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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 9, 2006

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

Re: Electronic Transfer of Medicaid
Payments
2006-S-70

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 audited the Department of Health's (Department) controls over the electronic transfer of Medicaid payments during the period March 1, 2006 through August 31, 2006.

A. Background

The Department administers the medical assistance program (Medicaid) in New York State (State), which was established under Title XIX of the federal Social Security Act to provide needy people with medical assistance. In this State, this program is funded jointly by the federal, State, and local governments. Its management information and claims processing functions are handled through the State's eMedNY system, which the Department implemented on March 24, 2005. The Department contracts with a fiscal agent, Computer Sciences Corporation (CSC), to operate eMedNY and distribute weekly Medicaid payments to providers. On December 1, 2005, the Department implemented eMedNY Electronic Funds Transfer (EFT), giving providers the option of having their Medicaid payments directly deposited into their bank accounts.

EFT is a widely used service that enables the movement of money between bank accounts throughout the world. When implemented properly, EFT enables more accurate and efficient payments, eliminates costs associated with check printing and storage, provides electronic audit trails for easier tracking and error detection, and improves client relationships. EFT is a complex process that requires highly efficient controls built into the computer systems participating in the transfer of funds. Such controls should exist at all stages where information is processed, passed or stored reduce the risk that errors or wrongful acts will occur and go undetected. These controls should require separating key functions; recording changes (audit trail) to the EFT payment file before transmittal to financial institutions; reviewing the audit trail by someone independent of the EFT transaction function; and reviewing and reconciling EFT transactions the financial institutions were not able to successfully process.

The Department is responsible for establishing and maintaining an effective system of internal controls and has written policies for controlling eMedNY EFTs. The Department's fiscal agent, CSC, is responsible for processing eMedNY EFTs in accordance with the Department's policies and controls. The Department's policies require all EFT enrollment and data entry functions be performed separately by staff in the CSC eMedNY provider services department. Further, the Department's eMedNY security policies specifically state that "a user with the CSC EFT data entry role cannot have access to the CSC EFT authorizer role and vice versa."

B. Audit Scope, Objective and Methodology

We audited the Department's eMedNY EFT process for Medicaid payments during the six months ended August 31, 2006. The objective of our audit was to determine if adequate internal controls are in place for the electronic transfer of Medicaid payments into providers' bank accounts.

We did our audit according to generally accepted government auditing standards. To accomplish our audit objective, we interviewed Department officials and examined the Department's eMedNY EFT payment policies. We also interviewed relevant CSC personnel and evaluated the adequacy of CSC's procedures for processing eMedNY EFTs. In addition, we examined eMedNY security reports and audit trails pertaining to EFTs.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members, some of whom have minority voting rights, to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

During the week of March 12, 2006, our weekly audit of Medicaid payments identified three eMedNY EFT payments totaling almost \$78,000 that did not have claims to support the payments. We determined these EFT payments were duplicate payments, as CSC had previously paid these providers with a manual check. The duplicate payments occurred when the provider requested a manual check in lieu of an EFT and CSC did not follow its process for processing a request of this nature. According to CSC procedures, the program accountant in the CSC Finance and Administration Department (Finance and Administration) should have canceled the EFT payment when a manual check was issued in its place.

CSC corrected and recovered the inappropriate EFT payments. Our further review of the transactions and inquiry as to the procedures being followed found other control weaknesses in the EFT system. We determined that adequate internal controls were not in place for the electronic transfer of Medicaid payments into providers' bank accounts. CSC did not comply with Department policies for controlling eMedNY EFTs and the Department did not monitor whether CSC complied with its policies.

Our review of eMedNY EFT processing identified several other weaknesses. Under the EFT system designed and approved by the Department, CSC's Provider Services Department (Provider Services) was to perform the duties related to enrolling providers, including capturing the necessary banking information and entering this information onto the system. Provider Services is administratively separate from Finance and Administration, which performs accounting functions and authorizes Medicaid payments on a weekly basis. This key control is designed to help prevent an individual from entering inappropriate banking information and then authorizing a payment to an inappropriate bank account. We found that CSC did not assign EFT enrollment and data entry functions to Provider Services as required by the Department. Rather, CSC assigned the EFT functions to Finance and Administration, the same unit that authorizes payments. CSC did not comply with Department policy and eMedNY security policies which specifically state "a user with the CSC EFT data entry role cannot have access to the CSC EFT authorizer role and vice versa." Two program accountants in Finance and Administration interchangeably performed all key functions: EFT enrollment and data entry, authorization, payment initiation, and payment reconciliation. Thus, there is an increased risk that unauthorized payments can be made.

Another key control feature for the EFT system is that CSC must produce audit trails of changes to the EFT payment file before transmitting the file to financial institutions. Each week, eMedNY creates an EFT payment file that is downloaded and converted to a text file by the CSC program accountant before Medicaid payments are deposited into providers' bank accounts. During this stage, the program accountant has the ability to make changes to EFT information including payment amounts and bank account numbers. We found that an audit trail is not maintained for any changes. Thus any edits or changes made while the CSC program accountant viewed the EFT payment file were not captured in an audit trail. We also found that CSC's Internal Audit Unit does not produce a report of changes to the EFT payment file before the EFT file is sent to the banking institution.

