AUDIT REPORT

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit of Early Intervention Payments By the Department of Health and Mental Hygiene

MD03-174A

June 27, 2005

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited the controls of the early intervention payments made by the Department of Health and Mental Hygiene (DOHMH) to determine whether the payments for early intervention services are valid and accurate.

The results of our audit, which are presented in this report, have been discussed with DOHMH officials, and their comments have been considered in the preparation of this report. Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

William C. Thompson

William C. Thompson, Jr.

WCT/fh

Report: **MD03-174A**
Filed: **June 27, 2005**

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AUDIT REPORT IN BRIEF

This audit determined whether New York City Department of Health and Mental Hygiene (DOHMH) payments for early intervention services are valid and accurate.

Audit Findings and Conclusions

Our review of DOHMH's Fiscal Year 2003 payments for early intervention services found that they were valid and accurate. DOHMH had adequate internal control procedures and segregation of duties for the authorization, delivery, and payment of services. Generally, adequate backup documentation exists to support provider payments, the correct billing information was submitted by the providers, and the correct amounts were used to calculate the service coordination units.

However, DOHMH did not complete financial audits of service providers in a timely manner. In addition, although not part of our audit objective, we note that many providers complained about the timeliness of payments for early intervention services. We also noted that there were problems in correcting errors within the statewide management information system database called Kid Integrated Data System (KIDS). In addition, KIDS did not flag in a timely manner that needed insurance information was absent. These issues are discussed in greater detail in the following sections of the report and warrant management's attention, but they did not affect our overall conclusion regarding the validity and accuracy of the DOHMH payments.

Based on our findings, we make seven recommendations, including the following:

DOHMH officials should:

- Ensure that its audit bureau conducts and completes financial audits annually.
- Meet with providers to discuss the issues raised in this report and ways to improve the timeliness of payments.

- Meet with appropriate State officials to discuss ways to reconfigure KIDS to better match DOHMH's needs.

DOHMH Response

The matters covered in this report were discussed with DOHMH officials during and at the conclusion of this audit. A preliminary draft report was sent to DOHMH officials and discussed at an exit conference held on April 22, 2005. On May 9, 2005, we submitted a draft report to DOHMH officials with a request for comments. We received a written response from DOHMH on May 25, 2005. Though DOHMH officials did not agree with our findings, they generally agreed with our recommendations. In their response DOHMH officials expressed concern about the audit report's presentation, stating:

"We are concerned that positive findings are followed by a disproportionately high number of relatively minor comments and suggestions, many of which are based on unsubstantiated assertions of Early Intervention providers."

Auditor Comment: We prepared this report to reflect the audit's findings accurately with respect to the audit's objective. We have taken care to note those issues outside the audit objective that came to our attention; and we discuss those issues fully to document what we found in the course of the audit and to provide a clear basis for understanding the audit recommendations.

The full text of DOHMH's comments are included as an addendum to this report

INTRODUCTION

Background

On September 17, 1992, the New York State Early Intervention Bill was passed. This legislation provides for early intervention services to children from birth to three years of age who are thought to have developmental delays or who are born under conditions that might make them susceptible to developmental delays.

The New York State Department of Health (SDOH) is the designated lead agency for the Early Intervention Program. SDOH is responsible for overseeing the program throughout the State, developing regulations, setting provider reimbursement rates, and monitoring operations. The New York City Department of Health and Mental Hygiene (DOHMH) is responsible for managing the Early Intervention Program in the City. It contracts out a majority of program services to service providers and has a small direct service unit that provides service coordination. All service providers are approved by SDOH. During Fiscal Year 2003, there were approximately 200 contracted early intervention providers[1] citywide.

The Early Intervention Program offers a variety of therapeutic and support services to infants and toddlers with disabilities and to their families. These services include: family training, counseling, parent-support groups, special instruction, speech pathology and audiology, occupational therapy, physical therapy, psychological services, service coordination, nutrition services, social work services, vision services, assistive technology devices and services, and transportation and respite care.

All referrals to the Early Intervention Program come through the DOHMH Totline unit. Referrals are received through various sources, such as community-based organizations, parents, or physicians. Totline officials forward referrals to the DOHMH regional office in the borough in which the child lives. Regional office personnel enter relevant child information into the Kid Integrated Data System (KIDS). KIDS, provided, mandated, and controlled by the State, is used by City and State officials to capture children's relevant history, record and authorize early intervention services, and record and authorize changes to early intervention services. DOHMH officials informed us that during the course of our audit, SDOH has issued a Request for Proposal (RFP) to upgrade KIDS.

A child's information is entered into KIDS, and an Initial Service Coordinator is assigned to each child. The coordinator contacts the child's family and explains the services available through the Early Intervention Program. If the parents agree, a developmental assessment of five functional domains is performed by a qualified individual. In addition, a specialist in the area of concern evaluates the child and submits a report detailing the child's condition and eligibility for the program.

[1] The 200 service providers do not include those that provide transportation and respite services.

After a child is evaluated and deemed eligible for services, the Initial Service Coordinator, Early Intervention Official Designee (EIOD), evaluators, and the child's family take part in an Individual Family Service Plan (IFSP) meeting to develop and approve an IFSP to meet the child's needs. Once the IFSP is approved, the child's family selects an Ongoing Service Coordinator. The child's family also participates in selecting a provider for the approved early intervention services. The regional office then enters the approved IFSP into KIDS. The EIODs are City employees. The majority of evaluators are independent contractors; service coordinators are typically employees of contracted agencies; and the Department has a small direct services unit that provides some service coordination.

The DOHMH regional office reevaluates IFSP plans every six months to ensure that services continue to meet the child's needs. Once past three years of age, a child no longer qualifies for Early Intervention Services. Prior to the child's turning age three, the parents are given the option of applying for a DOE preschool program**,** for which DOE determines eligibility.

