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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**DEPARTMENT OF HEALTH**

**MEDICAID FEE FOR  
SERVICE PAYMENTS FOR  
MANAGED CARE  
RECIPIENTS**

**Report 2007-S-100**

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## AUDIT OBJECTIVE

The objective of our audit was to determine if Medicaid inappropriately paid fee-for-service claims for recipients enrolled in Medicaid managed care plans.

## AUDIT RESULTS - SUMMARY

During our two year audit period ended September 30, 2007, Medicaid inappropriately paid approximately \$3 million fee-for-service claims for recipients enrolled in three managed care plans. These inappropriate Medicaid payments occurred because the managed care enrollment information for the recipients was not updated timely.

Our report recommends the Department of Health (Department) investigate and recover inappropriate Medicaid payments and ensure managed care plan enrollment information is updated timely. Department officials generally agreed with our recommendations and will take steps to implement changes.

This report, dated May 16, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The Department uses two methods to pay Medicaid providers: the fee-for-service method or the managed care plan method. Under the fee-for-service method, a provider is paid for every Medicaid eligible service rendered to the recipient. Under the managed care plan method, a managed care plan receives a monthly payment for each

Medicaid recipient enrolled in the plan. The managed care plan is responsible for ensuring enrollees have access to a comprehensive range of preventative primary and specialty services. Although managed care plans are responsible for providing most medical services to enrollees, there are services that are excluded from the plans and are paid separately through the fee-for-service program. For example, pharmacy fees are excluded from most managed care plans. For the two year audit period ended September 30, 2007, Medicaid paid approximately \$13.8 billion in payments to 83 managed care plans.

## AUDIT FINDINGS AND RECOMMENDATIONS

### *Timely Updates of Managed Care Enrollment*

During our two year audit period, we determined Medicaid inappropriately paid approximately \$3 million in fee-for-service payments for recipients enrolled in three managed care plans. These inappropriate payments occurred because the managed care enrollment information was not timely updated to the Medicaid eligibility files used to process Medicaid claims. Of the 3,750 recipients with late enrollment updates, 3,659 (98 percent) were newborns whose mothers were enrolled in a managed care plan. According to Department guidelines, if the mother of a newborn is enrolled in a managed care plan, then the newborn child should also be enrolled in the mother's managed care plan. The managed care plan assumes medical risk for the newborn on the actual date of birth. Since the mothers of the 3,659 recipients were enrolled in a managed care plan, the hospitals should have billed the managed care plan for the services provided to these newborns. The hospitals should not have billed Medicaid separately for these services.

Medicaid regulations require hospitals to report every live birth within five business days of the birth. This reporting process includes updating the newborn's Medicaid coverage information. For newborns whose mothers are enrolled in a managed care plan, this reporting process would include updating the newborn's Medicaid coverage to show that the newborn is enrolled in a managed care plan. If a hospital does not update the birth and Medicaid coverage information within the required timeframe, the newborn's Medicaid eligibility remains fee-for-service Medicaid on the Medicaid eligibility files. This delay allows the hospital to inappropriately bill Medicaid for services that should have been billed to the managed care plan. During our review we identified one recipient born on November 22, 2005, but the hospital did not update the date of birth or managed care enrollment information until 181 days later on May 22, 2006. This delay caused Medicaid to pay \$2,587 in inappropriate fee-for-service payments for this newborn recipient.

The Department has taken steps to address the issue of hospitals not reporting live births timely. These steps include issuing monthly publications of Medicaid updates and letters to hospitals reminding them of the policy for enrolling newborns within five days of the newborn's birth. In addition, the Department monitors hospital compliance by tracking births reported after more than five business days. Although the Department's Medicaid claims processing system, eMedNY, contains controls to deny and prevent inappropriate fee-for-service payments, these controls rely on the timely and accurate update of enrollment and eligibility information to work correctly.

### **Recommendations**

1. Investigate the approximately \$3 million in fee-for-service payments identified and recover inappropriate payments.
2. Ensure managed care plan enrollment information is updated timely.
3. Continue efforts to gain full hospital compliance with Medicaid regulations requiring the reporting of live births within five business days.