Another key control of the EFT system is reconciling transactions the financial institution was not able to process. CSC did not reconcile bank rejected EFT transactions. After CSC transmitted the EFT file to the bank, the bank provided a return file for unsuccessful EFTs. This file was uploaded to eMedNY and automatically assigned an error status to the undeposited EFT. An EFT error report is to be updated that lists all EFTs that have been assigned an error status. However, we determined eMedNY was not properly designed to capture and report information on unsuccessful transactions returned from the bank. This report should mirror the information returned to CSC via the bank's EFT return file and should be used to reconcile and resolve unsuccessful EFT transactions.

CSC's lack of compliance with the Department's policies processing eMedNY EFTs diminishes the effectiveness of the controls established by the Department and increases the risk that errors or fraud may occur and not be timely detected.

Recommendations

1. *The Department should enforce and monitor CSC compliance with Department polices and eMedNY security policies for eMedNY EFTs, including:*
 - *requiring all eMedNY EFT enrollment and data entry funtions be performed separately by staff in the CSC eMedNY Provider Services Department; and*
 - *separating the roles of CSC EFT data entry and authorizer, and limiting access to those roles - no one person should have the ability to enroll providers in the eMedNY EFT program and authorize, transmit and reconcile eMedNY EFTs.*
2. *The Department should instruct CSC to transmit eMedNY EFTs in a secure manner to prevent unauthorized changes prior to transmission.*
3. *CSC's Internal Audit Unit should produce and review audit trails of changes to the EFT payment file before transmittal to financial institutions.*
4. *CSC should routinely reconcile EFT transactions the banks were not able to successfully process.*
5. *The Department should make the necessary changes to eMedNY that will allow eMedNY to capture information on unsuccessful EFT transactions returned from the bank.*

We provided a draft copy of this report to Department officials for their review and comment. Department officials generally agreed with our recommendations and indicated actions planned and taken to implement them. A complete copy of the Department's response is included as Appendix A.

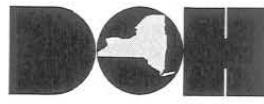
Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to the report include Warren Fitzgerald, Earl Vincent, and Christopher Morris. We wish to 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,

Sheila Emminger
Audit Manager

cc: Lisa Ng, Division of the Budget
Tom Howe, Department of Health



STATE OF NEW YORK DEPARTMENT OF HEALTH

Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Antonia C. Novello, M.D., M.P.H., Dr.P.H.
Commissioner

Dennis P. Whalen
Executive Deputy Commissioner

October 26, 2006

Sheila A. Emminger, Audit Manager
Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State Street, 11th Floor
Albany, New York 12236

Dear Ms. Emminger:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's (OSC) draft audit report (2006-S-70) on "Electronic Transfer of Medicaid Payments from March 1, 2006 through August 31, 2006".

Thank you for the opportunity to comment.

Sincerely,



Dennis P. Whalen
Executive Deputy Commissioner

Enclosure

cc: Mr. Charbonneau
Mr. Griffin
Mr. Howe
Ms. Napoli
Ms. O'Connor
Mr. Reed
Mr. Seward
Mr. Wing

**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2006-S-70 on
"Electronic Transfer of Medicaid Payments
From March 1, 2006 through August 31, 2006"**

The following are the Department of Health's (DOH) comments concerning the recommendations contained in the Office of the State Comptroller's (OSC) draft audit report (2006-S-70) on "Electronic Transfer of Medicaid Payments from March 1, 2006 through August 31, 2006".

Recommendation #1:

The Department should enforce and monitor CSC compliance with Department policies and eMedNY security policies for eMedNY EFTs, including:

- requiring all eMedNY EFT enrollment and data entry functions be performed separately by staff in the CSC eMedNY Provider services Department; and
- separating the roles of CSC EFT data entry and authorizer, and limiting access to those roles – no one person should have the ability to enroll providers in the eMedNY EFT program and authorize, transmit and reconcile eMedNY EFTs.

Recommendation #2:

The Department should instruct CSC to transmit eMedNY EFTs in a secure manner to prevent unauthorized changes prior to transmission.

Recommendation #3:

CSC's Internal Audit Unit should produce and review audit trails of changes to the EFT payment file before transmittal to financial institutions.

Recommendation #4:

CSC should routinely reconcile EFT transactions the banks were not able to successfully process.

Recommendation #5:

The Department should make the necessary changes to eMedNY that will allow eMedNY to capture information on unsuccessful EFT transactions returned from the bank.

Responses #1 - #5:

The Department concurs that the objective of internal accounting controls is to reasonably assure that the financial records reflect the financial transactions that have occurred. The review of the internal accounting control system should substantiate that transactions have been properly executed, and that transactions have been properly recorded. It seems reasonable that no one person should be assigned duties that would allow that person to commit an error or perpetrate fraud and conceal the error or fraud. The Department will work with CSC to ensure the implementation of the recommendations.