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NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

DEPARTMENT OF HEALTH

CONTROLS OVER eMedNY EDIT CHANGES

Report 2007-S-139

AUDIT OBJECTIVE

The objective of our audit was to determine whether the Department of Health (Department) has adequate management controls over the edits on eMedNY, the State's automated system for processing Medicaid claims.

AUDIT RESULTS - SUMMARY

New York State spends more than $42 billion a year on Medicaid claims. When the claims are processed by eMedNY, they are subject to various automated edits which determine whether the claims are eligible for reimbursement at the amounts claimed. The edits are to be programmed in accordance with instructions provided by various units within the Department. At the time of our audit, a total of more than 6,000 edits had been programmed.

Edit changes are adequately controlled when they are subject to a structured and formalized system of management controls known as IT Governance. However, we found the Department does not have an appropriate system of IT Governance for eMedNY edit changes. Instead, an informal approach is taken to the edit change process, as control responsibilities are not clearly understood and much of the process is not documented.

In addition, edit changes are not always properly coordinated among the responsible Department units, are not always appropriately authorized, and are not always implemented as intended. Also, edits are not adequately monitored after they are activated to ensure that they are functioning as intended, and they are not terminated when they are no longer needed.

As a result of these control weaknesses, inappropriate Medicaid payments may not be prevented and Medicaid claims may be processed inefficiently. For example, during our review of a small sample of transactions, we identified $437,655 in Medicaid overpayments that were not prevented, as well as $5.5 million in Medicaid payments that were not subject to the intended level of scrutiny, because of errors in the edit management process.

In addition, in our past audits of specific Medicaid claims processing activities, we have identified numerous instances in which Medicaid overpayments were not prevented because of errors and other weaknesses in edit management. In 2007 alone, our audit reports identified about $54.5 million in such overpayments. It is therefore critical that an appropriate system of IT Governance be established for eMedNY edit changes.

Our report contains six recommendations for strengthening the Department's controls over the eMedNY edit process.

This report, dated December 10, 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
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BACKGROUND

New York State's Medicaid program is administered by the Department of Health (Department). In the program, medical services are provided to low-income individuals who meet the program's eligibility requirements. Medicaid is the single most costly program administered by the State, as the State spends more than $42 billion annually for the medical services provided to

approximately four million Medicaid recipients.

Medicaid payments are made to medical service providers who submitted claims to the Department's automated claims processing and information reporting system (eMedNY).

The Department invested an estimated $721 million to develop, deploy, and operate eMedNY, which replaced a legacy system in March 2005. The Department contracts with Computer Sciences Corporation (CSC) to operate eMedNY and its related information technology (IT) resources. For the State fiscal year ended March 31, 2008, eMedNY processed more than 342 million Medicaid claims submitted by approximately 60,000 health care providers.

When Medicaid claims are processed by eMedNY, they are subject to various automated edits. The purpose of the edits is to determine whether the claims are eligible for reimbursement and the amounts claimed for reimbursement are appropriate. For example, some edits verify the eligibility of the Medicaid recipient, other edits verify the eligibility of the medical service, and other edits verify the appropriateness of the amount billed for the service. In addition, some edits compare the claim to other related claims to determine whether any of the claims duplicate one another.

The Department's Office of Health Insurance Programs (Programs Office) has overall responsibility for Medicaid policy and administration, and more than 20 different program units within the Programs Office have their own particular areas of responsibility. Generally, all new edits and all changes to existing edits should be initiated by one of these program units. Edit changes may be programmed by CSC on the basis of instructions provided by the Department, or they may be programmed directly by the Department.

Two other units in the Programs Office have IT responsibilities related to the edit process, as follows:

- The Bureau of eMedNY (Systems Bureau) provides IT services to eMedNY. Generally, the Systems Bureau is responsible for converting Program Unit requests for new edits and edit changes into technical computer language and for working with CSC programmers to implement the changes.

