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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

September 28, 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: Medicaid Managed Care Under  
Six Month Premium Payments  
Report 2004-S-68

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) policies and procedures to ensure appropriate Medicaid payments are made to Medicaid managed care health plans (plans) for newborn premiums for the four-year period January 1, 2001 through December 31, 2004.

**A. Background**

The Department 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. The State is integrating managed care into Medicaid to help provide quality health care to low-income and disabled citizens in a more cost-effective manner. Within the Department, the Office of Managed Care (Managed Care) establishes rates, policies and business rules to process plan claims and monitors resulting Medicaid payments. Under the supervision of Managed Care management, the Office of Medicaid Management (OMM) maintains computer logic that controls claims processing and monitors resulting Medicaid payments.

New York City, local social services districts (counties), and contracted enrollment brokers have primary responsibility to enroll and process Medicaid recipient eligibility records for plans. They work in partnership with the Department to determine Medicaid eligibility and administer the Medicaid managed care program. Hospitals and birthing centers are required to report a newborn's

date of birth to the Department within ten business days of receipt of the notification of the birth. Upon notification of the birth, the Department must retroactively enroll a Medicaid-eligible newborn back to the first day of the month of birth.

The Office of Temporary and Disability Assistance operates the Welfare Management System (WMS) which maintains eligibility information for a number of public assistance programs in the State. From its eligibility files, the WMS creates and distributes monthly rosters which list the covered recipients of each plan. These rosters serve to establish eligibility for service under the health plans and are used by Medicaid health plans' billing systems to submit monthly premium claims to the Department.

The Department's fiscal agent, Computer Science Corporation, uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process monthly premium claims for payment to plans. For each claim, MMIS uses information from its files to determine the appropriate rate code for payment. In New York, the federal, State, and local governments jointly fund the Medicaid program.

According to Office of Managed Care policy, monthly plan premium claims are paid at an enhanced "newborn" rate for only the first six months of an infant's life; afterwards, a regular premium rate is paid. The newborn rates are allowed on claims where the infant's age is from zero to five months. Newborn rates are not valid for infants aged six months or more. Since January 1, 2001, MMIS has processed and paid almost 1.5 million original monthly premium claims at enhanced newborn rates totaling almost \$273 million.

**B. Audit Scope, Objective and Methodology**

For the audit period January 1, 2001 through December 31, 2004, we audited the Department's policies and monitoring of Medicaid payments for plan premium payments at the newborn rate. The objective of this performance audit was to determine if Medicaid pays premium claims at the newborn rate for more than the six claim limitation and for managed care recipients older than the allowable age.

To accomplish our audit objective, we interviewed officials from Department, the Office of Temporary and Disability Assistance, and the fiscal agent. We also reviewed polices and procedures used by Managed Care to control and monitor Medicaid premium payments. In addition, we reviewed MMIS computer logic to identify the controls in place to prevent inappropriate payments. We used computer assisted auditing techniques to identify and calculate the net payment difference of inappropriate Medicaid payments.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those operations of the Department that are within our audit scope. Further, these standards require that we understand the Department's internal control structure and its 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.

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 to certain boards, commissions, and public authorities, some of whom have minority voting rights. 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**

Based on our review, we determined Medicaid appropriately paid premium claims for newborn managed care recipients, except for about 14,000 premium claims totaling \$551,029 which Medicaid overpaid. These claims were overpaid due to inadequate controls in the Medicaid claims processing system, which we reported separately to the Department as matters of lesser significance.

Department officials should implement our recommendations related to these issues of lesser significance and develop a structured process for controlling and monitoring claims processing logic change requests and outcomes.

### **Recommendation**

*The Department should take the action necessary to recover the overpayments identified during the audit.*

We provided a draft copy of the matters contained in this report to Department officials for their review and comment. We considered their comments in preparing this report. Department officials agreed with our recommendation and have initiated audit recovery for those Medicaid payments found to be inappropriate. A complete copy of the Department's response is included as Appendix A.

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 the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and where the recommendation was not implemented, the reasons therefor.

Major contributors to this report were Ken Shulman, Donald Paupini, Gail Gorski, and Resa Swartz.

We wish to thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this audit.

Yours truly,

David R. Hancox  
Director  
State Audit Bureau

cc: Robert Barnes, Division of the Budget



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*

August 12, 2005

David R. Hancox  
Audit Director  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

Dear Mr. Hancox:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's (OSC) draft audit report (2004-S-68) entitled "Medicaid Managed Care Under Six Month Premium Payments."

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads 'Robert W. Reed'.

Robert W. Reed  
Director  
Fiscal Management Group

Enclosure

cc: Mr. Griffin  
Mr. Howe  
Ms. Kuhmerker  
Ms. Kutel  
Mr. Seward  
Ms. Shure  
Mr. Van Slyke  
Mr. Whalen  
Mr. Wing

**Appendix A**

**Department of Health  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report 2004-S-68 Entitled  
"Medicaid Managed Care Under Six Month Premium Payments"**

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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 (2004-S-68) entitled "Medicaid Managed Care Under Six Month Premium Payments."

**Recommendation #1:**

The Department should take the action necessary to recover the overpayments identified during the audit.

**Response #1:**

The Department agrees that there appear to be overpayments associated with newborn enhancement payments beyond the six-month limitation. We have initiated audit recovery and will verify and collect those Medicaid payments identified in the draft audit report that are found to be inappropriate.

**Additional Comments**

In section A. Background, the second paragraph states that: "Upon notification of the birth, the Department must retroactively enroll a Medicaid-eligible newborn back to the first day of the month of birth." The correct policy is that: Within ten business days of receipt of the notification of the birth, the Department must retroactively enroll a Medicaid eligible newborn back to the first day of the month of birth.

* Note
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\* We have revised the report to reflect information provided in the department's response.