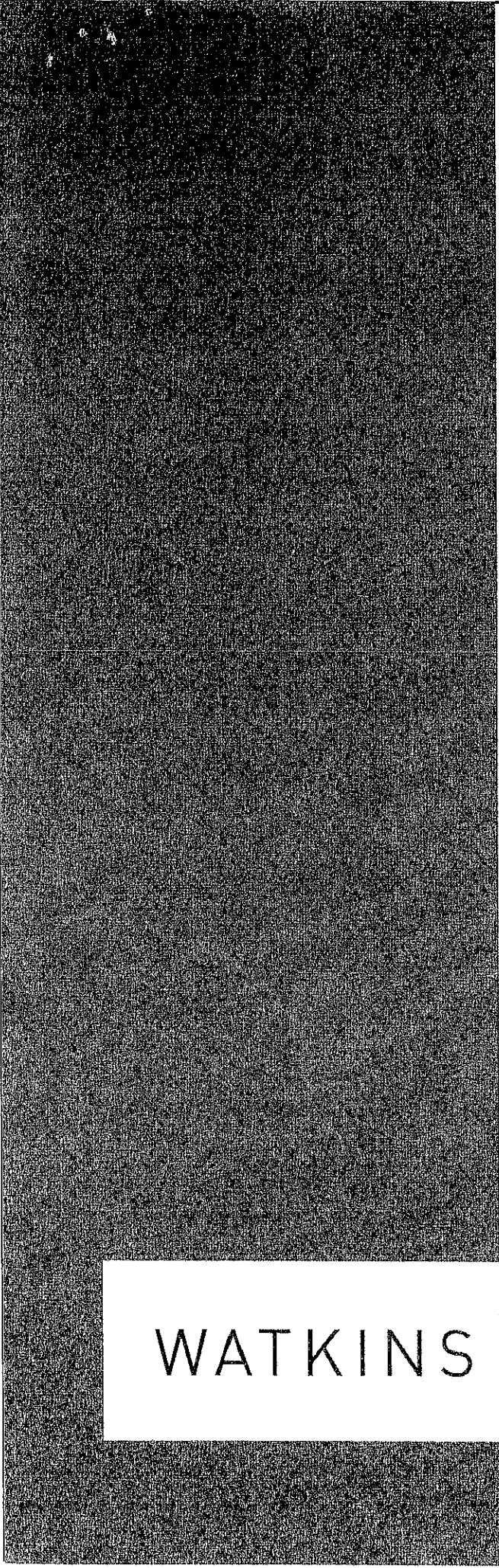




PERFORMANCE AUDIT
OF THE

**Hale County Hospital Electronic
Medical Records System**

**ARC Grant Number: AL-16709-
302-10**

OIG Report Number: 12-12

GRANT PERIOD: AUGUST 2010 – JULY 2011

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Hale County Hospital Electronic Medical Records System. The report is in response to Contract No. BPA 11-01-A.

Watkins Meegan LLC

Bethesda, Maryland
May 11, 2012

Performance Audit of the Hale County Hospital Electronic Medical Records System Project

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state, and local government. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts.

On August 24, 2010, ARC announced approval of grant number AL-16709-302-10, in the amount of \$218,664, to the Hale County Hospital to purchase the necessary equipment and software and provide training for staff to implement a hospital-wide electronic records and patient care system that will include networking with the hospital's physicians and surrounding acute care facilities. The system will provide an electronic format for patient records and care plans in a secure and networked environment that is HIPAA compliant. In addition to allowing the hospital to electronically send patient medical records details to other physician locations, the Electronic Medical Record (EMR) system should increase efficiency and accuracy at the hospital, allow for more direct time to be spent with patients, and save on reproduction costs.

The installation of an EMR system and the training of 68 staff using it will benefit Hale County Hospital by reducing costs related to printing, paper, ink, and storage of records. It will promote the standardization of care. It will reduce medical error because EMR provides fast access to medical literature and current best practices. The project will allow the hospital to be in compliance with new regulations. The project will also benefit 9,000 consumers by providing faster access to records by healthcare professionals.

Executive Summary

Hale County Hospital's goal is to provide an efficient best practice based Electronic Medical Records System so that healthcare providers can provide high quality healthcare at the facility. Hale County Hospital proposes to purchase the necessary equipment and software and provide training for staff to implement the hospital-wide electronic records and patient care system that will include networking with the hospital's physicians and surrounding acute care facilities. The system will provide an electronic format for patient records and care plans in a secure and networked environment that is HIPAA compliant. A grant was made by ARC to Hale County Hospital, which agreed to purchase the necessary equipment and software and provide training to staff.

The cost of the EMR system was originally budgeted to be \$273,330. Subsequent to the submission of the original budget, the budget for the installation of the EMR system increased to \$758,564. The increase in the budgeted cost of the project was not communicated to ARC.

Overall, the objectives of the grant were met. Recommendations were made for the Hospital to notify ARC of increases in the budget for future grants, create written procurement procedures, require contractors to document whether they have been suspended or debarred from performing federal work, and establish a process to monitor overall savings in printing, paper, and ink costs and storage of records.

