



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Empire BlueCross BlueShield Selected Payments for Special Items for the Period July 1, 2012 Through December 31, 2012

New York State Health Insurance Program



Executive Summary

Purpose

To determine whether Empire BlueCross BlueShield (Empire) paid claims for special items according to the provisions of the agreements between Empire and its member hospitals and to determine if payments for certain special items, in relation to the hospitals' actual purchase and acquisition costs, were reasonable. The audit covered the period from July 1, 2012 through December 31, 2012.

Background

The New York State Health Insurance Program (NYSHIP) provides health coverage to active and retired State, participating local government and school district employees and their dependents. The Department of Civil Service (Department) contracts with Empire to administer the hospitalization portion of the Empire Plan (Plan), which includes coverage for inpatient and outpatient hospital services.

Empire processes Plan claims for hospital services in accordance with agreements it negotiates with member hospitals. Payments for hospital services are generally based on standard fee schedules that are negotiated between Empire and its member providers. However, hospitals may be entitled to additional payments for special items that are not covered by the standard fee schedules. Agreements with many of Empire's member hospitals limit payments for special items. However, agreements with other hospitals do not have similar limitations. From July 1, 2012 to December 31, 2012, Empire paid over \$63 million for 39,993 claims for special items.

Key Findings

- Empire did not have adequate controls to ensure special items were paid according to contract provisions. As a result, Empire made a net overpayment of \$898,541 on 96 of the 100 claims we tested. This net overpayment was 42 percent above the amount Empire should have paid for the items in question. For one hospital, Empire paid \$87,746 for five claims for special items. However, documents provided by the hospital supported payments of only \$15,799. Thus, Empire overpaid the hospital \$71,947 (\$87,746 - \$15,799) for the claims.
- Empire officials advised us they have engaged a consultant to review claims with charges for special items. The consultant will subject special item claims to a computer algorithm, and those which exceed the algorithm's cost parameters will be flagged for review, adjustment, and recovery.

Key Recommendations

- Recover the net overpayment of \$898,541 for the improperly paid claims.
- Ensure that the future agreements with hospitals contain language which: specifies the basis of reimbursement for the purchase and acquisition of special items; and requires hospitals to provide appropriate supporting documentation upon request.
- Complete the development and implementation of internal controls to ensure that payments for special items are made according to hospital agreements and are supported by appropriate documentation.

Other Related Audits/Reports of Interest

[New York State Health Insurance Program: Empire BlueCross BlueShield - Selected Payments for Special Items for the Period April 1, 2011 Through June 30, 2011 \(2011-S-42\)](#)

[New York State Health Insurance Program: Empire BlueCross BlueShield - Selected Payments for Special Items for the Period July 1, 2011 Through December 31, 2011 \(2012-S-3\)](#)

[New York State Health Insurance Program: Empire BlueCross BlueShield - Selected Payments for Special Items for the Period January 1, 2012 Through June 30, 2012 \(2012-S-132\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

January 16, 2014

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

Dear Mr. O'Malley:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the New York State Health Insurance Program entitled Empire BlueCross BlueShield: *Selected Payments for Special Items for the Period July 1, 2012 Through December 31, 2012*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

The New York State Health Insurance Program (NYSHIP) provides health 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. The Plan covers inpatient and outpatient hospital coverage, medical/surgical coverage, Centers of Excellence (for transplants, infertility and cancer treatments), home care services, equipment and supplies, mental health and substance abuse services, and prescription drugs.

The Department of Civil Service (Department) contracts with Empire BlueCross BlueShield (Empire) to administer the hospitalization portion of the Plan, which includes coverage for inpatient and outpatient services provided by a hospital, skilled nursing facility, and hospice. Empire processes Plan claims for hospital services according to agreements it negotiates with 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. These claims are submitted by hospitals to their local plans for payment. The local plans are then reimbursed by Empire.

Payments for hospital services are generally based on standard fee schedules that are negotiated between Empire and its member providers. Hospitals may be entitled to additional payments for special items (e.g., implants, drugs and blood) that are not covered by standard fee schedules. Agreements with many of Empire's member hospitals limit payments for special items. However, agreements with other hospitals do not have similar limitations. For the period July 1, 2012 through December 31, 2012, Empire paid 719,242 claims totaling nearly \$1 billion for services provided to Plan members. This included payments totaling over \$63 million for 39,993 claims for special items.

Audit Findings and Recommendations

Excessive Payments to Hospitals With Contracts That Limit Charges for Special Items

From the 100 claim payments (submitted by 25 hospitals) we reviewed, there were errors on 96 claims resulting in a net overpayment of \$898,541. Specifically, we determined that 91 claims were overpaid by a total of \$909,017, and five were underpaid by a total of \$10,476. Given the frequency and amounts of the improper payments, we conclude that Empire needs to significantly improve its processing controls over claims for special items. Table 1 summarizes the results of the 100 claim payments we reviewed.

