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January 9, 2004

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 2003-F-45

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 officials of the Department of Health as of December 1, 2003 to implement the recommendations contained in our report, *Medicaid Managed Care Encounter Data* (Report 2000-S-54). Our report, which was issued on March 29, 2002, assessed the Department of Health's policies, procedures and practices for obtaining and evaluating Medicaid managed care encounter data for the two year period ended December 31, 2000.

Background

The New York State Department of Health (Department) is responsible for administering the State's Medical Assistance program (Medicaid) and the Medicaid Management Information System (MMIS). MMIS is a computerized Medicaid claims processing and payment system. In New York, the State has integrated managed care into Medicaid. Medicaid managed care is intended to provide quality health care to low-income and disabled citizens in a cost-effective manner. Managed care organizations (MCOs) receive a monthly payment for each enrollee through a process known as capitation. In return, the MCOs must ensure that each enrollee has a primary care provider and adequate access to quality health care and needed medical services.

MCOs are contractually obligated to submit information on enrollee medical services, known as encounters, to the Department monthly. An encounter is a professional face-to-face contact or transaction between an enrollee and provider who delivers services. Encounter data is comprised of the services rendered during the contact. For the State's managed care program, encounters include: visits to physician or other medical provider, inpatient stays in medical,

mental health or substance abuse facilities; and purchases of durable medical equipment or hearing aids.

In July 1997, the federal Centers for Medicare and Medicaid Services (CMS), approved New York State to establish a statewide mandatory Medicaid managed care program, known as the Partnership Plan. The terms and conditions of the Partnership Plan identified some broad-based goals for encounter data:

- Establish a minimum data set identifying specific enrollee, provider and medical service information;
- Require MCOs to provide complete, timely and accurate encounter data for all enrollees;
- Develop a work plan showing how encounter data would be implemented, collected, monitored and used to pursue health care quality improvement; and
- Develop a plan to validate completeness and accuracy of encounter data on an ongoing basis.

As a result, the Department established a work plan that generally identified how the State would meet the federal goals. Additionally, in June 1999, CMS provided states with guidelines suggesting both general and specific methods on how states can strategically plan and implement encounter data systems and then use the data in monitoring and evaluating their Medicaid managed care programs.

In 1996, the Department developed the Medicaid Encounter Data System (MEDS), a computerized system for collecting, processing and reporting encounter data. The Department's Office of Managed Care (OMC) is responsible for maintaining MEDS and monitoring and analyzing encounter data submissions from MCOs. OMC is also responsible for providing support to local social services districts and MCOs. During the calendar year 2002, MEDS accepted about 9.6 million encounter records.

Summary Conclusions

In our prior audit, we found that the Department needed to strengthen controls to improve the completeness, timeliness, accuracy and use of encounter data. We found the Department could improve encounter data completeness by reducing the instances of unreported and undocumented encounters by MCOs, ensuring that MCOs correct and resubmit rejected encounter records in a timely manner, and strengthening controls over MCO reporting of inpatient encounter records. Regarding timeliness, we found the Department had no requirement that MCOs submit encounter records within a certain timeframe after the date of service. We also found accuracy problems and inconsistencies in the way medical service information was recorded on the encounter records. Our audit also identified additional uses of encounter data including the use of encounter data to identify potential duplicate payments. Further, we found that the Department had not formally developed a strategic plan to facilitate continual planning, monitoring and evaluating of the integrity and use of encounter data.

In our follow-up review, we found that Department officials have made progress in implementing the recommendations contained in our prior audit report. The Department has

developed and implemented a formal strategic plan. The Department has also developed compliance standards to hold MCOs accountable for encounter data completeness, timeliness and acceptance. In addition, the Department has established an incremental reporting standards for inpatient and emergency room encounters based on the per member per month statewide average. The Department is addressing data accuracy and consistency as part of the new replacement Medicaid system, eMedNY. The Department has also developed a means to increase the use of MEDS data for performance and outcome measurement.

Summary of Status of Prior Audit Recommendations

Of the 16 prior audit recommendations, Department officials have implemented nine recommendations, partially implemented four recommendations and have not implemented two recommendations; one recommendation is not applicable.

Follow-up Observations

Recommendation 1

Develop and implement a formal strategic plan for encounter data.

Status – Implemented

Agency Action – Department officials provided us with a copy of the strategic plan they developed and implemented to provide direction to staff in the Department's Office of Managed Care and MCOs for data quality and improvement and analytical efforts of the MEDS project. The plan covers the period October 2001 to September 2004.

Recommendation 2

Work with the MCOs that have higher rates of unreported and undocumented encounters to improve the completeness of submission.

Status – Implemented

Agency Action – The Department has created compliance standards to hold the MCOs accountable for encounter data completeness. MCOs are required to submit encounter data that is representative of their enrollment. The Department requires MCOs that do not comply with the standards to submit a basic action plan that addresses reasons for non-compliance, the MCO's intended actions, and an estimated completion date. In addition, to help MCOs identify if the encounter data submitted is represented in the types of medical services provided, the Department created a data completeness report that is updated each month. The Department provided us with a copy of this report which compares the MCOs current encounter data submissions to both MCO and statewide annualized rates. For those MCOs for which the encounter data is not reflecting actual care, Department staff works with MCO staff on identifying data reporting issues.

