

December 15, 1995

Ms. Jeannette Conte, Vice President
Empire Blue Cross & Blue Shield
New York State Division
11 Corporate Woods Boulevard
Albany, NY 12211

Re: New York State Health Insurance Program
Coordination of Workers' Compensation
Coverage
Report 95-S-124

Dear Ms. Conte:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we audited selected medical claims processed on behalf of the New York State Health Insurance Program's Empire Plan (Plan). The scope of our financial related/compliance audit was a review of claims paid by Empire Blue Cross and Blue Shield (Empire Blue Cross) during the period January 1, 1990 through March 31, 1994. Our objective was to address the following question:

- ! Have Plan claims been properly coordinated with insurance carriers providing workers' compensation coverage to ensure the claim payments are appropriate?

Summary Results of Audit

We found that Empire Blue Cross' procedures for identifying work-related claims through participation in the Workers' Compensation Board's (Board) match program are generally adequate. However, we found that Empire Blue Cross officials did not promptly return to the State nearly \$565,000 they had recovered as a result of their matches with the Board. We also found that Empire Blue Cross needs to work more closely with other insurance carriers in the Plan to maximize the identification of claims resulting from work-related injuries. We made recommendations to address these matters.

We provided preliminary reports of our audit findings to Empire Blue Cross officials. We considered their comments in preparing this report. Generally, Empire Blue Cross officials agree with our findings.

Background

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for over 745,000 active and retired State employees and dependents. The Program also covers almost 326,000 active and retired employees and dependents of local governmental units and school districts that elect to participate. These entities are referred to as Participating Agencies (PAs). The Department of Civil Service (Department) contracts with insurance

carriers to provide all aspects of health insurance coverage, and is responsible for managing and administering the Program. The Plan is the Program's primary health benefit plan, providing services at a total annual cost exceeding \$1.4 billion. The Plan's medical/surgical and major medical coverage is administered by the Metropolitan Life Insurance Company (Metropolitan), which processes all Plan claims at its facility in Kingston, New York. The Plan's hospitalization coverage is administered by Empire Blue Cross, which processes all Plan claims at its facility in Albany, New York.

The Plan's insurance carriers are contractually obligated to coordinate health insurance benefits with third party insurers. To the extent that the Plan's carriers identify medical claims which are fully or partially reimbursable through other insurance companies, Plan expenditures are reduced. This is important because the Plan's contracts with its insurance carriers are experience rated, meaning that increases in Plan expenditures may be reflected in higher premiums paid by the State, PAs and enrollees. Additionally, an accurate accounting of the Plan's expenditures is essential for meaningful planning and benefit package design purposes.

The State's Workers' Compensation Law requires that employers provide medical coverage for work-related injuries or illnesses. State employers (excluding authorities) in the Executive, Legislative and Judicial branches provide coverage through a contract with the State Insurance Fund (Fund). Authorities and local government employers provide coverage through self-insurance or separate contracts with workers' compensation insurance carriers. The Plan's contracts with Metropolitan and Empire Blue Cross specifically exclude payment for claims that are the result of work-related accidents or illnesses. To ensure that claims are paid appropriately, coordination with insurance carriers providing workers' compensation coverage is required.

Section 13 of the Workers' Compensation Law was amended effective 1990 to create the Health Insurance Matching Program (match program) which provides a voluntary means for health insurers and health benefit plans to identify claims they paid which may be the responsibility of the Fund or another workers' compensation insurance carrier. A function of the Board is to receive and maintain reports of all work-related injuries. For a fee, the Board conducts computer searches for the health insurers and health benefit plans to assist them in identifying and obtaining reimbursement for claims that may have resulted from work-related accidents or illnesses. However, the Board imposes a three-year "window" on the computer searches (i.e., claim payment dates must be within three years of the date claims are submitted to the Board for matching). The "window" does not apply to the recovery of payments. To minimize the fees for matching, the Plan's insurance carriers only submit claims they deem have a potential to be identified as workers' compensation claims.

In 1991, the Department authorized the Plan's carriers to participate in the Board's match program and, since May 1992, has been actively seeking the Board's approval for the sharing of workers' compensation information among carriers. Also, in 1994, the Department initiated a project to provide the Plan's insurance carriers with Fund computerized data on a monthly basis. The purpose of this initiative is to allow the carriers to identify potential workers' compensation cases before claims are paid or soon thereafter to facilitate cost recovery. However, because the Department's contract with the Fund includes only State employees, the data provided to the Department and the carriers is not comprehensive (i.e., employees of PAs are excluded).

