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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 18, 2003

Michael A. Stocker, M.D.
President and Chief Executive Officer
Empire Blue Cross Blue Shield
11 West 42nd Street
New York, New York 10036

Re: Report 2003-F-28

Dear Dr. Stocker:

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 have reviewed the actions taken by officials of Empire Blue Cross Blue Shield (Empire Blue Cross) as of October 9, 2003, to implement the recommendations contained in our audit report, *New York State Health Insurance Program: Coordination of Medicare Coverage* (Report 2001-S-15). Our report, which was issued on November 1, 2001, reviewed the effectiveness of the system used by the Empire Plan (Plan) of the New York State Health Insurance Program (Program) for coordinating medical claim payments on behalf of Medicare-eligible enrollees and their spouses and dependents.

Background

The Program provides hospital and surgical services and other medical and drug coverage to more than 796,000 active and retired State employees and their dependents. It also provides coverage for more than 392,000 active or retired employees of participating local government units and school districts and their dependents.

The Plan is the Program's primary health benefit plan, providing services at an annual cost of more than \$2.9 billion. The Department of Civil Service (Department) contracts with Empire Blue Cross to administer the hospitalization portion of the Plan. During the year that ended on December 31, 2002, Empire Blue Cross approved more than 838,000 claims totaling more than \$800 million, and also charged the State about \$55 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 that extended Medicare coverage to those who are disabled or suffer from end stage renal disease. 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, is optional and requires eligible persons to enroll and pay monthly premiums. Medicare requires individuals and care-providers to submit claims for payment in a timely manner (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. 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 examined the hospitalization claims paid during the year 2000 by the Plan on behalf of people who were eligible for Medicare and estimated that \$2,272,360 of these claims should have been paid by Medicare.

In our follow-up review, we found that Empire Blue Cross officials had recovered \$1,765,360 in claims that Medicare should have paid. We also found that, although Empire Blue Cross officials did update their enrollment system using the Medicare eligibility information we identified in our audit, the updates were not always timely. In addition, Empire Blue Cross officials informed us that their efforts to establish an agreement with the Centers for Medicare and Medicaid Services to acquire Medicare eligibility data had been placed on hold temporarily due to employee turnover.

Summary of Status of Prior Audit Recommendations

Empire Blue Cross officials have partially implemented both our prior audit recommendations.

Follow-up Observations

Recommendation 1

Review the population of questionable claims from which we estimated that \$2,272,360 was overpaid. Recover costs for Medicare-eligible claims from the appropriate parties and remit the recoveries to the Plan.

Status - Partially Implemented

Agency Action - Our prior audit estimated that Empire Blue Cross paid between \$1,914,073 and \$2,630,647 in claims (with a mid-point of \$2,272,360) for which Medicare should have taken responsibility. Empire Blue Cross officials said they have recovered \$1,765,360, which is below our projected low-point, and are unable to make further recoveries because of Medicare's time requirements for the submission of payment claims. They informed us that, due to employee turnover, they were unable to determine why the cost recoveries were lower than expected.

Recommendation 2

Continue working with the Department to develop a comprehensive system of procedures and internal controls to improve the processing of Medicare-eligible claims. Address such areas as:

- *Pursuing Federal Medicare eligibility data so the Plan's enrollment system reflects accurate Medicare information.*
- *Updating the Plan's enrollment system with the Medicare eligibility information identified in our audit.*

Status - Partially Implemented

Agency Action - Empire Blue Cross officials informed us that their efforts to establish an agreement with the Centers for Medicare and Medicaid Services (CMS) for acquiring Medicare eligibility data had been placed on hold temporarily due to employee turnover. However, they have since told us that they are resuming these efforts. We also found that Empire Blue Cross did not always act in a timely manner to update its enrollment system with the Medicare eligibility information identified in our audit.

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

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of Empire Blue Cross for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: George Sinnott, Department of Civil Service
Deirdre A. Taylor, Division of the Budget
Ethel Graber, Empire Blue Cross
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