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OFFICE OF THE STATE COMPTROLLER

August 13, 2012

Mr. Jason O'Malley
Director, New York State Empire Plan
Empire BlueCross BlueShield
11 Corporate Woods Boulevard
Albany, New York 12211

Re: Report 2012-F-12

Dear Mr. O'Malley:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of Empire BlueCross BlueShield to implement the recommendations contained in our audit report, *Empire BlueCross BlueShield: New York State Health Insurance Program - Payments Made to Hudson Valley Hospital Center* (Report 2009-S-99).

Background, Scope and Objective

The New York State Health Insurance Program (NYSHIP) provides health insurance coverage to active and retired State, participating local government and school district employees and their dependents. The Empire Plan (Plan) is the primary health benefits plan for NYSHIP. Plan benefits include inpatient and outpatient hospital coverage, medical/surgical coverage, Centers of Excellence for transplants, infertility and cancer, home care services, equipment and supplies, mental health and substance abuse coverage, and prescription drug coverage.

The Department of Civil Service (Department) contracts with Empire to administer the hospitalization benefit portion of the Plan. This contract provides coverage for inpatient and outpatient services provided by a hospital, skilled nursing facility, and hospice care. Empire processes Plan claims for hospital services in accordance with agreements between Empire and certain member hospitals. These member hospitals are located in 28 eastern and southeastern New York State counties and 10 bordering counties in New Jersey and Connecticut. Empire also processes Plan claims for services provided by hospitals outside Empire's service area.

Our initial audit report was issued on October 28, 2010 and included 50 payments Empire made to Hudson Valley Hospital Center (Hudson Valley) from January 1, 2007 through December 31, 2009. Our objective was to determine whether the payments were made according to Empire's Certificate of Insurance and its agreement with Pinnacle HealthCare, an alliance that included Hudson Valley. (Note: At the time of our follow-up review, Hudson Valley was no

longer affiliated with Pinnacle HealthCare.) We also reviewed the payments to determine if they were reasonable and consistent with Empire's expectations for the payment of special items.

We determined that the 50 claim payments we reviewed technically complied with the provisions of the contract. Nevertheless, the dollar amounts of Empire's payments far exceeded Hudson Valley's costs to acquire the special items. Empire paid Hudson Valley a total of \$1,115,745 for the special items we tested. However, based on the available supporting documentation, we determined that the items cost Hudson Valley only \$230,065. Thus, Hudson Valley made a profit of \$885,680 (or 385 percent of the items' costs) on the claims in question. The objective of our follow-up was to determine if the two recommendations included in our initial audit report were implemented.

Summary Conclusions and Status of Audit Recommendations

Empire officials made progress in addressing the issues identified in our initial audit. Additional actions, however, are still needed. Of the two prior audit recommendations, one recommendation was implemented, and the other recommendation was partially implemented.

Follow-up Observations

Recommendation 1

Through future negotiations with Pinnacle, ensure that hospital agreements contain language which specifies the basis of payment for special items in accordance with the expectations of the parties.

Status - Implemented

Agency Action - Empire and Hudson Valley agreed to amend their contract effective August 1, 2012. The amended contract specifies the basis of payment for special items. The new agreement also requires Hudson Valley to maintain appropriate documentation to support the dollar amounts of claims for special items.

Recommendation 2

Establish appropriate controls over payments for special items to ensure they are made in accordance with the agreement and supported by appropriate documentation.

Status - Partially Implemented

Agency Action - In addition to amending the contract with Hudson Valley, Empire implemented a new initiative to audit the higher risk claim payments to certain providers. However, at the time of our follow-up, Empire had not implemented pre-payment controls to ensure Hudson Valley's claims for special items were reasonable. Also, Empire had not performed any post-audits of payments to Hudson Valley for special items.

Major contributors to this report were Todd Seeberger and Theresa Podagrosi.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of Empire BlueCross BlueShield for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

David Fleming
Audit Manager

cc: Robert DuBois, Department of Civil Service
Stephanie Zoufaly, Department of Civil Service
Thomas Lukacs, Division of the Budget