



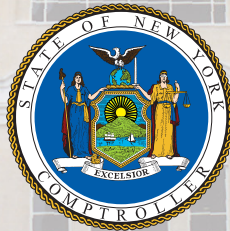
Empire BlueCross BlueShield

New York State Health Insurance Program

Payments Made to Albany Medical Center Hospital

Under the Empire Plan

2008-S-95



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

December 4, 2009

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

Dear Mr. O'Malley:

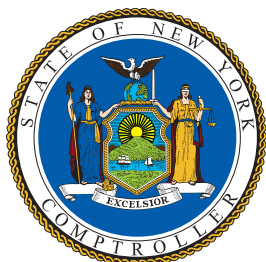
The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. The Comptroller also determines whether entities contracting with the State are fulfilling contract responsibilities. 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 contractual Payments Made to Albany Medical Center Hospital Under the Empire Plan. 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

Our audit objective was to determine whether Empire BlueCross BlueShield's (Empire's) payments to Albany Medical Center Hospital (Albany Med) were in accordance with Empire's Certificate of Insurance (Certificate) and Empire's hospital agreement with Albany Med.

Audit Results - Summary

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, and certain other health care services. 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 skilled nursing facility, and hospice care. Empire processes Plan claims for hospital services in accordance with agreements between Empire and member hospitals.

Albany Medical Center Hospital is one of New York's largest teaching hospitals. From January 1, 2004 through June 30, 2008, Empire paid Albany Med \$112.9 million for health care services provided to Plan members.

We found that medical records and other pertinent documentation generally supported the services billed by Albany Med and paid by Empire for the 198 transactions that we reviewed. However, we did identify errors in 72 of the claim payments we reviewed which resulted in a net overpayment of \$58,029 to Albany Med for the audit period. This consisted of overpayments totaling \$88,563 less underpayments of \$30,534.

Our report contains four recommendations for Empire to recover the net overpayment from Albany Med and strengthen controls to prevent future overpayments.

This report dated December 4, 2009, is available on our web site at <http://www.osc.state.ny.us>.

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Office of the State Comptroller

Division of State Government Accountability

110 State Street, 11th Floor

Albany, NY 12236

Introduction

Background

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, 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 portion of the Plan, which provides coverage for inpatient and outpatient services provided by hospitals, skilled nursing facilities, and hospice. Empire processes Plan claims for hospital services in accordance with agreements between Empire and member hospitals. The agreements include a formal contract and a Certificate of Insurance (Certificate), which prescribes the terms and conditions of Empire's coverage. The member hospitals are located in 28 counties in eastern and southeastern New York State and several counties in New Jersey which are adjacent to New York State.

Albany Med is an academic health science center which includes Albany Medical Center Hospital (one of New York's largest teaching hospitals) and Albany Medical College (one of the nation's first private medical schools). Empire's current contract with Albany Med has been in place since 1997, with annual updates to the contract-related rate payment schedules. For the period from January 1, 2004 through June 30, 2008, Empire paid 77,097 claims totaling \$112.9 million for services that Albany Med provided to Plan members.

Audit Scope and Methodology

The objective of our audit was to determine whether Empire's payments to Albany Med for the period January 1, 2004 through June 30, 2008 were in accordance with the Certificate and Empire's agreement with Albany Med.

To accomplish our objective, we reviewed the Certificate and agreement and analyzed claims data provided by Empire for our audit period. We excluded claims for less than \$500 and claims paid for balances remaining from coverage provided by Medicare. Consequently, our review included samples of payments from a pool of 28,490 claims that totaled about \$104.8 million. We used data analysis to identify claims for mental health and substance abuse services and claims for apparent overlapping dates of service (to determine if Empire paid for outpatient hospital services during

an inpatient stay). We identified 74 such claims totaling about \$540,000 for review. We also selected a random sample of 124 other claims totaling about \$5.2 million for review. Thus, we reviewed a total of 198 claims for which Albany Medical Center was paid \$ 5.7 million. In addition, we interviewed officials at Empire and Albany Med. We reviewed claim detail at Empire and medical, billing and payment records at Albany Med to determine if the selected claim payments were made in accordance with the Certificate and the agreement.

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 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	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, Frank Commisso, Andrea Dagastine, Judith McEleney, and Brian Mason.

Audit Findings and Recommendations

Claims
Overpayments and
Underpayments

We found that medical records and other pertinent documentation generally supported the services billed by Albany Med and paid by Empire for the 198 transactions totaling about \$5.7 million that we reviewed. However, we did identify errors in 72 of the claim payments we reviewed which resulted in a net overpayment of \$58,029 to Albany Med for the audit period. This consisted of overpayments totaling \$88,563 less underpayments of \$30,534. The following table summarizes the exceptions identified during our review:

<u>Reason for Exception</u>	<u>Number of claims</u>	<u>Dollar Amount</u>
Alternate Level of Care / Extra Day Billed	3	\$30,433
Ineligible Mental Health Payment	1	30,000
Rate Exception Item Overpayments	25	26,061
Rate Exception Item Underpayments	41	(30,534)
Overlapping Dates of Service	<u>2</u>	<u>2,069</u>
Total Audit Exceptions	<u>72</u>	<u>\$58,029</u>

We provided specific detail of the transactions in question to Empire officials for their review and actions, as appropriate. Descriptions of the exceptions are presented as follows:

Alternate Level of Care / Extra Day Billed

The agreement includes schedules which specify the payment rates for the various levels of care that Albany Med provides. The agreement further states that the hospital will accept as payment in full the applicable alternate level of care rate for members who require inpatient care, but do not require an acute level of care. Sometimes, a patient is placed in a higher cost intensive care unit due to the unavailability of beds in a semi-private medical/surgical unit. In this instance, the payment should be based on the fee for a semi-private room.

