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March 21, 2005

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

Re: Report 2004-F-39

Dear Dr. Novello:

According 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 followed up on the actions taken by officials of the Department of Health to implement the recommendations contained in our audit report, *Multiple Medicaid Payments for Newborn Services* (Report 2002-S-25).

**Background, Scope and Objective**

The Department of Health (Department) administers the State's Medical Assistance program (Medicaid). The Department's responsibilities include; certifying Managed Care Organizations (MCO) as qualified to participate in Medicaid managed care; overseeing MCO operations and quality of services; providing oversight and technical assistance to local social services districts; evaluating managed care program performance; and, developing and maintaining the necessary systems to operate and administer Medicaid and managed care. The Department uses a fiscal agent, Computer Sciences Corporation, to operate the Medicaid Management Information System, a computerized payment and information reporting system, to process Medicaid claims and make payments to health care providers for services rendered to recipients.

When a Medicaid recipient delivers a baby at a hospital, the hospital seeks reimbursement for the costs of newborn services from one of two sources; an MCO, if the newborn is enrolled in an MCO, or directly from Medicaid if the newborn is not enrolled in an MCO. To make sure hospitals bill the proper payer, Department billing procedures require that hospitals review the Electronic Medicaid Eligibility Verification System (EMEVS) information before they bill for newborn service costs. If the newborn is not enrolled in an MCO, the hospital bills Medicaid directly for newborn services under the fee-for-service method; if the newborn is enrolled in an MCO (infants born to Medicaid recipients who are MCO enrolled generally become members of the same MCO), the hospital bills the MCO for newborn services.

Our initial audit report, which was issued on September 17, 2003, examined the policies and procedures for monitoring Medicaid reimbursement for managed care Supplemental Newborn Capitation Payment (known as a ‘kick payment’) regarding newborn services. Our report identified a number of internal control weaknesses over the kick payment process. In particular, we found Medicaid was making inappropriate multiple payments for certain newborn recipients enrolled in MCOs and MCOs were submitting claims to Medicaid before they paid hospitals for newborn services costs. We concluded, because of these and other weaknesses, the Department was overpaying for newborn services. The objective of our follow-up, which was done according to Generally Accepted Government Auditing Standards, was to assess the extent of implementation as of January 31, 2005 of the seven recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

We found Department officials have made some progress in correcting the problems we identified. However, additional improvements are needed. Of the seven prior audit recommendations, four recommendations have been implemented, two recommendations were partially implemented and one recommendation was not implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Investigate the \$27.3 million in Medicaid payments to hospitals and recover all inappropriate overpayments. Ensure that MCOs pay these hospitals in a timely fashion for bills submitted for the newborn services addressed in this audit.*

Status - Partially Implemented

Agency Action - Department officials reviewed the data and investigated the overpayments and determined because of the complexity and time it will take to perform the investigation and recovery they would first focus on the top 25 providers which accounted for \$18.9 million (approximately 69 percent) of the \$27.3 million in our report. According to Department officials, hospitals are not cooperating in the adjustment of their claims and to date the Department has recovered \$4.6 million. The Department continues to work with the hospitals to recover the balance of the \$14.3 million and with the Bureau of Managed Care Financing to ensure hospitals are reimbursed in a timely fashion for bills submitted for the newborn services addressed in this audit. Upon completion of the Department’s recovery of the initial \$18.9 million, they will evaluate the remaining \$8.4 million and determine whether recovery is needed.

#### **Recommendation 2**

*Evaluate the \$22.1 million in Medicaid kick payments to MCOs and recover any inappropriate kick payments.*

Status - Not Implemented

Agency Action - The Department resources are limited and prevent them from performing the investigation of the hospital payments and the evaluation of the Medicaid kick payments at the same time. Also, the Department needs to finish their investigation of the hospitals in order to better evaluate the Medicaid kick payments to MCOs. When this is completed the Department will then review and evaluate the kick payments paid to the MCOs and recover any inappropriate payments.

### **Recommendation 3**

*Instruct hospitals to follow existing procedures and bill the MCOs for medical services provided to newborns enrolled in managed care plans.*

Status - Implemented

Agency Action - The Director of the Bureau of Managed Care Financing sent a letter to the hospitals on April 29, 2003 regarding the billing instructions for newborn services. The instructions direct hospitals to return the fee-for-service payments to Medicaid and then bill the Managed Care Organizations for the newborn service claims.

### **Recommendation 4**

*Timely update EMEVS data to enable hospitals to access current MCO enrollment information when they bill for newborn service costs.*

Status - Partially Implemented

Agency Action - Department officials stated the Electronic Medicaid System of New York (eMedNY) technical design document, addresses the new system edits for EMEVS and implementation is planned for 2005. Further, with Phase II of the eMedNY implementation, MCO data will be updated at eMedNY on a daily basis rather than weekly as is currently done.

### **Recommendation 5**

*Revise kick claim billing instructions to clarify that MCOs must pay the hospital prior to submitting a kick claim. Include this requirement in the next contract with the MCOs.*

Status - Implemented

Agency Action - The Department sent a letter to the MCOs reminding them that newborn kick payments should not be billed until the plan pays the hospital claim and can produce evidence of payment.

**Recommendation 6**

*Perform routine reviews of MCOs to help ensure that kick claims are processed appropriately.*

Status - Implemented

Agency Action - According to Department officials, both the Office of Managed Care and the Office of Medicaid Management are working together to ensure that Plans bill Medicaid appropriately. Based on audit information we provided to the Department during the initial audit, the Department began their reviews. If the Department identifies any inappropriate payments with a plan the Office of Medicaid Management-Recovery Unit will work to recover the payment and the Office of Managed Care will work with the plan.

**Recommendation 7**

*Assess the propriety of multiple payments for newborn services to MCOs and hospitals, especially in those instances where the MCOs are owned by their member hospitals. Make any appropriate referrals to the New York State Attorney General's Office.*

Status - Implemented

Agency Action - Department officials reported to us they have completed their review of MCOs owned by their member hospitals and found no indication of impropriety with this type of plan. However, Department officials stated, going forward, if they do encounter problems or improprieties with such type of plans, they will take action with their own review and refer any improprieties to the Attorney General's office for investigation.

Major contributors to this report were Ken Shulman, Don Paupini and Erika Akers.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditor during this process.

Yours truly,

David R. Hancox  
Director  
State Audit Bureau

cc. Robert Barnes, Division of the Budget