State of New York
Office of the State Comptroller
Division of Management Audit and State Financial Services

DEPARTMENT OF HEALTH

MEDICAID OFF-LINE PAYMENTS AND RECOVERIES

REPORT 98-S-57

H. Carl McCall

Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit and State Financial Services

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Dear Dr. Novello:

The following is our report on the Department of Health's practices related to making Medicaid payments and recovering of Medicaid overpayments off-line.

This audit was performed 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. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

October 6, 1999

Executive Summary

Department of Health
Medicaid Off-line Payments and Recoveries

Scope of Audit

The Department of Health (Health) administers New York State's Medical Assistance Program (Medicaid). Health's fiscal agent, Computer Sciences Corporation, uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process and pay most of the claims submitted by providers who render services to eligible Medicaid recipients. However, certain types of claims (e.g., some provider claims over two years old) are handled outside MMIS, or "off-line," through a voucher payment process. Health's Medicaid Financial Management Unit (FM Unit) makes about $5.7 billion in off-line payments annually through its computerized FM accounting system. The FM Unit also receives monies from Medicaid providers to recover prior Medicaid overpayments. Overpayments may be detected by providers or by Health's audit units. The FM Unit receives and deposits these monies and notifies audit units of payments made.

Our audit addressed the following questions about Health's controls over off-line Medicaid payments and overpayment recoveries for the period October 1, 1997 through September 30, 1998:

- Does Health adequately control and monitor Medicaid off-line payments?
- Has Health made inappropriate off-line payments?
- Does Health effectively process recoveries of Medicaid overpayments?

Audit Observations and Conclusions

We found that Health does not adequately control the FM Unit's processes for making off-line Medicaid payments. While we did not identify any inappropriate payments, we did conclude that controls over the FM accounting system are so weak that there is a significant risk errors could occur and not be detected. We also found that the FM Unit's overpayment recovery processes generally work as intended, but that control should be improved over payments providers send to audit units.

Health should maintain adequate controls over the development and maintenance of its manual systems, as well as its automated systems and any related software applications, to ensure these systems work as intended. However, we found Health has not developed adequate controls over the FM accounting system, with the result that inappropriate payments could occur and not be detected. Additionally, we found that

the FM accounting system evolved through an unplanned process. Health has not developed administrative controls necessary to address the documentation of system structure, system testing after changes are made and the preparation of disaster recovery plans. We also found that the off-line processing function is dependent on one employee who has both system development and maintenance responsibilities, and who may also perform processing duties. To ensure off-line Medicaid payments are processed properly, we recommend that Health strengthen the control environment at the FM Unit: that is, improve management's attitude about, and support for, internal controls as a necessary part of the voucher processing function. We also recommend Health implement adequate administrative controls over the FM accounting system, separate system duties to the extent possible, and cross-train employees so that voucher processing is not dependent on one person. (See pp. 4-6)

We also found controls over voucher processing are inadequate to control access to payments, ensure data integrity, separate critical duties or ensure the accuracy of system input and output. We judgmentally sampled 135 voucher records and compared these records to source documents. We did not find inappropriate payments, but we did find control deficiencies. For example, FM accounting system users can access both application and data files, increasing the risk of unauthorized changes, and can override a data validity check without documentation. We recommend Health implement controls to ensure processing produces timely and accurate voucher payment. (See pp. 6-10)

Although providers are instructed to send Medicaid overpayment remittances to the FM Unit, they occasionally send payment to Health's audit units. We found these units have no written procedures for safeguarding these receipts. We recommend Health develop written procedures for the proper receipt and timely deposit of these monies. (See pp. 10-11)

Comments of Health Officials

Department of Health officials generally agree with the report's nine recommendations.

Contents

Introduction

Background

The New York State Department of Health (Health) administers the State's Medical Assistance Program (Medicaid), which was established in accordance with Title XIX of the Federal Social Security Act to provide medical assistance to needy people. Health's fiscal agent, Computer Sciences Corporation, uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process Medicaid claims and pay providers for medical services rendered to eligible Medicaid recipients. In New York State, the Federal government funds about half of all Medicaid costs, and the State and local governments together fund the remainder.

Even though MMIS does process and pay most provider claims, there are some types of claims which, because of special processing requirements or MMIS limitations, cannot be processed by MMIS. These claims are handled outside MMIS, or "off-line," through a voucher payment process.

