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**New York State Office of the State Comptroller**  
Thomas P. DiNapoli

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Division of State Government Accountability

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# **Overpayments to Managed Care Organizations and Hospitals for Low Birth Weight Newborns**

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## **Medicaid Program Department of Health**

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# Executive Summary

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## Purpose

To determine if Medicaid overpaid managed care organizations and hospitals for low birth weight newborn claims. The audit covered the period April 1, 2012 through June 1, 2014.

## Background

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. Low birth weight kick payments range from \$68,355 to \$105,108 per newborn and far exceed the standard kick payments for newborns weighing 1,200 grams or more, which range from \$2,277 to \$6,651 per newborn. During the two-year period ended March 31, 2014, Medicaid paid MCOs over \$126 million for 1,301 low birth weight kick payment claims.

## Key Findings

- Medicaid made \$12,378,309 in overpayments for low birth weight kick payments that did not meet the requirements of the supplemental payments. For example, Medicaid paid one MCO \$99,044 for a low birth weight kick payment based on a reported newborn birth weight of 215 grams. However, the newborn’s actual birth weight was 3,215 grams. Medicaid should have only paid the MCO \$3,232 for a standard kick payment. As a result, Medicaid overpaid the MCO \$95,812.
- There was an additional \$949,681 in potential overpayments for similar claims at high risk of not meeting the billing requirements for supplemental low birth weight claims.
- Medicaid paid \$548,404 in 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.

## Key Recommendations

- Recover the remaining overpayments, totaling about \$5.9 million, as identified by the audit.
- Review the \$949,681 in potential Medicaid overpayments and recover where appropriate.

- Implement automated Medicaid payment system edits to properly process low birth weight kick claims.

### **Other Related Audits/Reports of Interest**

[Department of Health: Multiple Medicaid Payments for Newborn Services \(2002-S-25\)](#)

[Department of Health: Managed Care Payments for Newborn Services \(2003-S-7\)](#)

[Department of Health: Medicaid Fee for Service Payments for Managed Care Recipients \(2007-S-100\)](#)

[Department of Health: Inappropriate Medicaid Claims for Newborn Services \(2008-S-152\)](#)

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**State of New York**  
**Office of the State Comptroller**

**Division of State Government Accountability**

October 2, 2014

Howard A. Zucker, M.D., J.D.  
Acting Commissioner  
Department of Health  
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Albany, NY 12237

Dear Dr. Zucker:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Medicaid Program entitled *Overpayments to Managed Care Organizations and Hospitals for Low Birth Weight Newborns*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller*  
*Division of State Government Accountability*

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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

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## Background

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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 year ended March 31, 2014, New York's Medicaid program had approximately 6.5 million enrollees and Medicaid claim costs totaled about \$50.5 billion. The federal government funded about 49.25 percent of New York's Medicaid claim costs, the State funded about 33.25 percent, and the localities (City of New York and counties) funded the remaining 17.5 percent.

The Department of Health (Department) administers the State's Medicaid program. Generally, the Department reimburses providers for Medicaid 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 rendered to Medicaid recipients. Under managed care, Medicaid pays managed care organizations (MCOs) a fixed monthly capitation payment for each recipient enrolled in the MCO. The MCO is then responsible for managing and providing for all covered health care services rendered to the Medicaid recipient. MCOs have networks of participating providers that they reimburse directly for services.

In addition to monthly capitation payments, MCOs receive supplemental payments for the costs associated with newborn medical care. Specifically, MCOs receive a one-time "Supplemental Newborn Capitation Payment" (commonly referred to as a kick payment) for the inpatient birthing costs of each newborn enrolled. Also, beginning April 1, 2012, MCOs receive a one-time "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). Prior to April 2012, such low birth weight newborns were excluded from managed care for the first six months of life and Medicaid paid for these newborn services using the fee-for-service payment method.

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

Medicaid payments are made through eMedNY, the Department's computerized claims processing and payment system. 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.