The DOHMH Early Intervention Program Quality Assurance (QA) unit conducts on-site program audits of service providers. The QA unit issues a report within 90 days of the evaluator's visit to the provider. If violations and/or weaknesses are observed during the course of the audit, an exception report is issued citing the provider's weaknesses and violations. The service provider then has 30 days to submit a corrective action plan. After an interval of six to eight months from the acceptance of the corrective action plan by DOHMH, the evaluators visit the provider unannounced to see if the proposed corrections have been implemented. If the problem still exists, evaluators may restrict the provider from taking on new cases or remove current cases from the provider, depending on the severity of the problems. QA officials will visit the provider again to investigate whether the problems have been resolved.

Service providers are also audited through the DOHMH Audit Bureau. Through an RFP process, the Audit Bureau has contracted with Certified Public Accounting (CPA) firms to conduct annual fiscal audits of service providers that receive annual early intervention payments of more than $50,000.

DOHMH hired First Health as its fiscal agent, responsible for processing payments to early-intervention providers for services rendered. The provider submits invoices for payment to First Health. The First Health computer system matches the provider-submitted information to the information entered into KIDS by DOHMH regional offices. If the information does not match, the claim is denied or remains pending. Regional offices have a resolution system for dealing with denied and pending payments. If a claim is pending or denied by First Health, it is the provider's responsibility to take the remittance advice to the resolution unit of the regional office and resolve the problem.

First Health's computer system receives data from KIDS and uses it to track claims and to report third party reimbursements for early intervention services. On a biweekly basis, First Health computer system generates several reports from information obtained from KIDS, including critical/non-critical error reports (CP-O-1), which list data errors in KIDS, and reports containing insurance information (NYCPTP01) for all children authorized for services. First

Health pays service providers for all approved claims. During Fiscal Year 2003, First Health paid $411,686,864 to 239 service providers for their services.

Objective

The objective of our audit was to determine whether DOHMH payments for early intervention services are valid and accurate.

Scope and Methodology

The scope period of our audit was Fiscal Year 2003.

To gain an understanding of the policies, procedures, and internal controls of the City Early Intervention Program, we reviewed the State's *Guidelines for Services of the Early Intervention Program*, the City's *Forms and Procedures Manual*, and First Health's *Billing and Reimbursement Procedural Manual*. We interviewed the Acting Director of the Early Intervention Program, the Acting Director of the Quality Assurance Unit, the Director of Financial Audits, the Director of Operations for the Early Intervention Program, and First Health officials. We conducted a walk-through of the Manhattan regional office to review its operations and procedures. We also conducted a walk-through of KIDS to determine how information is entered and processed through the system. To obtain an understanding of the payment process, we interviewed First Health's Director, as well as the Fiscal Director of Early Intervention, and were walked through all steps in the First Health payment process.

We reviewed the CPA financial audit reports for Fiscal Years 1999-2003 for 30 providers. We selected 25 of the highest paid providers from the 156 providers that were paid more than $100,000 by First Health during Fiscal Year 2002.[2] Payments to these 25 providers ranged from approximately $4 million to approximately $19 million for Fiscal Year 2002. The remaining five providers were randomly selected from 106 providers that were paid between $100,000 and $1.6 million during Fiscal Year 2002. We also reviewed any DOHMH follow-up action that stemmed from the financial audit findings.

To test the controls over payments made to the providers and the validity and accuracy of the computer processed payment data, we compared payments made by First Health to supporting documentation maintained by providers. We judgmentally selected the 15 highest paid providers. In addition, we randomly selected five providers that were paid between $100,000 and $1.6 million. We visited the program sites for the sampled providers and selected 25 case files to review for each of the 15 highest paid providers, and 25 case files for two of the other five providers. We reviewed all the case files of the remaining three providers.[3] Although our selection of providers was based on data from Fiscal Year 2002, the most complete

[2] The 25 highest paid providers do not include transportation service providers.

[3] Each of these three providers had fewer than 25 case files during March 2003.

information available at the time, our tests of controls examined payments made during Fiscal Year 2003, the most current year at the time of our tests.

For each of the case files, we reviewed information pertaining to payments made to the provider during March 2003. We determined whether adequate backup documentation existed to support the payments made to providers. We checked whether appropriate signatures were present in the supporting documents and whether the correct rates were paid for the services. We determined whether the correct billing information was submitted by the providers to First Health, and whether the correct amounts were used to calculate the service-coordination units. In total, we tested $769,024 worth of payments made to our sample of providers during the period of March 2003. We also interviewed the 20 providers to determine their satisfaction with the program's operations and to assess any of their concerns.

We reviewed a copy of the CP-O-1 report, produced by First Health from information obtained from KIDS, for the pay period September 3, 2004. This report cumulatively captures historical information of critical and non-critical data errors for all children authorized for services. We also reviewed the September 3, 2004 NYCPTP01 report that lists all of the insurance information for authorized children.

To ensure that First Health paid only for services provided to eligible children, we compared the list of children authorized by DOHMH to receive early intervention services during Fiscal Year 2003 to the list of children for whom payments were made during Fiscal Year 2003. We turned over any discrepancies to DOHMH officials to investigate.

The results of the above tests, while not projectable, provided us a reasonable basis to determine whether the payments for early intervention services were valid and accurate.

It should be noted that while we are reporting on issues that came to our attention concerning KIDS, we did not conduct any tests of this system, since such procedures were outside the scope of our current audit.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

DOHMH Response

The matters covered in this report were discussed with DOHMH officials during and at the conclusion of this audit. A preliminary draft report was sent to DOHMH officials and discussed at an exit conference held on April 22, 2005. On May 9, 2005, we submitted a draft report to DOHMH officials with a request for comments. We received a written response from DOHMH on May 25, 2005. Though DOHMH officials did not agree with our findings, they

generally agreed with our recommendations. In their response DOHMH officials expressed concern about the audit report's presentation, stating:

"We are concerned that positive findings are followed by a disproportionately high number of relatively minor comments and suggestions many of which are based on unsubstantiated assertions of Early Intervention providers."

