

December 15, 1995

Mr. John Toohey, Vice President
Metropolitan Life Insurance Company
New York State Division
Rensselaer Information Systems Center
500 Jordan Road
Troy, NY 12180

Re: New York State Health Insurance Program
Coordination of Workers' Compensation
Coverage
Report 94-S-68

Dear Mr. Toohey:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we audited selected medical claims processed on behalf of the New York State Health Insurance Program's Empire Plan (Plan). The scope of our financial related/compliance audit was a review of claims paid by Metropolitan Life Insurance Company (Metropolitan) during the period January 1, 1990 through March 31, 1994. Our objective was to address the following question:

- ! Have Plan claims been properly coordinated with insurance carriers providing workers' compensation coverage to ensure the claim payments are appropriate?

Summary Results of Audit

We found that Metropolitan's ability to coordinate claims with insurance carriers providing workers' compensation coverage had improved during our audit period, primarily through the Workers' Compensation Board's (Board) match program and the Department of Civil Service's (Department) initiatives with the State Insurance Fund (Fund). However, further improvements are needed to ensure claim payments are appropriate. We identified over \$1 million in claims that were paid by Metropolitan that potentially should have been paid by the Fund or other workers' compensation insurance carriers. We recommend that Metropolitan officials pursue recovery of the work-related claims we identified.

We provided preliminary reports of our audit findings to Metropolitan officials. We considered their comments in preparing this report. Generally, Metropolitan officials agree with our findings. Metropolitan officials also stated that they expect to recover the cost of work-related claims from the workers' compensation carriers. However, the officials stated that they anticipate difficulty in recovering some of the costs, due to the workers' compensation insurance carriers' documentation requirements. Under separate cover, we are advising the Department (the Plan's administrator) of this matter and suggesting methods to expedite the recovery process. Metropolitan officials also stated that actual cost recoveries may be impacted by differences between the Plan's and the Board's fee schedules. However, our analysis of the workers' compensation fee schedule and a study conducted by the Department's audit staff indicate these differences are not significant.

Background

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for over 745,000 active and retired State employees and dependents. The Program also covers almost 326,000 active and retired employees and dependents of local governmental units and school districts that elect to participate. These entities are referred to as Participating Agencies (PAs). The Department contracts with insurance carriers to provide all aspects of health insurance coverage, and is responsible for managing and administering the Program. The Plan is the Program's primary health benefit plan, providing services at a total annual cost exceeding \$1.4 billion. The Plan's medical/surgical and major medical coverage is administered by Metropolitan, which processes all Plan claims at its facility in Kingston, New York. The Plan's hospitalization coverage is administered by Empire Blue Cross, which processes all Plan claims at its facility in Albany, New York.

The Plan's insurance carriers are contractually obligated to coordinate health insurance benefits with third party insurers. To the extent that the Plan's carriers identify medical claims which are fully or partially reimbursable through other insurance companies, Plan expenditures are reduced. This is important because the Plan's contracts with its insurance carriers are experience rated, meaning that increases in Plan expenditures may be reflected in higher premiums paid by the State, PAs and enrollees. Additionally, an accurate accounting of the Plan's expenditures is essential for meaningful planning and benefit package design purposes.

The State's Workers' Compensation Law requires that employers provide medical coverage for work-related injuries or illnesses. State employers (excluding authorities) in the Executive, Legislative and Judicial branches provide coverage through a contract with the Fund. Authorities and local government employers provide coverage through self-insurance or separate contracts with workers' compensation insurance carriers. The Plan's contracts with Metropolitan and Empire Blue Cross specifically exclude payment for claims that are the result of work-related accidents or illnesses. To ensure that claims are paid appropriately, coordination with insurance carriers providing workers' compensation coverage is required.

Section 13 of the Workers' Compensation Law was amended effective 1990 to create the Health Insurance Matching Program (match program) which provides a voluntary means for health insurers and health benefit plans to identify claims they paid which may be the responsibility of the Fund or another workers' compensation insurance carrier. A function of the Board is to receive and maintain reports of all work-related injuries. For a fee, the Board conducts computer searches for the health insurers and health benefit plans to assist them in identifying and obtaining reimbursement for claims

that may have resulted from work-related accidents or illnesses. However, the Board imposes a three-year "window" on the computer searches (i.e., claim payment dates must be within three years of the date claims are submitted to the Board for matching). The "window" does not apply to the recovery of payments. To minimize the fees for matching, the Plan's insurance carriers only submit claims they deem have a potential to be identified as workers' compensation claims.

