk reviews of hospitals' cost reports, we limited our audit to five hospitals that were not reviewed by the accounting firm at the time of our audit. The State agency paid the five hospitals a total of \$10,565,390, which represents approximately 14 percent of the total amount paid to all hospitals in Virginia during the audit period. The State agency made additional incentive payments totaling \$2,947,031 to three of the five hospitals as of December 31, 2015.

WHAT WE FOUND

The State agency did not make EHR incentive payments in accordance with Federal and State requirements for two of the five Virginia hospitals we reviewed. The State agency paid these two hospitals a total of \$3,230,129 when it should have paid \$3,192,515, resulting in a total overpayment of \$37,614. Because the hospital calculation is computed once and then paid out over 3 years, payments after June 30, 2013, will also be incorrect. The net adjustments to these payments total \$37,614. These errors occurred because the State agency incorrectly calculated the EHR incentive payment.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$37,614 in net overpayments made to the two hospitals;
- adjust the two hospitals' remaining incentive payments to account for the incorrect calculations (which will result in future cost savings of \$37,614); and
- review the calculations for the hospitals not included in the five we reviewed to determine whether payment adjustments are needed, and refund any overpayments identified.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency noted that its public accounting firm conducted post-payment audits at the two hospitals and identified additional overpayments that the State agency addressed after we completed our field work. The public accounting firm also completed reviews of hospitals not included in the five we reviewed, and the State agency addressed additional overpayments identified at those hospitals.

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INTRODUCTION

WHY WE DID THIS REVIEW

To improve the quality and value of American health care, the Federal Government promotes the use of certified electronic health record (EHR) technology by health care professionals and hospitals (collectively, “providers”). As an incentive for using EHRs, the Federal Government is making payments to providers that attest to the “meaningful use” of EHRs.¹ The Congressional Budget Office estimates that, from 2011 through 2019, spending on the Medicare and Medicaid EHR incentive programs will total \$30 billion; the Medicaid EHR incentive program will account for more than a third of that amount, or about \$12.4 billion.

The Government Accountability Office has identified improper incentive payments as the primary risk to EHR incentive programs.² These programs may be at greater risk of improper payments than other programs because they are new and have complex requirements. Other U.S. Department of Health and Human Services, Office of Inspector General reports describe the obstacles that the Centers for Medicare & Medicaid Services (CMS) and States face overseeing the Medicare and Medicaid EHR incentive programs.³ The obstacles leave the programs vulnerable to making incentive payments to providers that do not fully meet requirements.

The Virginia Department of Medical Assistance Services (the State agency) made approximately \$125.2 million in Medicaid EHR incentive program payments to providers between July 1, 2012, and June 30, 2014. Of this amount, the State agency paid approximately \$47.0 million to health care professionals and \$78.2 million to hospitals. This review is one in a series of reports focusing on the Medicaid EHR incentive program for hospitals. See Appendix A for a list of reports related to payments made for the Medicaid EHR incentive program.

OBJECTIVE

Our objective was to determine whether the State agency made Medicaid EHR incentive program payments to eligible hospitals in accordance with Federal and State requirements.

BACKGROUND

Health Information Technology for Economic and Clinical Health Act

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (the Recovery Act), P.L. No. 111-5. Title XIII of Division A and Title IV of Division B of the Recovery Act are cited together as the Health Information Technology for Economic and

¹ To meaningfully use certified EHRs, providers must use numerous functions defined in Federal regulations, including functions meant to improve health care quality and efficiency, such as computerized provider order entry, electronic prescribing, and the exchange of key clinical information.

² *First Year of CMS’s Incentive Programs Shows Opportunities to Improve Processes to Verify Providers Met Requirements* (GAO-12-481), published April 2012.

³ *Early Review of States’ Planned Medicaid Electronic Health Record Incentive Program Oversight* (OEI-05-10-00080), published July 2011, and *Early Assessment Finds That CMS Faces Obstacles in Overseeing the Medicare EHR Incentive Program* (OEI-05-11-00250), published November 2012.

Clinical Health Act (HITECH Act). The HITECH Act established EHR incentive programs for both Medicare and Medicaid to promote the adoption of EHRs.

Under section 4201 of the HITECH Act, State Medicaid programs have the option of receiving from the Federal Government Federal financial participation for expenditures for incentive payments to certain Medicare and Medicaid providers to adopt, implement, upgrade, and meaningfully use certified EHR technology. The Federal Government pays 100 percent of Medicaid incentive payments (42 CFR § 495.320).

