



EmblemHealth Inc.

New York State Health Insurance Program: Accounting for Voided Dental Claims and Voided Checks

Report 2010-S-1



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

August 19, 2010

Mr. Erhard Krause
Vice President, Sales and Account Management
EmblemHealth, Inc.
77 Broadway
Buffalo, New York 14203

Dear Mr. Krause:

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 EmblemHealth, Inc. - New York State Health Insurance Program: Accounting for Voided Dental Claims and Voided Checks. 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

EXECUTIVE SUMMARY

Audit Objective

The objective of our audit was to determine if EmblemHealth, Inc. properly accounted for voided claims and checks in determining the total net amounts of paid dental claims on the Statements Of Experience submitted to the New York State Department of Civil Service for the four years ended December 31, 2008.

Audit Results - Summary

New York State provides dental insurance benefits to State employees and their dependents through a contract, administered by the Department of Civil Service, with EmblemHealth Inc. (Emblem). Emblem is reimbursed for the cost of the benefit payments as well as administrative costs and a profit. For the four years ended December 31, 2008, the State reimbursed Emblem about \$253.6 million for the cost of dental claims for services provided to eligible members and their dependents. Emblem is reimbursed based upon estimates throughout the year with a final accounting provided in an annual Statement Of Experience (SOE) submitted by Emblem.

Dental claims are processed for payment through Emblem's Fastrak computer system. Emblem uses data from Fastrak to prepare its SOEs. In 2008, Emblem identified a long-term problem with Fastrak that resulted in the overstatement of claim payment data reported on the 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.

We found that the SOEs were still overstated by \$753,975 based upon the amounts actually paid on dental claims from 2005 through 2008. We attributed the overstatements to Emblem's failure to account for replacement checks issued to providers for 4,084 claims (totaling \$596,225) and for 3,304 voided claims (totaling \$157,750) when preparing the SOEs. These overpayments occurred, at least in part, because the automated processes to replace checks and void claims sometimes created additional (redundant) claim liability information on Fastrak. When that data from Fastrak was transferred to another system to calculate the amount of paid claims to report to the State, offsets to the redundant claim amounts and the voided checks were not included in the calculations. Consequently, the total amounts of paid claims were overstated.

We determined, for example, that the State reimbursed Emblem \$2,240 for a claim for \$1,120 for services rendered in March 2005. The original claim was voided and then reprocessed.

However, both the voided and reprocessed claims for the service were used in the calculation of paid claims, without any adjustment to avoid duplicate payment. Consequently, the State overpaid Emblem \$1,120 for the service.

We also concluded that Emblem's procedures to ensure the accuracy of the data reported on the SOEs were not sufficient. Specifically, the processes did not adequately account for the transfer of certain claim adjustments (offsets) from Fastrak to another system used to determine the amounts of paid claims to be reported to the State. Emblem should revise its data verification process to include a more detailed review of the data for paid claims, particularly those subjected to certain adjustment procedures.

Our report contains four recommendations to Emblem to reimburse the State for the overpayments identified and to address certain control issues which contributed to the overpayments.

This report, dated August 19, 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

The New York State Dental Services Program provides dental insurance benefits to State employees and their dependents. The Department of Civil Service (DCS) administers the dental program and contracts with EmblemHealth, Inc. (Emblem) to process dental claims on behalf of the State. Over the four years ended December 31, 2008, the State reimbursed Emblem about \$253.6 million for dental services provided to eligible members. The State reimburses Emblem based upon estimates throughout the year. After the claims year is finished, Emblem submits a final accounting for the year on an annual Statement Of Experience (SOE) to DCS. The State also pays Emblem an administrative fee for processing claim payments for the Dental Services Program.

Emblem processes claims using a system called Fastrak which in turns provides information to an accounting system called the Actuarial LAN for preparation of the SOE's and payments to providers. In 2008, Emblem identified a long-term problem regarding data, transferred from Fastrak to the Actuarial LAN, which caused an overstatement of the claim payment data reported on the 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.

Audit Scope and Methodology

The objective of our audit was to determine if Emblem properly accounted for voided claims and checks in determining the total net amounts of paid dental claims on the Statements Of Experience submitted to the Department of Civil Service for the four years ended December 31, 2008.

To perform our audit, we obtained dental claims data from Emblem for the period of our audit. Using this data, we reconciled the cumulative amounts of properly paid claims to the amounts Emblem reported on the SOEs for 2005 through 2008. Because of their relative complexity and risk, we focused our review on voided claims and replacement checks for incorrectly processed claims. We selected samples of claims and reviewed the related data for them per Emblem's Fastrak claims processing system. We also interviewed Emblem officials responsible for processing and reporting paid claims.