In 1991, the Department authorized the Plan's carriers to participate in the Board's match program and, since May 1992, has been actively seeking the Board's approval for the sharing of workers' compensation information among carriers. Also, in 1994, the Department initiated a project to provide the Plan's insurance carriers with Fund computerized data on a monthly basis. The purpose of this initiative is to allow the carriers to identify potential workers' compensation cases before claims are paid or soon thereafter to facilitate cost recovery. However, because the Department's contract with the Fund includes only State employees, the data provided to the Department and the carriers is not comprehensive (i.e., employees of PAs are excluded).

At the beginning of our audit, Metropolitan had conducted a pilot match of claims with Board records for the first quarter of 1990 and recovered about \$24,000. Metropolitan had no plans to match additional claims. At the direction of the Department, Metropolitan officials agreed to refine their procedures and match claims for 1992 and 1993. At the conclusion of our audit, Metropolitan's analysis of the match results, and related recovery efforts, were just beginning.

Audit Methodology

To identify potential work-related claims for State employees and dependents, we compared Metropolitan claims data to the Fund's injury records. Also, to identify potential work-related claims for employees of participating agencies, we compared certain Metropolitan claims data to the Board's data. To ensure that claims and injuries were related, we compared claim diagnoses to injuries. We reviewed claims with Metropolitan officials to determine if claims were actually work-related and properly coordinated with insurance carriers providing workers' compensation coverage. In addition, we evaluated Metropolitan's procedures for prospectively identifying potential work-related claims. We analyzed Metropolitan's pilot sample and we reviewed Empire Blue Cross's and Metropolitan's procedures for exchanging workers' compensation information. For example, we compared work-related claims identified by Empire Blue Cross' match with Board records to claims paid by Metropolitan to determine whether an exchange of information would have identified work-related claims.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included within our audit scope. Further, these standards require that we understand the internal control structure and review compliance with applicable laws, rules and regulations that are relevant to the operations which are 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 planning and performing our audit, we considered Metropolitan's internal control structure. Our consideration of the internal control structure focused on administrative controls, which are defined

as the procedures that are concerned with the decision-making processes leading to management's authorization of transactions. Specifically, these controls relate to claim payment decisions involving the coordination of workers' compensation coverage. Our audit identified improvements needed in these areas which we further describe in the sections of this report titled "Coordination of Workers' Compensation Coverage," "Claims Selection Criteria/Methodology," and "Coordination Among the Plan's Insurance Carriers." We also brought certain additional matters to the Department's attention under separate cover.

We used a risk-based approach when selecting activities to be audited. This approach focuses on those operations that we identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

This report was prepared under the direction of Robert Blot, David R. Hancox, Kevin McClune, and Ronald Pisani. Major contributors were Dennis Buckley and Richard Thomas.

1. **Coordination of Workers' Compensation Coverage**

Metropolitan is contractually responsible for implementing and maintaining a coordination of benefits system. A properly functioning system for the coordination of benefits should provide reasonable assurance that claims are properly coordinated with other insurance carriers' claims and that only those benefits covered by the Plan are paid. Metropolitan maintains the following controls to ensure that claims are properly coordinated with insurance carriers providing workers' compensation coverage:

- ! prospective reviews of selected potential work-related claims;
- ! use of Fund injury data provided by the Department; and
- ! participation in the Board's match program, which includes claims selection criteria for identifying potential work-related claims to be submitted to the Board for matching, and follow-up analysis and recovery.

We found Metropolitan needed to improve these controls to provide adequate coordination with insurance carriers providing workers' compensation coverage. As a result,

the Plan continues to pay claims that are the responsibility of the Fund or other workers' compensation carriers.

Prospective Reviews

At the beginning of the audit, we identified the following weaknesses in Metropolitan's prospective review procedures:

- ! reliance on claim form information and computerized claims files that are not always accurate; and
- ! computerized procedures to select potential work-related claims for review that identify only one medical condition (Carpal Tunnel Syndrome).

In response to our preliminary audit findings, Metropolitan officials informed us that enhancements were made to Metropolitan's claim system to select additional potential work-related claims for review. These enhancements should also improve the accuracy of the computerized claims files.

Use of Fund Injury Data

During our audit, Metropolitan officials informed us that they planned to incorporate the Fund injury data provided monthly by the Department into their claims processing system. We believe that this measure will result in improved coordination of work-related claims. However, as we previously stated, this data is not comprehensive because only State employees are included. Therefore, Metropolitan officials also need to continue efforts to implement other improvements, such as participation in the Board's match program.

