

THOMAS P. DiNAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 10, 2007

Richard F. Daines, MD
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Report 2007-F-15

Dear Dr. Daines:

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 followed up on the actions taken by the Department of Health officials to implement the recommendations contained in our audit report, *Electronic Transfer of Medicaid Payments* (Report 2006-S-70).

Background, Scope and Objective

The Department of Health (Department) administers New York State's medical assistance program (Medicaid), which was established under Title XIX of the federal Social Security Act to provide needy people with medical services. 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 to 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.

Our initial audit report, issued on November 9, 2006, audited the electronic transfer of Medicaid payments during the six months ended August 31, 2006. Our objective was to determine if adequate internal controls were in place for the electronic transfer of Medicaid payments into providers' bank accounts. Our initial audit found that adequate internal controls were not always in place regarding CSC's compliance with policies and procedures, such as separation of duties, security over EFT transmissions, the use of audit trails, and reconciliations of EFT transactions. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess as of September 26, 2007, the extent of implementation of the five recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have implemented four of the five recommendations from our initial audit report. The remaining recommendation is no longer applicable.

Follow-up Observations

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.*

Status - Implemented

Agency Action - We reviewed EFT Enrollment Reports and confirmed adequate separation of duties between the person entering eMedNY EFT enrollment and data entry information and the person authorizing these entries. Contrary to previous practice, no one person is allowed to perform both functions. In addition, on a weekly basis, CSC now audits a sample of newly added Medicaid providers in the EFT system for enrollment completeness, accuracy and proper authorization.

Recommendation 2

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

Status - Implemented

Agency Action - Effective March 19, 2007, CSC began automatically transmitting the EFT payment file via electronic transmission (mainframe to mainframe). An electronic file from eMedNY production is directly submitted to Key Bank, eliminating the previous practice of the creation of text files that could be altered during this 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.

Status - Not Applicable

Agency Action - As a result of the implementation of Recommendation 2, this recommendation is no longer applicable because there is no longer an opportunity for the EFT payment file to be altered during the submission process to Key Bank.

Recommendation 4

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

Status - Implemented

Agency Action - Previously, eMedNY was not properly designed to capture and report information on unsuccessful EFT transactions returned from the bank. Under the old process, CSC uploaded a bank file of unsuccessful EFT transactions to eMedNY upon which an EFT error report was generated. This EFT error report was never reconciled to the original bank report.

Now, unsuccessful EFT transactions are captured automatically, on a daily basis via electronic updates to eMedNY by Key Bank, eliminating the need to reconcile back to original bank reports of unsuccessful transactions. This automatic update results in the provider's EFT status being disabled and the receipt of a paper check until the provider submits updated enrollment information.

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.

Status - Implemented

Agency Action - As indicated above in Recommendation 4, changes to eMedNY have been made to properly account for unsuccessful EFT transactions.

Major contributors to this report were Andrea Inman and Wendy Matson.

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

Very truly yours,

Sheila A. Emminger
Audit Manager

cc: Lisa Ng, Division of the Budget
Stephen Abbott, Department of Health
Steven Sossei, OSC State Government Accountability