## Audit Findings and Recommendations

Auditors identified about \$13.9 million in inappropriate Medicaid payments, including \$12,378,309 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 have a high risk of not meeting the billing requirements for low birth weight kick payments; and \$548,404 in 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.

### Overpayments for Low Birth Weight Kick Payments

#### *Actual Overpayments*

Medicaid overpaid nine MCOs nearly \$12.4 million for 129 low birth weight kick claims because the services did not meet the requirements of the supplemental payments. At the time the audit fieldwork concluded, auditors recovered over \$7 million of the overpayments identified.

Medicaid should only pay low birth weight kick claims for live born infants weighing less than 1,200 grams and only after the MCO has paid the hospital or birthing center. Additionally, in order to receive a Medicaid payment, MCOs must submit claims for low birth weight kick payments to eMedNY within one year of the newborn's birth date. The table below summarizes the overpayments by category.

Nature of Problem	Number of Claims	Overpayment
Birth Weight Greater Than or Equal to 1,200 Grams	77	\$7,345,279
Claim Submitted After One Year From Newborn's Birth Date	48	\$4,661,654
Not a Newborn (Age Greater Than 50 Years Old)	2	\$173,288
MCO Did Not Pay For Newborn Birth/Care	1	\$99,044
Stillborn (Not a Live Birth)	1	\$99,044
<b>Totals</b>	<b>129</b>	<b>\$12,378,309</b>

#### *Factors Contributing to the Overpayments*

The Department created an eMedNY edit to deny payment of low birth weight kick claims when the birth weight reported on the claim is greater than 1,200 grams. However, in addition to not implementing the edit in time to meet the April 1, 2012 start date of the low birth weight kick payments (the edit began denying claims about one year later on March 28, 2013), we identified a flaw in the design of the edit. The edit incorrectly allows payment of claims with reported birth weights equal to 1,200 grams. However, in order to receive a low birth weight kick payment, the

newborn must be less than 1,200 grams, not equal to (or greater than) 1,200 grams.

We also found that MCOs do not always accurately report the birth weight on claims. While MCOs are responsible for submitting accurate claim information to eMedNY, MCOs rely on hospitals to report accurate information to them, such as birth weight information. However, hospitals do not always accurately report birth weights to MCOs. We found this was the case with many of the overpayments we identified.

For instance, one hospital had a problem with its billing system that caused 50 of the inappropriately paid low birth weight kick claims we identified. The hospital's billing system erroneously truncated the correct birth weight amounts and, as a result, the hospital reported lower birth weights to the MCOs. The MCOs then reported the lower birth weights to eMedNY. To illustrate, the hospital's billing system truncated a birth weight of 3,215 grams to 215 grams. The hospital submitted the incorrect birth weight of 215 grams to the MCO. The MCO then billed Medicaid based on a newborn birth weight of 215 grams. Medicaid paid the MCO \$99,044 for a low birth weight kick payment, but should have only paid \$3,232 for a standard kick payment. As a result, Medicaid overpaid the MCO \$95,812. The 50 errors attributed to this hospital accounted for about \$4.8 million (39 percent) of the nearly \$12.4 million in overpayments. During the course of the audit, we notified the MCOs of the errors, and they all took action to correct the inappropriately paid low birth weight kick claims.

In addition to the hospital with an internal billing system problem, several other hospitals also incorrectly reported newborn birth weights to the MCOs. These hospitals attributed many of the mistakes to manual data entry errors. For example, one hospital entered an incorrect birth weight of 1,020 grams on its claim to the MCO instead of the actual birth weight of 4,020 grams. The MCO paid the hospital claim based on the misstated birth weight and billed Medicaid for a low birth weight kick claim.

We determined the eMedNY system has other sources of information that can be used to verify the birth weight on low birth weight kick claims. For instance, data from Graduate Medical Education (GME) claims and encounter claims can be used to evaluate the accuracy of the reported birth weight. Medicaid makes separate fee-for-service GME payments to hospitals for recipients in MCOs to cover the costs of training residents. Additionally, MCOs submit encounter claims to eMedNY to inform the Department of the medical services provided to recipients in the MCO (including newborns).

