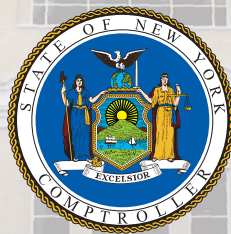




# Empire BlueCross BlueShield

## New York State Health Insurance Program: Payments Made to Stony Brook University Medical Center

Report 2009-S-27



Thomas P. DiNapoli



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

October 28, 2010

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

Dear Mr. O'Malley:

The Office of the State Comptroller is committed to 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.

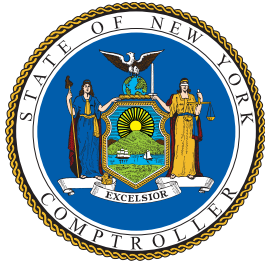
Following is a report of our audit of Empire BlueCross BlueShield entitled *New York State Health Insurance Program: Payments Made to Stony Brook University Medical Center*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and 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*





## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

#### **Audit Objective**

Our audit objective was to determine whether Empire BlueCross BlueShield's (Empire) payments to Stony Brook University Medical Center (Stony Brook) on behalf of Empire Plan members were made in accordance with Empire's Certificate of Insurance (Certificate) and Empire's agreement with Stony Brook. Our audit covered the period January 1, 2004 through December 31, 2008.

#### **Audit Results – Summary**

The New York State Health Insurance Program (NYSHIP) provides health insurance coverage to active and retired State, local government and school district employees and their dependents. The Empire Plan (Plan) is the primary health benefits plan for NYSHIP. The Department of Civil Service (Department) contracts with Empire to administer the hospitalization portion of the Plan, which provides coverage for inpatient and outpatient services provided by a hospital or other eligible healthcare facility. Empire processes Plan claims for hospital services in accordance with agreements between Empire and member hospitals.

For the period January 1, 2004 through December 31, 2008, Empire paid 169,912 claims totaling \$249.7 million for services provided by Stony Brook to Plan members. We identified 94 errors on 79 (44 percent) of the 179 random sample claims we selected for review. With few exceptions, the errors led to overpayments, many of which were significant.

We determined that Empire overpaid Stony Brook almost \$360,000 for certain special items on 61 claims. Moreover, Stony Brook systemically marked-up these items, often significantly, over the allowed amounts. For example, Empire reimbursed Stony Brook \$112,314 for certain items billed on one particular claim. However, the documentation supporting the amount claimed totaled only \$13,676. Therefore, Empire overpaid this claim by \$98,638.

We also identified overpayments totaling about \$513,727 for payments made pursuant to a provision in the agreement that applies to high-dollar claims. Empire sometimes made duplicative payments when applying the provision. On one particular claim, Empire overpaid Stony Brook almost \$71,000. For 46 claims processed prior to August 1, 2007, we identified overpayments totaling about \$479,000 pertaining to the provision. On the 12 claims processed on or after August 1, 2007, we identified overpayments totaling about \$35,000.

The net overpayment from the claims that we reviewed totaled \$872,105. A projection of these overpayments to our population of claims paid, using statistically valid sampling methods and a 95 percent single-sided confidence level, resulted in a projected overpayment of \$3,695,102.

Our report recommends that Empire refund the overpayments to the State and strengthen its claims processing controls to prevent similar overpayments in the future.

This report, dated October 28, 2010, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

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# Introduction

## **Background**

NYSHIP provides health insurance coverage to active and retired State, participating local government and school district employees and their dependents. The Plan is the primary health benefits plan for NYSHIP. The Plan covers inpatient and outpatient hospital, medical/surgical, mental health and substance abuse, and prescription drug services. The Plan also covers home care services, medical equipment and supplies, and treatments provided by Centers of Excellence for transplants, infertility and cancer.

The Department contracts with Empire to administer the hospitalization portion of the Plan, which provides coverage for inpatient and outpatient services provided by a hospital, skilled nursing facility, and hospice care as described in the Certificate. Empire processes Plan claims for hospital services in accordance with agreements between Empire and 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.

