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March 7, 1997

Dr. Michael A. Stocker
President and Chief Executive Officer
Empire Blue Cross Blue Shield
622 Third Avenue
New York, NY 10017-6758

Mr. William W. McGuire
President, Chairman & CEO
United Health Care Corporation
9900 Bren Road East
Minnetonka, MN 55343

Re: New York State Health Insurance Program
Coordination of Medicare Coverage
Report 96-S-27

Dear Dr. Stocker and Mr. McGuire:

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 hospitalization and major medical claims processed for the New York State Health Insurance Program's Empire Plan (Plan). The scope of our compliance audit included a review of the extent to which the Plan used Medicare eligibility information for the purpose of coordinating payments for enrollees' medical claims for the year ended December 31, 1995.

The primary objective of our audit was to determine whether the Plan identifies Medicare eligibility when it processes enrollees' medical claims.

Summary Results of Audit

Because of weaknesses in the Plan's system for identifying Medicare eligibility, we estimate that, during the audit period, the Plan's two primary carriers, Empire Blue Cross Blue Shield (Empire Blue Cross) and MetraHealth Service Corporation (MetraHealth), paid claims of almost $2.1 million which Medicare should have paid. We also found that the Plan paid another $158,000 in error due to deficiencies in controls over enrollees' employment status.

We provided preliminary reports of our audit findings to Empire Blue Cross and MetraHealth officials and we considered their comments in preparing this report. Generally, officials from both carriers agree with our findings.

Background

The Plan provides hospitalization, surgical services and other medical and drug coverage to almost 750,000 active and retired State employees and their dependents. It also provides coverage for more than 330,000 active and retired employees of participating local government units and school districts, and coverage for these enrollees' dependents. These entities are referred to as participating agencies (PAs).

The Plan is the Program's primary health benefits plan, providing services to about 894,000 individuals in the Program at an annual cost of more than $1.6 billion. The Department of Civil Service (Department), through its Division of Employee Benefits (Division), contracts with Empire Blue Cross to administer the hospitalization portion of the Plan and with MetraHealth to administer major medical coverage. During the year ended December 31, 1995, Empire Blue Cross approved about 674,000 claims totaling more than $540 million and charged the State about $25.8 million for administrative and other related expenses. During that period, MetraHealth approved about 5.9 million claims totaling more than $687 million and charged the State approximately $96.9 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 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 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, requires eligible persons to enroll and pay monthly premiums. Medicare requires individuals and providers of care to submit claims for payment timely (within 15 to 27 months, depending on the date of service).

When Plan members become eligible for Medicare coverage due to renal failure, or are retired and eligible due to age or disability, Medicare becomes the primary payer of their medical expenses. Thus, by identifying Medicare-eligible enrollees, and coordinating payment of their hospitalization claims with Medicare, the Plan can reduce its expenditures.

Audit Methodology

Our audit revealed that the Plan's enrollment system, for which the Department has primary responsibility, does not capture Medicare eligibility information for Plan enrollees. Accordingly, we focused our audit on Plan enrollees who were eligible for Medicare during the audit period. For these

enrollees, we obtained Medicare eligibility data from the Federal Health Care Financing Administration (HCFA) and retirement data from the two major retirement systems covering Plan retirees: the New York State Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS). We compared this information with Empire Blue Cross and MetraHealth claims data and records from the Plan's enrollment system to identify claims which were not properly coordinated with Medicare.

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 operations which we include within our audit scope. Further, these standards require that we understand the internal control system 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.

Our consideration of the internal control system at the Department, Empire Blue Cross and MetraHealth focused on the procedures concerned with the decision-making processes leading to management's authorization of transactions. Specifically, these controls relate to claim payment decisions. Our audit identified improvements needed in these areas, which we further describe in the "Medicare Eligibility Status Inaccuracies " and "Employment Status Inaccuracies" sections of this report.