Examples of Medicaid claims that are paid off-line are:

- payments of some provider claims that are more than two years old;
- adjustments to the Federal, State or local share of costs, based on factors such as the recipient's program or eligibility status;
- payments that result from a court order, or from a Fair Hearing process decision that restores a recipient's benefits;
- payments to providers from public goods pools, established to reimburse providers for services rendered to indigent persons;
- payments of Medicare insurance premiums on behalf of Medicaid recipients;
- reimbursements to local governments for off-line claims they have already paid; and
- miscellaneous payments, such as Nurse Aide Training vouchers, which reimburse nursing homes for expenses they incur to train and recertify their nurse aide employees.

Health's Medicaid Financial Management Unit (FM Unit) makes these off-line voucher payments using its computerized FM accounting system. The FM Unit receives these claims for payment from other units within Health, or from other agencies, which certify the accuracy, validity and completeness of the claims. The FM accounting system operates on a microcomputer platform at the Office of Temporary and Disability Assistance (OTDA), since the OTDA's predecessor agency (the

Department of Social Services) previously processed Medicaid claims. The FM accounting system is due to move to Health's Local Area Network in 1999. The FM Unit has ten employees who handle off-line payments, and processes about $5.7 billion in voucher payments annually.

The FM Unit also processes receipts from providers in payment of Medicaid accounts receivables, and deposits the monies received into the Medicaid funds account. Medicaid accounts receivable occur when Medicaid overpays a provider. The overpayment may be detected by the provider, who voluntarily returns the overpaid amount, or by Health's Quality Audit and Assurance and Third Party audit units, which identify the overpayment and notify the provider of the receivable. If the provider is unable to return the entire overpayment at once, Health may establish a scheduled repayment plan or establish automatic deductions from future Medicaid payments.

Audit Scope, Objectives and Methodology

We audited Health's policies and procedures for controlling and monitoring off-line Medicaid payments and recoveries for the period October 1, 1997 through September 30, 1998. The objectives of our performance audit were to determine whether Health has established adequate controls over Medicaid off-line payments, whether any inappropriate payments have been made through the voucher process, and whether Health's recoveries of Medicaid overpayments were properly received and deposited on a timely basis. We did not review the process for recovering overpayments through automated deductions or examine the accuracy of voucher calculations.

To accomplish our audit objectives, we interviewed Health officials, analyzed selected Health accounting system data and reviewed the policies and procedures of the Financial Management, Quality Audit and Assurance and Third Party units. In addition, we examined a judgmental sample of 135 vouchers processed by Health's FM Unit and verified processing results to the Comptroller's Central Accounting System, the FM accounting system history files, and original source documentation.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess the operations of Health that are included in our audit scope. Further, these standards require that we understand Health's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the

circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of Health Officials to Audit

We provided draft copies of this report to Department of Health officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after 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 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.

Controls Over Medicaid Voucher Payments and Overpayment Recoveries

Health's FM Unit uses an automated system for making off-line Medicaid payments. Health should establish and maintain adequate controls over the development and maintenance of any manual or automated systems and their related software applications, to ensure these systems work as intended. However, we found that the automated FM accounting system evolved through an unplanned process, and that Health has not developed proper controls to address system administration issues, such as documenting system structure, testing the system after changes are made and preparing disaster recovery plans. We also found that management does not adequately control the system's operation by controlling access to payments, ensuring data integrity, separating critical duties or ensuring the accuracy of system input and output.

Our audit of the FM system did not find instances of inappropriate payment or inaccurate processing. However, since controls over the FM system are weak, there is a significant risk that errors could occur and not be detected. We believe the controls are inadequate because management has focused on simply paying the vouchers without addressing the need to control the payment process. To ensure controls over voucher payments work effectively, Health must first improve the control environment in the FM Unit. Control environment encompasses management's attitude about and support for controls as necessary for getting the job done properly. With a good control environment, management can establish control practices, and regularly monitor their effectiveness, to significantly reduce the risk of inappropriate payments.

Our audit tests did not find weaknesses in the FM Unit's handling of manual recoveries of provider overpayments, and for informing individual audit units about the disposition of their respective claims. However, management should establish the means to safeguard and document overpayments that go directly to the audit units.