Medicaid Program: Administration and Federal Reimbursement

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, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State agency has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Virginia, the State agency administers the program.

States use the standard Form CMS-64⁴ to report actual Medicaid expenditures for each quarter, and CMS uses it to reimburse States for the Federal share of Medicaid expenditures. The amounts reported on Form CMS-64 and its attachments must represent actual expenditures and be supported by documentation. States claim EHR incentive payments on lines 24E and 24F of the Form CMS-64.

National Level Repository

The National Level Repository (NLR) is a CMS Web-based provider registration and verification system that contains information on providers participating in the Medicare and Medicaid EHR incentive programs. The NLR is the designated system of records that checks for duplicate payments and maintains the incentive payment history files.

Incentive Payment Eligibility Requirements

To receive an incentive payment, eligible providers attest that they meet program requirements by self-reporting data using the NLR.⁵ To be eligible for the Medicaid EHR incentive program, providers must meet Medicaid patient-volume requirements (42 CFR § 495.304(c)). In general, patient volume is calculated by dividing the provider's total Medicaid patient encounters by the provider's total patient encounters.⁶

⁴ Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program.

⁵ Eligible hospitals may be acute-care hospitals or children's hospitals (42 CFR §§ 495.304(a)(2) and (3)); acute-care hospitals include critical access hospitals or cancer hospitals (75 Fed. Reg. 44314, 44484 (July 28, 2010)).

⁶ Generally stated, a hospital encounter is either the total services performed during an inpatient stay or services performed in an emergency department on any one day for which Medicaid paid for all or part of the services or paid the copay, cost-sharing, or premium for the services (42 CFR § 495.306(e)(2)).

The program eligibility requirements for hospitals are as follows:

- The hospital is a permissible provider type that is licensed to practice in the State.
- The hospital participates in the State agency Medicaid program.
- The hospital is not excluded, sanctioned, or otherwise deemed ineligible to receive payments from the State agency or Federal Government.
- The hospital has an average length of stay of 25 days or less.⁷
- The hospital has adopted, implemented, upgraded, or meaningfully used certified EHR technology.⁸
- The hospital meets Medicaid patient-volume requirements.⁹

Eligible Hospital Payments

Hospital incentive payments are based on a one-time calculation of a total incentive payment, which is distributed by States over a minimum of 3 years and a maximum of 6 years.¹⁰ The total incentive payment calculation consists of two main components—the overall EHR amount and the Medicaid share.

Generally stated, the overall EHR amount is an estimated dollar amount based on a total number of inpatient acute-care discharges over a theoretical 4-year period.¹¹ The overall EHR amount consists of two components—an initial amount and a transition factor. Once the initial amount is multiplied by the transition factors, all 4 years are totaled to determine the overall EHR amount. Table 1 provides three examples of the overall EHR amount calculation.

⁷ 42 CFR § 495.302, definition of “acute-care hospital.” Children’s hospitals do not have to meet the average length of stay requirement.

⁸ Providers may only adopt, implement, or upgrade the first year they are in the program (42 CFR § 495.314(a)(1)). In subsequent years, a provider must demonstrate that during the EHR reporting period it is a meaningful EHR user as defined in 42 CFR § 495.4.

⁹ Hospitals must have a Medicaid patient volume of at least 10 percent, except for children's hospitals, which do not have a patient-volume requirement (42 CFR §§ 495.304(e)(1) and (e)(2)).

¹⁰ No single year may account for more than 50 percent of the total incentive payment, and no 2 years may account for more than 90 percent of the total incentive payment (42 CFR §§ 495.310(f)(3) and (f)(4)). The State agency elected to distribute incentive payments over a 3-year period with the first payment being 50 percent of the total; the second payment, 40 percent; and the remaining payment, 10 percent.

¹¹ The 4-year period is theoretical because the overall EHR amount is not determined annually; it is calculated once on the basis of how much a hospital might be paid over 4 years. An average annual growth rate (calculated by averaging the annual percentage change in discharges over the most recent 3 years) is applied to the first payment year's number of discharges to calculate the estimated total discharges in years 2 through 4 (42 CFR § 495.310(g)).

