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December 28, 1999

Antonia C. Novello, M.D., M.P.H.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Report 99-F-54

Dear Dr. Novello:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by the Department of Health (Health) as of December 21, 1999, to implement the recommendations contained in our prior audit report, *Department of Health: Controlling Changes to Medicaid Provider Payment Rates* (Report 97-S-45). Our report, which was issued October 14, 1998, reviewed the management controls established by Health to ensure that the Medicaid Management Information System (MMIS) uses only authorized and accurate reimbursement rates to pay Medicaid claims.

Background

Hospitals, clinics, nursing homes, home health care agencies, and managed care plans receive rate-based Medicaid reimbursements. Such reimbursement rates are based on providers' operating expenses. Rates are used by MMIS to pay about 90 percent of all Medicaid claims. There are a number of State rate setting entities, both within and outside of the Health Department. Each entity calculates the provider-specific rates under its jurisdiction, although Health sets the majority of Medicaid reimbursement rates. Health's Bureau of Medical Review and Evaluation (Bureau) is responsible for collecting rate data and providing the fiscal agent, Computer Sciences Corporation (CSC), with a weekly computer tape of rate changes for updating the MMIS. In 1998, the MMIS was updated with nearly 265,000 rate transactions. Many of the rate transactions processed by the Bureau are changes to existing rates, and they are often retroactive in nature, depending on the effective date of the rate revision. For the two-year period ended September 30, 1999, Medicaid paid net retroactive payments of approximately \$1.11 billion.

Summary Conclusions

In our prior audit, we found that Health did not have adequate policies and procedures in place to ensure that the Medicaid program uses only accurate and authorized rates to reimburse providers. Health needed to take the necessary steps to ensure providers are reimbursed with the proper rates. Because of the control weaknesses we identified, we believed there was the potential for rate errors to remain undetected. We also found that several of the units within Health, which are responsible for rate update functions, were not performing critical data control steps to ensure their rates were properly updated to the MMIS. Further, Health had not established a policy or the procedures to ensure the individual rate setting entities verified the accuracy of the rates updated to the MMIS. As a result, many rate setting units took no action to ensure their rates were properly updated to the MMIS. In addition, we noted several instances where, due to computer system limitations, the rate file used by CSC to pay Medicaid claims contained erroneous rates. While these errors did not result in significant payment errors, we alerted Health officials to this matter so they could take corrective action and prevent future occurrences.

In our follow-up review, we found that Health officials have made substantial progress in implementing the recommendations contained in our prior audit report. Health officials have a policy that rate setting units should ensure that their provider rates are accurate and loaded correctly to the MMIS. However, while the rate setting units are aware of the policy, it has not been formally communicated to them. Health has provided the rate setting units with computer access to the MMIS rate files so units' staff can verify that rates were updated properly to the MMIS. The Bureau also provides rate setting units with rate transaction reports to assist them with verifying and reconciling the rate changes processed by the Bureau, and to enable the units to correct any errors that caused rate transactions to be rejected from processing. Health officials removed the erroneous rates we identified during our prior audit from the MMIS rate file. Health has also added on-screen computer edits for the provider payment rate update function, which screen data for errors before it is accepted into the system. Further, Health's Request for Proposals for the future Replacement Medicaid System includes development of automated interfaces and an on-line update process for all rate-setting units.

Summary of Status of Prior Audit Recommendations

Of the five prior audit recommendations, Health officials have implemented three recommendations and have partially implemented two recommendations.

Follow-up Observations

Recommendation 1

Establish and implement a policy and procedures requiring all rate setting units to ensure that the Medicaid reimbursement rates they are responsible for establishing are properly updated to the MMIS.

Status - Partially Implemented

Agency Action - Health officials informed us that it is their policy that rate setting units are responsible for ensuring Medicaid provider payment rates are correct. Health's Bureau of Medical Review and Payment informs rate setting units that they should notify the Bureau of any rates that are not accurate or correct. We surveyed staff in ten rate setting units. They reported to us that they are aware of the need to, and do, check provider rates for accuracy. However, they also informed us that they have not received an official policy notification from Health's management that assigns them responsibility for checking the accuracy of their rates.

Recommendation 2

Provide all rate setting units with the resources necessary to verify that their rates have been properly updated to the MMIS, such as computer terminals that can query the MMIS rate files.

Status - Implemented

Agency Action - Health has provided rate setting units with on-line query access to the MMIS rate files, so staff can verify that their Medicaid provider payment rates have been updated properly to the MMIS.

Recommendation 3

Establish a data control function that requires all rate setting units to develop and reconcile control totals of all rate changes to the results of processing MMIS rate updates.

Status - Implemented

Agency Action - Rate setting units must include record counts when submitting automated rate changes to the Bureau for processing. After processing, rate setting units are provided with accepted and rejected rate change transaction reports to assist them in verifying and reconciling rate transactions and in correcting errors that caused rate transactions to be rejected during processing.

Recommendation 4

Deactivate the unauthorized rates on CSC's rate file used to reimburse Medicaid claims.

Status - Implemented

Agency Action - Health deactivated the unauthorized rates on CSC's rate file by setting them to "zero" and also removed the records of these rates from its own Medicaid provider rate file.

Recommendation 5

Implement appropriate procedures to ensure all rate deletions made by Health are appropriately reflected on CSC's rate file.

Status - Partially Implemented

Agency Action - Health has added on-screen computer edits for the provider payment rate update function. These edits screen data for errors before the data is accepted into the system. Also, Health's Request for Proposals for the Replacement Medicaid System (RMS) calls for automated interfaces and an on-line update process for rate-setting units. At the time of our follow-up review, the development of the RMS had not begun.

Major contributors to this report were Lee Eggleston, Robert Wolf and Lawrence Julien.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Charles Conaway