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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 29, 2016

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

Re: Medicaid: Managed Care Organizations'
Readiness for the Encounter Intake
System
Report 2015-S-41

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 conducted an audit of the Department of Health (Department) to determine the readiness of all Medicaid managed care organizations (MCOs) to submit encounter transactions to the new Encounter Intake System (EIS) by September 2015. The audit covered the period January 1, 2014 through September 30, 2015.

The EIS is the Department's new system for the submission and processing of encounter transactions, which contain information on the medical services provided to Medicaid recipients enrolled in managed care. The Department required Medicaid MCOs to transition to the new EIS system by mid-September 2015. We found that, as of September 30, 2015, most MCOs (42 of 52) were not ready to submit their Medicaid encounter transactions to the EIS. In response to our audit, Department officials provided additional guidance to some MCOs and reported that by November 20, 2015, 43 of 52 MCOs were able to submit their Medicaid encounter transactions to the EIS.

Background

Medicaid is a federal, state, and local government program that provides a wide range of medical services to those who are economically disadvantaged and/or have special health care needs. For the fiscal year ended March 31, 2015, New York's Medicaid program had approximately 7.1 million enrollees and Medicaid claim costs totaled about \$53 billion. The federal government funded about 52.4 percent of New York's Medicaid claim costs, the State funded about 30.2 percent, and the localities (City of New York and counties) funded the remaining 17.4 percent.

The Department contracts with MCOs to provide health care services to Medicaid recipients. The Medicaid program pays MCOs a monthly capitation payment for each Medicaid recipient enrolled in an MCO. MCOs have networks of participating providers that they reimburse for services provided to their enrollees. In 2015, the State's Medicaid program paid 52 MCOs a total of \$2.3 billion per month (on average) in capitation payments on behalf of 5.6 million Medicaid recipients who were enrolled in managed care.

Medicaid MCOs are contractually required to submit encounter transactions to inform the Department about each medical service provided to their enrolled recipients. The Department uses encounter data for numerous purposes, including, but not limited to, quality assurance, various research and analytics, managed care rate setting, and drug rebate collections. It is important that encounter data be submitted accurately and timely. For instance, if encounter transactions are not submitted timely or accurately, revenue collected under the Medicaid Drug Rebate Program could be delayed or not collected at all. The Department is also required to collect and submit Medicaid encounter information to the federal Centers for Medicare and Medicaid Services. If the Department does not submit encounter data timely, it risks the federal government withholding federal matching Medicaid payments.

On September 14, 2015, the Department's new EIS began accepting encounter transactions from Medicaid MCOs. (Prior to the EIS, MCOs submitted Medicaid encounter transactions to the Department's eMedNY claims processing system.) Encounter transactions must be submitted to the EIS in a format set by the Department. Specifically, the EIS collects and processes encounter transactions submitted by MCOs using four standard Health Insurance Portability and Accountability Act-compliant transaction sets (one each for professional, institutional, dental, and pharmacy encounters). The EIS then processes the data and sends it to a data warehouse.

The EIS is part of the initial phase of New York's All Payer Database (APD). In addition to Medicaid information, the APD will eventually contain health care claim information from all major public and private payers, such as Medicare, commercial insurance carriers and health plans, third-party administrators, and pharmacy benefit managers. Information in the APD will be used to support the management, evaluation, and analysis of New York's overall health care system.

Results of Audit

Most Medicaid MCOs (42 of 52) were not ready to submit Medicaid encounter data to the EIS by the September 2015 implementation date. In August and September 2015, shortly before the implementation date, we contacted nine MCOs to discuss their progress with the transition to the EIS. We found that eight of the nine MCOs had not yet completed testing for the new system, but they were all aware of the new system and had been in communication with the Department.

According to Department officials, as of September 30, 2015, only 10 of 52 Medicaid MCOs had successfully completed testing for the new system, including all four transaction sets. An additional 21 MCOs had successfully completed testing of at least one of the four transaction sets. Of the remaining 21 MCOs, 13 MCOs had started but had not completed testing of any transaction set, and 8 MCOs had not started any testing.

Further, we determined that 19 of the 21 Medicaid MCOs that had not completed testing of any transaction set were specialized health plans, which generally have fewer enrollees than mainstream Medicaid managed care plans. These specialized health plans include Partially Capitated Managed Long Term Care, Programs of All-Inclusive Care for the Elderly, Medicaid Advantage, and Fully Integrated Dual Advantage.

Department officials stated the specialized plans typically had less sophisticated claims processing systems than other Medicaid managed care plans prior to EIS implementation. Therefore, it was more challenging for these MCOs to meet the EIS implementation date because the EIS required more complex data formats than those used previously. However, prior to the September 2015 EIS implementation, the Department did not provide additional time or special assistance to the less sophisticated plans. All plans were treated similarly regardless of the unique challenges each may have faced.

While Department officials said it was more challenging for certain Medicaid MCOs to meet the EIS implementation date (September 2015), officials believe that ample time was given to all plans to meet that date, as formal announcements were made prior to implementation and regular meetings were held for MCOs to raise issues. For example, in 2014, the Department made two broadcast announcements to MCOs of the plan to migrate Medicaid encounter data to the APD. In these announcements, the Department asked MCO officials to sign up for weekly meetings and an email list for information pertaining to required reporting formats, project timelines, and technical assistance.