- The Pre-Payment Review Group (Pre-Payment Group) is responsible for implementing a certain type of edit that does not require CSC programming. This type of edit is implemented directly on eMedNY by the Pre-Payment Group.

Two types of edits may be made to eMedNY: system edits and combination edits. System edits test for specific circumstances. For example, a system edit could verify the eligibility of a Medicaid recipient or determine whether a claim was already paid. System edits are programmed by CSC. At the time of our audit, a total of 627 system edits were active on eMedNY.

Combination edits test claims for frequency limits, quantity limits, and service conflicts. For example, a combination edit could determine whether a recipient had already received the allowed limit of eyeglasses and deny claims in excess of the allowed amount. Combination edits are programmed by the Pre-Payment Group. At the time of our audit, a total of 5,444 combination edits were active on eMedNY.

No single claim would be subject to all the edits that are active on eMedNY. Rather, a single claim would only be subject to certain of the edits, depending on the nature of the claim. For example, some edits are intended only for inpatient claims. These edits would not be triggered unless the claim met certain criteria defining it as an inpatient claim.

When an edit is triggered, it reviews certain information in the claim (and, in some cases, related claims) to determine whether certain criteria have been met (e.g., whether the frequency limit for a medical service has been complied with). If the criteria have been met, the edit instructs eMedNY to continue processing the claim. If the criteria have not been met, eMedNY looks to the edit status assigned to the edit. The edit status instructs eMedNY to deny or suspend the claim or take certain other actions, (such as producing special reports). Generally, when an edit has been "activated," it will instruct eMedNY to either deny or suspend for further manual review any claims that do not meet the criteria being evaluated by the edit. The eMedNY system regularly produces management reports summarizing the performance of the various edits during claims processing.

New York's Medicaid program is constantly changing, so edits must be capable of being changed in an accurate and timely manner. According to Department officials, in most instances, changes in edits are made because of problems in claims processing or changes in law or policy. In general, there are three types of edit change processes: (1) edit status changes to systems edits; (2) edit logic changes to systems edits (or new edit development) via the Department's evolution process; and (3) any edit status or logic changes to combination edits. We examined the Department's management controls over two of the three edit change processes: status changes to systems edits and any edit changes

to combination edits. At the time of our audit, the Department was modifying their evolution process; therefore, we did not include this process as part of our review.

AUDIT FINDINGS AND RECOMMENDATIONS

Controls Over Edit Changes

If an IT operation as large and complex as eMedNY is to be managed in an effective manner, its edit changes must be adequately controlled. If these changes are not adequately controlled, Medicaid claims may not be processed as intended and inappropriate Medicaid payments may be made. Because of the large volume of Medicaid claims, even small error rates in claims processing can lead to millions of dollars in inappropriate payments. It is thus critical that controls be established to minimize the risk of errors.

Edit changes are adequately controlled when they are subject to a structured and formalized system of management controls over IT resources known as IT Governance. Under this approach, the Programs Office should direct and manage all its Medicaid-related Units to practice certain IT controls over changes to eMedNY. For example, the Programs Office may require controls such as: all edit changes should be tested and approved before they are activated to ensure that they have been appropriately designed and are, in fact, authorized. Further, changes should also be monitored after they have been implemented to ensure that they are functioning as intended and the entire edit change process should be fully documented. In addition, the Programs Office should clearly assign responsibilities so controls are performed and ensure that all Program Units are fully aware of their role in the entire edit change process.

However, we found the Department does not have an appropriate system of IT Governance for eMedNY edit changes. Instead, an unstructured and informal approach is often taken to the edit change process, as control responsibilities are not clearly understood and much of the process is not documented. As a result, inappropriate Medicaid payments may not be prevented and Medicaid claims may be processed inefficiently.

