



JUN 12 2008

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

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Medical Assistance Provided by Virginia to Hurricane Katrina Evacuees
(A-03-07-00211)

Attached is an advance copy of our final report on medical assistance provided by Virginia to Hurricane Katrina evacuees. We will issue this report to the Virginia Department of Medical Assistance Services (the State agency) within 5 business days. This audit is one of a series of audits of medical assistance provided by host States to Hurricane Katrina evacuees.

Under section 1115 of the Social Security Act, the Centers for Medicare & Medicaid Services (CMS) approved Virginia's request for Medicaid demonstration authority to provide the benefits included in its State plan to eligible Hurricane Katrina evacuees for a maximum of 5 months. CMS limited coverage to evacuees from specified counties and parishes in four States and required that Virginia verify residency and other eligibility factors to the greatest extent possible. As of March 31, 2007, the State agency had claimed a total of \$522,907, including \$436,908 for medical assistance services provided to evacuees from the home States of Alabama, Louisiana, and Mississippi and \$85,999 for associated administrative costs.

The objective of our audit was to determine whether the State agency claimed reimbursement for services provided to Hurricane Katrina evacuees and related administrative costs in accordance with its approved hurricane-related section 1115 demonstration project.

The State agency did not always claim reimbursement in accordance with its approved hurricane-related section 1115 demonstration project. Of the \$522,907 claimed, \$450,010 was allowable. However, the remaining \$72,897 was unallowable.

- The State agency claimed \$63,308 for administrative costs that did not pertain to the hurricane-related section 1115 demonstration project.

- The State agency claimed \$9,589 for unallowable medical assistance costs, including:
 - \$7,338 that resulted from several reporting errors,
 - \$1,967 for services provided to four evacuees who did not meet eligibility requirements, and
 - \$284 for services provided to two evacuees after their 5-month eligibility period had expired.

We recommend that the State agency refund \$72,897 in unallowable reimbursement (\$63,308 for administrative costs and \$9,589 for medical assistance costs) and revise its Form CMS-64.9 and CMS-64.10 Waiver reports for Alabama, Louisiana, and Mississippi by our audit adjustment amounts.

In comments on our draft report, the State agency agreed with our recommendation.

This audit was conducted in conjunction with the President’s Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors General reviews of this important subject.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470 or through e-mail at Stephen.Virbitsky@oig.hhs.gov. Please refer to report number A-03-07-00211.

Attachment



Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

JUN 18 2008

Report Number: A-03-07-00211

Mr. Patrick W. Finnerty
Director of Virginia Medicaid
Department of Medical Assistance Services
600 East Broad Street, Suite 1300
Richmond, Virginia 23219

Dear Mr. Finnerty:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Medical Assistance Provided by Virginia to Hurricane Katrina Evacuees." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG 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, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (215) 861-4470, or contact Bernard Siegel, Audit Manager, at (215) 861-4484 or through e-mail at Bernard.Siegel@oig.hhs.gov. Please refer to report number A-03-07-00211 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal flourish extending to the right.

Stephen Virbitsky
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, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICAL ASSISTANCE
PROVIDED BY VIRGINIA TO
HURRICANE KATRINA EVACUEES**



Daniel R. Levinson
Inspector General

June 2008
A-03-07-00211

Office of Inspector General

<http://oig.hhs.gov>

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:

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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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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).

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

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. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS).

Section 1115 of the Act permits the Secretary to authorize demonstration projects to promote the objectives of the Medicaid program. Under section 1115, CMS approved Virginia's request for Medicaid demonstration authority to provide the benefits included in its Medicaid State plan to eligible Hurricane Katrina evacuees for a maximum of 5 months ending no later than March 31, 2006. CMS limited coverage under the hurricane-related section 1115 demonstration project to evacuees from specified counties and parishes in four States affected by the hurricane. Although Virginia was allowed to rely on evacuees' self-attestations of eligibility, it was required to verify residency and other eligibility factors to the greatest extent possible. Under the terms of the approved hurricane-related section 1115 demonstration project and section 6201 of the Deficit Reduction Act of 2005 (DRA), the State could claim reimbursement for reasonable administrative costs related to providing services to evacuees.

