

Thomas P. DiNapoli
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 1, 2011

Mr. George Babitsch
Senior Vice President, Sales and Account Management
EmblemHealth, Inc.
55 Water Street
New York, New York 14203

Re: Report 2011-F-25

Dear Mr. Babitsch:

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 EmblemHealth, Inc. to implement the recommendations contained in our audit report, *EmblemHealth, Inc. - New York State Health Insurance Program: Accounting for Voided Dental Claims and Voided Checks* (Report 2010-S-1).

Background, Scope and Objective

The New York State Health Insurance Program (NYSHIP) provides health coverage to State employees and their families. NYSHIP provides dental benefits through the New York State Dental Plan. The Department of Civil Service (Department) administers NYSHIP and contracts with EmblemHealth, Inc. (Emblem) to process dental claims and pay dental service providers. Periodically throughout the year, the Department pays Emblem based on estimates of dental claims processed and paid. At year end, Emblem makes a final accounting of the dental claims it actually paid, voided or adjusted. Emblem provides this information to the Department on a Statement of Experience (SOE). The Department uses SOE data to reimburse Emblem for the actual costs of the dental claims it paid. The State also pays Emblem an administrative fee and a profit.

Emblem processes dental claims and payments through an automated system, known as Fastrak. Emblem uses Fastrak data to prepare the SOEs it submits to the Department. In 2008, Emblem identified a long-term problem with Fastrak that resulted in the overstatement of claim payment data reported on its SOEs from 1993 through 2007. Consequently, the State overpaid Emblem during this 14-year period. Including interest on the overpayments, Emblem reimbursed the State nearly \$13.6 million.

On August 19, 2010, we issued our initial audit report, which addressed the SOEs Emblem submitted to the State from 2005 through 2008. During this period, the State

reimbursed Emblem \$253.6 million. Further, we determined that the State overpaid Emblem \$753,975 because the SOEs overstated Emblem's actual costs for the State Dental Plan. Under certain conditions, the Fastrak system did not make the appropriate reductions for voided claims and checks. As a result, Fastrak data contained excessive or duplicate charges for nearly 7,400 claim payments the State reimbursed to Emblem. The objective of our follow-up was to determine if the four recommendations included in our initial report were implemented.

Summary Conclusions and Status of Audit Recommendations

Emblem officials took significant actions to address the findings in our initial report. Officials implemented the four recommendations we made in that report.

Follow-up Observations

Recommendation 1

Reimburse New York State for the \$753,975 overstatements on the SOEs of paid claims, as identified in this report.

Status - Implemented

Agency Action - Emblem reimbursed the State \$753,975 on April 8, 2011.

Recommendation 2

Identify the malfunction within the claims processing system resulting in the creation of duplicate claims and the overstatement of paid claims on the SOE's and make the necessary corrections.

Status - Implemented

Agency Action - Emblem officials identified data relating to a particular Fastrak adjustment code that was excluded from information used to prepare the SOE. As a result, officials have restricted use of that code. Further, Emblem now requires staff to process voided claims and checks with another adjustment code that will ensure that the pertinent Fastrak data is adjusted correctly prior to compilation for the SOEs.

Recommendation 3

Develop and implement quality control procedures to verify the consistency and accuracy of paid claims data per the SOEs and the Fastrak databases.

Status - Implemented

Agency Action - Emblem officials developed and implemented new procedures to reconcile Emblem's General Ledger to the SOEs on a monthly basis. These reconciliations help ensure the consistency and accuracy of paid claims data reported on the SOEs. Also, Emblem officials enhanced the Fastrak database by linking claim payments directly with

any corresponding voided checks or claim adjustments.

Recommendation 4

Ensure there is sufficient coordination and communication among management from the finance office, the information technology office, and any other EmblemHealth operating units to properly implement quality assurance processes for data reported on the SOEs.

Status - Implemented

Agency Action - Management and staff from Emblem's finance and information technology offices coordinated efforts to implement the Fastrak system enhancements as previously detailed. In addition, the aforementioned reconciliations require ongoing coordination and communication between those two offices.

Major contributors to this report were Warren Fitzgerald and Donald Collins.

We thank the management and staff of Emblem 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
Thomas Lukacs, Division of the Budget
Bonnie Joslin, Emblem Health