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our audit according to generally accepted government auditing standards. To accomplish our audit objective, we extracted Medicaid paid claims information for recipients enrolled in three managed care plans for the two year audit period ended September 30, 2007. During our audit period, Medicaid paid monthly payments totaling \$3.8 billion to these three plans. These payments represented 28 percent of the \$13.8 billion paid to 83 managed care plans during our audit period. These three managed care plans operate in Nassau and Suffolk counties and the five boroughs of New York City. We identified all fee-for-service payments with service dates during a month the managed care plan received a payment from Medicaid. We analyzed the plans and determined these fee-for-service payments were for services included as covered services in the managed care plans. Therefore, these services should not have been billed separately as fee-for-service claims. We interviewed Department officials, reviewed applicable sections of federal and State laws and regulations, and examined the Department's relevant payment policies and procedures.

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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. 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 functions do not affect our ability to conduct independent audits of program performance.

#### **AUTHORITY**

The 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.

#### **REPORTING REQUIREMENTS**

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 or taken to implement them. We considered their comments in preparing this report. A complete copy of the Department's response is included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department 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.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to the report include Steve Sossei, Sheila Emminger, Warren Fitzgerald, Amanda Strait, Lucas McCullough, and Lisa Rooney.

APPENDIX A - AUDITEE RESPONSE



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

Richard F. Daines, M.D.  
Commissioner

Wendy E. Saunders  
Chief of Staff

April 4, 2008

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

Dear Ms. Emminger:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's draft audit report 2007-S-100 on "Medicaid Fee for Service Payments for Managed Care Recipients."

Thank you for the opportunity to comment.

Sincerely,

Wendy E. Saunders  
Chief of Staff

Enclosure

cc: Stephen Abbott  
Deborah Bachrach  
Homer Charbonneau  
Randall Griffin  
Gail Kerker  
Sandra Pettinato  
Robert W. Reed  
Philip Seward  
James Sheehan

**Department of Health  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report 2007-S-100 on  
"Medicaid Fee for Service Payments  
for Managed Care Recipients"**

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The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) draft audit report 2007-S-100 on "Medicaid Fee for Service Payments for Managed Care Recipients."

**Recommendation #1:**

Investigate the approximately \$3 million in fee-for-service payments identified and recover inappropriate payments.

**Response #1:**

98 percent of the late enrollments in the audit sample represent newborns whose mothers were enrolled in a managed care plan. The Office of the Medicaid Inspector General maintains an existing process for systematically reviewing fee-for-service inpatient payments made on behalf of newborns whose mothers were enrolled in a managed care plan, followed by recovery of any payments determined to have been inappropriate. This review was last performed through December 31, 2004, and is tentatively scheduled to be completed later this year for subsequent claims paid through December 31, 2007, and will be expanded to include the two percent of additional late enrollments identified by the OSC.

**Recommendation #2:**

Ensure managed care plan enrollment information is updated timely.

**Response #2:**

The Department agrees and has established a workgroup to identify and evaluate opportunities for ensuring the timely update of managed care plan information. This workgroup is comprised of staff from various Divisions within the Department and representatives of managed care plans and the Greater New York Hospital Association (GNYHA).

**Recommendation #3:**

Continue efforts to gain full hospital compliance with Medicaid regulations requiring the reporting of live births within five business days.

**Response #3:**

The Department agrees and will continue its efforts to achieve full hospital compliance with Medicaid newborn reporting regulations, including routine monitoring of the timeliness of hospitals' reporting. The Department, in conjunction with the workgroup noted in the above response, has recently developed and implemented procedures for citing hospitals that either failed to report or incorrectly reported the birth of a Medicaid newborn. This new Notice of Deficiency process was implemented effective January 2008 and is expected to result in a significant reduction in the overall number of non-reports and reporting errors, with the ultimate goal of enrolling newborns into their appropriate health care plan in the most timely manner possible.

Additionally, on March 14, 2008, over 120 hospital staff were trained on the Medicaid newborn reporting requirements, including the ramifications of non-reporting and late reporting. This training was a joint venture of the Department and the GNYHA. Similar training targeted for the Medicaid managed care plans is planned for later this month.