Empire Blue Cross has been an active participant in the match program. For example, Empire Blue Cross matched claims with the Board's records for the period July 1, 1987 through December 31, 1991. As a result of these matches, Empire Blue Cross recovered nearly \$565,000 from the Fund and other workers' compensation insurance carriers. In addition, Empire Blue Cross is preparing to match more current claims.

Audit Methodology

We reviewed recoveries made by Empire Blue Cross for work-related claims to determine whether these recoveries were properly credited to the State. We also reviewed Empire Blue Cross' and Metropolitan's procedures for exchanging workers' compensation information. For example, we compared work-related claims identified by Empire Blue Cross' match with Board records to claims paid by Metropolitan to determine whether an exchange of information would have identified work-related claims.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included within our audit scope. Further, these standards require that we understand the internal control structure and review compliance with applicable laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In planning and performing our audit, we considered Empire Blue Cross' internal control structure. Our consideration of the internal control structure focused on administrative controls, which are defined as the procedures that are concerned with the decision-making processes leading to management's authorization of transactions. Specifically, these controls relate to claim payment decisions involving the coordination of workers' compensation coverage. Our audit identified improvements needed in these areas, which we further describe in the sections of this report titled, "Empire Blue Cross Recoveries" and "Coordination Among the Plan's Insurance Carriers." We also brought certain additional matters to the Department's attention under separate cover.

We used a risk-based approach when selecting activities to be audited. This approach focuses on those operations that we identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may

be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

This report was prepared under the direction of Robert Blot, David R. Hancox, Kevin McClune, and Ronald Pisani. Major contributors were Dennis Buckley and Richard Thomas.

1. **Empire Blue Cross Recoveries**

Empire Blue Cross officials advised us on December 1, 1994 that they have recovered \$564,576 as a result of their computer matches with the Board. However, as of January 1995, none of this amount had been returned to the State although, according to Empire Blue Cross officials, about \$206,000 of this amount had been recovered as of February 1994 (about 11 months prior). In response to our preliminary report, Empire Blue Cross officials informed us that a credit for this amount would be reflected in the Plan's 1994 financial settlement report. However, the officials should implement procedures to ensure that future Plan-related recoveries are promptly returned to the State.

2. **Coordination Among the Plan's Insurance Carriers**

Although the Plan's insurance carriers are willing to exchange information regarding work-related accidents or illnesses obtained through the Board's match program, the Board has not allowed them to do so. Additionally, we found that the carriers do not share information they obtain from sources other than the Board's match program. As a result, the carriers may be paying claims for enrollees that have already been identified by the other Plan carriers as involving a work-related accident or illness and eligible for workers' compensation benefits. For example, we identified 3,108 claims totalling \$275,207 which Metropolitan had paid, although Empire Blue Cross had found through the Board's match program that the enrollees involved had reported work-related injuries or accidents to the Board. Payment of these claims may have been prevented if the carriers exchanged the necessary information. We are bringing the matter of the Board's restriction on sharing data to the Department's attention under separate cover. In the meantime, the carriers should research methods to share information concerning work-related accidents or illnesses which come to their attention from sources other than the Board's match program.

In a related matter, we found that the criteria used by the carriers to identify work-related claims are inconsistent. For example, 27 percent of the diagnoses that Metropolitan focuses on to identify potential work-related claims are specifically excluded by Empire Blue Cross because Empire Blue Cross officials, believe that these diagnoses are unlikely to be work-related. We identified inconsistencies but did not attempt to determine the appropriateness of the carriers' criteria. We recognize that differences exist with the types of claims the two carriers process.

However, we believe the Plan needs a comprehensive and coordinated approach to ensure that claims are properly coordinated with insurance carriers providing workers' compensation coverage.

Recommendations

1. *Implement procedures to ensure Plan-related recoveries are promptly returned to the State.*
2. *Continue to pursue methods for exchanging work-related claims information with the Plan's other insurance carriers.*
3. *Work with the Plan's other carriers to develop claim selection criteria that provides a comprehensive and coordinated method to ensure Plan claims are properly coordinated with workers' compensation coverage.*

We would appreciate receiving your response to the recommendations made in this report within 90 days, indicating any action planned or taken to implement them.

We wish to express our appreciation to the management and staff of Empire Blue Cross for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: P. Woodworth
G. Sinnott