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STATE COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

February 13, 1997

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

Re: New York State Health Insurance Program  
Coordination of Medicare Coverage  
(Exhausted Benefits) Report 96-S-56

Dear Dr. Stocker:

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 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 the hospital inpatient claims Empire Blue Cross Blue Shield (Empire Blue Cross) paid during the period October 1, 1992 through June 30, 1996.

The primary objective of our audit was to determine whether Empire Blue Cross paid for hospital inpatient days that were already paid by Medicare.

**Summary Results of Audit**

Because of errors made by Empire Blue Cross's claims processing staff, Empire Blue Cross paid more than \$642,000 for hospital days that were already paid by Medicare.

We provided a preliminary report of our audit findings to Empire Blue Cross officials. We considered their comments in preparing this report. Empire Blue Cross officials agree with our findings and advised us that they have already begun implementing our recommendations.

**Background**

The New York State Health Insurance Program (Program) provides coverage for hospitalization, surgical services and other medical expenses for almost 750,000 active and retired State employees and dependents. The Program also covers over 326,000 active and retired employees and dependents of local governmental units and school districts that elect to participate. The Department of Civil Service (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 \$1.6 billion.

When enrollees are eligible for Medicare coverage, the Plan becomes the secondary payor of benefits until Medicare benefits are exhausted. When Medicare benefits become exhausted during a hospital stay (Medicare exhausted claims) Empire Blue Cross should ensure that only the days the Plan is responsible for (the days after which Medicare benefits are exhausted) are paid.

### **Audit Methodology**

Our audit survey revealed that Empire Blue Cross does not properly coordinate with Medicare when Medicare coverage is exhausted during a hospital stay. We worked with Empire Blue Cross officials to identify a population of Medicare exhausted claims. To quantify the extent of improper payments we reviewed all claims with Empire Blue Cross officials.

We did our audit according to 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 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 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 system at Empire Blue Cross focused on administrative controls, which we defined 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 Medicare exhausted claims. Our audit identified improvements needed in the area which we further describe in the "Payments for Hospital Days Already Covered by Medicare" 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 Hospital Days Already Covered by Medicare**

Empire Blue Cross's management maintains a claim processing system to provide accountability for Plan claims. The claim processing system includes computerized and manual edits to ensure that only bona fide claims are paid. Although Empire Blue Cross' management assigns claim approvers to adjudicate Medicare exhausted claims, Empire Blue Cross' management does not always ensure that the approvers have the training required to properly pay these claims. As a result, Empire Blue Cross improperly paid for hospital days already paid by Medicare instead of covering only the days for which the Plan was responsible (the days after which Medicare benefits were exhausted). For example, a patient was in the hospital for 182 days from January 19, 1994 through July 19, 1994. Since Medicare benefits were exhausted on June 17, 1994, the Plan was only responsible for the last 32 days of the hospital stay (June 18, 1994 through July 19, 1994). Because Empire Blue Cross did not properly process the Medicare exhausted claim, the entire hospital stay (182 days) was paid, including 150 days totalling \$21,925 that were already paid by Medicare.

For the period October 1, 1992 through June 30, 1996, we identified 29 Medicare exhausted claims that were overpaid for a total of \$642,684. Since these payments are for hospital days already paid by Medicare, Empire Blue Cross should remit these overpayments to the State. To minimize the impact on Empire Blue Cross, management may choose to seek recovery from the hospitals which received the duplicate payments.

We provided Empire Blue Cross officials with the details of these claims.

### **Recommendations**

1. *Remit to the Plan the \$642,684 paid for hospital days already covered by Medicare.*
2. *Provide training for approvers to prevent improper payments from recurring.*

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 Carmen Maldonado, William Challice, 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.

Yours truly,

David R. Hancox  
Director of State & NYC Audits

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