GME claims and encounter claims contain information on the newborn's birth weight, diagnosis, length of hospitalization, and payments to the hospital. In addition to the reported birth weight, other information on these claims can be used to evaluate the accuracy of the birth weight. For instance, a newborn discharged home after a two-day hospital stay would not likely weigh less than 1,200 grams at birth. The Department should evaluate the use of other sources of information to corroborate the accuracy of the reported birth weight on low birth weight kick claims.

We further determined that while the Department established an eMedNY edit to verify whether low birth weight kick claims are billed within one year of the newborn's birth date, the edit was



not activated to deny such claims. We notified the Department, and officials took immediate action to correct the edit and begin denying low birth weight kick claims submitted over one year from the newborn's birth date. Had the edit been activated timely, the Department could have prevented the overpayment of \$4.6 million for 48 low birth weight kick claims that were not submitted within one year of the newborn's birth date.

Lastly, the Department has not established an eMedNY edit to verify the age of the recipient for whom the low birth weight kick payment claim is billed. Two of the 129 inappropriate claim payments (totaling \$173,288) were for Medicaid recipients who were 57 and 58 years old. A hospital miscoded its MCO claims for these two recipients, and the MCO in turn miscoded its related Medicaid claims, resulting in the significant overpayments.

### *Potential Overpayments*

Medicaid made potential overpayments totaling \$949,681 on 10 other low birth weight kick claims. The claims have similar characteristics to the 129 claims identified in the table on page 6; however, we did not obtain supporting documentation from the hospitals to confirm whether the payments met the billing requirements of the supplemental payments. For instance, the birth weight on one low birth weight kick claim conflicted with the birth weight on the corresponding encounter claim. However, we did not obtain supporting documentation from the hospital to confirm the birth weight. The Department needs to further evaluate the 10 claims to determine their appropriateness.

## **Duplicate Payments for Low Birth Weight Newborns**

In certain instances, Medicaid uses the fee-for-service payment method to pay the hospital or birthing center directly for the birth and medical care provided to low birth weight newborns (less than 1,200 grams). During the two-year period ended March 31, 2014, Medicaid paid providers more than \$92.1 million in fee-for-service payments for services rendered to 881 low birth weight newborns.

We identified six instances in which Medicaid made duplicate payments for low birth weight newborn services. The duplicate payments involved a fee-for-service payment to the hospital and a low birth weight kick payment to the MCO. The duplicate payments resulted in \$548,404 in inappropriate fee-for-service payments. At the time our audit fieldwork ended, actions were still needed to recover these overpayments. Further, we determined the overpayments occurred because the newborns were retroactively enrolled into an MCO. The eMedNY system does not have controls to prevent such overpayments. The Department, therefore, needs to identify ways to detect and prevent these duplicate payments.

## **Recommendations**

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

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.
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.
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.

## Audit Scope and Methodology

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The objective of our audit was to determine if Medicaid overpaid MCOs and hospitals for low birth weight newborn services. Our audit tests and analyses were based on Medicaid payments for claims during the two year period ended March 31, 2014. We performed additional audit tests through June 1, 2014 to identify claims having a likelihood of being overpaid.

To accomplish our audit objective, and assess internal controls related to our audit objective, we interviewed officials from the Department and the Office of the Medicaid Inspector General. We examined the Department's relevant Medicaid policies and procedures. We designed and executed computer programs to evaluate Medicaid payments for low birth weight newborns. We compared provider-reported information with other Medicaid claims in order to identify claims at a high risk of being inappropriately paid. The identified high-risk claims were further compared to medical records in order to validate the appropriateness of the payment.

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 objectives. 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.

## Authority

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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

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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 generally concurred with our recommendations and indicated that certain actions have been and will be taken to address them. Officials also indicated, however, that the OMIG did not agree to review payments for certain claims submitted more than a year after a newborn's date of birth. Our rejoinders to particular Department comments are included in the report's State Comptroller's Comments.