Table 1: Overall EHR Amount Calculation

Type of Hospital	Hospitals With 1,149 or Fewer Discharges During the Payment Year	Hospitals With 1,150 Through 23,000 Discharges During the Payment Year	Hospitals With More Than 23,000 Discharges During the Payment Year
Base Amount	\$2 million	\$2 million	\$2 million
Plus Discharge-Related Amount (adjusted in years 2 through 4 based on the average annual growth rate)	\$0.00	\$200 multiplied by $(n - 1,149)$ where n is the number of discharges	\$200 multiplied by $(23,000 - 1,149)$
Equals Total Initial Amount	\$2 million	Between \$2 million and \$6,370,200, depending on the number of discharges	Limited by law to \$6,370,200
Multiplied by Transition Factor	Year 1 – 1.00 Year 2 – 0.75 Year 3 – 0.50 Year 4 – 0.25	Year 1 – 1.00 Year 2 – 0.75 Year 3 – 0.50 Year 4 – 0.25	Year 1 – 1.00 Year 2 – 0.75 Year 3 – 0.50 Year 4 – 0.25
Overall EHR Amount	Sum of all 4 years	Sum of all 4 years	Sum of all 4 years

The Medicaid share is calculated as follows:

- The numerator is the sum of the estimated Medicaid inpatient acute-care bed-days¹² for the current year and the estimated number of Medicaid managed-care acute inpatient bed-days for the current year (42 CFR § 495.310(g)(2)(i)).
- The denominator is the product of the estimated total number of inpatient acute-care bed-days for the eligible hospital during the current year multiplied by the noncharity percentage. The noncharity percentage is the estimated total amount of the eligible hospital's charges during that period, not including any charges that are attributable to charity care, divided by the estimated total amount of the hospital's charges during that period (42 CFR § 495.310(g)(2)(ii)).

The total incentive payment is the overall EHR amount multiplied by the Medicaid share. The total incentive payment is then distributed over several years. (See footnote 9.) It is possible that a hospital may not receive the entire total incentive payment. Each year, hospitals must attest to the “meaningful use” of EHRs and meet that year's program requirements. A hospital may not qualify for the future years’ payments or could elect to end its participation in the EHR incentive program. In addition, the amount may change because of adjustments to supporting numbers used in the calculations.

¹² A bed-day is 1 day that one Medicaid beneficiary spends in the hospital.

Hospitals may receive incentive payments from both Medicare and Medicaid within the same year; however, they may not receive a Medicaid incentive payment from more than one State (42 CFR §§ 495.310(e) and (j)).

HOW WE CONDUCTED THIS REVIEW

From July 1, 2012, through June 30, 2014, the State agency paid \$78,217,155 to 73 eligible hospitals in Virginia for Medicaid EHR incentive payments.¹³ We (1) reconciled hospital incentive payments reported by the State agency on Form CMS-64 with the NLR and (2) identified for further review 15 hospitals that each received total incentive payments exceeding \$1 million. However, because the State agency contracted with a public accounting firm to perform desk reviews of hospitals' cost reports, we limited our audit to five hospitals that were not reviewed by the accounting firm at the time of our audit. The State agency paid the five hospitals a total of \$10,565,390, which represents approximately 14 percent of the total amount paid to all hospitals in Virginia during the audit period. The State agency made additional payments totaling \$2,947,031 to three of the five hospitals as of December 31, 2015.

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 objectives.

Appendix B contains the details of our audit scope and methodology.

FINDINGS

The State agency did not make EHR incentive payments in accordance with Federal and State requirements for two of the five Virginia hospitals we reviewed. The State agency paid these two hospitals a total of \$3,230,129 when it should have paid \$3,192,515, resulting in a total overpayment of \$37,614. Because the hospital calculation is computed once and then paid out over 3 years, payments after June 30, 2013, will also be incorrect. The net adjustments to these payments total \$37,614. These errors occurred because the State agency incorrectly calculated the EHR incentive payment.

THE STATE AGENCY MADE INCORRECT HOSPITAL INCENTIVE PAYMENTS

CMS guidance¹⁴ allows a hospital to use financial data obtained from multiple sources when calculating its requested Medicaid EHR incentive payment. These sources include: the hospital's Medicare cost report, State-specific Medicaid cost reports, State payment and

¹³ Although two hospitals were located in the District of Columbia, the State of Virginia was responsible for making the EHR incentive payments.