We note that, in our past audits of specific Medicaid claims processing activities, we identified numerous instances in which Medicaid overpayments were not prevented because of errors or other weaknesses in eMedNY edits. In 2007 alone, our audit reports identified about $54.5 million in such overpayments. For example, in one audit (Report 2006-S-51, *Medicaid Payments to Clinics When the Patients Were Hospitalized*), we found that as much as $25.7 million in Medicaid overpayments had not been prevented because the Department had not activated the edits that had been designed to detect and prevent that type of overpayment. It is therefore critical that an appropriate system of IT Governance be established for eMedNY edit changes.

In response to our audit findings, Department officials indicate they convened a workgroup to examine overall controls and post implementation activities relative to edit management to explore areas for improvement of existing controls.

Risk Management

Every organization needs assurance its IT decisions and changes are in line with its management strategy and within an acceptable level of risk. Managing risk is a continual process and an integral part of IT Governance. It starts with formally identifying and assessing risks and exposures and deciding how to control and manage them to acceptable levels - where undesirable events can be detected, prevented, and corrected. An organization's risk assessment should be documented and updated periodically.

However, we found the Department does not have a formal process for identifying risks within the edit change process (such as unauthorized or ineffective edit changes) and establishing controls to mitigate those risks. As a result, the risks are less likely to be identified and appropriate controls are less likely to be implemented to mitigate the risks.

As is described in the remainder of this report, we identified a number of specific control weaknesses in the eMedNY edit change process. These weaknesses could have been prevented if a formal risk assessment had been conducted for the process. We recommend the Department periodically conduct such an assessment.

Initiation and Implementation of Edit Changes

A body of commonly accepted guidelines has been developed for IT operations. According to these guidelines, a proper process for controlling edit changes should include a mechanism for classifying, prioritizing, and approving change requests based on a framework of risks, costs and benefits.

However, we found the Department does not have a formal, structured process for prioritizing and approving change requests. Generally, edit change requests are submitted to either the Systems Bureau (for system edits) or the Pre-Payment Group (for combination edits), but they are not formally prioritized and they are not always formally approved.

An informal process is used to identify change requests that appear to be prompted by changes in law or policy, and first priority is given to these requests. However, no systematic approach is taken with the remaining requests. Instead of prioritizing these requests on the basis of risk, cost and/or benefits, the Department often relies on "who complains the loudest" to determine the next most urgent edit change request to submit for programming. As a result, there is less assurance edit changes will be made in an optimal manner. We recommend guidelines be developed for prioritizing edit changes in a structured, consistent, and objective manner (e.g., on the basis of business risks).

Requests for edit changes should also be fully documented. In particular, there is a need to document the date of the request, the name of the individual or unit making the request, and the reason for the requested edit change in detail adequate enough to determine its impact. However, we found that the Department does not always document the date and source of the request, and often does not adequately document the reason for the requested edit change.

For example, as a part of our audit, we selected a sample of 18 system edits and five combination edits that were on eMedNY as of September 2006, and examined various aspects of the Department's management and assessment of these edits. All 18 system edits had a status change at some point between September 2006 and December 2007 that instructed eMedNY to process and pay the claims. As a result of these changes, some edits no longer instructed eMedNY to deny or suspend claims that may have been inappropriate, but rather, instructed eMedNY to keep processing the claims.

Because of the risk associated with this type of edit change (i.e., overpayments), it is critical that such changes be fully and adequately documented. The Systems Bureau uses an Edit Status Table Clearance Sheet to document some edit status changes and uses a transmittal to document all change instructions to CSC programmers. We further note, no such documentation mechanisms are used for combination edit changes. When we examined the documentation for system edit changes, we found that the date and source of the change request were documented in only 15 of the 18 instances, and the reason for the change was documented in only 7 of the 18 instances.

We note that neither the Systems Bureau nor the Pre-Payment Group requires that requests for edit changes be submitted in a standard format or that certain types of information be included with the requests to justify the changes (such as the number of recipients or providers, or the estimated value of the claims, affected by the changes). Such objective data could help Department officials prioritize the requests and ensure that they were justified. Such data would also help officials determine whether the changes accomplished their intended purposes. We recommend standard formats be developed for the submission of edit change requests.