Virginia claimed expenditures on behalf of evacuees on the quarterly Form CMS-64.9 Waiver (and related administrative costs on the Form CMS-64.10 Waiver), and CMS reimbursed Virginia for the total amount claimed. Reimbursement consisted of the Federal Medicaid share applicable to the evacuee's home State and the non-Federal share authorized for Federal payment by section 6201 of the DRA. As of March 31, 2007, the Virginia Department of Medical Assistance Services (the State agency) had claimed a total of \$522,907, including \$436,908 for medical assistance provided to evacuees from Alabama, Louisiana, and Mississippi and \$85,999 for associated administrative costs.

OBJECTIVE

The objective of our audit was to determine whether the State agency claimed reimbursement for services provided to Hurricane Katrina evacuees and related administrative costs in accordance with its approved hurricane-related section 1115 demonstration project.

SUMMARY OF FINDINGS

The State agency did not always claim reimbursement in accordance with its approved hurricane-related section 1115 demonstration project. Of the \$522,907 claimed, \$450,010 was allowable. However, the remaining \$72,897 was unallowable.

- The State agency claimed \$63,308 for administrative costs that did not pertain to the hurricane-related section 1115 demonstration project.

- The State agency claimed \$9,589 for unallowable medical assistance costs, including:
 - \$7,338 that resulted from several reporting errors,
 - \$1,967 for services provided to four evacuees who did not meet eligibility requirements, and
 - \$284 for services provided to two evacuees after their 5-month eligibility period had expired.

RECOMMENDATION

We recommend that the State agency refund \$72,897 in unallowable reimbursement (\$63,308 for administrative costs and \$9,589 for medical assistance costs) and revise its Form CMS-64.9 and CMS-64.10 Waiver reports for Alabama, Louisiana, and Mississippi by our audit adjustment amounts.

STATE AGENCY COMMENTS

In comments on our draft report (Appendix B), the State agency concurred with our recommendation.

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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 State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Federal Government pays its share of most types of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. That share is based on the Federal medical assistance percentage for each State, which ranges from 50 to 83 percent. The Federal share of State administrative costs is 50 percent.

Section 1115 Hurricane-Related Demonstrations

Section 1115 of the Act permits the Secretary to authorize demonstration projects to promote the objectives of the Medicaid program. Under section 1115, CMS may waive compliance with any of the requirements of section 1902 of the Act and provide Federal matching funds for demonstration expenditures that would not otherwise be included as expenditures under the Medicaid State plan.

In response to Hurricane Katrina, CMS announced that States could apply for section 1115 demonstration projects to ensure the continuity of health care services for hurricane victims. A State with an approved hurricane-related section 1115 demonstration project was eligible under section 6201(a)(1)(A)(i) of the Deficit Reduction Act of 2005 (DRA) for Federal payment of the non-Federal share of medical assistance costs for evacuees receiving medical assistance under Title XIX of the Act. Such a State was also eligible under section 6201(a)(2) of the DRA for Federal payment of reasonable administrative costs related to providing medical assistance to evacuees.

Virginia's Approved Hurricane-Related Section 1115 Demonstration Project

In a letter dated March 20, 2006, CMS approved Virginia's request for a hurricane-related section 1115 demonstration project. The letter and its attached Special Terms and Conditions authorized the Virginia Department of Medical Assistance Services (the State agency) to provide Medicaid coverage to Hurricane Katrina evacuees who were enrolled in Medicaid in their home States but displaced by the hurricane and to expedite eligibility for new applicants who met simplified eligibility standards. The State agency was also authorized to claim the administrative costs of extending benefits to evacuees during the temporary eligibility period. In a subsequent letter dated May 11, 2006, CMS approved amendments to Virginia's Special Terms and

Conditions. The State agency could accept applications for eligibility for evacuee status from August 29 through December 31, 2005. Eligible evacuees could receive benefits for a maximum of 5 months ending no later than March 31, 2006.¹

CMS limited coverage under the hurricane-related section 1115 demonstration project to evacuees from specified counties and parishes in four States affected by the hurricane and to specified individuals in the evacuee population. The State agency was required to ensure that it would verify, to the greatest extent possible, the circumstances of eligibility, residency, and other eligibility factors for each covered evacuee.