Auditor Comment: We prepared this report to reflect the audit's findings accurately with respect to the audit's objective. We have taken care to note those issues outside the audit objective that came to our attention; and we discuss those issues fully to document what we found in the course of the audit and to provide a clear basis for understanding the audit recommendations.

The full text of DOHMH's comments are included as an addendum to this report

FINDINGS AND RECOMMENDATIONS

Our review of DOHMH's Fiscal Year 2003 payments for early intervention services found that they were valid and accurate. DOHMH had adequate internal control procedures and segregation of duties for the authorization, delivery, and payment of services. Generally, adequate backup documentation exists to support provider payments, the correct billing information was submitted by the providers, and the correct amounts were used to calculate the service coordination units. However, DOHMH did not complete financial audits of service providers in a timely manner.

In addition, although not part of our audit objective, we note that many providers complained about the timeliness of payments for early intervention services. We also note that there were problems correcting errors within KIDS and that the system did not flag in a timely manner that needed insurance information was absent. These issues are discussed in greater detail in the following sections of the report and which warrant management's attention, but they did not affect our overall conclusion regarding the validity and accuracy of the DOHMH payments.

Financial Audits Not Completed in a Timely Manner

DOHMH does not ensure that financial audits conducted by independent CPA firms are completed in a timely manner. We requested 41 financial audit reports for Fiscal Years 1999—2003 for our sample of 30 service providers. Table I, below, shows when the audits for the 41 reports were completed.

Table 1

Completion of Financial Reports

Fiscal Year for Requested Reports	Number of Reports Requested	When Reports Were Completed
FY 1999	1	FY 2003
FY 2000	5	3 in FY 2004; 2 pending as of March 2005
FY 2001	3	3 in FY 2004
FY 2002	25	3 in FY 2003; 14 in FY 2004; 6 in FY 2005; 2 pending as of March 2005
FY 2003	7	4 in FY 2004; 3 in FY 2005

DOHMH procedures require CPA firms to conduct annual fiscal audits of service providers that receive annual early intervention payments of more than $50,000. The purpose of the financial audits is to ensure that all the payments were for authorized services delivered by

licensed professionals and supported by required documentation. The providers are required to reimburse DOHMH for any discrepancies found by the financial audits.

One of the above pending reports that we requested was for Fiscal Year 2002. Two CPA firms were conducting audits for this particular provider covering the last six fiscal years, back to Fiscal Year 1998. As of March 2005, the audit was still not completed and as a result we were unable to obtain the audit requested for Fiscal Year 2002. Performing audits six years after services were initially authorized makes it difficult to ensure that all of the required backup documentation is maintained by the providers.

According to §6.03 of the provider's contract with DOHMH, providers are required to maintain records up to six years from the date of service. However, one provider complained to us that it was impossible to trace back and recover documents that might go as far back as seven years and that as a result, the financial auditors cited the missing documentation as findings.

Although we did not find instances where revenue was lost, by not performing annual audits, DOHMH is not recouping money for bills paid in error until many years have passed, resulting in potential financial losses.

During the exit conference, DOHMH officials stated that they have upgraded their financial auditing procedures and that they are currently performing audits on a timelier basis.

DOHMH Response: "The mandate to perform 'annual audits' refers to audits of each year's claims, not the time frame of the audits themselves. For that reason, DOHMH is already in compliance with the recommendation that audits be done annually. [Emphasis in the original]

"We are adjusting our audit calendar to enable audits to be completed more quickly. We understand that it is in the best interest of all parties to identify any overpayments or internal control weaknesses in as timely manner as possible."

Auditor Comment: We are pleased that DOHMH agrees that for stronger internal controls, their annual audits need to be completed in a more timely manner.

Recommendation

1. DOHMH officials should ensure that its audit bureau conducts and completes financial audits annually.

DOHMH Response: "We generally agree with this recommendation, in that we believe that audits should be completed in as timely a manner as possible following the end of a particular fiscal year."

Other Matters

The objective of this audit did not include a review of the timeliness of payments made to service providers or a review of third-party insurance reimbursement for services. However, during the course of our audit, many providers complained about delays in entering information into KIDS. The providers felt that these delays resulted in a lack of the timeliness of payments for early intervention services. There are numerous potential reasons for these delays, such as problems with the entry of information into KIDS and delays in correcting errors in the system. However, since KIDS is not designed to keep track of the date that information is entered, we were unable to perform tests that could have identified the specific causes for these delays. In addition, we found that some information regarding private insurance coverage was not being entered into KIDS. These matters are discussed below:

> ***DOHMH Response*:** "Most of this section deals with comments made to the auditors by providers during a set of interviews. . . . Much of this uncorroborated information should be omitted altogether from the audit. . . . While we agree that it is difficult to track the date that information is entered into KIDS, we do not agree that the auditors were therefore unable to measure and analyze our data entry performance."
>
> ***Auditor Comment:*** Delays in payments for early intervention services were not part of our audit objective. However, due to the number of similar complaints we received from providers, we would have been remiss not to note them in the report and to recommend that DOHMH officials take corrective actions. The section is clearly designated "Other Matters." The report clearly discloses the audit work that we performed as well as audit tests we were not able to perform, given the limitations of the information in KIDS. The section also states rebuttals to the findings that DOHMH officials have made**.**
>
> Moreover, to measure and analyze DOHMH's data entry performance it was essential for us to have, as a starting point, the date that the information was entered into KIDS. DOHMH officials informed us that KIDS is not designed to keep track of the date that information is entered into the system. As a result, we were unable to analyze the timeliness of the data entry.

