



# Department of Health

## Inappropriate Medicaid Claims for Newborn Services

Report 2008-S-152



Thomas P. DiNapoli



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

September 10, 2009

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

Dear Dr. Daines:

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 Department of Health, entitled Inappropriate Medicaid Claims for Newborn Services. 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*





## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

#### **Audit Objective**

Our objective was to determine whether Medicaid overpayments were made for newborn inpatient services when providers submitted claims with inaccurate birth weight information.

#### **Audit Results - Summary**

New York State Medicaid uses Diagnosis Related Groups (DRGs) to serve as the basis of payment for inpatient neonatal claims. The assignment of DRGs on neonatal claims is based on various factors, including birth weight. Newborns with low birth weights require higher levels of care, and therefore, Medicaid pays a higher reimbursement for these claims. For the five-year period ended March 31, 2008, we selected a sample of 469 neonatal claims that contained unusual characteristics, such as low birth weights combined with discharges home after short lengths of stay. We found that 136 claims (or 29 percent) contained inaccurate birth weights and resulted in a net overpayment of \$480,894. In one case, a newborn's birth weight was errantly reported to Medicaid as 190 grams when the correct birth weight was 1,190 grams. As a result of the error, Medicaid overpaid the claim by \$150,660.

Given the potential for cost savings, such as those identified by our audit, we recommend that the Department should employ a testing process similar to the one used in our audit to identify newborn inpatient claims with questionable and/or inconsistent claim data elements (such as low birth weights, short lengths of stay, and normal discharges) and to prevent overpayments corresponding to such claims. We also recommend recovery of Medicaid overpayments. Department of Health officials generally agreed with our recommendations and indicated the actions taken and planned to implement them.

This report, dated September 10, 2009, is available on our website at: <http://www.osc.state.ny.us>.

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Office of the State Comptroller

Division of State Government Accountability

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Albany, NY 12236



# Introduction

## **Background**

Under Medicaid, Diagnosis Related Groups (DRGs) serve as a basis of payment for some inpatient stays, including neonatal (newborn) care. Neonatal claims are assigned a DRG code based on various factors reported on claims, including birth weight, diagnosis, length of hospital stay, and type of discharge. Healthy newborns are typically discharged home from the hospital after a two day length of stay. However, newborns with very low birth weights are likely to be hospitalized longer and require more complex levels of care before they can be discharged. For the five-year period ending March 31, 2008, the Department paid a total of \$1.8 billion for newborn inpatient services.

The DRG system allows higher Medicaid reimbursement to hospitals that provide more complex and expensive medical care for newborns, particularly those with low birth weights. The Department of Health's (Department) Medicaid policy requires all newborn inpatient claims to include a newborn's birth weight in grams. According to the Department, medical services for a newborn weighing less than 750 grams (less than two pounds) at birth cost over 151 times more than a normal newborn weighing 2,000 grams (over four pounds) or more. Therefore, hospitals that bill for very low birth weight babies generally receive higher payments than those who bill for normal birth weight babies. If hospitals submit claims with incorrect birth weights, there is a high risk of inappropriate Medicaid reimbursements - often overpayments.

## **Audit Scope and Methodology**

Our objective was to determine whether Medicaid overpaid for newborn inpatient services when providers submitted claims with inaccurate birth weight information. We audited selected Medicaid inpatient neonatal claims with dates of service between April 1, 2003 and March 31, 2008. The claims selected had relatively higher risk of incorrect birth weights and, as a result, inappropriate Medicaid payments.

To accomplish our objective we reviewed applicable laws, regulations, and Department payment policies. We interviewed Department and hospital officials, and examined eMedNY (the Department's centralized Medicaid payment system) claims processing procedures. We identified newborn claims that were paid under twelve different DRG codes, contained low birth weights, and indicated that the newborn was discharged home after an unusually short hospital stay (less than 50 percent of the average length of stay for the DRG code). We judgmentally selected two samples for review. The first sample included the claims from the ten highest paid providers (367 claims totaling about \$14 million). The second sample

of claims was derived from three particular DRG codes we selected, and they also included extremely short lengths of stay. This sample included 102 claims from 29 additional providers who were paid about \$1.2 million during our audit period. Thus, in total, we selected 469 claims (amounting to almost \$15.2 million) for verification of the birth weights recorded on the Medicaid claims to the corresponding hospital medical records. Also, when inaccurate birth weights caused incorrect DRG code assignments, we referred the claims in question to Department officials for determination of the correct payment amounts.

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 objectives.

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 the 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**

This 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.

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 at the end of it. Department officials agreed with our report's recommendations and indicated the steps that have been and will be taken to implement them.

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 therefor.

**Contributors  
to the Report**

Major contributors to this report include Steven Sossei, Andrea Inman, Gail Gorski, Arnold Blanck, Ekaterina Merrill, Emily Wood, and Brian Mason.



## Audit Findings and Recommendations

### **Claim Data Errors Resulting in Excessive Payments**

The Department's Medicaid Inpatient Hospital Billing Guidelines require all inpatient newborn claims to be submitted with a birth weight in grams. Providers are expected to submit accurate information on Medicaid claims in compliance with their Medicaid Certification Statement. If inaccurate birth weights are recorded on a newborn inpatient claim, it could cause incorrect DRG codes to be assigned and result in inappropriate (often excessive) payments.