Recommendation 3

Establish a requirement for MCOs to timely correct and resubmit rejected encounter records.

Status – Implemented

Agency Action – The Department has established an alternative approach to this recommendation that accomplishes the same goal of maximizing successful encounter data acceptance. To maximize its encounter data acceptance rate, the Department implemented a compliance standard that requires the MCOs to achieve a monthly record acceptance rate of 95 percent. Officials provided us with a copy of their strategic plan, that indicates they established this 95 percent acceptance rate as a standard. In addition, the Department supplied us with an example of the actual monthly feedback report they provide to the MCOs. This feedback identifies the compliance status of all the MCOs and instructs those non-compliant MCOs to submit action plans showing the steps they will take to achieve and stay in compliance with the standard. It also specifies that non-compliant MCOs must submit test data to enable timely changes to meet minimum thresholds. The Department also provided us with a report that indicates that as of September 2003, the acceptance rate for encounter data submissions was 97 percent.

Recommendation 4

Evaluate the feasibility of offering incentives to MCOs for timely correcting and resubmitting rejected encounter records.

Status – Not Applicable

Agency Action – The Department implemented a compliance standard that requires the MCOs to achieve a monthly record acceptance rate of 95 percent. Officials provided us with a copy of their strategic plan which shows they established this 95 percent acceptance rate as a standard beginning August 2001. The Department maintains that efforts to increase the acceptance rate are more cost effective than expending efforts to correct rejected records. During our audit, we found the acceptance rate was only 70 percent as of December 2000, which was significantly lower than the Department's 95 percent standard. However, the Department provided us with a report that indicates that as of September 2003, the acceptance rate for encounter data submissions was 97 percent. By increasing the acceptance rate of encounters when they are first submitted, the Department has essentially eliminated the need to offer MCOs incentives for correcting and resubmitting rejected encounter records timely.

Recommendation 5

Develop a method to identify and monitor the resubmission of rejected encounter records.

Status – Implemented

Agency Action – As is stated in the Agency Action section for Recommendation 3, the Department has enhanced its encounter data acceptance requirements to essentially eliminate the need for resubmission of rejected records. The Department has implemented a compliance standard that requires the MCOs to achieve a monthly record acceptance rate of 95 percent. Officials provided us with a report that indicates that, as of September 2003, the acceptance rate for encounter data submissions was 97 percent. The Department is also addressing this issue as part of the new eMedNY system.

Recommendation 6

Establish incremental standards for inpatient encounters.

Status – Implemented

Agency Action – In May 2002, the Department initiated a requirement that MCOs report inpatient and emergency room encounters at a rate which is 75 percent of the per member per month statewide average. Department officials provided us with a copy of their strategic plan that identified this completeness requirement. Prior to initiating this requirement, the Department only required the MCOs to have one record accepted each month, regardless of the MCOs enrollment or the number of inpatient encounters. The strategic plan indicates that the Department has developed, implemented and posted charts containing these service utilization and submission volume requirements to the Health Provider Network (HPN), a restricted access information reporting application. These numbers are updated quarterly and the providers have been notified of their existence and how they work. The Department also provided us with a copy of the monthly Submission Compliance Report that it sends the MCOs, which contains the actual threshold amount for inpatient encounters. The MCOs own encounter submissions for the month are included on this report for comparison purposes.

Recommendation 7

Establish incremental timeliness standards for MCOs to submit encounter data.

Status – Implemented

Agency Action – The Department implemented a compliance standard that requires the MCOs to submit 80 percent of their encounter data records within three months of the date of service. Beginning in July 2001, the Department monitored the percent of records submitted within three months of the date of service, and provided feedback to MCOs that documented monthly trends and improvements. In its strategic plan, the Department reported that it achieved its goal of receiving 80 percent of all encounter records within the first three months of the service date by November 2002.

Recommendation 8

Work with MCOs that have higher rates of inconsistent diagnosis and procedure codes to improve accuracy.

Status – Implemented

Agency Action – The Department instituted a compliance standard that requires that 95 percent of the reported diagnosis and procedure codes are acceptable. The Department provided us with a copy of this standard from its strategic plan which requires the MCOs to submit action plans when valid code rates fall below 90 percent as of June 2003, and 95 percent as of June 2004. Department officials determined in 2002 that the MCOs were above the 95 percent threshold for both the diagnosis and procedure codes. The Department is also working with specific MCOs with coding issues. Specifically, the Department has taken steps to identify the specific invalid and incomplete diagnosis and procedure codes for each MCO to assist them in targeting quality improvement activities.

Recommendation 9

Implement edits to check the validity of data in the provider ID and license number fields and prevent encounter records with blank or invalid provider IDs and license numbers from being updated to MEDS.