We use 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 report on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Medicare Eligibility Status Inaccuracies

All Medicare-eligible Plan enrollees should be identified so that their claims can be coordinated with Medicare, thereby reducing costs chargeable to the Plan. We compared data from HCFA, ERS and TRS to claims information obtained from Empire Blue Cross and MetraHealth and identified more than 11,000 charges involving Medicare-eligible enrollees.

We identified 3,218 Empire Blue Cross claims and 26,788 MetraHealth charges related to services provided to enrollees who were eligible for Medicare at the time the services were delivered. These claims should have been submitted to Medicare, since Medicare was these enrollees’ primary insurer. However, since a number of factors can affect the payment of such claims, each claim must

be investigated to determine the extent of Medicare's responsibility. For example, in some circumstances, information that may affect the Medicare eligibility of a claim - such as a claim adjustment prior to our postpayment audit - is not available from the Empire Blue Cross or MetraHealth record. Also, Medicare benefits may be exhausted, a fact that cannot be determined until a claim has been submitted to Medicare.

To develop an estimate of the actual number of the above claims that are Medicare's responsibility, we reviewed statistical samples with MetraHealth and Empire Blue Cross officials. Based on this review, we estimate that MetraHealth paid as the primary insurer about 10,700 charges, totaling almost $900,000 that were, instead, the responsibility of Medicare. We also estimate that Empire Blue Cross paid as the primary insurer about 600 claims, totaling $1.18 million that were, instead, the responsibility of Medicare. Of the $1.18 million in Empire Blue Cross claims, approximately $900,000 may not be recoverable as a result of a settlement agreement that Empire Blue Cross entered into with HCFA regarding Medicare secondary payments (MSP). According to the settlement agreement, HCFA/Medicare releases Empire Blue Cross from all MSP claims for services from January 1, 1983 to July 18, 1995. In return, Empire Blue Cross released HCFA/Medicare from all claims for reimbursement it may have against Medicare.

The exceptions noted above occurred because neither the Department nor the Plan's carriers tracked Medicare entitlement data on a comprehensive basis during the audit period. At the time of our prior audit of the Plan's coordination of Medicare coverage (Report 95-S-92, issued April 30, 1996), Empire Blue Cross reached an agreement with HCFA to obtain Medicare eligibility information for New York State enrollees and their dependents. However, we found that this HCFA match is only partially implemented. As a result, the Plan's carriers do not have current Medicare information to use in processing claims. We encourage the Department and Plan carriers to continue to work together to ensure that all Medicare-eligible claims are processed appropriately.

Employment Status Inaccuracies

Generally, Medicare becomes the primary payer of medical expenses when Medicare-eligible enrollees are retired. Because the Plan's carriers rely on the Department's enrollment system to determine whether enrollees were retired or actively employed at the date of service, the enrollment system must accurately reflect retirement dates.

We obtained retirement dates for all enrollees receiving a retirement benefit from the ERS or TRS and compared these dates to the dates of service on claims paid by Empire Blue Cross and MetraHealth on behalf of Medicare-eligible enrollees. We investigated employment status on claims for Medicare enrollees who were listed as actively employed on the Plan's enrollment system, but retired according to retirement system information. We reviewed payroll records maintained by the State Comptroller's Office to verify employment status for State employees, and contacted health benefit administrators at the PAs to verify employment status for PA employees. We identified 111

enrollees who, although retired on the dates of their service claims, were incorrectly listed as actively employed on the Department's enrollment system. Based on our review of these enrollees' claims, we identified 1,057 Plan charges totaling $158,000 that Medicare could have paid.

These exceptions occurred because the Plan's enrollment system database does not contain accurate employment status information.

Recommendations to Empire Blue Cross and MetraHealth

1. *Investigate questionable claims identified by our audit. Recover costs for Medicare-eligible claims from the appropriate parties and remit recoveries to the Plan.*

2. *Continue efforts to develop a comprehensive system of procedures and internal controls to ensure all Medicare-eligible claims are processed appropriately.*

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

Major contributors to this report were William Challice, Carmen Maldonado, Frank Russo, Ronald Pisani, Pamela Matthews and David Fleming.

Yours truly,

David R. Hancox
Director of State & NYC Audits

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