We found that certain providers submitted Medicaid claims for newborn inpatient services with inaccurate birth weights, and consequently, the eMedNY system processed and incorrectly paid these claims. From our judgmental sample of 469 newborn inpatient claims (totaling about \$15.2 million), we identified 136 claims (or 29 percent) that were submitted with an inaccurate birth weight. Further, 92 of the 136 claims resulted in the assignment of incorrect DRG codes, which produced a net Medicaid overpayment of \$480,894, as explained in the following paragraphs.

We selected two samples of claims for review. The first sample included 367 claims, of which 63 claims (or 17 percent) had inaccurate birth weights recorded on the eMedNY system. These 63 claims corresponded to Medicaid payments totaling \$1,991,907. However, after correcting the birth weights, 25 of these claims resulted in the assignment of different DRG codes which generally corresponded to lower Medicaid payment amounts. Thus, the 63 claims should have resulted in payments totaling \$1,677,243 (or \$314,664 less than what was initially paid). The largest overpayment pertained to a claim which initially paid \$178,243, but should have paid only \$27,583 (resulting in an overpayment of \$150,660). For this claim, a birth weight of 190 grams was entered in the eMedNY system. However, the medical records indicated that the correct weight was 1,190 grams. This illustrates how easily an error can be made in data entry to the eMedNY system that results in a significant Medicaid overpayment.

Our second sample comprised of claims (from providers excluded from the first sample) that included very short lengths of stay, and consequently, we considered them to be of high risk for overpayment. Of the 102 claims in this sample, we determined that 73 claims (or 72 percent) contained inaccurate birth weight information. Initially, these 73 claims resulted in Medicaid payments totaling \$538,325. However, after correcting the birth weights, 67 of these 73 claims had different DRG codes, and the Medicaid payments for these claims should have totaled \$372,095 (or \$166,230 less than what was initially paid). For this sample, the largest overpayment

pertained to a claim which initially paid \$24,011, but should only have paid \$8,191 (resulting in an overpayment of \$15,820).

We determined that the overpayments we identified occurred because the Department lacks sufficient controls within the eMedNY system to identify newborn inpatient claims with unusual or conflicting data elements. Specifically, the system does not flag claims in which a newborn's birth weight is very low and yet the child requires little (if any) additional treatment or time in the hospital before being discharged. Consequently, the Department was unable to detect and/or prevent the excessive payments for newborn inpatient claims as detailed in this report.

In addition, the Department relies on a contractor to review samples of all inpatient claims for medical services, including newborn claims. The contractor is expected to identify apparent errors on claims and bring those errors to the attention of Department officials so they can correct the errors and ensure that Medicaid payment amounts are correct. The contractor reviewed 65 of the claims we reviewed. However, the contractor missed birth weight errors on four of these claims - in which incorrect DRG codes were assigned due to the errors. The incorrect DRG codes resulted in overpayments. We note that, in February 2009, the Department requested an eMedNY system enhancement to allow the contractor to adjust claims by correcting birth weights to allow for correct DRG assignments.

Also, as noted previously, we identified birth weight data errors, that resulted in improper payments, for 67 (66 percent) of the 102 claims from our second sample of claims. Consequently, we recommend that the Department and/or its claim review contractor should use a testing process similar to our process to efficiently identify potentially problematic Medicaid claims for services to newborns and to prevent overpayments corresponding to such claims.

- Recommendations**
1. Take actions to recover the inappropriate payments (totaling \$480,894) for the 92 claims, identified by our report, which the Department has acknowledged were the result of birth weight reporting errors.
  2. The Department and/or its claim review contractor should use a testing process similar to the process discussed in this audit report to identify potentially problematic Medicaid claims for services to newborns and to prevent overpayments corresponding to such claims.

## Agency Comments



### STATE OF NEW YORK DEPARTMENT OF HEALTH

Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Richard F. Daines, M.D.  
*Commissioner*

James W. Clyne, Jr.  
*Executive Deputy Commissioner*

August 24, 2009

Mr. Brian E. Mason, Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, New York 12236

Dear Mr. Mason:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's draft audit report 2008-S-152 on "Inappropriate Medicaid Claims for Newborn Services."

Thank you for the opportunity to comment.

Sincerely,

James W. Clyne, Jr.  
Executive Deputy Commissioner

Enclosure

cc: James Sheehan  
Robert W. Reed  
Deborah Bachrach  
Nicholas Meister  
Steve Abbott  
Irene Myron  
Gail Kerker  
Ron Farrell  
Mary Elwell

**Department of Health's  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report 2008-S-152 on  
"Inappropriate Medicaid Claims for Newborn Services"**

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The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) draft audit report 2008-S-152 on "Inappropriate Medicaid Claims for Newborn Services."

**Recommendation #1:**

Take action to recover the inappropriate payments (totaling \$480,894) for the 92 claims, identified by our report, which the Department has acknowledged were the result of birth weight reporting errors.

**Response #1:**

The Department agrees and will work with its utilization review contractor, Island Peer Review Organization (IPRO), to review the claims and to recover any inappropriate payments. The Department will additionally explore the feasibility of developing a system edit to deny claims with birth weight reporting errors at the point of claim processing.

**Recommendation #2:**

The Department and/or its claim review contractor should use a testing process similar to the process discussed in this audit report to identify potentially problematic Medicaid claims for services to newborns and to prevent overpayments corresponding to such claims.

**Response #2:**

IPRO has already developed and implemented a process for identifying potentially problematic Medicaid claims for services to newborns and to prevent overpayments corresponding to such claims. This process entails claims review along with direct interaction with the hospitals involved to determine if an adjustment is required.