Delays in Entering Information into KIDS

Sixteen out of the 20[4] providers that we visited complained about delays in entering information into KIDS. The providers felt that problems with the entry of information into KIDS have led to delays in payments. Though to some degree each of the 16 providers complained

[4] Two providers had no complaints and although the other two providers complained of delays they did not have any specific areas of concern.

about delays in payments, four providers alleged that they were owed amounts ranging from $300,000 to $2.2 million. The amounts owed were dated as far back as 1993.

DOHMH Response: "It makes no sense to conclude that outstanding claims are attributable to data entry lags. As mentioned above, claims which cannot be accepted because of missing authorization data are pended and regularly recycled. They are not arbitrarily rejected."

Auditor Comment: We are aware that the delay in payments may be attributable to a number of factors, including data entry lags. DOHMH's statement that it pends claims that lack authorization data in fact confirms that there are delays in entering information into KIDS. DOHMH officials have a responsibility to enter the authorization into KIDS as soon as possible after the IFSP meeting. Failure to do so, delays the payment process even when services have started on time.

Our comparison of the number of children who were shown by DOHMH to be authorized for early intervention services during Fiscal Year 2003 to the number of children for whom payments were made during Fiscal Year 2003 revealed that providers received payments for 7,685 children who were not shown to be authorized to receive services for that fiscal year. These payments were for children who were referred for early intervention services from Fiscal Years 1993 through 2002. Of the 7,685 children, 3,665 (48%) were referred for services during Fiscal Years 1993 through 1999, and the remaining 4,020 children were referred for services during Fiscal Years 2000 through 2003. This further illustrates the problems with timeliness of payments for early intervention services.

DOHMH Response: "Of total FY03 payments for the 7,685 children, services rendered prior to FY99 accounted for 0.06% ($4,851 out of $8,019,680)."

Auditor Comment: We do not know how DOHMH officials obtained the dollar amount of $4,851 as the total amount of payments made for services rendered prior to Fiscal Year 1999. This information was never provided to us during the course of our audit. Moreover, DOHMH's assertion that it paid a total of $4,851 for 3,665 children during Fiscal Years 1993-1999 implies that it paid $1.32 per child. This cannot possibly be accurate in light of the fact that just one session for a child can range from $39 to $122.

DOHMH Response: "It is meaningless to compare payment dates to referral dates. A child may be referred at birth, and, depending on birth date, may stay eligible for EI services as long as three years and eight months."

Auditor Comment: We are aware that a child can stay in the system until the age of three years and eight months. We are also aware of the 18-month payment limitation that allows providers to receive payments for services rendered. Taking all of this into account, we divided the 7,685 children into two groups: 1993–1999 and 2000–20003. In doing so, we made allowances for a child to remain in the system from birth to four years

of age, as well as for payments to be made within 18 months of the service date. With this in mind, any child who was referred prior to 1999 should no longer be in the system, regardless of the service or referral dates.

The providers attributed the following concerns to delays in payments:

- Regional Offices not entering IFSP in timely fashion
- EIODs do not authorize services or changes in a timely manner
- Delays in entering service waivers in KIDS system
- Providers not paid for services after child ages out of program

To assess the validity of some of the providers' concerns regarding delays in entering information into KIDS, we tried to determine the length of time it took to have an approved IFSP entered into KIDS. However, since KIDS is not designed to keep track of the date that information is entered, we were unable to perform this test. DOHMH officials agree that this type of data is needed to analyze the length of time that it takes to process a case and to monitor delays.

We were informed during the course of our audit that the State Department of Health has issued an RFP to upgrade KIDS. For DOHMH officials to properly monitor the authorization and payment of provider services, they need to work with State officials on the upgrade of KIDS to allow for the inclusion of the date the IFSP and service authorization data is entered into KIDS.

DOHMH officials stated during the exit conference that they were in continuous contact with State officials in an effort to upgrade KIDS.

Regional Offices Not Entering IFSP Information into KIDS in Timely Fashion

Eight of the providers we visited felt that the regional offices were not entering the IFSP Information into KIDS in a timely fashion. The providers stated that they cannot get paid until the information is entered into KIDS. The providers further stated that this can take up to three months from the IFSP meeting. Four of the providers stated that they do not even bother submitting bills for services during the first three months of service provision; they know it will be rejected by the system until the IFSP information is entered.

One provider told us of a case in which it took almost one and a half years for a child's information to be entered into KIDS. By the time the information was entered, the deadline for submitting claims had passed, and First Health rejected the claim. Under this sort of circumstance, the providers are forced to write to the regional offices to consider making back payments because of circumstances beyond provider control. This requires additional investigation and further delays payments.

During the exit conference, DOHMH officials stated they felt that it usually takes four to six weeks for the IFSP information to be entered into KIDS.

DOHMH Response: **"**Three months is the maximum and only occurs in periods of extreme data entry backlog. It is not a typical occurrence.**"**

Auditor Comment: All 16 providers complained about the length of time it took DOHMH to enter information into the KIDS system. Eight of these providers specifically stated that it regularly took up to three months after the IFSP meeting for the information to be entered into KIDS. According to these providers, three months was the rule and not the exception.

DOHMH Response: "Providers claims for which there is no authorization are pended and paid when the authorization is entered. They are not rejected."

***Auditor Comment*:** While it is true that these claims are not rejected and may eventually be paid, the providers are concerned about the amount of time and resources they must expend without payment until the authorization is entered into KIDS and they finally are paid for their services.