Participation in the Board's Match Program

Metropolitan officials advised us that, due to the large volume of claims involved, they chose to submit a pilot sample of claims to determine the feasibility of the match program and to assist in refining the process for future claim submittals. The officials added that, based on the pilot match results, they did not believe that the Board's match program and subsequent recovery efforts would be cost effective. Since the time of the pilot match, both Metropolitan's claims selection criteria and the Board's match program have improved. Based on these improvements and the number of potential work-related claims we identified, we believe further participation in the Board's match program is warranted.

During our audit, Metropolitan was instructed by the Department to match claims for 1992 and 1993 with the Board. The criteria Metropolitan used for selecting claims for the match program were revised based on the results of its pilot match, the Department's suggestions, and recommendations we made during our audit. However, Metropolitan could no longer submit claims occurring prior to 1992 because of the expiration of the three-year window." We obtained approval from Board officials to match claims for the 17-month period ended May 31, 1991. In addition, to determine the adequacy of Metropolitan's pilot match with the Board, we

included in our match, claims from the first quarter of 1990 which Metropolitan had not already identified as work-related.

As a result of our computer matches, we identified 1,748 enrollees and spouses with claims that were not properly coordinated with the Fund or other workers' compensation insurance carriers. Our review of claims history for these enrollees and spouses through March 31, 1994 identified 15,069 potential work-related claims totalling \$1,018,236.

2. **Claims Selection Criteria/Methodology**

To select claims for matching with the Board, Metropolitan uses a list of diagnoses and procedures that are likely to involve work-related accidents or illnesses. The list of diagnoses and procedures was developed through coordinated efforts with other insurance professionals and the Department. However, we believe that the list of diagnoses and procedures is not comprehensive and does not provide adequate coordination with the Fund and other workers' compensation insurance carriers. For example, \$65,350 of the \$1,018,236 potential cost recoveries we identified was for the period included in Metropolitan's pilot match with the Board. Our criteria enabled us to identify additional payments for work-related accidents or illnesses that were not identified by Metropolitan.

During the course of the audit we made recommendations for improving Metropolitan's claims selection criteria and matching process with the Board. Metropolitan officials agreed to implement these recommendations.

3. **Coordination Among the Plan's Insurance Carriers**

Although the Plan's insurance carriers are willing to exchange information regarding work-related accidents or illnesses obtained through the Board's match program, the Board has not allowed them to do so. Additionally, we found that the carriers do not share information they obtain from sources other than the Board's match program. As a result, the carriers may be paying claims for enrollees that have already been identified by the other Plan carriers as involving a work-related accident or illness and therefore eligible for workers' compensation benefits. For example, we identified 3,108 claims totalling \$275,207 which Metropolitan had paid, although Empire Blue Cross had found through the Board's match program that the enrollees involved had reported work-related injuries or accidents to the Board. Payment of these claims may have been prevented if the carriers exchanged the necessary information. We are bringing the matter of the Board's restriction on sharing data to the Department's attention under separate cover. In the meantime, the carriers should research methods to share information concerning work-related accidents or illnesses which come to their attention from sources other than the Board's match program.

In a related matter, we found that the criteria used by the carriers to identify work-related claims are inconsistent. For example, 27 percent of the diagnoses that Metropolitan focuses on to identify potential work-related claims are specifically excluded by Empire Blue Cross because Empire Blue Cross officials believe that these diagnoses are unlikely to be work-related. We identified inconsistencies but did not attempt to determine the appropriateness of the carriers' criteria. We recognize that differences exist with the types of claims the two carriers process. However, we believe the Plan needs a comprehensive and coordinated approach to ensure that claims are properly coordinated with insurance carriers providing workers' compensation coverage.

Recommendations To Metropolitan

1. *Review history files for the enrollees and spouses we identified with claims that were not properly coordinated with the Fund or other workers' compensation issuance carriers. Recover amounts for work-related claims and remit recoveries to the State.*
2. *Perform routine matches with the Board to ensure claims are not excluded by the three- year "window."*
3. *Continue to pursue methods for exchanging work-related claims information with the Plan's other insurance carriers.*
4. *Develop claim selection criteria that provides a comprehensive and consistent method to ensure Plan claims are properly coordinated with workers' compensation coverage.*

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 Metropolitan for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: P. Woodworth
G. Sinnott