Under the hurricane-related section 1115 demonstration project, Virginia, as the host State, provided Medicaid services to evacuees from the home States of Alabama, Louisiana, and Mississippi. The State agency claimed reimbursement for its expenditures on the quarterly Form CMS-64.9 Waiver, “Medical Assistance Expenditures by Type of Service for the Medical Assistance Program—Expenditures in This Quarter.”² The State agency was required to submit a separate form for each home State and to show on the form the total expenditures and the Federal share of the expenditures, calculated using the Federal medical assistance percentage applicable to the home State. CMS reimbursed the State agency for the total expenditures, i.e., the Federal share under the Medicaid program and the non-Federal share authorized for Federal payment by section 6201 of the DRA.

As of March 31, 2007, the State agency had claimed a total of \$522,907 for medical assistance provided to evacuees and associated administrative costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether the State agency claimed reimbursement for services provided to Hurricane Katrina evacuees and related administrative costs in accordance with its approved hurricane-related section 1115 demonstration project.

Scope

Our review covered the \$436,908 in medical assistance costs and the \$85,999 in administrative costs that the State agency had claimed for Federal reimbursement as of March 31, 2007, and the 641 applicants who received medical assistance under the hurricane-related section 1115 demonstration. We reviewed the documentation that supported eligibility for a judgmental sample of 49 of the 641 applicants. Accordingly, we did not extrapolate our results to the total amount claimed.

¹Although the DRA authorized benefits through June 30, 2006, Virginia’s amended Special Terms and Conditions authorized benefits only through March 31, 2006.

²The State agency separately claimed reimbursement for administrative costs on the Form CMS-64.10 Waiver.

We did not review \$2.6 million in medical assistance costs that the State agency paid but did not claim for applicants who had applied for assistance through the State's online "e-Medicaid" program.

We limited our review of the State agency's internal controls to procedures for approving evacuee applications and reporting expenditures on the quarterly Form CMS-64.9 Waiver. We did not verify that approved claims submitted by providers for evacuees included only those services covered by the State plan.

We performed fieldwork at the State agency in Richmond, Virginia, in April 2007.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, CMS's approval letters of March 2006 and May 2006, and the Special Terms and Conditions;
- reviewed the State agency's controls for ensuring that claims paid for Katrina evacuees were in accordance with requirements of the hurricane-related section 1115 demonstration project;
- compared the State agency's Hurricane Katrina-related paid claim database with its eligibility database to determine whether claims were submitted only for applicants identified as eligible by the State agency, paid for services provided during the applicants' 5-month eligibility periods, not paid more than once, and limited to services provided on or before March 31, 2006;³ and
- reviewed the Form CMS-64.9 Waiver reports to determine whether the expenditures claimed agreed with the State agency's paid claim database.

We judgmentally sampled 49 of the 641 applicants who received medical assistance by selecting all 35 applicants in Chester County and all 14 applicants who appeared to have received services for more than the maximum 5 months. We reviewed available documentation, including Medicaid applications, to determine whether the documentation showed that the selected applicants were from an emergency area and were otherwise eligible to access Medicaid services under the hurricane-related section 1115 demonstration project. Specifically, we reviewed caseworkers' notes and other documentation in the applicants' case files, including identity and residency information and documentation identifying income levels; medical assistance coverage in the home States; immigration status; and additional current needs, including general assistance and food stamps, based on evacuee status.

³The State agency's eligibility database did not include eligible evacuees for whom the State agency did not submit any medical assistance claims. Thus, both the eligibility database and the paid claim database consisted of records on the 641 evacuees who received medical assistance.

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.

FINDINGS AND RECOMMENDATION

The State agency did not always claim reimbursement in accordance with its approved hurricane-related section 1115 demonstration project. Of the \$522,907 claimed, \$450,010 was allowable. However, the remaining \$72,897 was unallowable.