Table 1

Nature of Claim Payment Determination	# of Sample Payments	Amount Paid for Special Items	Amount Over (Under) Paid
Payments Exceeded Contract Allowances (Overpayments)	89	\$2,539,112	\$737,237
Items Not Provided to Patient	6	\$42,082	\$42,082
No or Incomplete Supporting Documentation Provided	14	\$129,698	\$129,698
Adjustment for Items in Multiple Categories	(18)	\$0	\$0
Subtotal for Overpaid Claims	91	\$2,710,892	\$909,017
Payments Below Contract Allowances (Underpayments)	5	\$188,097	(\$10,476)
Subtotal for Exceptions	96	\$2,898,989	\$898,541
Paid Correctly	4	\$118,852	\$0
Totals	100	\$3,017,841	\$898,541

Of the 91 overpayments, 89 were overpaid by \$737,237 because Empire paid more than the amounts allowed per its agreements with the hospitals. In general, Empire's hospital agreements limited the amounts the hospital could charge Empire for special items. Nevertheless, the hospitals billed Empire excessive amounts for certain items, and Empire paid these excessive claims. For one hospital, for example, Empire paid a total of \$87,746 for special items on the hospital's five claims in our sample. However, documents provided by the hospital supported a total payment of only \$15,799. Therefore, Empire overpaid the hospital \$71,947 (\$87,746 - \$15,799) for the five claims.

Table 2 provides examples of excessive claim payments to four other hospitals.

Table 2

Hospital	Amount Empire Paid	Amount Empire Should Have Paid per Contract	Amount Empire Overpaid	Percent Overpaid by Empire
A	\$94,262	\$22,403	\$71,859	321%
B	\$274,421	\$211,926	\$62,495	29%
C	\$95,449	\$35,447	\$60,002	169%
D	\$106,179	\$50,444	\$55,735	110%

As the examples in the table illustrate, several of the overpayments we identified were material and resulted in significant profits for the hospitals.

We also disallowed:

- \$129,698 for portions of 14 payments because the supporting documentation provided by the hospitals was incomplete; and
- \$42,082 for portions of six claim payments because the hospitals billed for items that were not provided to the patients.

The overpayments we identified occurred because Empire did not have adequate controls in place to ensure special items were paid according to the terms of its agreements with the hospitals. Specifically, Empire did not request or therefore review supporting documentation for special items prior to payment.

As our report details, the amounts of overpayments identified significantly exceeded the amounts of underpayments for special items. For the 100 claims we reviewed, the net overpayment (\$898,541) was 42 percent above the amount Empire should have paid for the items in question. This amount is material and, consequently, there is significant risk that Empire's payments for special items were, in the aggregate, excessive. Moreover, we believe Empire could have prevented many of the excessive payments we identified, if it had sufficient controls to ensure that payments for special items were correct.

Empire officials advised us they have engaged a consultant to review claims with charges for special items. According to Empire officials, the consultant has developed a computer algorithm to capture charges for special items according to the nature of the item provided. Using this data, Empire has established cost parameters for individual special items. Special item claims will be subjected to the algorithm, and those which exceed the algorithm's cost parameters will be flagged for review, adjustment, and recovery, as warranted. Empire is currently implementing a process to transfer special item claim payment data to the consultant.

Recommendations

1. Recover the net overpayment of \$898,541 for the improperly paid claims.
2. Ensure that the future agreements with hospitals contain language which: specifies the basis of reimbursement for the purchase and acquisition (including transportation, handling and other processing costs) of special items; and requires hospitals to provide appropriate supporting documentation (including invoices for special items) upon request.
3. Complete the development and implementation of internal controls (including the proposed computer-assisted techniques) to ensure that payments for special items are made according to hospital agreements and are supported by appropriate documentation.

Audit Scope and Methodology

Our audit objectives were to determine whether Empire paid claims for special items according to the provisions of the agreements between Empire and its network hospitals and to determine if payments for certain special items, in relation to the hospitals' actual purchase and acquisition costs, were reasonable. Our audit covered the period from July 1, 2012 through December 31, 2012.

For the period July 1, 2012 through December 31, 2012, Empire paid 719,242 claims totaling nearly \$1 billion for services provided to Plan members. This included payments totaling \$63,303,635 for 39,993 claims for special items. Of these, we eliminated 3,713 claims totaling \$4,823,315 because their claim amount or special item amount was \$0 or less. Also, we eliminated 10,314 claims totaling \$25,158,017 because the claims were from hospitals whose contracts do not contain provisions that limit reimbursement for special items. From the remaining 25,966 claims totaling \$33,322,303, we judgmentally selected 100 high-dollar claims. These 100 claims were paid to 25 different hospitals. Empire's contracts with all 25 hospitals contained provisions that limited reimbursement for special items.

For each selected claim payment, we requested Empire to obtain the corresponding medical records and invoices from the hospitals. We reviewed the medical records to determine whether the services billed were, in fact, provided. We also compared the invoice cost of special items to the amounts paid by Empire. We considered any payments for charges that exceeded the terms prescribed by the hospital contracts to be overpayments.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and

statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members (some of whom have minority voting rights) to certain boards, commissions and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed 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.

Reporting Requirements

We provided preliminary copies of the matters contained in this report to Empire officials for their review and comments. Their comments have been taken into consideration in preparing this report.

Within 90 days of the final release of this report, we request Empire officials to report to the State Comptroller advising what steps were taken to implement the recommendations included in the report.

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Vision

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To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.