We further note that the Program Units maintain no formal documentation of their requests for edit changes. In fact, the Program Units do not even maintain a basic inventory of their change requests. Such an inventory would show when a request was submitted and the individual making the request. The 23 edit changes in our sample were requested by 13 different Program Units. However, none of the Program Units had records to track the edit changes they had requested.

Edit changes should be authorized by one of the Program Units to ensure management is aware of potential effects on claims processing. However, we found that both the Systems Bureau and the Pre-Payment Group made edit changes that were not known or authorized by a Program Unit, as follows:

- In 3 of the 18 system edits in our sample, the Systems Bureau changed the status of the edit without obtaining authorization from, or even informing, a Program Unit. For 2 of the 3, edit statuses were deactivated (set to pay claims), and for the third, the Systems Bureau made the edit changes to satisfy a data warehouse research request.

- In one of the five combination edits in our sample, the Pre-Payment Group changed an edit without obtaining authorization from, or even informing, a Program Unit. According to an official in the Pre-Payment Group, the change was made to correct a mistake in edit logic.

If edit changes are not approved by a Program Unit, there is an increased risk the changes could result in inappropriate payments or other inappropriate claims processing activities.

We also determined that 7 of the 23 edit changes in our sample were not implemented correctly. For example, in one of the changes, an edit was to be temporarily deactivated while other programming changes were made. After the other changes were completed, the edit was to be re-activated so that it would deny certain claims. The purpose of the new programming was to help ensure that certain clinic claims spanning multiple dates of service for the same Medicaid client were not overpaid. Medicaid providers were officially notified of the billing changes in the March 2007 edition of *Medicaid Update,* the Department's official publication for Medicaid providers. Providers were also instructed to use specific billing codes to ensure proper payment.

The Systems Bureau initially changed the edit, as requested. However, the Systems Bureau did not activate the edit after the other programming changes were completed. As a result, the edit did not deny the claims it was intended to deny: claims with invalid billing codes. While the edit was deactivated, a total of $5.5 million was paid on the types of clinic claims that were to be targeted by the edit. The Department believes these clinic claims processed as they intended. However, if the edit had been activated, these claims would have been denied and providers would have needed to resubmit their claims with correct billing information to ensure all the claims were paid properly.

Similar errors were made in six other edit changes we examined. For example, three edits that were supposed to be temporarily deactivated while other programming changes were being made were not re-activated after the programming changes were completed. As a result, 1 of the 3 edits did not prevent overpayments of $90,162. In these three instances, the Program Units that requested the edit changes were supposed to instruct the Systems Bureau to re-activate the edits, but did not do so. In three other edit changes, the edits either did not function as intended (the wrong type of claim was reviewed) or they were not activated when intended (there was a ten-month delay) because of errors in the instructions provided by the Program Units. Department officials indicated the post-implementation process will be examined for areas of improvement and overpayments will be reviewed for recovery.

These errors may have been due, in part, to a lack of adequate training, as the Department does not provide Program Unit personnel with formal training in the edit process. However, the overall lack of structure and formalization in the edit change process also may have been partly responsible.

In addition, to prevent a single individual from having too much control over the edit change process, data entry and system operation duties should be separated among different individuals. However, a single individual in the Pre-Payment Group is responsible for creating and implementing all combination edits without any supervisory review. Additionally, no one else is trained to assume this responsibility in case of prolonged absence or retirement of the individual. Although this single individual reports to a supervisor, that supervisor is not directly involved in reviewing or approving combination edit changes. As a result of this inadequate separation of duties, there is a much greater risk that unauthorized or otherwise inappropriate combination edits could be implemented without detection. We recommend this control weakness be addressed. The Department indicates this is an area where they are reviewing controls and will make modifications as needed.