EIODs Do Not Authorize Services or Service Changes in a Timely Manner

Five providers stated that often the delays in entering information and processing payments was due to unavailability of EIODs. Providers complained that there are only a few EIODs in each regional office, and that the EIODs visit the providers anywhere from once a week to twice a month to review and sign the IFSP, which is required for authorizing services. Providers felt that there is a tremendous problem in getting the authorized IFSP from the EIODs, especially in Brooklyn (where, unlike the other boroughs, each coordinator is assigned to a particular EIOD). Often, the EIODs take paperwork with them, and it takes weeks to get the paperwork back from them. Without the EIOD's authorization, the regional offices are unable to enter the information into KIDS. As a result, the providers cannot receive payment for their services.

Furthermore, providers stated that if a child is not entered into KIDS, the EIOD will not discuss the case. To further complicate matters, three months after the start of a case, there may be a new EIOD. The new EIOD may not understand the previous EIOD's work and will take some time to review the cases. This further delays resolution of cases.

DOHMH Response: "We do not believe that it is true that EIODs delay paperwork for weeks. The auditors had the opportunity to test this and did not."

Auditor Comment: Testing the length of time that EIODs took to process and authorize services was outside the scope of our audit. However, since five of the providers complained about delays in processing payments being caused by the unavailability of EIODs, we would have been remiss not to include this issue in the report. The report

therefore recommends that DOHMH officials investigate this matter and rectify any areas of concern.

Delays in Entering Service Waivers in KIDS

Four providers complained about the time that it takes regional office personnel to enter waiver information into KIDS, thereby further delaying the payment process. Sometimes, different types of services are authorized under the same code, rather than being authorized under individual service codes. If a provider submits claims for different services using the same code, only the first would be paid; the rest are denied or classed as pending. A waiver is written by the EIOD if the provision of services will violate billing rules and regulations. Providers are required to submit the waiver along with their claims for payments to First Health.

For example, services for special education and Teacher for Speech and Hearing Handicap are both recorded under the code "M." Even though they are two different services, the provider cannot submit two claims under the same code on one day; the second claim would be processed as a duplicate, and payment would be denied. Instead, the provider is required to submit a manual claim for the second service and attach the waiver. Providers complained that the delays in entering the waivers into KIDS contributed to the delays in the payment process.

DOHMH Response: "Waivers do not authorize the violation of billing rules and regulations. The SDOH requires waivers approved by the municipality in cases where the number of services to be delivered per day exceeds the standard SDOH guidelines."

Auditor Comment: During the exit conference, DOHMH officials stated that a waiver is written by the EIOD if the provision of services will violate billing rules and regulations. We quoted their statement verbatim in our report**.** Regardless of the definition of a waiver, four providers complained about the time that it takes regional office personnel to enter waiver information into KIDS, thereby further delaying the payment process.

Services and Service Changes Not Entered into KIDS Before or Soon After a Child Ages Out of the Program Are Usually Not Paid

Two providers complained about problems encountered with providing services to children who will soon age out of the program. The providers stated that when a child receiving services becomes too old for the program, DOHMH officials close the case after a few pay-cycles. If authorization for services the child has already received was not entered in the system before the case is closed, the provider may not get paid for those services.

Recommendations

DOHMH officials should:

2. Meet with providers to discuss the issues raised in this report and ways to improve the timeliness of payments.

   DOHMH Response: "DOHMH will actively investigate the provider-specific issues presented to the auditors, and will met with these providers as necessary to gain a greater understanding of their particular concerns, as we continue our commitment to ensuring timely and accurate payment for EI services."

3. Meet with appropriate State officials to discuss ways to reconfigure KIDS to better match DOHMH's needs.

   DOHMH Response: "DOHMH has met with State Officials since the inception of KIDS to request changes and provide feedback. Our comments were incorporated into the State's recent RFP for a new system. We anticipate meeting with the contractor that is ultimately selected by the State during the design, development and implementation process."

Problems Correcting Errors within KIDS

Seven of the providers that we visited complained about delays in correcting errors after the information was already entered into KIDS. They stated that it could take up to two years to resolve human errors that occurred during the entry of information. For example, one provider told us that DOHMH owes them $16,000 for services rendered to a child in Brooklyn. The child has a billing code of MAE (Special Instructions, Basic Home, Parent Child Group), rather than MAG (Special Instruction, Basic Home, Enhanced Group with 1:1 Aide), in the billing information in KIDS. It took one year to correct this error. The provider had to send the case file to the Director before the issue was resolved. After everything had been approved, the provider resubmitted the claim to First Health in March 2004, and as of August 31, 2004, was still awaiting payment. Providers complained that it becomes all the more confusing when there is an error in the billing and when the provider cannot submit the correction because the initial claim or information (needed to process it) has not been entered into KIDS.

The delays in correcting errors are a result of the way KIDS data and monitoring reports are produced and used by DOHMH. Every two weeks, First Health's computer system produces reports from information obtained from KIDS. These reports contain critical and non-critical data errors. Critical errors are bad data that the computer cannot use or process. Non-critical errors are those errors in which the KIDS could still process the data, but in which some records were incorrect or missing. DOHMH officials should review this report and take corrective action so as not to further delay payments to the providers.

The reports do not archive old data on cases as far back as 1994 or list errors chronologically. The report contains an enormous amount of data that cannot be used to its fullest capability. We requested a copy of the September 3, 2004 critical and non-critical error reports. The critical error report contained 229 pages, including 7,443 critical errors and 505,941 minor errors. The non-critical error report was 16,535 pages.

According to its officials, DOHMH can investigate a matter and take corrective action only after notification by a provider. They said that based on the current report format, they cannot determine whether the information in KIDS is accurate until a provider informs them of a problem.

During the exit conference, DOHMH officials told us that they had already met with First Health officials in an effort to redesign the contents of the report to make it more useful.

Recommendations

DOHMH officials should:

4. Ensure error reports archive old data and list only current errors chronologically.

   DOHMH Response: "We agree. Changes in the error reports have been requested of First Health."