General Administrative Controls

Administrative controls should establish a logical method to provide structure and control over the process of developing computerized systems and developing or acquiring application software. These controls should be in place to define and communicate responsibilities, to plan for data processing resources and to segregate duties. Systems managers commonly use the System Development Life Cycle (SDLC), both to

provide such control and to produce an efficient computerized system. Included in the SDLC are controls to guide project initiation, design and development, and to provide for system testing, implementation, operation and maintenance. System and application development policies that establish appropriate control over computerized systems address the need for: application development, testing and documentation; controls over input, processing and output; backup and disaster recovery plans; and evaluation of applications.

In 1986, an employee at the FM Unit converted his own manual payment processing function within the FM Unit to an automated function to increase economy and efficiency. Eventually, this employee automated the remaining FM Unit functions and combined these applications to arrive at the existing menu-driven FM accounting system that operates on a microcomputer platform. However, our audit found that FM Unit management allowed this system and related software applications to be developed and implemented through an unplanned process. Management did not establish any formal general administrative controls, such as an SDLC, in developing the FM accounting system. As a result, the FM Unit lacks the following safeguards to minimize the risks associated with computer processing:

- written operating contingency plans to ensure continuous service in the event of a disaster;
- documentation of formal systems development and testing plans to ensure Unit management can timely detect potential processing problems before the system is used in production;
- generally-accepted software application controls (such as computer program change controls) and testing procedures to ensure that only authorized changes are made and that the system operates as intended; and
- separation of system development and systems operations duties to establish proper control over processing and to ensure the entire system is not dependent on one person.

For example, during our audit, the FM Unit was in the process of converting its FM accounting system programs, currently in a DOS-based software version, to a Windows-based software version without formal systems development plans, and without plans to formally test the system before it was used to process payments. We found that FM Unit staff had made program modifications and data changes without explicit supervisor acceptance, and without any formal testing or documentation to show the impact of these actions. Therefore, FM Unit management has inadequate assurance that such modifications will produce accurate and expected results.

We also found that FM Unit management assigned one employee the responsibilities for developing and maintaining the FM system. This employee may also perform processing duties. To the extent possible, management should segregate system development, maintenance and processing responsibilities to ensure persons who design and maintain systems do not have access to actual transaction data. It is also prudent to ensure that more than one person can maintain a payment system. However, since management does not cross-train employees so they can perform various duties, and does not maintain documentation detailing the system's processes, the entire system would be placed at risk if this employee were to leave or become unavailable.

Unless Health improves administrative controls over the operation of the FM Unit and the FM accounting system, there is a risk that unexpected events would limit Health's ability to meet its objectives of making accurate and timely off-line Medicaid payments.

Controls Over System Operation

To determine whether controls over system operation exist to ensure appropriate access to the FM accounting system and the accurate and timely payment of valid off-line Medicaid claims, we judgmentally sampled 135 voucher records processed by OSC's Central Accounting System during the period October 1, 1997 through September 30, 1998. We matched these records to source documents (such as claims from initiating units) and payment history files in the FM accounting system. We did not find material payment errors in the sampled vouchers, but we did find exceptions in the following control areas:

- ensuring data integrity;
- controlling system access, input and output;
- separating voucher processing duties; and
- adjusting and documenting payments.

Ensuring Data Integrity

Approximately 60 of the 300 data files in the FM accounting system are history files. Since history files contain all the transactions processed to date by the FM accounting system, and serve as electronic records for system activity, they are used to create management reports of FM payment activity. History files also serve as a control to prevent duplicate claim processing and can serve as input for subsequent report processing. To be effective as a control, history files must contain accurate information.

From our review of sampled vouchers that were contained in 9 of the system's 60 history files (15 percent), we identified certain exceptions to data integrity. For example, we identified two vouchers processed and paid by the Central Accounting System that were not included in any history file. FM Unit officials told us these transactions were not entered on the FM accounting system (and, thus, in the history files) because the vouchers represented Medicaid transactions initiated by an agency other than Health. However, we found vouchers initiated by other agencies that were entered on the FM accounting system. The FM Unit should follow a consistent policy for entering voucher data to reduce the risk of incomplete history files and inaccurate management reporting.

In addition, we found duplicate records in two history files. FM Unit officials explained that duplicate records sometimes occur because of the system's design and operation. The existence of undetected duplicate records can result in inaccurate data and management reports. To control the incidence of duplicate records, officials told us that they manually find and delete such records. FM Unit officials said they knew there could be duplicate transactions in the first of these history files, but were not aware of duplicates in the second history file. Our discovery of duplicate records, involving three vouchers totaling more than $1.9 million, indicates that the FM Unit does not find and delete duplicate records regularly.