For the period January 1, 2004 through December 31, 2008, Empire paid 169,912 claims totaling \$249.7 million to Stony Brook for services provided to Plan members.

## **Audit Scope and Methodology**

The objective of our audit was to determine whether Empire's payments to Stony Brook on behalf of Empire members for the period January 1, 2004 through December 31, 2008 were in accordance with the Certificate and Empire's agreement with Stony Brook.

To accomplish our objective, we reviewed the Certificate and agreement and analyzed claims data provided by Empire for our audit period. We excluded claims less than \$500 and claims paid secondarily to payments made by Medicare. From the remaining 61,509 claims totaling \$225.2 million, we selected a random sample of 179 claims totaling \$19.1 million. We reviewed claim detail at Empire and medical, billing and payment records at Stony Brook to determine if the selected payments were made in accordance with the Certificate and the agreement. We also interviewed officials at both Empire and Stony Brook.

In preparing this report, we excluded certain details relating to the claims we reviewed due to the proprietary nature of the agreement between Empire and Stony Brook. However, we provided specific details of all the transactions in question to Empire and Department officials for their review and resolution, as appropriate.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 systems; 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 this report.

**Contributors to the Report**

Major contributors to this report were David Fleming, Cynthia Herubin, Andrea Dagastine, Steven Sossei, and Brian Mason.

## Audit Findings and Recommendations

**Claims Processing Errors and Overpayments** We identified errors in 79 (44 percent) of the 179 randomly selected claim payments that we reviewed. With few exceptions, the errors led to overpayments, many of which were significant. The errors we identified amounted to a net overpayment of \$872,105 for the claims reviewed. When projected to the population of claims paid during the audit period, we concluded that Empire overpaid Stony Brook about \$3.7 million. The following table summarizes the overpayments identified from our review of our statistical sample:

<u>Nature of Errors</u>	<u>Number</u>	<u>\$ Amount</u>
Excessive Charges for Special Items	61	359,575
Duplicate Payments in High-Dollar Claims	28	513,727
Net Other Miscellaneous Errors	5	(1,197)
Less: Claims with Multiple Errors	<u>(15)</u>	-
Total Sample Errors and Net Overpayment	<u>79</u>	<u>\$ 872,105</u>

As noted in the table, most all of the overpayments resulted from errors in claims processing related to certain special items and high-dollar claims. These overpayments and their projection to our population of claims paid during the audit period are discussed in the following narratives.

### *Excessive Charges for Special Items*

Empire’s agreements with Stony Brook include provisions for certain (special) items that are not included in the standard rate payment schedules. Stony Brook and Empire negotiate the processes for handling these items annually, and the current agreement prescribes the appropriate methods for billing and paying them. The agreement also permits Empire to audit payments for these special items to ensure they were paid appropriately and to recover any overpayments. We identified 82 claims in our sample that included payments for these items totaling \$979,208. (40 of these claims were processed under the current agreement, and 42 were processed under prior agreements).

We reviewed Stony Brook’s billing and payment records for the 82 claims to determine if the items were billed and paid in accordance with the

agreement. We found that Empire overpaid Stony Brook for these items on 61 (74 percent) of the 82 claims and underpaid Stony Brook on two claims. We further concluded that Stony Brook systemically marked-up these items, often significantly, over the amounts the current agreement allowed. For example, Empire reimbursed Stony Brook \$112,314 for items billed on one particular claim. However, the documentation supporting the amount claimed totaled only \$13,676. Therefore, Empire overpaid Stony Brook by \$98,638 (\$112,314 - \$13,676) for the claim.

Overpayments totaling \$336,629 were made to Stony Brook on 38 (95 percent) of the 40 claims processed under the current agreement. On 23 (54 percent) of the 42 claims processed under prior agreements, Stony Brook billed and was paid for items that were ineligible for special item payments. The costs for the items in question should have been covered by the overall payment Empire made for the patient's diagnosis and the normal range of services provided. The overpayments for these 23 claims totaled \$22,946. Thus, Empire made overpayments amounting to \$359,575 on a total of 61 of the claims we reviewed.