Audit Objectives and Scope

The purpose of our review was the determination that program funds distributed to the Hale County Hospital, grant number AL-16709-302-10, approved August 24, 2010 and expended during the grant period ending July 2011, were managed in accordance with ARC and federal grant terms; that grant funds were expended as provided for in the ARC approved budget; that internal grant guidelines and best practices, including internal controls, were appropriate and operating effectively; that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles; and to make a determination as to whether the goals and objectives of the grant were met.

We performed a program review of the grants at the Hale County Hospital on January 20 and 23, 2012, as described under this section and under the audit methodology section. Our review was based on the terms of the grant agreement and on the application of procedures in accordance with the modified ARC Sample Audit Program.

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Specifically, we determined if the objectives listed above had been managed in accordance with ARC and federal grant terms, that the ARC funds had been expended as provided for in the ARC approved budgets, that internal controls as they related to the ARC grant were operating effectively, and that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

Audit Methodology

Our procedures were based on the "Sample Audit Program" prepared by ARC OIG and included suggested procedures over the grantee's accounting and internal control systems affecting the grant. Through conversations at the Hale County Hospital with the Hale County Hospital's Administrator, Assistant Administrator, and Chief Financial Officer, we announced the audit and conducted an entrance conference. We also discussed and reviewed other financial and operational elements related to the conduct of the project audit.

Specifically, we reviewed controls over the financial process, the controls in place for recording, accumulating, and reporting costs under the grant, and the internal control work completed by the independent auditors for the Hale County Hospital. We also toured the construction site with the Hospital's officials and observed and discussed whether the goals and objectives of the project funded with ARC monies had been met.

Our review of background material included ARC's Grant Agreement and related documentation, information from ARC's grant management system, and other grant requirements, including applicable OMB circulars. As additional background material, and in order to avoid duplication of efforts, we reviewed Hale County Hospital's most current audited financial statements for the year ended September 30, 2010. The audit for the year ended September 30, 2011, was not complete at the date of this audit.

Finally, we examined the grant payments made by ARC to Hale County Hospital and from Hale County Hospital to contractors and other vendors involved in the project. We evaluated those payments and other activities for compliance with applicable federal and other grant requirements.

Results:

Schedule of Cash Payments from ARC to Hale County Hospital:

<u>Date</u>	<u>Payment Type</u>	<u>Amount Paid</u>
6/2/2011	Advance	\$196,797.00
11/15/2011	Reimbursement	21,867.00
Total		218,664.00
Obligated		218,664.00
Remaining		\$ -

Grant Funding

The funding requirement of 80 percent has been met.

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Schedule of Grant Funding (Budget):

	<u>Funding</u>	<u>Percentage</u>
ARC	\$218,664	80.0%
Hale County Hospital	<u>54,666</u>	<u>20.0%</u>
TOTAL	<u>\$273,330</u>	<u>100.0%</u>

Schedule of Grant Funding (Actual):

	<u>Funding</u>	<u>Percentage</u>
ARC	\$218,664	29.0%
Hale County Hospital	<u>539,900</u>	<u>71.0%</u>
TOTAL	<u>\$758,564</u>	<u>100.0%</u>

Discussion of Grant Objectives and Findings

The objectives of the grant were discussed under the background section of this report. These recommendations were discussed with Hale County Hospital personnel on January 23, 2012. Below is a discussion about the status of each of those objectives.

As of the date of our audit, equipment and software was installed and the system went live on May 16, 2011, 111 staff have been trained to use it, and 14,088 patients from July 2011 – December 2011 have been attended to. The Electronic Medical Records System is in compliance with HIPAA regulations. We were unable to determine whether the reduction of costs related to printing, paper, ink, and storage of records was met. The actual cost of the EMR installation was \$758,564. Hale County Hospital did not notify ARC of the actual costs incurred on the EMR project.

Overall, the general objectives of the grant have been met. However, the requirements relating to written procurement procedures and contractors attesting to not being suspended and debarred from performing government work were not met.

Recommendations:

- 1) We recommend that ARC be notified of increases in total project costs at the time the costs are known.

Response:

In the future, Hale County Hospital (HCH) will immediately communicate to ARC any increase in total project costs as they become known. These increases were indirectly reported via project update reports.

Auditor Comments:

We Concur.

- 2) We recommend that Hale County Hospital both create written procurement procedures and require contractors to attest to whether they have been suspended or debarred from performing government work.

Response:

HCH will create a written policy and procedure for procurement and require contractors to attest to their status regarding suspension or disbarment from performing government work.

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Auditor Comments:

We Concur.

- 3) We recommend that Hale County Hospital develop a system to monitor the reduction of costs related to printing, paper, ink, and storage of records to determine if the grant objective was met.

Response:

HCH will establish a method to monitor cost reductions regarding printing, paper, ink, and record storage costs to determine if this objective was met by comparing purchases pre and post EMR implementation.

Auditor Comments:

We Concur.

- 4) Hale County Hospital should notify ARC of any expenses in excess of budgeted amounts.

Response:

In the future, HCH will immediately communicate to ARC any increase in expenses over budgeted amounts as they become known. These increases were indirectly reported via project update reports.

Auditor Comments:

We Concur.

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