Status – Implemented

Agency Action – The Department requires providers to include either the license number or the provider ID when they submit information to MEDS. When the provider does not include the provider ID or license number on their MEDS encounter claims, the Department uses the Provider Network Data System to obtain valid license and provider ID numbers. Department officials added that they have established a 95 percent acceptance threshold for the provider license number and a 90 percent threshold for the MMIS provider ID on the Provider Network Data System as of the fourth quarter of 2003. Since the MEDS system uses information from the Provider Network Data System, these thresholds would carry on to that system, as well.

Recommendation 10

Implement an edit to ensure consistency between the category of service on encounter data, provider type and provider specialty.

Status – Partially Implemented

Agency Action – The Department is addressing this recommendation as part of the new eMedNY system; however, this phase of the system is not yet operational.

Recommendation 11

Assess other MEDS edits and modify as necessary to ensure that important encounter record fields cannot be updated with inaccurate or inconsistent information.

Status – Partially Implemented

Agency Action – The Department is addressing this recommendation as part of the new eMedNY system; however, this phase of the system is not yet operational.

Recommendation 12

Determine the reasons why original pharmacy claims for Medicaid managed care enrollees lack supporting encounter records or fee-for-service claims. Analyze and determine those situations that should be referred to the Office of the Attorney General.

Status – Partially Implemented

Agency Action – Beginning in 2001, the Department established a process where they asked MCOs to provide information on enrollees receiving 20 or more prescriptions without evidence of another encounter. The Department established this 20 prescription criteria to permit an efficient and manageable analysis by the MCOs Medical Directors. We noted in our audit report that this analysis should be extended to include providers and pharmacies since it is possible that physicians may be giving prescriptions to managed care enrollees without a medical exam or that potentially abusive pharmacy billing practices are occurring. However, Department officials maintain the position they held at the conclusion of the audit and have not extended the analysis to include providers and pharmacies.

Recommendation 13

Investigate the potential inpatient overpayments identified in this report and recover identified overpayments. Make referrals as necessary to the Office of the Attorney General.

Status – Not Implemented

Agency Action – According to Department officials, they could not confirm that hospitals have been inappropriately billing both managed care plans and Medicaid for the same inpatient stay, nor could it duplicate our findings. The Department performed its own analysis, which suggested that the issue may involve timing of retroactive enrollments for newborns and behavioral health services which are carved out of MCO benefit packages. We noted in our report that we had provided the Department with all the documentation and methodology related to our findings and conclusions and that the Department should be able to use the claim and encounter information we provided to assist in identifying and recovering overpayments. We also noted that the MCOs in our analysis did not report any instances where these payments were related to timing differences. However,

Department officials maintain the position they held at the conclusion of the audit and have not performed any additional work. While Department officials stated that they hope to initiate a joint project with the Medicaid Fraud and Abuse staff in the near future, no project is currently underway.

Recommendation 14

Develop a process for using encounter data to identify duplicate inpatient payments.

Status – Not Implemented

Agency Action – Similar to the Agency Action section for Recommendation 13, Department officials stated that they could not confirm that hospitals have been inappropriately billing both managed care plans and Medicaid for the same inpatient stay, nor could they duplicate our findings.

Recommendation 15

Compare fee-for-service claims data and encounter data on an ongoing basis to identify quality of care and overpayment issues.

Status – Partially Implemented

Agency Action – The Department stated they will encourage the use of Medicaid claims and managed care encounter data, by appropriate Department staff, to identify quality of care issues and prevent inappropriate billing for services received by managed care enrollees. The Department has devoted much time and resources in joint application design and design review sessions to assure that encounter data is appropriately incorporated into the new eMedNY system. However, the Department has not taken action on an ongoing basis to identify quality of care and overpayment issues.

Recommendation 16

Identify and develop additional uses of encounter data to improve monitoring of the Medicaid managed care program.

Status – Implemented

Agency Action – In its strategic plan, the Department identified ways to increase the use of MEDS data for performance and outcome measurement. The Department instituted a compliance standard to produce 80 percent of the QARR/HEDIS (Quality Assurance Reporting Requirements/Health Plan Employer Data and Information Set) administrative data measures currently reported by MCOs, including 100 percent of behavioral health related measures. Department officials provided us with a copy of this standard from their strategic plan, which indicates they plan to add at least one new measure to the MEDS Reports website each quarter beginning April 2002, with a goal of full

compliance by September 2004. To date, 15 measures have been calculated using administrative data. The Department has posted three years of well child and asthma measures to the MEDS website. In addition, the Department detailed future efforts aimed at expanding analytical capabilities to measure variations in treatment practices, resources utilized, and outcomes within episodes of care. The Department also established a means to identify and disseminate best practices information and benchmarks to assist in health care quality improvement.

Major contributors to this report were Ken Shulman, Bill Clynes, Ed Durocher, and Carol O'Connor.

We would appreciate your response to this report in 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 the review.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Deidre A. Taylor