

H. CARL McCALL  
STATE COMPTROLLER



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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

January 14, 1998

Dr. Michael A. Stocker  
President and Chief Executive Officer  
Empire Blue Cross and Blue Shield  
622 Third Avenue  
New York, NY 10017-6759

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

Re: Report 97-F-36

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 reviewed the actions taken by officials of Empire Blue Cross and Blue Shield (Empire Blue Cross) and MetraHealth Service Corporation (MetraHealth), as of December 10, 1997, to implement the recommendations included in our prior audit report 95-S-92. This report issued on April 30, 1996, focused on the New York State Health Insurance Program's Empire Plan (Plan) coordination of Medicare coverage for the year ended December 31, 1994.

**Background**

The New York State Health Insurance Program (Program) provides hospitalization, surgical services and other medical and drug coverage for more than 752,000 active and retired State employees and their dependents. It also provides coverage for almost 336,000 active and retired employees of local government units and school districts that elect to participate and the enrollees' dependents. These entities are called participating agencies (PAs).

The Plan is the Program's primary health benefits plan, providing services at an annual cost of more than \$1.5 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 Service Corporation (MetraHealth) to administer major

medical coverage. During the year ended December 31, 1994, Empire Blue Cross approved about 589,000 claims totaling more than \$452 million and charged the State about \$23.4 million for administrative and other related expenses. During that period, MetraHealth (formerly Metropolitan) approved about 5.4 million claims totaling more than \$624 million and charged the State approximately \$97.1 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. 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. Medicare requires individuals and providers of care to submit claims timely, within 15 to 27 months depending on the date of service, to be considered for payment. By identifying Medicare-eligible enrollees, and coordinating their hospitalization claims with the Medicare Program, the Plan can reduce its health benefits expenditures.

Since our prior audit, Empire Blue Cross became a party to the Medicare Secondary Payer Settlement Agreement (MSP). Empire Blue Cross officials advised us that the agreement precludes Empire Blue Cross from recovering any Medicare claims from the Federal government for services prior to July 18, 1995.

### **Summary Conclusions**

In our prior audit, we found that because of weaknesses in the Plan's system for identifying Medicare eligibility, Empire Blue Cross and MetraHealth paid almost \$3.2 million for claims that the Medicare Program should have paid.

In our follow-up review, we found that Empire Blue Cross and MetraHealth officials have recovered only a small portion of the identified overpayments. In addition, while some improvements have been made in identifying Plan participants who are Medicare eligible, further improvements are needed.

### **Summary of Status of Implementation**

In our prior audit report, there were two recommendations made to both Empire Blue Cross and MetraHealth officials. Empire Blue Cross and MetraHealth officials have partially implemented both recommendations.

#### **Recommendation 1**

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

#### **Status - Partially Implemented**

Agency Action - In our prior audit, we estimated that Empire Blue Cross paid 1,150 claims totaling

\$2.5 million, that should have been paid by Medicare. Since that audit, Empire reached an agreement with the U.S. Department of Health and Human Services, including the Health Care Financing Administration (HCFA), on October 15, 1995. According to Empire Blue Cross officials, this agreement, the Medicare Secondary Payer Settlement Agreement (MSP), prohibits Empire Blue Cross from seeking recovery of the claims identified in our prior audit. The MSP agreement is not binding on customers of Empire Blue Cross such as the Plan. According to Empire Blue Cross officials the Department chose to participate in this agreement after evaluating Empire Blue Cross's analysis of the potential costs and savings involved.

Empire Blue Cross officials indicated that prior to the MSP they recovered \$213,641 of these overpayments and credited these payments to the Plan. These officials stated they are prohibited from recovering additional funds and have therefore fully implemented this recommendation.

In our prior audit, we identified 8,309 charges totaling more than \$672,000 paid by MetraHealth that should have been submitted to Medicare. MetraHealth officials did investigate the questionable claims identified by this audit. MetraHealth officials sent letters to all providers indicating that as a result of an audit, the Plan paid claims for Plan enrollees whom we identified as Medicare eligible. The letter requested that providers submit the claims to Medicare and reimburse MetraHealth. MetraHealth officials indicated that they recovered approximately \$74,200 to date.

**Auditors' Comments** - The Office of the State Comptroller is examining the issues raised by Empire Blue Cross officials and the Department's decisions concerning the execution of the MSP agreement. The results of this examination may affect the ability to recover the balance of the \$2.5 million identified in our prior audit.

MetraHealth officials should review their collection procedures. MetraHealth officials rely totally upon the providers to bill Medicare in order to recover the overpayments identified. MetraHealth officials do not follow-up with any of these providers to determine if they have submitted claims to Medicare as requested. MetraHealth officials contend that follow-up cannot be done due to the timing of the audit, the time taken to review claims and notify providers, and the deadline for filing such claims imposed by Medicare. Under MetraHealth's present procedures, providers (who have already been reimbursed by the Plan) have no incentive to submit these claims to Medicare. MetraHealth officials should investigate the possibility of withholding future payments due providers, in those instances where claims have been identified that were not properly coordinated with Medicare. If these payments are withheld from providers, providers will be more inclined to submit questioned claims to Medicare. MetraHealth officials indicated that they are investigating this option.

### **Recommendation 2**

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

**Status - Partially Implemented**

Agency Action - Empire Blue Cross has its own internal procedures to identify individuals who may be Medicare eligible. In addition, Empire Blue Cross has matched the Program's database against HCFA's to identify Medicare eligible Program enrollees. They conducted matches in 1995 and 1997. The results of these matches were shared with other Plan administrators.

Empire Blue Cross officials indicated that they have been recently notified by HCFA, that Empire Blue Cross will no longer be allowed to perform periodic eligibility matches. Empire Blue Cross officials are negotiating with HCFA officials to continue these matches. Additionally, officials indicated that as a result of the MSP agreement, they plan to share essential beneficiary information with HCFA quarterly, so that HCFA can supplement its files in order to detect dual coverage situations.

MetraHealth officials indicated that as a result of the prior audit, Medicare effective dates were added to each enrollee's record. In addition, MetraHealth has been receiving electronic transmissions of Medicare enrollment data from Empire Blue Cross and this is used to update enrollment files.

Auditors' Comments - The exceptions noted in our prior audit occurred because the Plan's enrollment system database did not capture Medicare eligibility information. The matches conducted by Empire have been used to update the Plan's database, and represent an improvement since our prior audit. However, Empire Blue Cross has conducted only two such matches. In addition, the criteria used to conduct these matches was limited. For example, the first match was only for Plan enrollees under the age of 65 (spouses, dependents and all those over 65 were not included). The second match while more comprehensive was limited to the Plan participants in the Northeast, (enrollees now living elsewhere in the country were not included). Since Empire Blue Cross' ability to conduct such matches has been curtailed, the Department should work with Empire Blue Cross and the other Plan carriers to ensure the Plan's enrollment system database is properly updated regarding a Plan participant's Medicare eligibility. If the enrollment system database is not properly updated, the Plan will continue to erroneously pay claims for Plan participants who are Medicare eligible.

Contributors to this report were William Challice, Frank Russo, Aaron Fruchter, Ron Pisani and Tom Kulzer.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report.

We also thank the management and staff of both Empire Blue Cross and MetraHealth for the courtesies and cooperation extended to our auditors during this review.

Yours truly,



Carmen Maldonado  
Audit Director

cc: P. Woodworth  
R. DuBois  
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