- The State agency claimed \$63,308 for administrative costs that did not pertain to the hurricane-related section 1115 demonstration project.
- The State agency claimed \$9,589 for unallowable medical assistance costs, including:
 - \$7,338 that resulted from several reporting errors,
 - \$1,967 for services provided to four evacuees who did not meet eligibility requirements, and
 - \$284 for services provided to two evacuees after their 5-month eligibility period had expired.

See Appendix A for details, including the allocation of costs between Federal Medicaid funding and Federal funding provided pursuant to the DRA.

UNALLOWABLE ADMINISTRATIVE COSTS

Under the terms of CMS's approved hurricane-related section 1115 demonstration project and section 6201(a)(2) of the DRA, the State agency could claim reimbursement for reasonable administrative costs related to providing services to evacuees.

The State agency claimed \$63,308 for administrative costs that did not pertain to the hurricane-related section 1115 demonstration project. The State agency's claims for administrative costs, which totaled \$85,999, related to use of its e-Medicaid program, an online system that it had developed to register and provide support for evacuees. However, the State agency subsequently determined that not all individuals who obtained services through the e-Medicaid program were evacuees eligible for benefits under the hurricane-related section 1115 demonstration project. Therefore, we suggested that the State agency determine the administrative costs of the e-Medicaid program attributable to the hurricane-related section 1115 demonstration project and adjust the costs claimed on its Form CMS-64.10 Waiver reports accordingly.

The State agency agreed and determined that only \$22,691 of the \$85,999 claimed pertained to the hurricane-related section 1115 demonstration project. The difference of \$63,308 was unallowable.

UNALLOWABLE MEDICAL ASSISTANCE COSTS

Section 1115 Demonstration Requirements

The Special Terms and Conditions attached to CMS's March 2006 approval letter and the amendments included in CMS's May 2006 approval letter limited coverage under the hurricane-related section 1115 demonstration project to evacuees from specified counties and parishes in the emergency areas of Alabama, Florida, Louisiana, and Mississippi. The eligible evacuee population was defined as parents, pregnant women, children under age 19, individuals with disabilities, low-income Medicare recipients, and low-income individuals in need of long-term care with incomes up to and including specified levels. Evacuees who met these requirements were eligible to receive up to 5 months of benefits ending no later than March 31, 2006. The State agency could accept applications for eligibility for evacuee status from August 29 through December 31, 2005.

The Special Terms and Conditions allowed the State agency to rely on evacuees' "self-attestation of displacement, income, and immigration status, but evacuees must be required to cooperate in demonstrating evacuee and eligibility status." The Special Terms and Conditions also required that the State agency, "to the greatest extent possible, (1) verify circumstances of eligibility, (2) verify residency and citizenship of the evacuees, and (3) prevent fraud and abuse Additionally, there is a reciprocal obligation for Home/Host States in obtaining necessary information to determine eligibility"

Reporting Errors

The State agency overstated medical assistance costs by \$7,338 because of several reporting errors. On its September 2006 Form CMS-64.9 Waiver reports, the State agency underreported its total medical assistance expenditures. We notified the State agency of this error, and it revised the amount on its March 2007 Waiver reports; however, the revised amount was also incorrect. Specifically, the amount reported in March 2007 did not include adjustments since September 2006 totaling \$7,338 for claim and reversal transactions, previous reporting errors, and administrative costs misidentified as medical assistance costs in the State agency's database.

Ineligible Applicants

The documentation for four individuals, for whom the State agency claimed reimbursement totaling \$1,967, did not support their eligibility under the hurricane-related section 1115 demonstration project. Although the applications for the four individuals showed that they were residents of Louisiana, the addresses listed on their identifications showed that two were residents of Vernon Parish and two were residents of Rapides Parish. CMS had designated neither parish as an emergency area in Louisiana. The State agency's files contained no

evidence that the State agency had made any effort to validate the identifications provided by these applicants or to verify that their parishes were designated emergency areas.

Expired Eligibility Period

The State agency claimed a total of \$284 for services provided to two individuals after their 5-month eligibility period expired at the end of January 2006. State agency officials informed us that the State agency had tried to update the expiration date in the State eligibility database after January 16, the monthly cutoff for making changes. However, the automated system had already established the eligibility expiration date as the end of February and would not allow a retroactive change.

