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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

November 3, 1997

Mr. William McGuire  
President, Chairman and Chief Executive Officer  
United HealthCare Corporation  
9900 Bren Road East  
Minnetonka, MN 55343

Re: New York State Health Insurance Program  
Coding Fragmentation Review Program  
(Radiological Claims)  
Report 96-S-64

Dear Mr. McGuire:

According 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 compliance audit was a review of claims paid by MetraHealth Service Corporation (MetraHealth) during the period January 1, 1992 through December 31, 1995. Recently, United HealthCare Corporation acquired MetraHealth Service Corporation. Our objective was to determine whether MetraHealth properly applied its Coding Fragmentation Review Program (CFRP) to ensure that certain radiological claim payments were appropriate.

**Summary Results of Audit**

MetraHealth officials reported that the CFRP saved the Plan almost \$42.6 million during the three years ended December 31, 1995. However, we found that improvements are needed in the implementation of the CFRP to ensure claim payments are appropriate. We found that MetraHealth claims approvers did not prevent or detect numerous cases of coding fragmentation, as defined in the background section of this report. We estimated that, during the four years ended December 31, 1995, MetraHealth paid at least \$1.35 million in claims that should have been disallowed according to CFRP guidelines. We recommend that MetraHealth officials remit these improper payments to the State and strengthen their claims payment procedures to prevent or detect future cases of coding fragmentation.

We provided preliminary reports of our audit findings to MetraHealth and Department of Civil Service officials. MetraHealth officials disagree with most of our findings, while Department of Civil Service officials disagree with some of our findings. We considered the comments of these officials in preparing this report.

## **Background**

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for 760,000 active and retired State employees and dependents. The Program also covers 340,000 active and retired employees and dependents of local governmental units and school districts that elect to participate in the Program. 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 \$1.6 billion.

The Plan's medical/surgical and major medical coverage is administered by MetraHealth, which processes all Plan claims at its facility in Kingston, New York. During the four years ended December 31, 1995, MetraHealth paid approximately 21.3 million claims totaling almost \$2.54 billion.

Health industry experts have cited widespread fraud and abuse as major reasons for the rise in health care costs. One category of fraud and/or abuse is coding improprieties, such as "coding fragmentation" (or "unbundling"). Coding fragmentation occurs when the health care provider bills separately for the components of a complex medical procedure, as well as billing for the comprehensive procedure.

In an effort to detect and prevent coding fragmentation, MetraHealth officials established the CFRP. The CFRP, an addition to MetraHealth's claims processing system, identifies procedures that are commonly unbundled and attempts to prevent improper payments for these procedures. The CFRP is divided into four main categories: surgical, laboratory, radiological, and general medical services. This audit focused on the radiological category. Our prior audit report (95-S-88), issued April 1997, focused on the surgical category.

## **Audit Methodology**

To identify and quantify claims which were paid improperly as the result of coding fragmentation, we designed computer programs which incorporated guidelines from the CFRP. We identified cases which appeared to violate these guidelines and presented examples to MetraHealth officials. Because MetraHealth officials cited several factors, such as medical complications, which could make apparently improper claims actually valid, we selected a stratified statistical sample of the potentially improper claims. We reviewed the claims in our sample with MetraHealth officials to determine whether charges were actually unbundled and, if they were, what factors caused the unbundling to occur.

We did our audit according to generally accepted government auditing standards. Such

standards require that we plan and do 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 the 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 doing our audit, we considered MetraHealth's internal control system. Our consideration of the internal control system focused on controls related to claim payment decisions. Our audit identified improvements needed in these areas which we further describe in the section of this report titled "Payments for Fragmented Claims."

We use 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.

### **Payments for Fragmented Claims**

Analyzing MetraHealth's claim history data for January 1, 1992 through December 31, 1995, we identified 39,246 cases of potential fragmentation. Using stratified statistical sampling techniques, we selected 457 of these cases and discussed the cases with MetraHealth officials to determine whether they were properly paid.