5. Review error reports and ensure that any errors that may delay the billing process are immediately corrected in KIDS.

   DOHMH Response: "We agree, once the error reports have been reconfigured."

Missing Private Insurance Information Not Reported in a Timely Manner

KIDS does not flag, in a timely manner, that needed insurance information is absent. As a result, First Health officials are unable to successfully bill private insurance companies, leaving the City and State responsible for paying expenses that might have been covered by private insurance companies.

Though parents are not obligated to provide insurance information, the Initial Service Coordinator is responsible for obtaining insurance information for children who are enrolled in the Early Intervention Program. The information is needed for DOHMH to successfully bill private insurance companies for services provided. If bills for service are rejected by insurance companies because of missing information or errors with the insurance information provided, DOHMH has to resubmit the claim with the corrected information. Covered services not paid for by the insurance companies will be paid by the State and the City.

The NYCPTP01 report from KIDS lists all of the insurance information for children in the Early Intervention Program. The NYCPT01 report for September 3, 2004, denoted errors in 580 records, going back to 1995. As a result of errors indicated in the reports, First Health would not be able to bill those insurance companies unless complete insurance information was obtained.

Since the report did not show when children were enrolled in the Early Intervention program or identify errors in recent pay cycles, it was not possible to identify or rectify the errors within the time period allowed for rebilling the insurance company. Because of the way the system is currently designed, to identify and rectify the incorrect insurance information contained in KIDS, First Health must first bill a private insurance company and the claim must be denied for incomplete or inaccurate data. Without the correction of these errors, First Health is obliged to bill the City and State rather than the insurance company.

DOHMH Response: "This is not a report regularly received and used by the Department."

Auditor Comment: According to a DOHMH official, the report is not used by DOHMH because it contains too much useless information and is not usable in its current form. The DOHMH official stated that as a result of the way that the insurance information is currently maintained, there is a strong possibility that DOHMH could lose the opportunity to recoup money from insurance agencies. Better record keeping of a child's insurance information would allow DOHMH to recoup additional funds from private insurance as well as from Medicaid.

Recommendations

DOHMH officials should ensure that:

6. They work in conjunction with First Health to modify the NYCPTP01 report.

   DOHMH Response: "We disagree. This report is not used by DOHMH staff."

   Auditor Comment: According to a DOHMH official, the reason the report is not used by DOHMH is that it contains too much useless information and is not usable in its current form. It would be in DOHMH's best interest to modify the report so that officials could use it to recoup funds from private insurance companies and from Medicaid.

7. Ensure that Initial Service Coordinators obtain complete insurance information for children enrolled in the Early Intervention Program before services are billed.

DOHMH Response: "We agree, already in place. The Early Intervention provider contracts that are effective May 1, 2005 require both initial and ongoing service coordinators to collect and update private insurance information from families."

THE CITY OF NEW YORK
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May 25, 2005

Greg Brooks, Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007

Re: Audit of the Controls of Early Intervention Payments Made by the Department of Health and Mental Hygiene
Audit Number: MD03-174A

Dear Mr. Brooks:

The Department of Health and Mental Hygiene (DOHMH) is responding to the draft Audit of the Controls of Early Intervention Payments, dated May 9.

We are pleased that this audit finds that our payments for 2003 were valid and accurate, and that our procedures for authorization, delivery, and payment of services had adequate internal controls and segregation of duties. We are however concerned that these positive findings are followed by a disproportionately high number of relatively minor comments and suggestions, many of which are based on the unsubstantiated assertions of Early Intervention providers.

Attached to this letter are more detailed comments on the audit report and our response to each recommendation. We appreciate the courtesy and consideration of your audit staff in the performance of this audit. If you have any questions or need further information, please contact Thomas Hardiman, Director of Audits, at (212) 219-788-5285.

Sincerely,

Thomas R. Frieden, M.D., M.P.H.
Commissioner

TRF/ct

New York City Comptroller's Audit
of Early Intervention Payments
by the Department of Health and Mental Hygiene

Detailed Response by Department to Draft Report

I. Response to Report Narrative and Findings

Background (pp.3-5)

- The audit states that "all program services" are contracted out. In fact, the vast majority of services are contracted out but the Department has a small direct services unit which provides service coordination.

- The list of Early Intervention services should include transportation and respite care; the report says "special instructions" when "special instruction" is intended.

- The number of contracted service providers was approximately 200 during FY03, but is now 156.

- It would be appropriate to clarify that KIDS is not simply "provided" by the State, but State-mandated and State-controlled. We have no authority over this application beyond the data we enter.

- The statement (p.4) that *"[t]he Initial Service Coordinators, evaluators, and Ongoing Service Coordinators are independent contractors or employees of independent contractors"* should be modified as follows: "The vast majority of evaluators are independent contractors; service coordinators are typically employees of contracted agencies; and the Department has a small direct services unit which provides some service coordination."

- Prior to the child's turning age three, the parents are given the option of applying for a DOE preschool program. DOE determines eligibility. (The report says that parents have the option of transferring the child to various programs, including DOE's Special Education program.)

- The Department procures audits through a Request for Proposal (RFP) process, not a bidding process.

- The description of reports involving insurance information (p. 5) is not accurate. See below.

Scope and Methodology (pp. 5-7)

- The "Director of Operations" interviewed is an Early Intervention staff member; as written, it appears that the individual has the title for the entire agency.

- The auditors' activities (p. 6) to ensure that First Health "paid only for services provided to eligible children" involved an inappropriate comparison between children for whom payments were made during FY03, and those authorized to receive services during FY03. For paid claims, it would have been appropriate to compare the dates of service authorization to the dates of service. Claims were appropriately paid in FY03 for children authorized and receiving services in earlier years. This is discussed at length below.