RECOMMENDATION

We recommend that the State agency refund \$72,897 in unallowable reimbursement (\$63,308 for administrative costs and \$9,589 for medical assistance costs) and revise its Form CMS-64.9 and CMS-64.10 Waiver reports for Alabama, Louisiana, and Mississippi by our audit adjustment amounts.

STATE AGENCY COMMENTS

In comments on our draft report, the State agency concurred with our recommendation. The State agency's comments are included as Appendix B.

APPENDIXES

AUDIT ADJUSTMENTS TO AMOUNTS CLAIMED BY VIRGINIA

Administrative Costs—All Evacuees

	Total	Federal Medicaid Share	Federal DRA ¹ Funding
Amount claimed	\$85,999	\$43,000	\$42,999
Audit adjustment:			
Overstated administrative costs	(63,308)	(31,654)	(31,654)
Corrected amount	\$22,691	\$11,346	\$11,345

Medical Assistance—Alabama Evacuees

	Total	Federal Medicaid Share	Federal DRA Funding
Amount claimed	\$1,731	\$1,203	\$528
Audit adjustment:			
Reporting errors	(199)	(138)	(61)
Corrected amount	\$1,532	\$1,065	\$467

Medical Assistance—Louisiana Evacuees

	Total	Federal Medicaid Share	Federal DRA Funding
Amount claimed	\$340,985	\$237,973	\$103,012
Audit adjustments:			
Reporting errors	(6,198)	(4,325)	(1,873)
Ineligible applicants	(1,967)	(1,373)	(594)
Expired eligibility period	(284)	(198)	(86)
Total audit adjustments	(8,449)	(5,896)	(2,553)
Corrected amount	\$332,536	\$232,077	\$100,459

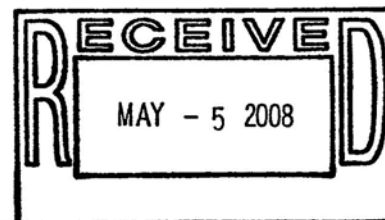
¹DRA = Deficit Reduction Act of 2005.

Medical Assistance—Mississippi Evacuees

	Total	Federal Medicaid Share	Federal DRA Funding
Amount claimed	\$94,192	\$71,586	\$22,606
Audit adjustment: Reporting errors	(941)	(715)	(226)
Corrected amount	\$93,251	\$70,871	\$22,380

Medical Assistance—All Evacuees

	Total	Federal Medicaid Share	Federal DRA Funding
Amount claimed	\$436,908	\$310,762	\$126,146
Audit adjustments: Reporting errors	(7,338)	(5,178)	(2,160)
Ineligible applicants	(1,967)	(1,373)	(594)
Expired eligibility period	(284)	(198)	(86)
Total audits adjustments	(9,589)	(6,749)	(2,840)
Corrected amount	\$427,319	\$304,013	\$123,306



COMMONWEALTH of VIRGINIA

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May 1, 2008

Stephen Virbitsky
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Philadelphia, PA 19106-3499

Dear Mr. Virbitsky:

The Department of Medical Assistance Services (DMAS) has received your March 24, 2008 transmittal regarding the draft report (A-O3-07-00211) entitled "Medical Assistance Provided by Virginia to Hurricane Katrina Evacuees". The document has been reviewed by DMAS staff.

DMAS concurs with the only report recommendation, which addresses a state agency refund of \$72,897 and revision to its CMS-64.9 and CMS-64.10 waiver reports for Alabama, Louisiana and Mississippi. DMAS will proceed with making the refund and modifying the forms.

DMAS does wish to reiterate here a comment included in its October 1, 2006 report to the Centers for Medicare and Medicaid Services on the Hurricane Katrina demonstration. The report recommended regarding future improvements to federal demonstration projects "...the immediate availability of demonstration waiver requirements so that states are aware of what is necessary as to eligibility rules and data to fully benefit from the demonstration" (page 4).

Please contact me if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "PW Finnerty".

Patrick W. Finnerty