¹⁴ *Medicaid Hospital Incentive Payments Calculations*, May 2013. Available online at www.cms.gov/Regulations-and-Guidance/Legislation/EHRIncentivePrograms/Downloads/MLN_TipSheet_MedicaidHospitals.pdf. Accessed on May 26, 2015.

utilization information,¹⁵ and hospital financial statement and accounting records. When data, like charity-care charges, were not available on the Medicare cost report, hospitals used comparable information from other sources. Two of the five Virginia hospitals we reviewed did not compute the EHR incentive payment correctly, resulting in a total overpayment of \$37,614. Table 2 shows the overpayment amounts for each hospital.

Table 2: Hospital Overpayment Calculations

Hospital	State Payment	OIG Calculation	Overpayment
1	\$2,085,444	\$2,079,871	\$5,573
2	1,144,685	1,112,644	32,041
Total	\$3,230,129	\$3,192,515	\$37,614

These errors occurred because the State agency calculated the EHR incentive payments using data that were not documented on the hospitals’ cost report data or other documented sources. The State agency accepted the data provided by the hospitals without verifying its accuracy.¹⁶ As a result, the State agency overpaid two hospitals a total of \$37,614. Because the hospital calculation is computed once and then paid out over 3 years, payments after June 30, 2013, will also be incorrect. The net adjustments to these payments total \$37,614.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$37,614 in net overpayments made to the two hospitals;
- adjust the two hospitals’ remaining incentive payments to account for the incorrect calculations (which will result in future cost savings of \$37,614); and
- review the calculations for the hospitals not included in the five we reviewed to determine whether payment adjustments are needed, and refund any overpayments identified.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency noted that its public accounting firm conducted post-payment audits at the two hospitals and identified additional overpayments that the State agency addressed after we completed our field work. The public accounting firm also

¹⁵ This information can be obtained from the State Medicaid Management Information System and other automated claims processing and information retrieval systems.

¹⁶ The undocumented or inaccurate data included one or more of the following: Medicaid inpatient days, Medicaid managed-care inpatient days, total inpatient bed-days, total hospital charges, and charity-care charges.

completed reviews of hospitals not included in the five we reviewed, and the State agency addressed additional overpayments identified at those hospitals.

The State agency's comments are included in their entirety as Appendix C.

OTHER MATTERS

During our review, the State agency contracted with a public accounting firm to perform desk reviews of 57 hospitals' cost reports. These reviews included verification of the data used to calculate the Medicaid EHR incentive program payments for eligible hospitals. The public accounting firm performed desk reviews for 10 of the 15 hospitals initially included in our audit. At each hospital, the public accounting firm performed additional audit procedures that were not included in our review. These procedures included verifying the number of total inpatient bed-days, Medicaid inpatient bed-days, and Medicaid managed-care inpatient bed-days. The public accounting firm identified that the State agency overpaid 9 of the 10 hospitals a total of \$2,892,489. As a result, we terminated our review of those 10 hospitals and limited our results to the 5 hospitals not reviewed by the public accounting firm.

**APPENDIX A: REPORTS RELATED TO PAYMENTS MADE FOR THE
MEDICAID ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

Report Title	Report Number	Date Issued
<i>California Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-09-16-02004</u>	09-26-2016
<i>Washington State Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-09-16-02015</u>	09-20-2016
<i>Ohio Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-05-13-00043</u>	08-30-2016
<i>New Jersey Made Incorrect Medicaid Electronic Health Record Incentive Payments</i>	<u>A-02-14-01009</u>	08-25-2016
<i>Pennsylvania Made Correct Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-03-15-00403</u>	08-10-2016
<i>West Virginia Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-03-14-00406</u>	08-10-2016
<i>Arizona Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-09-15-02036</u>	08-04-2016
<i>Delaware Made Incorrect Medicaid Electronic Health Record Incentive Payments</i>	<u>A-03-14-00402</u>	09-30-2015
<i>Oklahoma Made Incorrect Medicaid Electronic Health Record Incentive Payments to Health Care Professionals</i>	<u>A-06-14-00030</u>	09-03-2015
<i>Texas Made Incorrect Medicaid Electronic Health Record Incentive Payments</i>	<u>A-06-13-00047</u>	08-31-2015
<i>Arkansas Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-06-14-00010</u>	06-22-2015
<i>The District of Columbia Made Correct Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-03-14-00401</u>	01-15-2015
<i>Massachusetts Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals</i>	<u>A-01-13-00008</u>	11-17-2014
<i>Louisiana Made Incorrect Medicaid Electronic Health Record Incentive Payments</i>	<u>A-06-12-00041</u>	08-26-2014

