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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 23, 2016

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

Re: Improper Fee-for-Service Payments for
Pharmacy Services Covered by Managed
Care
Report 2016-F-5

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 (Department) to implement the recommendations contained in our audit report, *Improper Fee-for-Service Payments for Pharmacy Services Covered by Managed Care* (Report 2014-S-5).

Background, Scope, and Objectives

The Department administers the State's Medicaid program, which provides a wide range of medical services to those who are economically disadvantaged and/or have special health care needs. For the State fiscal year ended March 31, 2016, New York's Medicaid program had approximately 7.4 million enrollees and Medicaid claim costs totaled about \$56 billion, of which managed care comprised approximately \$31 billion.

In general, the Department uses two methods to pay Medicaid providers: the fee-for-service method and the managed care method. Under the fee-for-service method, the Medicaid program pays providers directly for each Medicaid-eligible service rendered to Medicaid recipients. Under the managed care method, Medicaid pays each managed care plan a monthly premium for each Medicaid recipient enrolled in the plan, and the plan arranges for the provision of services its members require. Many medical services are covered by managed care plans; however, certain services are not. Prior to October 2011, pharmacy benefits were covered under the fee-for-service method. Then, effective October 1, 2011, members who were enrolled in managed care plans received pharmacy benefits through their plans.

As of December 2015, over 4.6 million Medicaid recipients were enrolled in managed care plans. At the time of our initial audit, 58 local social services districts (representing 57 counties and the five boroughs of New York City) were responsible for enrolling individuals in Medicaid. The local districts were also responsible for enrolling Medicaid recipients in managed care plans and ensuring enrollment information was kept up to date. On October 1, 2013, in accordance with the Affordable Care Act, the Department implemented the New York State of Health (NYSOH), which is an online marketplace for individuals to obtain health insurance coverage, including Medicaid. With the implementation of NYSOH, Medicaid enrollments through the local districts decreased. However, certain Medicaid enrollments are still made at the local districts, such as those for individuals with Supplemental Security Income, individuals in nursing homes, and children in foster care.

We issued our initial audit report on January 5, 2015. The audit objective was to determine whether Medicaid made improper fee-for-service payments for pharmacy services that were covered by managed care plans. The audit covered the period October 1, 2011 through December 31, 2013. For this 27-month period, we determined Medicaid inappropriately paid 29,289 fee-for-service pharmacy claims totaling \$978,251 on behalf of 18,010 Medicaid recipients whose pharmacy benefits were covered by managed care. Most of the improper payments occurred because the Department did not update the Medicaid eligibility files with the recipients' managed care enrollment information in a timely manner. We recommended that the Department review and recover the improper payments and take steps to ensure managed care enrollment information is updated in a timely manner.

The objective of our follow-up was to assess the extent of implementation, as of August 31, 2016, of the three recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

Department officials made progress in addressing the problems we identified in the initial audit report. This included implementing a new managed care enrollment system that will ensure enrollment information is updated more timely. However, further actions are still needed as none of the \$978,251 in improper payments we identified has been recovered. Of the initial report's three audit recommendations, two were implemented and one was not implemented.

Follow-Up Observations

Recommendation 1

Review the \$978,251 in improper fee-for-service claim payments we identified and recover overpayments as appropriate.

Status – Not Implemented

Agency Action – The Office of the Medicaid Inspector General (OMIG) investigates and recovers improper Medicaid payments on behalf of the Department. In the Department's formal

response to our initial audit, officials stated “OMIG is in the process of recovering overpayments, as appropriate.” However, at the time of our follow-up review, no recoveries had been made. OMIG officials informed us that they had analyzed the improper payments we identified and will initiate audits to recover any overpayments. However, officials could not provide an estimate of the recoveries expected from the OMIG audits.

Recommendation 2

Take corrective action to help ensure managed care enrollment information, particularly for newborns, is entered and updated timely.

Status – Implemented

Agency Action – Our initial audit found that the improper payments occurred primarily because Medicaid eligibility files were not updated with managed care enrollment information in a timely manner. Further, over 13,000 of the 18,010 Medicaid recipients identified on the inappropriate claims were newborns. On June 23, 2016, the Department converted its Welfare Management System bi-monthly managed care enrollment system to the daily 834-transaction system currently used by NYSOH. Under the new system, enrollment information is transmitted on a daily basis, which will ensure that enrollment information, including enrollment information for newborns, is updated more timely.

Recommendation 3

Determine why fee-for-service pharmacy claims were inappropriately paid during October 2011 and take any necessary corrective actions.

Status – Implemented

Agency Action – Our initial audit found that Medicaid improperly paid \$161,351 (of the \$978,251) in fee-for-service pharmacy claims during October 2011, the first month that pharmacy benefits were covered under managed care. According to Department officials, an eMedNY edit (i.e., a payment control in the Department’s eMedNY Medicaid claims processing and payment system) that was intended to deny payment of fee-for-service claims when a recipient was enrolled in managed care was improperly designed. In particular, the edit allowed certain fee-for-service claims to bypass the edit and be paid. Soon after the edit was put in place, the Department corrected the error, and fee-for-service pharmacy claims were appropriately denied.

Major contributors to this report were Sal D'Amato and Mostafa Kamal.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Dennis Buckley
Audit Manager

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