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OFFICE OF THE STATE COMPTROLLER

October 23, 2014

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

Re: Unnecessary Medicaid Payments for  
Children at Voluntary Agencies  
Report 2014-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 to implement the recommendations contained in our audit report, *Unnecessary Medicaid Payments for Children at Voluntary Agencies* (Report 2010-S-47).

**Background, Scope and Objective**

The Department of Health (Department) administers the New York State Medicaid program. Medicaid provides a wide range of medical services to individuals who are economically disadvantaged and/or have special health care needs. Many foster care children who are placed in private welfare agencies (known as voluntary agencies) are enrolled in Medicaid. For these children, the State establishes a "Daily Child Care Rate" (Daily Rate), which is the basis for Medicaid funding that the Department provides to the voluntary agencies to pay for medical services provided to the children in their custody. For services not covered by the Daily Rate, health care providers bill Medicaid directly and are reimbursed on a fee-for-service basis.

At the time of our initial audit, there were approximately 90 voluntary agencies located throughout New York State. For the five years ended June 30, 2010, Medicaid paid about \$990 million on behalf of about 70,000 children placed in voluntary agencies - \$640 million of which was paid under the Daily Rate, and the remaining \$350 million was paid directly to providers on a fee-for-service basis.

We issued our initial audit report on September 19, 2012. Our objective was to determine if the Department had adequate policies and procedures in place to ensure proper Medicaid payments for foster care children placed in voluntary agencies. Our initial audit, which covered the period July 2005 through July 2011, concluded that the Department could save millions of Medicaid dollars annually by assessing and modifying certain policies and practices that drive the costs of medical care provided to children placed at voluntary agencies. For example, in many instances, payments to medical providers under the Daily Rate method far exceeded the reimbursements that the providers would be entitled to under the fee-for-service method (e.g., a voluntary agency paid a laboratory \$77 for a routine cholesterol screening, while the same laboratory received only \$6 from Medicaid for the same test). In addition, auditors determined that Medicaid paid \$83.2 million directly to medical care providers (on a fee-for-service basis) for services and drugs that should have been covered by the Daily Rate.

To address the findings identified in the initial audit, we recommended that the Department formally assess the cost-effectiveness of the Daily Rate reimbursement method and ensure that the Medicaid claims processing and payment system (eMedNY) contains the necessary controls to prevent claims from being paid directly to providers when such claims are covered under the Daily Rate for voluntary agencies. The objective of our follow-up was to assess the extent of implementation, as of July 3, 2014, of the five 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 our initial audit report. However, additional actions are still needed. Of the report's five audit recommendations, three were implemented, one was partially implemented and one was not implemented.

### **Follow-Up Observations**

#### **Recommendation 1**

*Formally assess the cost-effectiveness of the Daily Rate reimbursement method. Determine if this method should be modified or if a different reimbursement mechanism should be applied for health services for children placed in voluntary agencies. This assessment should also include consideration of alternatives for paying the costs of pharmaceuticals for such children.*

Status - Implemented

Agency Action - The Department has taken steps to address the cost-effectiveness of the Daily Rate reimbursement method. In 2013, several Department officials participated in a study commissioned by the Council of Family and Child Care Agencies (Council) which focused on the health and mental health needs of children and youth in New York's foster care system. In October 2013 the Council released their findings from the study in a report entitled *Raising the Bar for Health and Mental Health Services for Children in Foster Care:*

*Developing a Model of Managed Care.* Several concerns were identified in the study, including that Medicaid expenditures for children in foster care were exponentially higher than the general pediatric Medicaid population and there was a lack of information about the services and outcomes for these children. The study endorsed reform of the current reimbursement systems and methodologies and made several recommendations to address the deficiencies identified in the study. Department officials stated that because many of the Council's recommendations focused on a system of managed care strategies, they will wait to implement the recommendations in the study until the foster care population is transitioned into managed care.

### **Recommendation 2**

*Provide voluntary agencies with formal guidance for the cost-effective acquisition of medical care for children in their custody.*

Status - Partially Implemented

Agency Action - Department officials recognized that the current methodology for providing medical care to the foster care population is more costly than the methodology for services provided to the general pediatric population. Presently, however, officials are awaiting the transition of the foster care population to managed care before implementing broad strategies to improve the cost-effectiveness of services for this population. In the meantime, the Department provided voluntary agencies with formal guidance on the pertinent Medicaid rules intended to prevent improper payments for medical care provided to children in their custody. Specifically, the Department sent correspondence, including letters in November 2011 and July 2013, reminding the voluntary agencies that health care providers must submit their claims directly to those agencies (and not to the Medicaid program).

### **Recommendation 3**

*Formally remind voluntary agencies to inform health care providers to submit claims directly to the voluntary agencies for medical services and drugs which are covered by the Daily Rate.*

Status - Implemented

Agency Action - Along with the Office of Children and Family Services and the Office of Mental Health, Department officials conducted a webinar for voluntary agencies in October 2011 to provide information about services covered by the Daily Rate and the requirement for health care providers to submit claims for such services directly to the voluntary agencies. Further, as previously noted, the Department sent letters to the voluntary agencies to remind them that health care providers must submit claims directly to the agencies (and not to Medicaid).

#### **Recommendation 4**

*Formally remind local social services districts to ensure that the Principal Provider File is maintained in a complete, accurate and timely manner for all children placed in voluntary agencies. Monitor the Principal Provider File to the extent practical and cost effective to help to ensure its reliability.*

Status - Implemented

Agency Action - The Department's Division of Health Reform and Health Insurance Exchange Integration issued guidance to local districts on the use and maintenance of the Principal Provider File (or PPF, which shows the identity and dates of placement for foster care children placed in voluntary agencies). The guidance, which was issued on two separate occasions (May 2011 and August 2012), included instructions for maintaining the PPF in an accurate and timely manner, and clarified who is responsible for ending the principal provider when a child is no longer in a voluntary agency. The Department has also taken steps to monitor the PPF. For instance, the Department has identified recipients over the age of 21 who were still active in a voluntary agency, but who should have been removed from the agency because they aged out. For these cases, officials contacted the local districts and instructed them to review the cases and take the appropriate action to correct the PPF.

#### **Recommendation 5**

*Ensure that eMedNY contains the necessary edits and file interfaces to prevent claims from being paid directly to providers when such claims are covered under the Daily Rate for voluntary agencies.*

Status - Not Implemented

Agency Action - The Department planned to initiate a project to modify the eMedNY system to prevent the payment of fee-for-service claims that are covered by the Daily Rate. However, as of July 3, 2014, the Department had not started the project. Department officials stated they postponed the eMedNY system enhancements in anticipation of the foster care population transitioning to a managed care payment methodology.

Major contributors to this report were Ed Durocher, Jessica Turner and Anthony Calabrese.

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.

Very truly yours,

Dave Fleming  
Audit Manager

cc: Ms. Diane Christensen, Department of Health