Controlling System Access, Input and Output

Access controls are designed to protect data in a computer system against unauthorized use and to prevent unauthorized changes to applications, data and other software. Currently the FM accounting system is maintained on OTDA's LAN, which has controls in place (login and password requirements) to provide appropriate security for network access. Once on the LAN, however, FM Unit users can access any FM processing or data file. As a result, any FM Unit user can make unauthorized or unintended changes to the FM accounting system without management's knowledge or authorization. Without adequately protecting data or application resources from unauthorized access, there is increased risk of inaccurate data on files and incorrect reporting.

Input controls in automated systems ensure that every transaction is properly initiated and accurately entered, and processed as expected. Data input controls include checking for transaction authorization, editing data during entry, performing supervisory review and batch controls. One standard input control checks for data validity during data entry, and keeps invalid data from entering the system. Another generally accepted input control is a batch control system, which ensures processing

reliability. This control works by generating two batch control totals: a "front-end" total validates the completeness of data as it is entered into the system; a "back-end" total reconciles the entered data, plus the effects of processing, to the finished data.

We found that the FM Unit does not use a batch control system or adequate data validity checks for the FM accounting system. We found that FM Unit staff who enter data are allowed to override computer coding without documentation. Although it may sometimes be necessary to override data input controls, such instances should be documented and should require supervisory review to ensure the results were appropriate. FM Unit staff can also skip over data entry fields and enter invalid data. We believe weak input controls contribute to the presence of invalid, erroneous or incomplete entries in history files.

We also found that the FM Unit does not use adequate output controls to ensure the overall accuracy of the processed data. The FM Unit functions as a pay-on-demand processing unit, and its staff rely on certifications by the units submitting the claims (initiating units) that the claims are valid, accurate and complete. Data output controls help ensure the accuracy of the data submitted by the initiating units, as well as the accuracy of FM Unit processing. Generally accepted data output controls include output review by the processing unit, balancing output to control totals, and reconciling output data to input data.

We found that the FM Unit, as well as the initiating units in Health, do not use adequate output controls. For example, the FM Unit does not routinely provide output reports to initiating units so they can reconcile claims submitted to claims paid, and initiating units in Health do not perform their own reconciliation to ensure the claims that were submitted were paid correctly and timely. As a result, neither the FM Unit nor Health's initiating units have adequate assurance that all claims submitted for payment were authorized, processed accurately and paid in a timely manner.

Separating Voucher Processing Duties

To ensure the voucher payment process works as intended, management should have controls in place which separate critical processing duties so that one employee does not have responsibility for the entire payment process. We found that, in most cases, initiating units calculate the amount of the claims and certify their validity, accuracy and completeness before submitting the claims to the FM Unit. However, certain claims - specifically court-ordered claims and nursing home claims that cannot be paid through MMIS - come to the FM Unit unpriced. FM management

assigns all the responsibilities involved in processing these claims to one individual. This person is required to perform the following functions:

- compute the claim price;
- check the claim validity;
- input the claim into the FM system;
- obtain the voucher printed from the system (output);
- present the voucher output for payment authorization;
- deliver the authorized voucher for input to the Central Accounting System; and
- maintain custody of the claim documentation.

In other words, a single FM Unit employee prices, processes, pays and maintains documentation for these vouchers. Allowing one individual to perform all these functions increases the risk that inappropriate or unauthorized payments could be processed and paid.

Adjusting and Documenting Payments

Nursing homes submit Nurse Aide Training (NAT) vouchers to receive reimbursement for expenses they incur for training, testing, evaluating and recertifying their nurse aide employees. Reimbursement for training expenses is based on regional caps. Nursing homes complete NAT vouchers and submit them to the FM Unit for processing. We found that FM Unit employees must make price adjustments to significant numbers of NAT vouchers because Health does not regularly remind nursing homes of the current caps on reimbursements, and or direct nursing homes to correct the routine errors they make in their vouchers.