These overpayments occurred because Empire did not have sufficient controls in place to ensure that these items were reimbursed in accordance with Empire's agreement with Stony Brook. Although the current agreement authorizes Empire to audit payments made for these items to ensure they are appropriate and to recover any differences, Empire has not yet done so. Empire has relied on Stony Brook to submit accurate claims for services provided to Plan members. To the extent Stony Brook submitted errant claims, Empire made errant payments.

#### *Duplicate Payments on High-Dollar Claims*

Empire's agreements with Stony Brook include a provision that applies to high-dollar claims. Prior to the current agreement, effective August 1, 2007, the provision did not specify the method for calculating this payment. In our sample of 179 claims, 58 included payments under the provision. (46 of the claims were prior to August 1, 2007 and 12 were on or after August 1, 2007). Based on our review, we determined that excessive payments of \$513,727 were made on 28 (48 percent) of the 58 claims.

Empire made excessive payments to Stony Brook on 24 claims subject to the provision prior to August 1, 2007. Because the specific method for calculating the payment under the provision was not prescribed in the agreement in effect at that time, duplicate charges were made for certain items. This resulted in overpayments, some of which were large. For example, for one claim subject to the provision, Empire paid Stony Brook

about \$216,000. Based on our review, however, we determined that the proper amount of the claim should have been about \$145,000. Thus, the claim was overpaid by almost \$71,000. For the claims in our sample that were subject to the provision prior to August 1, 2007, Stony Brook was overpaid a total of \$478,941.

We also identified four claims paid on or after August 1, 2007 that were processed incorrectly and resulted in overpayments of \$34,786. According to Empire officials, these overpayments have been recovered from Stony Brook and credited back to the State.

#### *Other Miscellaneous Errors*

We identified several other relatively minor errors in the claims in our sample. In one instance, a co-payment was not properly applied. In another, Stony Brook was paid for an extra day of hospitalization. At the time of our review, Stony Brook had returned this overpayment and Empire credited it to the State. Further, we identified three claims that were underpaid by a total of \$2,713. The net effect of these minor errors was an underpayment of \$1,197.

#### *Projection of Sample Results*

The net overpayment from the claims that we reviewed totaled \$872,105. A projection of these overpayments to our population of claims paid, using statistically valid sampling methods and a 95 percent single-sided confidence level, resulted in a projected audit overpayment of at least \$3,695,102. In response to our preliminary findings, Empire officials stated that Empire will not recognize requests for reimbursement on extrapolated amounts, but will handle recovery activities on a claim-by-claim basis.

We note that the use of statistical sampling is appropriate and acceptable for the conduct of audits, including our audit of Empire's claim payments to Stony Brook. As noted previously, we conduct our audits in accordance with generally accepted government auditing standards. These standards are issued by the U.S. Government Accountability Office under the direction of the Comptroller General of the United States. These standards formally authorize auditors to use statistical sampling, which allows audit work to be completed efficiently and reliably, to draw conclusions for a defined population based on a review of a random sample of units from that population.

The Office of the State Comptroller has successfully applied statistical sampling techniques on various types of audits over the years to

identify and recover material amounts of improper payments of State funds. Moreover, the statistical sampling projections resulting from such audits, when challenged, have routinely been affirmed through judicial proceedings. Significant overpayments resulted from Empire's failure to adjudicate claims in accordance with the Certificate and the agreement with Stony Brook. Should Empire choose not to comply with the recommendation to remit the overpayment of \$3,695,102 to New York State, Empire should re-adjudicate all claims paid to Stony Brook for Empire Plan members for the period audited and recover the overpayments.

- Recommendations**
1. Remit to New York State the projected overpayment of \$3,695,102 for services provided to Empire Plan members at Stony Brook or remit the \$872,105 of overpayments identified by this audit plus amounts determined from re-adjudication of all other claims pertaining to the audit period.
  2. Develop and implement a system of internal controls to ensure that payments to Stony Brook are made in accordance with the agreement and supported by appropriate documentation.