In some cases where MCOs were not ready to submit Medicaid encounter transactions to the EIS by the September 2015 implementation date, Department officials granted exemptions from timely encounter submissions through October 12, 2015, and did not sanction the affected MCOs. In the absence of an exemption, if Medicaid MCOs did not meet the requirement to regularly submit encounter data, the Department could compel compliance through corrective action plans as well as fines. However, upon request, exemptions were granted if the Department determined the MCOs were actively working to comply with the EIS requirements. Nonetheless, without the required EIS encounter data, the Department's ability to manage, evaluate, and analyze New York's health care system was limited.

In response to our preliminary observations, Department officials stated that additional guidance was provided to certain MCOs that had not started (or fully completed) testing, and as a result, the number of MCOs that successfully completed testing increased from 10 as of September 30, 2015 to 43 as of November 20, 2015. The nine MCOs (52 - 43) that did not complete testing collectively account for an average of \$567 million in annual capitation payments.

Recommendation

1. Actively monitor and guide the Medicaid MCOs that have not completed testing to ensure they become capable of submitting appropriate encounter transactions to the EIS and, if necessary, take corrective actions to enforce compliance.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine the readiness of all Medicaid MCOs to submit Medicaid encounter transactions to the new EIS. We assessed Medicaid MCOs' EIS readiness as of September 30, 2015. We did not review the adequacy of the Department's testing of Medicaid encounter data submissions. We included in our review only those MCOs that had active enrollment in Medicaid as of June 1, 2015.

To accomplish our audit objective and assess internal controls related to our objective, we interviewed Department officials, reviewed applicable federal and State regulations, and examined the Department's relevant Medicaid policies and procedures. In addition, we reviewed Department documentation (including progress reports) and interviewed officials from nine MCOs having a high risk of not meeting the Department's requirements and timeframes for submitting encounter transactions to the EIS.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. 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.

Reporting Requirements

We provided a draft copy of this report to Department officials for their review and formal comment. We considered the Department's comments in preparing this report and have included them in their entirety at the end of it. In their response, Department officials agreed with the audit recommendation and indicated that certain actions have been and will be taken to address the recommendation.

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

Major contributors to this report were Warren Fitzgerald, Gail Gorski, Mark Breunig, and Yanfei Chen.

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

Very truly yours,

Andrea Inman
Director

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

Agency Comments



Department of Health

ANDREW M. CUOMO
Governor

HOWARD A. ZUCKER, M.D., J.D.
Commissioner

SALLY DRESLIN, M.S., R.N.
Executive Deputy Commissioner

March 14, 2016

Ms. Andrea Inman, Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236-0001

Dear Ms. Inman:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's Draft Audit Report 2015-S-41 entitled, "Readiness for the new Encounter Intake System."

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Sally Dreslin".

Sally Dreslin, M.S., R.N.
Executive Deputy Commissioner

Enclosure

cc: Michael J. Nazarko
Robert W. LoCicero, Esq.
Jason A. Helgersen
James Dematteo
James Cataldo
Elizabeth Misa
Ralph Bielefeldt
Marci Natale
Patrick Roohan
Chris Nemeth
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**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2015-S-41 entitled, Medicaid: Managed Care
Organizations' Readiness for the Encounter Intake System**

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) Draft Audit Report 2015-S-41 entitled, "Medicaid: Managed Care Organizations' Readiness for the Encounter Intake System."

Recommendation #1

Actively monitor and guide the Medicaid MCOs that have not completed testing to ensure they become capable of submitting appropriate encounter transactions to the EIS and, if necessary, take corrective actions to enforce compliance.

Response #1

The Encounter Intake System (EIS) opened up to collect Medicaid production data on September 14, 2015, providing top priority for the All Payer Database (APD) team to have all Medicaid issuers complete testing and begin submitting data. As accurately reported in the OSC Draft Audit Report, not all Medicaid issuers were ready to submit data by this mid-September deadline, and significant effort was put towards achieving the goal of full data submission in both the following 2-month period and beyond.

All Medicaid issuers that had not started testing, or had not completed testing, were immediately contacted by the APD team. For issuers not as familiar with encounter submission specifications, added technical assistance was delivered via email, telephone calls, and weekly conference call meetings. This provided issuers with the technical instruction and capacity required to complete testing, with the updated results shown below. As the OSC Draft Audit Report recommends; continued focus will remain on the 2 Medicaid Managed Care Organizations (MCO)s that have still not completed testing and, if necessary, Department staff will work together to develop and enforce corrective action plans.

At present, 49 of 51 (96%) Medicaid issuers have completed testing for all transaction types and the remaining 2 have completed testing for 3 out of 4 transaction types. Both of these issuers pending completion of the 4th transaction type testing are Managed Long Term Care plans, and both are targeted to complete testing no later than 3/31/16. At that point, all issuers will be fully certified to submit encounters for all applicable transaction types.

The change in testing metrics for Medicaid issuers between the Assessment Report date of 9/30/15, the preliminary report response date of 11/20/15, and the current date of 3/4/16 are reported below:

Issuer	Completed All Testing	Completed Some Testing	Starting Testing	Had Not Started Testing
All Medicaid Issuers (52) -- As of 9/30/2015	10	21	13	8
All Medicaid Issuers (52) -- As of 11/20/15	43	7	1	1
All Medicaid Issuers (51)* -- As of 3/4/2015	49	2	0	0

* The total number of Medicaid Issuers has been reduced from 52 to 51, effective 1/1/16, due to one issuer no longer participating in the Medicaid Program.

The APD Team will continue to work closely with the Medicaid MCOs with outstanding testing certification to ensure successful data submission, and will work with the Department to initiate corrective actions, as necessary.