Findings and Recommendations

Opening section (p. 8)

- There is a single paragraph with a general statement about the accuracy of our payments and the adequacy of controls. This is a literally accurate but unbalanced presentation, considering the actual scope of the audit and the extensive treatment of minor (and frequently unsubstantiated) matters which occupies the rest of the report.

- The auditors' tests of actual payment records should be more fully presented. They would provide appropriate balance to the unaudited allegations that the payment process is significantly affected by delays and errors in data entry.

    - In a program of this size there will of course be individual cases of error, some attributable to the provider, some to DOHMH. There are undeniably data entry delays as well.

    - Whether these problems are of significant magnitude is the real audit question, not whether they exist at all.

Financial Audits Not Completed in a Timely Manner (pp.8-9)

- The Department disagrees with this finding. It is standard practice to require books and records to be available for audit for six years. The auditors have failed to establish any loss or risk to the City attributable to the past policy of conducting audits for several years of claims at one time.

- The current set of Early Intervention audits is based on a solicitation which led to audit contracts registered in FY03, covering EI services for FY00-FY03. A group of audits of earlier years had been included in a procurement for which no award was made, and were carried forward to this solicitation. All the audits from this audit cycle are either completed or close to completion.

- The mandate to perform "annual audits" refers to audits of each year's claims, not the time frame of the audits themselves. For that reason, DOHMH is already in compliance with the recommendation that audits be done annually.

- The audit cites one provider's complaint that it "was impossible to trace back and recover documents that might go back as far as seven years." Section 6.03 of the provider agreement explicitly requires that records including supporting documents be kept for six years from the latest of three dates: the date of service, the date of billing, and the termination date of the agreement.

    - The City has an interest in ensuring that providers take seriously the records retention requirements in their agreements. The Early Intervention program is subject to audit by the State Department of Health. Such audits are currently taking place. Any providers unable to produce records during a State audit would put the City at risk of a disallowance.

- There is no basis for the statement on page 9: *"Although we did not find instances where revenue was lost, by not performing annual audits, DOHMH is not recouping money for bills paid in error until many years have passed, resulting in potential financial losses."* There are substantial administrative and cost savings involved in performing multiple years' audits at one time, and these mitigate the theoretical risk described here. As the auditors point out, there is no actual experience of failure to recoup by DOHMH, or more broadly, any adverse fiscal impact to the City.

- As mentioned on page 9, we are adjusting our audit calendar to enable audits to be completed more quickly. We understand that it is in the best interest of all parties to identify any overpayments or internal control weaknesses in as timely a manner as possible. While we believe that our current audit approach is reasonable given the historical level of risk for this program, further improvements in audit timeliness can only benefit DOHMH.

Other matters

- Most of this section deals with comments made to the auditors by providers during a set of interviews. When DOHMH asked the auditors for additional information and documentation concerning many of the specific provider allegations, the auditors stated that they had not obtained any detail or inspected any documents that would support the allegations.

    - While it is legitimate to speak to providers and hear their concerns, the report should be redrafted to state explicitly that the issues raised were not submitted by the providers in writing, and were not corroborated by the auditors.

- Much of this uncorroborated information should be omitted altogether from the audit.

- The audit states that the providers "felt" that data entry delays *"resulted in a lack of the timeliness of payments for early intervention services."* (p. 9) No doubt this is an accurate statement of the opinions of providers. Nevertheless, the audit fails to establish that payments of valid claims were unreasonably delayed, fails to specify the nature and extent of data entry delays, and fails to develop either a conceptual or actual link between data entry delays and payment delays.

    - Any third party reimbursement system will have some delays as new information is entered. DOHMH does not disagree that there are some time lags here. However, there are frequently billing lags on the provider side as well.

    - The First Health system is set up to pend claims that cannot be approved because authorization data is missing. These are automatically recycled and paid as soon as data entry is complete. There is no evidence that our data entry lags are responsible for anything other than cash flow lags (measurable in weeks) for services provided in accordance with new or renewed authorizations.

- While we agree that it is difficult to track the date that information is entered into KIDS, we do not agree that the auditors were therefore unable to measure and analyze our data entry performance. This could have been done by performing appropriate testing during the period of this audit, which lasted over eighteen months. The auditors could have attempted to validate the allegations made by providers and cited here. Lacking such validation, the allegations belong in footnotes or a separate management letter, or might simply have been discussed at the exit conference. Placing them uncritically in the audit report gives them a higher level of credibility than they deserve, and also creates the appearance that the Comptroller's auditors have independently verified their accuracy.

- The audit states that "to some degree each of the 16 providers complained about delays in payments, four providers stated that they were owed amounts ranging from $300,000 to $2.2 million. The amounts owed were dated back to 1993."

    - The auditors should insert the word "allegedly" owed in the second sentence quoted above. They Comptroller did not request or present evidence that these numbers reflect valid claims against the City.

    - Quite apart from the validity of the allegations about money owed to providers, it is inappropriate for the auditors to present any arguments as to why this money might be owed, because the providers were not asked to explain what these amounts represent or why they remain outstanding. For example, do they represent children or services wrongly listed as not

authorized, do they represent claims rejected without explanation, do they represent claims which were not submitted timely for reasons beyond the control of the provider, do they represent current claims currently in process or in dispute, etc.?

- In any event, it makes no sense to conclude that outstanding claims are attributable to data entry lags. As mentioned above, claims which cannot be accepted because of missing authorization data are pended and regularly recycled. They are not arbitrarily rejected.

- After the exit conference, DOHMH was given the names of the four providers that stated they were owed money. The Department's initial investigation showed the following:

  - The provider identified as having claims going back to 1993 had been given the opportunity to resubmit the claims as part of the FY2001 backlog project and was reimbursed for those claims that were deemed valid. Any additional claims by this provider for this period have been reviewed and rejected.