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.

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## Contributors to This Report

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**Andrea Inman**, Audit Director  
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### Vision

A team of accountability experts respected for providing information that decision makers value.

### Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

# Agency Comments

Howard A. Zucker, M.D., J.D.  
Acting Commissioner of Health

**NEW YORK**  
*state department of*  
**HEALTH**

Sue Kelly  
Executive Deputy Commissioner

August 12, 2014

Ms. Andrea Inman, Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> 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 2013-S-57 entitled, "Overpayments to Managed Care Organizations and Hospitals for Low Birth Weight Newborns."

Thank you for the opportunity to comment.

Sincerely,



Sue Kelly  
Executive Deputy Commissioner

Enclosure

cc: Michael J. Nazarko  
Robert W. LoCicero, Esq.  
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**Department of Health  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report 2013-S-57 Entitled  
Overpayments to Managed Care Organizations  
and Hospitals for Low Birth Weight Newborns**

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) Draft Audit Report 2013-S-57 entitled, "Overpayments to Managed Care Organizations and Hospitals for Low Birth Weight Newborns."

**Recommendation #1:**

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

**Response #1:**

The OSC reported 129 claim overpayments which were grouped by "Nature of Problem". The Office of the Medicaid Inspector General (OMIG) agrees with 81 of the OSC identified claims which represent four of the five "Nature of Problem" OSC groupings. Out of these 81 claims, 75 have been voided. The OMIG is in the process of recovering the remaining 6 claims which total \$1.1 million.

The OMIG disagrees with the 48 claims (totaling \$4.6 million) which represent the fifth OSC grouping "Claim Submitted After One Year from Newborn's Birth Date". There are a variety of extenuating circumstances that can delay submission of a claim thus making a late submission appropriate.

* Comment 1
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**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.

**Response 2:**

The OMIG, as part of its normal audit procedures, currently monitors the appropriateness of low birth weight overpayments. The OMIG will be issuing draft audit reports, with potential recoveries of \$7.2 million, of which the \$949,681 is included.

**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.

\* See State Comptroller's Comments on Page 15

**Response 3:**

Evolution Project (EP) #1723a which put up Rate Code 2991 went into production on November 8, 2012. EP #1723 went live on March 28, 2013 and employs several edits for low birth weight newborn kick payments that include:

1. Restricting the use of the new low birth weight Kick Payment Rate Code (DE 4218) 2291 to under 1,200 grams in weight.
2. Limit the billing of the new low birth weight Kick Payment Rate Code 2291 to within one year of the newborn's birth date. The Department will allow payment to the Plan in the event of mitigating circumstances.

* Comment 2
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Upon review of the OSC findings, the Department will work with OMIG to make any needed changes to ensure appropriate payments.

**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.

**Response 4:**

The OMIG, as part of its normal audit procedures, currently monitors the appropriateness of low birth weight overpayments. The OMIG will be issuing draft audit reports, with potential recoveries of \$7.2 million.

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## State Comptroller's Comments

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1. We are concerned that the OMIG does not agree that review of these 48 claims is warranted. Without review, we question how the OMIG can determine if, in fact, extenuating circumstances actually delayed claim submission and if the claims in general were eligible for reimbursement. As stated on pages 7-8 of our report, the Department established an eMedNY edit that denies payment of low birth weight kick claims that are not submitted within one year of a newborn's date of birth. Given the Department's restriction on these claims and the materiality of the related payments, we encourage the OMIG to formally review the claims and determine whether the payments should be recovered.
2. The Department's comment is not accurate. As we state on pages 6-7 of our report, the pertinent eMedNY edit is designed to deny payment of low birth weight kick claims when the birth weight is greater than 1,200 grams. This, therefore, inappropriately allows the payment of claims with birth weights equal to 1,200 grams. As we recommend, the Department needs to correct the edit to ensure eMedNY only pays claims for newborns weighing less than (as opposed to equal to) 1,200 grams.