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OFFICE OF THE STATE COMPTROLLER

September 11, 2008

Mr. Richard F. Daines, M.D.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Report 2008-F-9

Dear Dr. Daines:

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, *Implementation of eMedNY (Contract C014305)* (Report 2005-R-3).

Background, Scope and Objective

In the spring of 2000, the Department of Health (Department) awarded contract C014305 to Computer Sciences Corporation (CSC), which has historically served as the State's Medicaid fiscal agent, to implement the eMedNY system. The objective of eMedNY was to provide an enhanced Medicaid eligibility and claim payment system, and a data warehouse to archive Medicaid-related data. The total value of the contract which covers the period May 1, 2000 through June 30, 2006 was \$376 million. The Department extended the contract with CSC to operate eMedNY through June 30, 2009 for an additional \$278.1 million.

Our initial audit report, issued on December 14, 2006, examined whether eMedNY contract deliverables were provided on time and within budget; whether contract-related payments were supported and appropriate; and whether the Department provided adequate oversight of the State's eMedNY contractor, CSC. Our report identified a number of weaknesses in the Department's oversight practices. In particular, the contractor did not complete two significant contract deliverables; the Department's determinations to pay additional costs for delays were not in the best interest of all parties; and the Department's reviews of contractor billings were inadequate. We concluded that, because of these and other weaknesses, taxpayers were more likely to incur additional costs for the Medicaid program. The objective of our follow-up review was to assess the extent of implementation, since September 2005, of the six recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials made progress in correcting the problems we identified. Of the six prior audit recommendations, four recommendations were implemented, one recommendation was not implemented, and one recommendation was not applicable during the follow-up period.

Follow-up Observations

Recommendation 1

Ensure CSC provides the required contract deliverables:

- *Require CSC to develop and implement the Fraud Detection & Prevention Program in compliance with contract terms.*
- *Ensure CSC develops and formalizes the associated quarterly reporting.*
- *Determine whether penalties against CSC are warranted for the contractor's failure to develop and implement the Program as required. Assess penalties as appropriate.*
- *Grant OSC read and copy access to the adjudicated claims file needed to properly perform its mandated audit function.*

Status - Implemented

Agency Action - We determined during our initial audit that CSC did not design the Fraud Detection and Prevention Program according to contract terms, nor did CSC produce quarterly reports of Program accomplishments. During our follow-up review, we saw evidence that CSC's Program operations met contract deliverable objectives for the Fraud Detection and Prevention Program. We also noted that, since January 2006, CSC produced required quarterly reports, including reports retroactive to April 2005. Accordingly, penalties are not applicable.

In our initial audit, we also determined that OSC (Office of the State Comptroller) did not have the required access to adjudicated claims files. Although OSC has access to historical claims databases located in the data warehouse, poor database design limited OSC's use for audit purposes. In June 2008, the Department implemented an evolution project to correct the databases.

Also, during our follow-up review, OSC tested its access to eMedNY files that the Department and CSC indicated OSC could access. Our tests proved that OSC was not allowed access to those files. After OSC requested access, CSC granted OSC access to the requested data sets. CSC acknowledged they will provide OSC access to specific data sets in eMedNY, but only after OSC requests security access rights to view them.

Recommendation 2

Periodically review a sample of source documents supporting contract-related billings for variable charges. Adjust the sample size and frequency of testing as appropriate.

Status - Implemented

Agency Action - We determined during our initial audit that the Department did not have adequate support documentation and did not periodically review support documents to verify billed charges. During our follow-up review, we observed the Department's Systems Monitoring and Quality Assurance group drafted a contract management plan that includes sampling source documents for billed variable charges. The group recently completed their first invoice review and will use that experience to determine sample size and frequency for future reviews. Also, Department officials intend to continue to perform these reviews on a routine basis.

Recommendation 3

In future contracts, require monthly financial reporting in a format that enables the Department to assess the reasonableness of fixed administrative fees.

Status - Not Applicable

Agency Action - During our follow-up review, Department officials have not had a future contract opportunity in order to implement this recommendation. While Department officials note concerns that this recommendation might decrease competition, they also state they are committed to implementing this recommendation in the next contract effort.

Recommendation 4

Revisit the decision to pay CSC additional compensation to which it is not entitled under the contract.

Status - Not Implemented

Agency Action - The Department disagrees with OSC. The Department chose not to exercise penalties and, instead, renegotiated the contract with CSC. Based on culpability for the delay, contractor remedial actions, and impact on the progress of the project, the Department continues to believe that reimbursement to CSC for a portion of the fixed costs it incurred because of delays attributable to the Department is justified.

Recommendation 5

Develop a formal monitoring program to ensure contractor billings are justified and supported and to promptly identify noncompliance with service deliverables. Such a program could include periodic audits and/or vulnerability assessments.

Status - Implemented

Agency Action - During our follow-up review, we observed that the Department's Systems Monitoring and Quality Assurance group drafted a contract management plan that, in conjunction with routine review of contractor vouchers, should adequately verify contractor billings. In addition, we observed the Department completed a 2006 audit of service deliverables to identify noncompliance. Department officials also said they intend to continue service deliverable reviews in the future. In addition, we observed another Department subcontractor's work of reviewing deliverables and CSC invoices for evolution projects.

Although the formal monitoring program is not finalized, Department officials have established a foundation and are committed to following through with the recommendation.

Recommendation 6

Adopt, and revise as necessary, the quality assurance functions currently carried out by BearingPoint.

Status - Implemented

Agency Action - We determined during our initial audit that the Department relied on its subcontractor, BearingPoint, to oversee the eMedNY contract. In doing so, BearingPoint provided quality assurance functions that included qualitative as well as timeliness measurements. Since that contract expired, the Department arranged with a new contractor to monitor contract deliverables in the operations phase of the contract. During our follow-up review we observed the new contractor performed applicable quality assurance functions. We conclude that these, together with metrics and analysis responsibilities assumed by the Department, meet the objectives of the recommendation.

Major contributors to this report were Bob Wolf and Gail Gorski.

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 also thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Sheila Emminger
Audit Manager

cc. Steve Abbott, DOH
Thomas Lukacs, DOB
Steve Sossei, OSC
Frank Patone, OSC