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 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 functions do not affect our ability to conduct independent audits of program performance.

Authority

This 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 included in this audit report to officials of Emblem for their review and formal comment. We considered their comments in preparing this report.

Within 90 days of the issuance of this report, we request officials of Emblem to advise us of the steps taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

**Contributors to
the Report**

The contributors to this report included Steve Sossei, Robert Wolf, Kathleen Hotaling, Wendy Matson, Laurie Burns, and Brian Mason.

Audit Findings and Recommendations

Overstatement of Net Paid Dental Claims

The SOEs submitted by Emblem overstated the amounts properly due for dental service claims from 2005 through 2008 by \$753,975. We attributed the overstatement to Emblem's failure to remove from the calculations certain replacement checks as well as errors in Emblems systems that caused some claims to be paid more than once. The overpayments we identified were in addition to those that resulted in the \$13.6 million refund that Emblem issued to the State in 2008.

Claims are processed for payment through Emblem's Fastrak computer system. Fastrak is a complex system that includes several categories of claims, including original, dual coverage, and split claims. Adjustments to claims are assigned an alphanumeric code signifying the type of and the reason for the adjustment. When Emblem is notified of an incorrectly processed claim, a customer service representative can adjust or void the claim before a payment is generated. If a check has already been generated, the representative can void that check or issue a stop payment order on it, and then issue a new check for the correct amount. In still other instances, providers may receive checks for improper amounts and return them to Emblem with requests to properly process the claims in question. Data from Fastrak is fed into Emblem's Actuarial LAN, which serves as the data source for the SOEs. In aggregating claims payment data for reporting on the SOEs, Emblem must properly account for checks that were voided, returned by providers, or had stop payment orders issued.

We found that Emblem included on the SOE settlement figures \$596,225 for 4,084 claims that were paid with replacement checks as well as the original claim amounts associated with the original checks that were issued to providers. These replacement checks were generally issued to correct processing errors. This type of overstatement on the SOE resulted mostly from adjusted claims totaling \$546,275. Certain split claims accounted for overcharges of \$48,280, and errors in several dual coverage claims accounted for the remaining \$1,670. These overpayments occurred, at least in part, because in processing the replacement checks, the claim adjustment transaction created an additional claim liability on the Fastrak system without removing the original claim's liability. Subsequently, the information for these adjusted claims (including the original liability) was fed from Fastrak to the Actuarial LAN to determine the amounts to be reported on the SOEs. However, the data transfers to the Actuarial LAN did not include the offsets for the redundant liabilities, and therefore, the amounts of paid claims were overstated on the SOEs.

We determined, for example, that the State reimbursed Emblem \$800 for a claim for services provided in February 2006. However, the State overpaid \$400 for this service because an adjustment to offset the claim by \$400 was not transferred from Fastrak to the Actuarial LAN.

Additional errors were found when Emblem voided an original transaction and processed a corrected transaction. After a claim was voided on Fastrak, there should be only one final payment amount for the service in question. However, we found duplicate payments made to providers, totaling \$157,750, for 3,304 voided claims that were settled on three dates in 2005 (March 21, March 22, and April 4). Fastrak data indicated that two identical payments were made for the claims in question, and the duplicate payments were fed from Fastrak to the Actuarial LAN which was transferred to the SOE. For example, we observed that the State reimbursed Emblem \$2,240 for a claim for \$1,120 in services rendered in March 2005. The original claim was voided on Fastrak and then reprocessed. However, both the voided and reprocessed claims for the service were fed into the Actuarial LAN without any adjustment to prevent a duplicate payment. Consequently, the State overpaid Emblem \$1,120 for the service in question. Emblem officials concluded that a system malfunction occurred in Fastrak which resulted in the duplicate payments on the three dates in 2005.

We concluded that Emblem's procedures to ensure the accuracy of the data reported on the SOEs were not sufficient. Emblem's reconciliation process compares the aggregate total of claims adjudicated on Fastrak to the amounts of payments made for a specified period. However, this process did not sufficiently account for the transfer of certain claim adjustments from Fastrak to the Actuarial LAN.

- Recommendations**
1. Reimburse New York State for the \$753,975 overstatements on the SOEs of paid claims, as identified in this report.
 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.
 3. Develop and implement quality control procedures to verify the consistency and accuracy of paid claims data per the SOEs and the Fastrak databases.
 4. Ensure there is sufficient coordination and communication among management from the finance office, the information technology office, and any other Emblem operating units to properly implement quality assurance processes for data reported on the SOEs.