In general, we found that claim payments were proper relative to patient care levels and their lengths of stay at Albany Med. However, we identified three claims that were overpaid because the medical records did not support

the amounts billed to Empire. In two instances, patients received an acute level of care because alternate beds were not available, and in one instance, an extra day of hospitalization was billed. The three overpayments to Albany Med totaled \$30,433.

For one of the claims in question, the medical record indicated that the patient was transferred from the Neonatal Intensive Care Unit (NICU) to the Pediatric Intensive Care Unit (PICU) for 18 days due to a shortage of beds. In accordance with the agreement, payment to Albany Med should have been based on the alternate level of care rate (for the NICU) for the entire length of stay. However, Albany Med billed Empire the higher PICU rate for 18 days resulting in an overpayment. According to the Discharge Summary, signed by the attending physician, “the baby was in the NICU for a prolonged period until the beginning of August, when he was transferred to the PICU due to shortage of beds in the NICU.”

For another claim, the medical record indicated that the patient remained two extra days in the Surgical Intensive Care Unit (SICU) because a regular bed was unavailable. Again, however, Albany Med was reimbursed at the higher SICU rate.

We also identified a claim in which an extra day of hospitalization was billed. According to the medical records, the patient was discharged one day earlier than the date for which Albany Med billed Empire. Consequently, Empire overpaid Albany Med for the claim.

Mental Health Services

Mental health care services are expressly excluded from the Certificate. The Department contracts with a separate provider to cover such services. However, services for alcohol and drug detoxification and psychiatric services with an underlying medical condition, which are provided at an acute medical facility, are covered by Empire.

During our review, we identified 22 claims with service codes indicating that mental health or substance abuse services may have been provided by Albany Med. We reviewed supporting documentation and found that 21 claims were appropriately paid by Empire because they were for alcohol and/or drug detoxification services, or included an underlying condition that required medical attention. One claim, however, was for psychiatric services (costing \$30,000) that should have been paid by the carrier for mental health services - and not Empire. The improper payment occurred because Albany Med submitted the claim in error to Empire, and an Empire claims examiner mistakenly approved the claim. Albany Med and Empire officials agree that the other carrier (not Empire) should have paid this claim.

Rate Exception Items

Empire's agreement with Albany Med specifies certain rate exception items, in which additional payment can be made (above the amounts prescribed by rate schedules) under certain circumstances. Rate exception items are negotiated annually by Albany Med and Empire. The agreement prescribes the appropriate methods for billing and paying rate exception items. Further, it gives Empire the right to audit claims to ensure they were paid appropriately and to recoup any overpayments identified. We reviewed claim payment detail at Empire and found 48 of the 124 claims in our random sample had additional payments for 67 rate exceptions totaling about \$287,000.

Based on our review, we determined that 25 rate exception items corresponded to overpayments totaling \$26,061, and 41 resulted in underpayments of \$30,534. (One rate exception item predated the period under audit and was not reviewed.) Consequently, there was a net underpayment of \$4,473 due to the errant charges for rate exceptions. Most of the errors for the rate exception items occurred because Empire did not have adequate controls to ensure they were paid in accordance with the agreement. Further, although the agreement provides Empire with the authority to audit rate exception items, Empire has not done so for claims from Albany Med.

Although supporting documentation was available for nearly all of the rate exception items we reviewed, Albany Med was unable to provide documentation for a particular payment of \$5,700. Empire's claims payment system did not have a rate for the service in question. Consequently, to pay the claim, Empire officials overrode existing system controls designed to ensure that claims are paid correctly. The "negotiated" payment was made 18 months after the service was provided. However, neither Empire nor Albany Med could provide us with documentation of the negotiations which purportedly took place to resolve this claim. Consequently, there was no documented basis for the \$5,700 payment, and therefore, we recommend that Empire reimburse the State for it. Moreover, in the future, Empire should ensure that all system payment overrides are properly documented and approved.

Overlapping Dates of Service

The agreement states that the reimbursement rates in the rate schedules are compensation for all covered services rendered by the hospital, unless otherwise expressly stated. Therefore, separate payments should not be

made for both inpatient and outpatient services provided during the same time period.

Based on our review, we determined that Empire overpaid two claims (totaling \$2,069) for inpatient and outpatient services that were provided at the same time. According to Empire officials, these overpayments were the result of an error made by Empire claims examiners. System edits have been in place to detect overlapping dates of service. However, in these instances, Albany Med resubmitted the claims and Empire personnel manually overrode the edits which allowed the claims to be paid. Empire officials advised us that they have already recovered the \$2,069 in question. Nonetheless, system edits should not be manually overridden to allow claims to be paid inappropriately, and we reiterate that system overrides should be properly documented and approved.

- Recommendations**
1. Reimburse the State \$58,029 for the net overpayment made to Albany Med for services provided to Empire Plan members.
 2. Develop and implement internal controls to ensure that rate exception items submitted by Albany Med are paid in accordance with the agreement and supported by appropriate documentation. As resources and priorities permit, perform audits of rate exception items determined to be of material risk.
 3. Periodically remind claims examiners to ensure that services claimed are eligible per the contract with Albany Med.
 4. Ensure that all system payment overrides are properly documented and approved.