  - One provider had never notified DOHMH of payment issues. The Department is actively examining the issues of this provider, as well as the other two, and determining which amounts are legitimately owed.

- The audit states: *"Of the 7,685 children, 3,665 (48%) were referred for services during FY93 through FY99, and the remaining 4,020 children were referred for services during FY00 through FY03. This further illustrates the problems with timeliness of payments for early intervention services."* (p. 10)

  - Of total FY03 payments for the 7,685 children, services rendered prior to FY99 accounted for 0.06% ($4,851 out of $8,019,680).

  - It is meaningless to compare payment dates to referral dates. A child may be referred at birth, and, depending on birth date, may stay eligible for EI services as long as three years and eight months.

  - It is common and proper for payments in a fiscal year to be for services performed in prior fiscal years. Compliant with FY03 state regulations, the Department has implemented a payment limitation of 18 months from the date of service, for invoices that were received within 180 days of the date of service. Exceptions beyond the 18-month limit are approved on a case-by-case basis.

  - Additionally, an SDOH-approved backlog project was concluded in FY03, which covered services for FY99 through FY01 and was targeted at

resolving provider billing errors that remained outstanding. This explains why there were large amounts of payments for these years.

- The audit states that entry of IFSP information *"can take up to three months from the IFSP meeting."* (p. 11)
    - Three months is the maximum and only occurs in periods of extreme data entry backlog. It is not a typical occurrence.

- *"Four of the providers stated that they do not even bother submitting bills for services during the first three months of service provision; they know it will be rejected by the system until the IFSP information is entered."* (p. 11)

    - Provider claims for which there is no authorization are pended and paid when the authorization is entered. They are not rejected. Providers are advised to bill promptly.

- We do not believe that it is true that EIODs delay paperwork for weeks by taking it home. (p. 11) The auditors had the opportunity to test this and did not.

- There is no policy preventing EIODs from discussing cases not yet entered in KIDS. (p. 11)

- *"A waiver is written by the EIOD if the provision of services will violate billing rules and regulation."* (p. 12) This is a misstatement. Waivers do not authorize the violation of billing rules and regulations. The SDOH requires waivers approved by the municipality in cases where the number of services to be delivered per day exceeds the standard SDOH guidelines. This is often necessary for children who require an intensive level of services (e.g., children with autism).

- Neither KIDS nor the First Health systems prohibit payments for authorized services to be made after a case is closed. (p. 12) The only restriction is that the payment must be for a service that was delivered prior to the date of closure.

- The audit devotes a section to an alleged problem concerning incomplete insurance information, based on a First Health report that shows 580 children with incomplete information going back to 1995. This is not a report regularly received and used by the Department. It may be a report used by First Health, which has established successful procedures for resolving billing problems on a case-by-case basis along with the DOHMH EI Fiscal Unit. To our knowledge, these procedures were not reviewed during the audit.

    - Based on a review of the report, it appears that a large percentage of the children either were deemed ineligible for service or were Medicaid recipients. In the former case, there would have been no reason to complete the insurance information. For Medicaid recipients, the

insurance fields in KIDS may have been partially completed in error, since most Medicaid children have no private insurance.

- The relatively small number of 580 children over eight years appears therefore to be a substantial overstatement of the magnitude of this issue.

- EI Fiscal staff work closely with First Health staff to review insurance information in order to increase the reimbursement amount received from insurance companies. In that regard, the EI Fiscal unit will be hiring additional staff in FY06 for the purpose of maximizing private insurance reimbursement.

II. Recommendations

1. *DOHMH officials should ensure that its audit bureau conducts and completes financial audits annually.*

Response: We generally agree with this recommendation, in that we believe that audits should be completed in as timely a manner as possible following the end of a particular fiscal year.

However, as described earlier, it is often more expedient to audit several years' of records at once. Also, unexpected events concerning award and execution of contracts with private audit firms, and/or service provider issues, can prevent audits from being completed in as timely a manner as we would desire.

Our next EI audit solicitation will address FY04 through FY07, and we expect to have audit contracts in place by the end of FY06. Thus, we expect that a substantial portion of audits for FY05 and all audits for FY06 and FY07 will be completed within 12 months following the end of these fiscal years.

2. *DOHMH should meet with providers to discuss the issues raised in this report and ways to improve the timeliness of payments.*

Response: Partially agree. DOHMH will actively investigate the provider-specific issues presented to the auditors, and will meet with these providers as necessary to gain a greater understanding of their particular concerns, as we continue our commitment to ensuring timely and accurate payment for EI services.

3. *DOHMH should meet with appropriate State officials to discuss ways to reconfigure KIDS to better match DOHMH's needs.*

Response: We agree, done prior to audit.. DOHMH has met with State officials since the inception of KIDS to request changes and provide feedback. Our comments were

incorporated into the State's recent RFP for a new system. We anticipate meeting with the contractor that is ultimately selected by the State during the design, development and implementation process.

4. *DOHMH officials should ensure error reports archive old data and list only current errors chronologically.*

Response: We agree. Changes in the error reports have been requested of First Health.

5. *DOHMH officials should review error reports and ensure that any errors that may delay the billing process are immediately corrected in KIDS.*

Response: We agree, once the error reports have been reconfigured.

6. *DOHMH officials should ensure that they work in conjunction with First Health to modify the NYCTP01 report.*

Response: We disagree. This report is not used by DOHMH staff.

7. *DOHMH officials should ensure that Initial Service Coordinators obtain complete insurance information for children enrolled in the Early Intervention Program before services are billed.*

Response: We agree, already in place. The Early Intervention provider contracts that are effective May 1, 2005 require both initial and ongoing service coordinators to collect and update private insurance information from families.