ALAN G. HEVESI
COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 28, 2005

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

Re: New York State Health Insurance Program
Coordination of Medicare Coverage
Report 2004-S-26

Dear Dr. Stocker:

According 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 audited hospitalization claims processed for the New York State Health Insurance Program's Empire Plan (Plan). The scope of our performance audit concerned the coordination of the Plan's hospitalization claims with the federal Medicare program for the year ended December 31, 2003.

A. Background

The New York State Health Insurance Program provides hospital services, surgical services and other medical and drug coverage to more than 790,000 active and retired State employees and their dependents. It also covers more than 396,000 active and retired employees of participating local government units and school districts and dependents of such employees.

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 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 health care providers to submit claims for payment 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. The Department of Civil Service (Department) is primarily responsible for maintaining the Plan's enrollment system, including updates to the system that reflect current Medicare eligibility information. Insurance carriers also have a role in coordinating claims with Medicare (i.e., by maintaining edits that flag potential Medicare-eligible claims and by obtaining Medicare eligibility data and sharing it with the Department). Therefore, the Department and its carriers need to work together to provide reasonable assurance that Medicare-reimbursable claims are processed properly.

B. Audit Scope, Objective and Methodology

The scope of our performance audit concerned the coordination of the Plan's hospitalization claims with the federal Medicare program for the year ended December 31, 2003. The primary objective of our audit was to determine whether the Plan identifies Medicare eligibility when it processes medical claims for Medicare-eligible Plan enrollees and their spouses and dependents.

To accomplish our objective, we compared data from the federal Center for Medicare and Medicaid Services (CMS) with claims information obtained from Empire Blue Cross to determine our audit population. Since some information that could affect the Medicare eligibility of a claim (e.g., employment status, certain medical conditions including end-stage renal disease, etc.) was either inaccurate or unavailable on the records provided by Empire Blue Cross, we used statistical sampling techniques to determine the extent of Medicare's responsibility. Empire Blue Cross officials provided us with additional information to assist our review of the statistically sampled claims. Based on the results of this review, we estimated the dollar amount of claims that were Medicare's responsibility during our audit period.

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 Department and Empire Blue Cross operations included in our audit scope. Further, these standards require that we understand the internal control systems of the Department and Empire Blue Cross and that we review these entities' compliance with the laws, rules, and regulations that are relevant to the operations 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 addition to being the State Auditor, the Comptroller performs certain other constitutionally- and statutorily-mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of who have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

In its capacity as custodian of the Plan's enrollment file, the Department has not established a system for obtaining Medicare enrollment information from CMS. The lack of availability of current Medicare enrollment data caused Empire Blue Cross to make erroneous claim payments during our audit period. We estimate that Empire Blue Cross paid between $1,140,240 and $1,407,686 (with a statistical mid-point of $1,273,963) in claims that should have been coordinated, instead, with Medicare, the primary insurer.

We provided draft reports of our audit findings to Empire Blue Cross officials and considered their comments in preparing this report. Empire Blue Cross officials agreed with our findings and informed us that they have recovered $1,360,235 from the audit population, and are actively pursuing the remaining claims.

Inaccuracies in Medicare Eligibility Status

All Medicare-eligible Plan members should be identified so their claims can be coordinated with Medicare, thereby significantly reducing costs chargeable to the Plan. We identified a population of 3,300 Empire Blue Cross claims totaling more than $4.2 million for which Medicare was potentially the primary insurer. From this population, we selected a statistical sample of claims and reviewed them with Empire Blue Cross officials. Based on the results of this review, we estimated, with 95-percent confidence, that Empire Blue Cross had paid (as the primary insurer) between $1,140,240 and $1,407,686 in claims (with a midpoint of $1,273,963) for which Medicare was responsible as the primary insurer.

Empire Blue Cross paid these claims primarily because the Department had not tracked Medicare eligibility information on a Plan-wide basis during the audit period. Empire Blue Cross officials informed us that they had signed an agreement with CMS in March 2004 to exchange such data, and said they were currently working with CMS to finalize a tracking process. We encourage such cooperation so that a system for exchanging data can be implemented to enhance Empire Blue Cross' ability to coordinate claims with Medicare. We also encourage Empire Blue Cross officials to continue developing procedures that will ensure the appropriate processing of all Medicare-eligible claims. The use of Medicare data obtained from CMS could provide the basis for such procedures. Empire Blue Cross officials should also continue to work with the Department and other Plan carriers to establish a Plan-wide approach for coordinating claims with Medicare.

Recommendation

Work with the Department and the other Plan carriers to develop a Plan-wide system of procedures and internal controls that will improve the processing of Medicare-eligible claims.

Major contributors to this report were Ronald Pisani, Dennis Buckley, Mary Roylance, Craig Coutant, and Marticia Madory.

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 audit.

Yours truly,

David R. Hancox
Director
State Audit Bureau

cc: Daniel E. Wall, Department of Civil Service
Robert Barnes, Division of the Budget
Ethel Graber, Empire Blue Cross
Judith Burkhard, Empire Blue Cross
Michael Arduini, Empire Blue Cross