Report Title	Report Number	Date Issued
<i>Florida Made Medicaid Electronic Health Record Payments to Hospitals in Accordance With Federal and State Requirements</i>	<u>A-04-13-06164</u>	08-08-2014
<i>Early Review of States' Planned Medicaid Electronic Health Record Incentive Program Oversight</i>	<u>OEI-05-10-00080</u>	07-15-2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

From July 1, 2012, through June 30, 2014, the State agency paid \$78,217,155 to 73 eligible hospitals in Virginia for Medicaid EHR incentive payments. We (1) reconciled hospital incentive payments reported by the State agency on Form CMS-64 with the NLR and (2) identified for further review 15 hospitals that each received total incentive payments exceeding \$1 million. However, because the State agency contracted with a public accounting firm to perform desk reviews of hospitals' cost reports, we limited our audit to five hospitals that had not been reviewed by the accounting firm at the time of our audit. The State agency paid the five hospitals a total of \$10,565,390, which represents approximately 14 percent of the total amount paid to all hospitals in Virginia during the audit period. The State agency made additional payments totaling \$2,947,031 to three of the five hospitals as of December 31, 2015.

We did not review the overall internal control structure of the State agency or the Medicaid program. Rather, we reviewed only those internal controls related to our objective.

We performed our fieldwork at the State agency's office and at 15 hospitals in Virginia.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;
- held discussions with CMS officials to gain an understanding of the Medicaid EHR incentive program;
- held discussions with State agency officials to gain an understanding of State policies and controls as they relate to the Medicaid EHR incentive program;
- reconciled the incentive payments reported on Form CMS-64 to the NLR;
- reviewed the 15 hospitals that received incentive payments exceeding \$1 million between January 1, 2012, and June 30, 2014;
- reviewed the State agency's supporting documentation related to the 15 hospitals;
- reviewed hospital documentation and verified the information submitted to the State agency;
- verified that hospitals met eligibility requirements;
- determined whether hospital incentive payment calculations were correct; and
- discussed the results of our review and provided our recalculations to State 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 objectives.

APPENDIX C: STATE AGENCY COMMENTS



COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

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July 14, 2016

Mr. Jason C. Jelen
Regional Inspector General for Audit Services
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RE: Draft Audit Report Number A-03-14-00404

Dear Mr. Jelen:

Thank you for your letter dated May 25, 2016, providing the Virginia Department of Medical Assistance Services (DMAS) the opportunity to review and comment on the Department of Health and Human Services, Office of the Inspector General (OIG) draft report number A-03-14-00404 entitled "Virginia Made Incorrect Medicaid Electronic Health Record Incentive Payments to Hospitals.

OIG Recommendation

The OIG summary of findings concluded that Virginia did not pay Electronic Health Records (EHR) incentive payments in accordance with Federal and State requirements for two of five hospitals reviewed. Virginia paid the two hospitals a total of \$3,230,129 when it should have paid \$3,192,515, resulting in a total overpayment of \$37,614. The OIG requests that DMAS return to the Federal Government the \$37,614 overpayment; correct the two hospitals' remaining incentive payments; and review the calculations for the hospitals not included in the group of five hospitals reviewed.

In addition to the MSLC audit reports for INOVA Fairfax Hospital and Potomac Hospital, we are also attaching MSLC's review of the calculations of the other hospitals not included in the group of five hospitals reviewed.

DMAS Response

On April 28, 2016, Myers and Stauffer, LC (MSLC), DMAS' external auditors, sent DMAS the post-payment audits of both hospitals. These reports showed that large adjustments were made as a result of the audits. DMAS believes the adjustments were made after the OIG auditors

completed field work. These overpayments have been addressed by DMAS for INOVA Fairfax Hospital and Potomac Hospital as of December 2015.

In addition to the MSLC audit reports for INOVA Fairfax Hospital and Potomac Hospital, we are also attaching MSLC's review of the calculations of the other hospitals not included in the group of five hospitals reviewed.

If you have any questions, please do not hesitate to contact our Director of Internal Audit, Paul Kirtz at (804) 225-4162.

Sincerely

A solid black rectangular box used to redact the signature of Cynthia B. Jones.

Cynthia B. Jones

pc: Cheryl Roberts (DMAS)
Ivory Banks (DMAS)
Paul Kirtz (DMAS)