H. CARL MCCALL
STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 15, 1996

Mrs. Jeannette Conte
Vice President
Government Division
Empire Blue Cross and Blue Shield
11 Corporate Woods Boulevard
Albany, NY 12211

Re: New York State Health Insurance Program
Skilled Nursing Facility Claims
Report 96-S-26

Dear Mrs. Conte:

According 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 for the New York State Health Insurance Program's Empire Plan (Plan). The scope of our performance audit was a review of the skilled nursing facility claims Empire Blue Cross and Blue Shield (Empire Blue Cross) paid during the period October 1, 1989 through December 31, 1994.

The primary objective of our audit was to determine whether Empire Blue Cross paid for skilled nursing facility benefits that the Plan did not cover.

Summary Results of Audit

Because of weaknesses in the Plan's enrollment system, which hampered Empire Blue Cross's ability to identify Medicare eligibility, and claims processing errors by the Syracuse participating plan, we estimate that Empire Blue Cross paid $364,549 for skilled nursing facility benefits not covered by the Plan.

We provided a preliminary report of our audit findings to Empire Blue Cross officials. We considered their comments in preparing this report. Generally, Empire Blue Cross officials agree with our findings. However, Empire Blue Cross officials believe that some overpayments we identified may not be recoverable because of a pending agreement with the Federal government to forgive such overpayments. The pending agreement involves a potential forgiveness of medical claims that certain Blue Cross and Blue Shield companies and the Medicare program have filed against each other. As

discussed later in this report, skilled nursing facility claims are specifically excluded from the Plan when enrollees are eligible for Medicare coverage. Empire Blue Cross erroneously paid the claims we identified in this audit for enrollees who were eligible for Medicare. Therefore, regardless of the outcome of the pending agreement, the skilled nursing facility claims we identified are not a liability of the Plan, and the amounts involved should be returned to the State.

Empire Blue Cross officials informed us that centralization of claims processing along with continued coordination with the Department of Civil Service (Department) to improve methods for identifying Medicare eligibility will prevent these improper payments from recurring.

Background

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for more than 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. 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 hospitalization and related expense coverage, including coverage for care in a skilled nursing facility, is provided by Empire Blue Cross in association with five independent regional participating Blue Cross and Blue Shield plans in Buffalo, Rochester, Syracuse, Utica and Watertown. Claims for benefits under this coverage are now entirely processed by Empire Blue Cross in Albany, though some claims were also processed by the five regional participating plans during our audit period. Empire Blue Cross is ultimately responsible for ensuring that all Plan claims are processed properly. During the four years ended December 31, 1994, Empire Blue Cross paid more than 2.4 million claims totaling more than $1.9 billion and charged the State $94 million for administrative and other related expenses.

Compliance with contract provisions is essential to controlling Plan costs. The insurance carriers are responsible for ensuring that they pay only services covered by the Plan. Since Plan benefits specifically exclude coverage for skilled nursing facility care when individuals are eligible for Medicare primary coverage, Empire Blue Cross should not reimburse these charges.

Audit Methodology

Our audit survey revealed that Empire Blue Cross paid for skilled nursing facility care for individuals who may have been eligible for Medicare. To quantify the extent of any improper payments, we identified skilled nursing facility claims with a potential for Medicare eligibility that Empire Blue Cross paid during the 63 months ended December 31, 1994 and reviewed these claims with Empire Blue Cross officials to determine whether the individuals were in fact eligible for Medicare.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those operations which we include 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 other auditing procedures 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.

Our consideration of the internal control structure at Empire Blue Cross focused on administrative controls, which we define as the procedures concerned with the decision-making processes leading to management's authorization of transactions. Specifically, these controls relate to claim payment decisions involving skilled nursing facility claims. Our audit identified improvements needed in the area, which we further describe in the "Payments for Non-Covered Benefits" section of this report.

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.

Payments for Non-Covered Benefits

The Plan does not reimburse the cost of skilled nursing facility services for enrollees who are also eligible for Medicare primary coverage. Therefore, to prevent overpayments by the Plan, if an individual enrolled in the Plan is eligible for Medicare, this eligibility should be identified. However, we found that the Plan's enrollment system does not identify all the individuals in the Plan who are eligible for Medicare. As a result, when processing claims from skilled nursing facilities, Empire Blue Cross was less able to identify the patients who were covered by Medicare and improperly paid claims that should have been paid by Medicare. We also noted that some claims processed by the Syracuse participating plan were improperly paid even when Syracuse officials were aware that patients were covered by Medicare.

In total, for the period October 1, 1989 through December 31, 1994, we identified 210 skilled nursing facility claims for individuals who were potentially eligible for Medicare. Through a cooperative effort with Empire Blue Cross personnel, we determined that 58 of these claims totaling $364,549 were in fact Medicare-eligible individuals and were therefore improperly paid.

Recommendations

1. *Recover and refund to the Plan the $364,549 paid for skilled nursing facility care for Medicare eligible individuals not covered by the Plan.*

2. *Continue to pursue methods for identifying Medicare eligible individuals to ensure that the Plan pays only for covered benefits*

3. *Ensure that all Blue Cross participating plans are made fully aware of Plan benefits relating to skilled nursing facility care.*

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.

Major contributors to this report were David R. Hancox, Carmen Maldonado, Frank Russo, Ronald Pisani, Dennis Buckley and Richard Thomas.

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 examination.

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: Patricia Woodworth, Division of the Budget
George Sinnott, Department of Civil Service