FM Unit staff review NAT vouchers to ensure their accuracy and appropriateness before forwarding them for processing and payment. As part of their review, FM Unit staff verify that expenses submitted do not exceed the regional caps. They also verify that nursing homes have adequately documented the costs of evaluating and recertifying nurse aides. To determine the error rate in the NAT vouchers the FM Unit receives, we reviewed the 15 NAT vouchers included among the 135 vouchers we selected for our judgmental sample. We found that FM Unit staff revised the payment amounts on 6 of the 15 vouchers: payments on four vouchers were reduced because the amounts submitted exceeded regional caps; payments on two other vouchers were revised during processing because of errors made by the nursing homes. FM Unit officials estimate that approximately 40 percent of all NAT vouchers require some type of adjustment by FM Unit staff.

Health reimbursed nursing homes for a total of more than $1.2 million in NAT expenses during our audit period. However, we found that Health does not regularly notify nursing homes that they should limit their reimbursement claims to the regional cap amounts, or tell them to correct routine errors they make in completing the claims. By keeping nursing homes informed about reimbursement limits and helping them correct claims errors, Health can reduce the risk of making overpayments which Medicaid will have to recover, and decrease the amount of time FM Unit staff currently spend adjusting NAT vouchers.

We also noted that Health should retain documentation to support payment of vouchers the FM Unit processes. During our audit, we found no documentation to support the payment of three vouchers for $3,670, $7,829 and $11,005, respectively. FM Unit officials said they did not retain source documents for NAT vouchers over $2,500. It is important to retain complete and accurate source documentation in order to preserve evidence to substantiate the transaction and maintain an adequate audit trail. FM Unit officials agreed with our conclusions and informed us that they will now retain copies of source documents for all vouchers.

Overpayment Recoveries

Health's Quality Assurance and Audit (QA&A) and Third Party (TP) audit units identify providers who owe overpayment monies to Medicaid, and each of these units monitors the disposition of overpayments to be recovered from these providers. Providers are instructed to remit any overpayments owed directly to the FM Unit. The FM Unit processes all monies received for deposit into the Medicaid funds account, and sends a notification of payment to the responsible audit unit so the unit can update its database. We found that the FM Unit properly receives and deposits these funds, and sends timely notification to the appropriate audit unit.

However, providers occasionally send these remittances directly to the audit units rather than to the FM Unit, as instructed. To provide accountability for such payments, the QA&A and TP units should have written procedures in place to ensure that these funds are properly received, recorded and promptly deposited. However, we found that QA&A and TP units have no formal written procedures for safeguarding these receipts.

For example, QA&A officials said they have informally instructed QA&A staff to send such receipts to the FM Unit. However, QA&A does not have a log to record the receipt of such payments, or their remittance to the FM Unit for deposit. Therefore, there is no accountability for payments that arrive in this unit. After having remitted such payments to

the FM Unit, QA&A waits for the FM Unit's standard notification of payment and deposit before it records the provider's payment. TP officials stated that TP staff have been informally instructed to log the receipt of monies received. TP staff keep these monies in a locked file cabinet. TP staff told us they send large remittances to the FM Unit immediately, but forward other such payments on a monthly basis. We examined the TP log for January 1999 and verified that the FM Unit had deposited these receipts. While we found no discrepancies, we believe it is essential that Health establish formal procedures to properly safeguard these provider payments.

Recommendations

1. Develop and implement policies and procedures to strengthen the control environment in the FM Unit.

2. Establish adequate controls over the FM accounting system by developing the following:

   - formal operating contingency and disaster recovery plans;
   - documentation for formal system development and testing plans; and
   - software change controls and formal testing procedures for software applications.

3. To the extent possible, segregate system development, maintenance and processing duties. Cross-train FM Unit employees in various functions so the processing of off-line Medicaid payments is not dependent on one person.

4. Ensure that all off-line Medicaid payment transactions are entered and properly maintained in the FM accounting system.

5. Develop and implement FM accounting system access and input controls to ensure accurate and valid processing of data.

6. Develop and implement appropriate output controls so that units submitting off-line Medicaid claims can verify that payments are made accurately and timely.

7. Consider accepting only priced and certified claims for processing in the FM Unit to ensure adequate separation of duties in the off-line payment process.

8. Regularly remind nursing homes of the current regional caps for Nurse Aid Training expenses, and advise them of any recurring problems identified in processing.

9. Develop formal written procedures for the proper receipt and timely deposit of Medicaid accounts receivable monies received in the audit units.

Major Contributors to This Report

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