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OFFICE OF THE STATE COMPTROLLER

December 7, 2016

Howard A. Zucker, M.D., J.D.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Overpayments to Managed Care
Organizations and Hospitals for
Low Birth Weight Newborns
Report 2016-F-8

Dear Dr. Zucker:

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 officials of the Department of Health to implement the recommendations contained in our audit report, *Overpayments to Managed Care Organizations and Hospitals for Low Birth Weight Newborns* (Report 2013-S-57).

Background, Scope, and Objective

The Department of Health (Department) administers the State's Medicaid program, which provides a wide range of health care services to individuals who are economically disadvantaged and/or have special health care needs.

Medicaid reimburses providers for newborn services using the fee-for-service and managed care payment methods. Under fee-for-service, Medicaid pays providers (such as hospitals) directly for Medicaid-eligible services. Under managed care, Medicaid pays managed care organizations (MCOs) a fixed monthly capitation payment for each newborn enrolled in the MCO. The MCO, in turn, is responsible for the provision of covered health care services. MCOs have networks of participating providers that they reimburse directly for providing services.

In addition to monthly capitation payments, MCOs receive supplemental payments for the costs associated with newborn medical care. MCOs receive a "Supplemental Newborn Capitation Payment" (commonly referred to as a "kick" payment) for the inpatient birthing costs of each newborn enrolled. Additionally, effective April 1, 2012, MCOs receive a "Supplemental Low Birth

Weight Newborn Capitation Payment” (low birth weight kick payment) for each enrolled newborn weighing less than 1,200 grams at birth (approximately 2.64 pounds).

The supplemental low birth weight kick payments are intended to cover the high cost of care these newborns require. During the initial audit period, low birth weight kick payments ranged from \$68,355 to \$105,108 per newborn and far exceeded the standard kick payments for newborns weighing 1,200 grams or more, which ranged from \$2,277 to \$6,651. During the two-year period ended March 31, 2014, Medicaid paid MCOs over \$126 million for 1,301 low birth weight kick payment claims.

We issued our initial audit report on October 2, 2014. The objective of the audit was to determine if Medicaid overpaid MCOs and hospitals for low birth weight newborn claims. The audit covered the period from April 1, 2012 through June 1, 2014. Our initial audit identified about \$13.9 million in inappropriate Medicaid payments, including \$12.4 million in overpayments for low birth weight kick payments that did not meet the billing requirements of the supplemental payments; \$949,681 in potential overpayments for similar claims that had a high risk of not meeting the billing requirements for low birth weight kick payments; and \$548,404 in overpayments due to duplicate fee-for-service and managed care low birth weight newborn claims. At the time the audit fieldwork concluded, auditors recovered over \$7 million of the overpayments identified.

As a result of our initial audit, we recommended that the Department: review and recover the remaining \$5.9 million in overpayments; review the \$949,681 in payments at high risk of not meeting the billing requirements for low birth weight kick claims and recover any overpayments; implement controls to properly process low birth weight kick claims; and actively monitor the appropriateness of low birth weight kick payments.

The objective of our follow-up was to assess the extent of implementation, as of September 30, 2016, of the four recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

Department officials made significant progress implementing the recommendations we made in the initial audit report. This included recovering about \$2 million in overpayments that were identified in the initial report and strengthening controls that prevented over \$13 million in improper claims since November 2014. Each of the initial report’s four recommendations were implemented.

Follow-Up Observations

Recommendation 1

Review and recover the remaining overpayments, totaling about \$5.9 million, as identified by the audit.

Status – Implemented

Agency Action – The Office of the Medicaid Inspector General (OMIG) investigates and recovers improper Medicaid payments on behalf of the Department. In response to our initial audit, the OMIG recovered about \$1.2 million in overpayments for 81 claims that did not meet the requirements of the supplemental low birth weight kick payments.

The remaining \$4.7 million in payments were for 48 low birth weight kick claims that were submitted over one year from the newborn’s birth date. Prior to our initial audit, the Department designed an edit (i.e., a payment control) that would not pay low birth weight kick claims that were submitted over one year from the newborn’s birth date. However, based on the edit’s initial results, the Department determined that one year was not a sufficient period of time for MCOs to bill Medicaid for low birth weight kick payments. Therefore, in June 2014, the Department modified the edit from one year to two years, which is also consistent with Medicaid billing requirements. As a result, the OMIG reviewed the 48 claims and determined the claims met the billing requirements for low birth weight kick claims and were properly paid. We also reviewed the 48 claims, and determined the claims met the billing requirements and were properly paid.

Recommendation 2

Review the \$949,681 in payments at high risk of not meeting the billing requirements for low birth weight kick claims and recover any overpayments.

Status – Implemented

Agency Action – Our initial audit determined Medicaid made potential overpayments totaling \$949,681 on ten low birth weight kick claims that had similar characteristics as the previously reported claims that did not meet the requirements of the supplemental low birth weight kick payments. During the initial audit, we did not obtain supporting documentation from the hospitals to confirm whether the payments met the billing requirements of the supplemental payments. In response to our audit, the OMIG obtained the supporting documentation to review the ten claims. Based on the OMIG’s review, they recovered \$765,221 in overpayments for eight of the claims. The OMIG determined the remaining two claims totaling \$184,460 in payments were appropriate based on additional claim information that was reported to eMedNY (the Medicaid claims processing and payment system) subsequent to our initial audit. We reviewed the additional claim information and agree with the OMIG’s determination.

Recommendation 3

Implement eMedNY system edits to properly process low birth weight kick claims. The edits should include controls to: ensure eMedNY only pays for claims for newborns weighing less than 1,200 grams (as opposed to equal to 1,200 grams); verify recipients’ ages; and prevent duplicate fee-for-service and low birth weight kick payments.

Status – Implemented

Agency Action – In November 2014, the Department modified an existing edit to ensure eMedNY only pays for low birth weight kick claims for newborns weighing less than 1,200 grams. In addition, the Department also incorporated an existing edit to verify recipients' ages when processing such claims. Finally, the Department worked with the OMIG to implement controls to identify and recoup duplicate fee-for-service and low birth weight kick payments. Since November 2014, these controls have prevented over \$13 million in improper claims.

Recommendation 4

Actively monitor the appropriateness of low birth weight kick payments by routinely reviewing other Medicaid information (such as GME and encounter claim information) that can be used to verify the information on low birth weight kick claims. Routinely review low birth weight newborn claims for duplicate fee-for-service and low birth weight kick payments.

Status – Implemented

Agency Action – The OMIG actively monitors and routinely reviews the appropriateness of low birth weight kick payments and duplicate fee-for-service claims. For instance, the OMIG conducts low birth weight kick claim audits to identify instances when the newborn's weight did not qualify for such payment. Since 2014, these audits have identified and recovered approximately \$2.7 million in overpayments for low birth weight kick claims.

Major contributors to this report were Daniel Towle, Emily Proulx, and Christian Butler.

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

Very truly yours,

Warren Fitzgerald
Audit Manager

cc: Ms. Diane Christensen, Department of Health
Mr. Dennis Rosen, Medicaid Inspector General