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STATE COMPTROLLER

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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 11, 2000

Michael A. Stocker, M.D.
President and Chief Executive Officer
Empire Blue Cross Blue Shield
1 World Trade Center
New York, New York 10048-0682

Mr. Channing Wheeler
Chief Executive Officer
United HealthCare Service Corporation
450 Columbus Boulevard
Hartford, CT 06115-0450

Re: Report 2000-F-20

Dear Dr. Stocker and Mr. Wheeler:

Pursuant to the State Comptroller's authority as set forth Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of Empire Blue Cross Blue Shield (Empire Blue Cross) and United HealthCare Service Corporation (UHC), as of July 12, 2000, to implement the recommendations contained in our audit report, *New York State Health Insurance Program Coordination of Medicare Coverage* (Report 98-S-17). Our report, which was issued on March 8, 1999, reviewed the effectiveness of the Empire Plan's (Plan) system for coordinating Medicare coverage for Plan enrollees and their spouses and dependents, focusing on medical claims of Plan members for the year that ended on December 31, 1997.

Background

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for over 766,000 active and retired State employees and dependents. The Program also covers over 359,000 active and retired employees and dependents of local governmental units and school districts that elect to participate. 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 Empire Plan is the Program's primary health benefit plan, providing services at a total annual cost exceeding $1.9 billion. The Department contracts with Empire Blue Cross to administer the hospitalization portion of the Plan and with UHC to administer major medical coverage. During the year ended December 31, 1999, Empire Blue Cross approved over 724,000 claims totaling over $570 million and charged the State more than $26 million for administrative and other related expenses. During this period, UHC approved over 8 million claims totaling more than $710 million and charged the State $90.7 million for administrative and other related expenses.

Medicare is a Federal health insurance program created in 1965 to provide medical coverage for people aged 65 or older. In 1973, Congress passed legislation to extend Medicare coverage to those who are disabled or suffer from chronic renal failure. For eligible persons, Medicare hospital insurance (Part A) is premium-free, and it pays most costs of inpatient hospital care and medically necessary care in a skilled nursing facility, hospice or home health care setting. Medicare medical insurance (Part B), which helps pay for doctor and outpatient hospital services and other products and services not covered by Part A, requires eligible persons to enroll and pay monthly premiums. Medicare requires individuals and providers of care to submit claims for payment timely (within 15 to 27 months, depending on the date of service).

When Plan members, including covered spouses and dependents, become eligible for Medicare coverage, Medicare becomes the primary payer of their medical expenses. Thus, by identifying Medicare-eligible Plan members, and coordinating payment of their claims with Medicare, the Plan can reduce its expenditures.

Summary Conclusions

In our prior audit, we found that because of weaknesses in the Plan's system for identifying Medicare eligibility, Empire Blue Cross and UHC paid claims totaling $1.7 million, which Medicare should have paid.

In our follow-up review, we found that Empire Blue Cross officials recovered $887,000, which falls within the dollar range of claims we estimated that Medicare should have paid. UHC officials recovered $278,000, which is significantly less than the dollar range of claims we estimated that Medicare should have paid. We also found that the Department has established an agreement with the Federal Health Care Financing Administration (HCFA) for acquiring Medicare eligibility data. This data would allow the Plan's carriers to more accurately coordinate claims with Medicare. However, because eligibility data has not been received from HCFA, the Plan's will carriers continue to pay claims that Medicare should pay.

Summary of Status of Prior Audit Recommendations

In our prior report, we made two recommendations that were directed to both Empire Blue Cross and UHC officials. Empire Blue Cross officials have fully implemented one recommendation and partially implemented the other. UHC officials have partially implemented both recommendations.

Follow-up Observations

Recommendation 1

Recover costs for Medicare-eligible claims from the appropriate parties and remit the recoveries to the Plan.

Status Empire Blue Cross - Fully Implemented
United HealthCare - Partially Implemented

Agency Action - In our prior audit, we estimated that Empire Blue Cross paid between $825,000 and $1,013,000 in claims that Medicare should have paid. Empire Blue Cross officials indicated that they recovered $887,145, which is within this range.

In our prior audit, we also estimated that UHC paid between $660,000 and $1,015,000 in claims that Medicare should have paid. UHC officials indicated that they investigated and attempted to recover these overpayments. However, UHC officials have recovered only $278,495 of the overpayments we identified.

Recommendation 2

Continue working with the Department to develop a comprehensive system of procedures and internal controls to ensure that all Medicare-eligible claims are processed appropriately.

Status Empire Blue Cross - Partially Implemented
United HealthCare – Partially Implemented

Agency Action - During our follow-up review, Empire Blue Cross officials indicated that the Department has signed an agreement with HCFA to acquire Medicare eligibility data. Department officials informed us that they plan to incorporate the Medicare eligibility data into the Plan's enrollment system, to enable the Plan's insurance carriers to more accurately process Medicare-related claims. However, the officials added that specific arrangements for exchanging computerized eligibility data with HCFA have not been finalized.

UHC officials indicated that they also have been working on establishing a separate agreement with HCFA to acquire Medicare eligibility data. However, this agreement has not been finalized.

Major contributors to this report were Lee Eggleston, Ronald Pisani, Dennis Buckley and Douglas Abbott.

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 also thank the management and staff of both Empire Blue Cross and UHC for the courtesies and cooperation extended to our auditors during this review.

Yours truly,

Kevin M. McClune
Audit Director

cc: Robert Brondi, Division of the Budget
George Sinnott, Department of Civil Service
Josephine Hargis, Empire Blue Cross Blue Shield
Ethel Graber, Empire Blue Cross Blue Shield
M. Laurie Wasserstein, United HealthCare Service Corporation