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OFFICE OF THE STATE COMPTROLLER

October 10, 2006

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

Re: Report 2006-F-35

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 followed up on the actions taken by Empire Blue Cross Blue Shield (Empire Blue Cross) officials to implement the recommendations contained in our audit report, *New York State Health Insurance Program, Coordination of Medicare Coverage* (Report 2004-S-26).

Background, Scope and Objective

The New York State Health Insurance Program provides hospital services, surgical services and other medical and drug coverage to more than 1,258,000 active and retired State, participating local government and school district employees and their dependents.

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 the New York State Health Insurance Program's Empire Plan (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.

Our initial audit report, which was issued on March 28, 2005, examined 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. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of September 21, 2006 of the recommendation included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found Empire Blue Cross officials corrected the problems we identified. The audit recommendation was implemented.

Follow-up Observations

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.

Status - Implemented

Agency Action - Empire Blue Cross has an agreement with CMS to obtain information necessary to prevent overpayments sited in the initial report. This agreement is maintained and updated as necessary to reflect changes in the Medicare system. Empire Blue Cross receives Medicare eligibility information from CMS on a regular basis and updates its eligibility files with the information. With this information, Empire Blue Cross is able to more accurately process claims and prevent the overpayments described in the initial audit report. This CMS information is periodically shared with the Department and other Plan carriers.

Our initial audit reported that Empire Blue Cross had recovered $1,360,235 from the claims identified from our audit activities. Since the initial audit report was issued Empire Blue Cross recovered an additional $102,073 based on the reported claims.

Major contributors to this report were Bill Clynes, Don Collins and Anthony Calabrese.

We thank the management and staff of Empire Blue Cross Blue Shield for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Sheila Emminger
Audit Manager

cc: Lisa Ng, Division of the Budget
R. DuBois, Department of Civil Service