After reviewing the 457 sampled cases with MetraHealth officials, we determined that 228 were paid improperly. Projecting our sample results to the total population, we estimated that MetraHealth approved at least 24,469 improper charges totaling at least \$1,353,968 in overpayments. The reasons for the 228 improper payments were as follows:

A) MetraHealth officials agreed that claims processors had improperly departed from CFRP guidelines in 33 cases.

B) In 327 cases of the cases selected for review, the claims preceded MetraHealth's implementation of the CFRP guidelines. Claims approvers properly adjusted payments in 143 of these cases to prevent coding fragmentation; the remaining 184 cases were paid improperly. The large number of proper payments demonstrates that some of MetraHealth's claims approvers were aware that certain procedure codes should not be paid together. If some claims approvers were able to identify these situations and prevent the improper payments, MetraHealth should have implemented the radiological component of the CFRP much earlier than May 1994. Furthermore, once the radiological component was implemented, MetraHealth should have examined past claims to identify and recover

any improper payments that were not previously identified.

Similar to their response to our findings in Report 95-S-88 addressing surgical claims, MetraHealth officials stated that the CFRP was not designed to be applied retroactively. However, MetraHealth, as a contractor to the State, has a fiduciary responsibility to ensure that it pays medical claims correctly. The improper billing practices we identified existed prior to MetraHealth's establishment of edits to detect the practices. When they implement new edits, MetraHealth officials should make every effort to recoup past improper payments.

C) When Medicare is the primary payer of benefits, MetraHealth pays the remainder of the Medicare-approved amount, regardless of whether the claim conflicts with CFRP guidelines. We found eight cases where MetraHealth bypassed its guidelines to pay Medicare claims, thus resulting in overpayments.

Similar to their response to our findings in Report 95-S-88, MetraHealth officials told us that the Plan's contract requires payment of the remainder of the Medicare-approved amount. However, the contract states "... Covered Medical Expenses will be reduced by the amount paid by Medicare and the balance [will be] considered for payment" [underscore added for emphasis]. The contract also states "covered expenses will be based on either the provider's reasonable charge or the amount approved by Medicare." Therefore, the contract does not require payment of the entire balance of a claim simply because Medicare had previously approved it.

MetraHealth designed the CFRP edits to detect improper billings. Relying on Medicare's edit system, which the U.S. General Accounting Office has criticized specifically for not detecting coding fragmentation, is not appropriate. Furthermore, paying Medicare and non-Medicare claims differently is discriminatory.

D) The State's contract with MetraHealth states that payments to non-network providers cannot exceed the lesser of the billed amount or the "reasonable and customary" charge. In three cases involving non-network providers, the billings were clearly fragmented. However, MetraHealth claims processors combined the amount billed for the improper procedure with the proper procedure billing. MetraHealth then compared this amount with the "reasonable and customary" charge for the proper procedure. This practice resulted in overpayments to these providers.

Similar to their response to our findings in Report 95-S-88, MetraHealth officials stated that they cannot expect providers to tailor their billing to meet Plan edits. Department of Civil Service officials agreed with MetraHealth's practice. They added that MetraHealth's approach complies with the Department's intent not "to deny benefits to enrollees for medically necessary covered services simply because the provider has billed each procedure separately rather than combining the procedures under one code."

MetraHealth can and should expect providers to bill appropriately by not unbundling complicated procedures. In the three cases we cited, the enrollees received necessary medical services; however, the providers inappropriately manipulated their billings to maximize reimbursement. Preventing providers' excessive charges from improper billing does not constitute a denial of benefits

to enrollees.

**Recommendations**

1. *Remit to the State improper payments of \$1,353,968 resulting from coding fragmentation.*
2. *Enforce CFRP guidelines consistently, amending the guidelines when necessary.*
3. *When new edits are implemented, examine prior claims to identify and recover any improper payments.*

Major contributors to this report were William Challice, David R. Hancox, Frank Russo, Ronald Pisani, Joel Biederman and Phil Gadomski.

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 MetraHealth for the courtesies and cooperation extended to our auditors during this examination.

Yours truly,

Carmen Maldonado  
Audit Director

cc: George Sinnott, Department of Civil Service  
Patricia Woodworth, Division of the Budget  
Mark Kelley, MetraHealth Service Corporation