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STATE COMPTROLLER



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OFFICE OF THE STATE
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March 15, 1999

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

Re: Report 98-F-57

Dear Mr. McGuire:

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 reviewed the actions taken by officials of United HealthCare Corporation (UHC), as of January 7, 1999, to implement the recommendations included in our prior audit report 96-S-64, *New York State Health Insurance Program, Coding Fragmentation Review Program (Radiological Claims)*. This report, issued November 3, 1997, focused on UHC's payment of certain radiological claims.

Background

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for over 750,000 active and retired State employees and dependents. The Program also covers over 280,000 active and retired employees and dependents of local governmental units and school districts that elect to participate. The Department contracts with insurance carriers to provide all aspects of health insurance coverage, and is responsible for managing and administering the Program. The Empire Plan (Plan) is the Program's primary health benefit plan, providing services at a total annual cost of almost \$1.6 billion.

The Plan's medical/surgical and major medical coverage is administered by UHC, which processes all Plan claims at its facility in Kingston, New York. During the three years ended December 31, 1997, UHC paid over 20 million claims totaling almost \$2.1 billion.

Health industry experts have cited widespread fraud and abuse as major reasons for rising health care costs. One category of fraud and/or abuse is coding improprieties, such as "coding fragmentation" (or "unbundling"). In this type of fraud, 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, UHC officials established the Coding Fragmentation Review Program (CFRP). The CFRP, an addition to UHC'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. Audit report 96-S-64 addressed the radiological category.

Summary Conclusions

In our prior audit report, we found that UHC claims approvers did not prevent or detect numerous cases of coding fragmentation. Although our analysis was limited to one of the four categories of the CFRP (radiological claims), we estimated that, during the four years ended December 31, 1995, UHC paid at least \$1.35 million in claims that should have been disallowed according to CFRP guidelines. We recommended that UHC officials remit the amount of these improper payments to New York State and strengthen their claims payment procedures to prevent or detect future cases of coding fragmentation.

In our follow-up review, we found that UHC officials did not remit to New York State the \$1.3 million of overpayments we identified and did not modify their claims payment procedures to prevent or detect future cases of coding fragmentation. UHC officials cited various reasons for disagreeing with 209 of the 228 sample cases we determined were overpaid. UHC officials have remitted \$2,841 of the \$4,054 for the 19 cases in our sample which they agreed were overpaid. However, their quarterly cost recovery reports indicate that they do not intend to remit projected overpayments related to our statistical sample of claims. We continue to assert that all 228 cases cited were paid incorrectly based on UHC's own CFRP guidelines, and the full amount of the projected overpayments should be remitted to New York State.

Summary of Status of Prior Audit Recommendations

UHC officials have not implemented our prior audit recommendations.

Recommendation 1

Remit to the State improper payments of \$1,353,968 resulting from coding fragmentation.

Status - Not Implemented

Agency Action - UHC officials stated that they do not intend to remit projected overpayments because, for various reasons, they disagree with 209 of the 228 sample cases cited as overpaid in our prior audit report. The reasons for UHC officials' disagreement were included in the prior audit report and the 90-day response; UHC officials have not changed

their position on these issues.

Recommendation 2

Enforce CFRP guidelines consistently, amending the guidelines when necessary.

Status - Not Implemented

Agency Action - Since they maintain that they pay most claims correctly, UHC officials stated that they saw no reason to change their CFRP enforcement policies and procedures. They stated, however, that they continue to modify CFRP guidelines as appropriate, in accordance with generally accepted medical standards as determined by the American Medical Association.

Recommendation 3

When new edits are implemented, examine prior claims to identify and recover any improper payments.

Status - Not Implemented

Agency Action - Since they maintain that they paid most claims correctly, UHC officials stated that they saw no reason to change their application of CFRP guidelines.

Contributors to this report were Frank Russo, Ronald Pisani and Joel Biederman.

We would appreciate receiving your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report. We wish to express our appreciation to the management and staff of UHC for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Robert L. King, Division of the Budget
George Sinnott, Department of Civil Service
M. Laurie Wasserstein, United HealthCare Corporation