Monitoring Edits After Changes Are Made

According to commonly accepted IT guidelines, edits should be monitored after they are changed to ensure that they are functioning as intended. In addition, all edits should be monitored on an ongoing basis to determine whether they are still needed. These monitoring responsibilities should be clearly assigned and understood by all affected IT and program personnel. However, we found that these monitoring

responsibilities are not clearly understood by the Program Units, the Systems Bureau, and the Pre-Payment Group, and as a result, this monitoring generally is not done.

For example, both the Systems Bureau and the Pre-Payment Group believe the Program Units are responsible for monitoring edit performance and ensuring edit statuses are set accurately and timely. However, none of the 13 Program Units that we reviewed monitor the performance of their edits to ensure that they are functioning as intended. Instead, these Program Units rely on provider complaints about claim denials or underpayments to identify problems with edits. While such complaints may identify certain types of problems, they are not likely to identify problems that result in overpayments.

The Systems Bureau also believes that another state agency, the Office of the Medicaid Inspector General (OMIG), is responsible for monitoring all claim payments associated with edit status changes. However, the OMIG does not believe that it is responsible for this type of monitoring and does not perform the monitoring. As a result, one of the edit status settings in our sample remained improperly set for certain claims, until we brought the matter to OMIG's attention, allowing a total of $347,493 in overpayments for more than four months. At this time, OMIG realized the edit status for certain claims was incorrect and immediately requested the Department to change the edit status. The Department believes the Systems Bureau should have been instructed to set the edit status to deny sooner.

We found that Program Unit staff understand the need to monitor edit performance. However, they do not perform this monitoring because they are either unaware of the available tools that would enable them to

monitor edits (such as certain eMedNY management reports) or they have not been adequately trained in the use of these tools. Instead, staff in the Program Units generally rely on the Systems Bureau to provide edit performance information on an "as needed" basis. We recommend the Department provide Program Units staff with training in the use of these monitoring tools.

As new edits are developed and changes are made in Medicaid-related laws and policies, existing edits may no longer be needed. Such obsolete edits should be terminated. If they are not terminated, they could interfere with other needed edits or undermine in various ways the efficiency of claims monitoring activities. For example, if too many obsolete edits are hit during claims processing, a claim could be inappropriately denied for reaching the edit limit.

We found indications that many of the combination edits on eMedNY may be obsolete. According to Program Units officials, all five combination edits in our sample are obsolete. Moreover, according to activity reports produced by eMedNY, only 1,235 of the total 5,444 combination edits active on eMedNY were involved in claims processing activities during 2007. It is thus possible that some or all of the remaining 4,209 combination edits (77 percent) are obsolete and, therefore, should be terminated.

When so many obsolete edits are maintained on the system, it is difficult to manage the edits that are necessary and the risk of processing errors is increased. We recommend that a process be developed for identifying and deactivating obsolete edits. As a result of our audit, the Department indicates the workgroup is reviewing obsolete edits to determine appropriate actions.

Recommendations

1. Establish an appropriate system of IT Governance for all Office of Health Insurance Program units to follow for eMedNY edit changes by developing a structured and formalized process for the format, prioritization, approval, and documentation of edit change requests, and for the monitoring of the edits after the changes have been made. Develop written guidance for these control activities, and ensure that the individuals who are responsible for the activities clearly understand their responsibilities.

2. Perform a formal risk assessment for the eMedNY edit change process, ensure that controls have been established to mitigate all the identified risks, and update the assessment periodically.

3. Provide Program Unit staff with formal training in the edit process and in the use of available eMedNY tools for monitoring edit performance.

4. Either separate the duties involved in implementing combination edits or develop compensating controls to reduce the risk.

5. Develop a process for identifying and terminating obsolete edits.

6. Recover the $437,655 in Medicaid overpayments identified by our audit, and determine whether any of the $5.5 million that was paid on the clinic claims should be recovered.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Department's management of eMedNY for the period April 1, 2006 through June 30, 2008. The objective of our audit was to determine whether the Department had adequate practices and procedures in place for assessing and managing eMedNY edits. In particular, we tested whether adequate IT governance, risk management, and change controls were in place to appropriately control Medicaid claim payments.

To accomplish our objective, we interviewed officials at the Department, CSC, and OMIG. We also reviewed relevant laws, regulations, and guidelines. We judgmentally selected for review 18 of the 627 system edits and 5 of the 5,444 combination edits that were on eMedNY as of September 2006. We selected the 18 system edits because they had an edit status change at some point during our audit period. We selected the five combination edits because they were deactivated and/or were involved in the processing of a high number of claims in 2007.

As part of our review of these edits, we examined supporting documentation maintained by the Department and CSC. In addition, we reviewed management reports produced by eMedNY about claims processing activities related to these edits.

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 the recommendations. 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 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 recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Steve Sossei, Sheila Emminger, Andrea Inman, Gail Gorski, Kathy Garceau, and Dana Newhouse.

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October 3, 2008

Sheila Emminger, Audit Manager
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Dear Ms. Emminger:

Enclosed are the Department of Health's comments on the Office of the State
Comptroller's draft audit report 2007-S-139 on "Controls Over eMedNY Edit Changes."

Thank you for the opportunity to comment.

Sincerely,

Wendy E. Saunders
Chief of Staff

Enclosure

cc: Stephen Abbott
Deborah Bachrach
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**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2007-S-139 on
"Controls Over eMedNY Edit Changes"**

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-139 on "Controls Over eMedNY Edit Changes."

<u>Recommendations #1 - #5:</u>

1. Establish an appropriate system of IT Governance for all Office of Health Insurance Program units to follow for eMedNY edit changes by developing a structured and formalized process for the format, prioritization, approval, and documentation of edit change requests, and for the monitoring of the edits after the changes have been made. Develop written guidance for these control activities, and ensure that the individuals who are responsible for the activities clearly understand their responsibilities.

2. Perform a formal risk assessment for the eMedNY edit change process, ensure that controls have been established to mitigate all the identified risks, and update the assessment periodically.

3. Provide Program Unit staff with formal training in the edit process and in the use of available eMedNY tools for monitoring edit performance.

4. Either separate the duties involved in implementing combination edits or develop compensating controls to reduce the risk.

5. Develop a process for identifying and terminating obsolete edits.

<u>Response #1 - #5:</u>

A Workgroup composed of staff from the Department's Office of Health Insurance Programs and the Office of the Medicaid Inspector General (OMIG) will assess the above OSC recommendations. Workgroup activities will include examining overall controls and post implementation activities relative to edit management, as well as exploring areas for improving existing controls. They will additionally include addressing the format, prioritization, approval and documentation of edit change requests, the monitoring of edits after changes have been made and the development of written guidelines.

<u>Recommendation # 6:</u>

Recover the $437,655 in Medicaid overpayments identified by our audit, and determine whether any of the $5.5 million that was paid on the clinic claims should be recovered.

Response #6:

$347,493 of the overpayments identified by OSC were flagged by eMedNY as the result of the considerable efforts by the Office of the Medicaid Inspector General (OMIG) to develop a cross-claim edit involving inpatient/clinic, referred ambulatory and laboratory claims paid while the recipient was hospitalized. This edit was initially activated on November 8, 2007 with a 'Pay and Report' status in order to permit the OMIG to monitor the 'hits'. This determined that some claims could potentially be inappropriately denied, which resulted in the initiation of Evolution Project 1212 on December 24, 2007 to create a rate code bypass for school supportive claims. Designated a 'Fast Track' project, the fixed edit was promoted into production on September 1, 2008 with a 'Pay and Report' status in order to permit further OMIG monitoring. Current plans are to change the edit's status to begin denying claims effective October 30, 2008. In addition, on January 2, 2008, the OMIG's Systems Match & Recovery Unit received notification that the edit was activated to 'Pay and Report' and that any claims meeting the edit failure criteria should be flagged for recovery.

The OMIG will continue to review these claims and to pursue appropriate recoveries.

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