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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 1, 2013

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

Re: Selected Payments for Special Items
Made to Albany Medical Center Hospital
from January 1, 2011 through March 31,
2011
Report 2012-S-59

Dear Mr. O'Malley:

We audited selected claim payments made by Empire BlueCross BlueShield (Empire) to Albany Medical Center Hospital (AMC) on behalf of the New York State Health Insurance Program (NYSHIP). This report is part of a series of audits of Empire's payments to selected hospitals for "special items" during the three months ended March 31, 2011. This audit was performed in accordance with 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.

Background

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. The Department of Civil Service contracts with Empire to administer the hospitalization portion of the Plan. Empire processes Plan claims for hospital services in accordance with agreements they negotiate with member hospitals, including AMC. These agreements generally provide for payment of specific rates for covered services. The agreements may also provide a different payment basis for certain special items (such as implants, drugs, and blood) related to such services. Empire's contract with AMC establishes that claims for special items should be related to the costs to acquire them.

Results of Audit

We reviewed nine claim payments (totaling \$187,941) to AMC for special items and determined Empire overpaid them by \$6,868, as summarized in the following table.

| Nature of Special Items | Amount Empire Paid | Amount Empire Should Have Paid Per Contracts | Amount Empire Overpaid | Percent Overpaid |
|--------------------------------|---------------------------|---|-------------------------------|-------------------------|
| Implants | \$75,774 | \$76,020 | \$(246) | -0.32 % |
| Drugs | \$105,472 | \$98,899 | \$6,573 | 6.65% |
| Blood | \$6,694 | \$6,153 | \$541 | 8.79% |
| Total | \$187,941 | \$181,073 | \$6,868 | 3.79% |

As shown by the table, the amounts Empire paid on the sampled claims exceeded AMC's contracted allowances for the items. The overpayment resulted because Empire did not have adequate controls to ensure that the facility's billed charges reflected the contractual agreement. We provided specific information for each audited claim payment to Empire.

Recommendations

1. Recover the \$6,868 from AMC for the overpayments we identified in this audit.
2. Develop and implement the controls necessary to ensure that payments for special items comply with the terms of Empire's contract with AMC.

Audit Scope, Objective and Methodology

Our objective was to determine if Empire's payments to AMC for special items were made according to the provisions of the agreement between Empire and AMC. We audited nine claim payments for rate exception items that Empire paid to AMC during the period from January 1, 2011 through March 31, 2011.

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 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 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.

We provided a preliminary copy of the matters addressed in this report to Empire officials for their review and comments. Their comments were considered 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.

Major contributors to this report include David Fleming, Edward Durocher, Kathleen Hotaling, Laura Brown, Andrea Dagastine and Christian Butler.

Sincerely,

Brian E. Mason
Audit Director

cc: Joan Martin, Albany Medical Center Hospital
Robert DuBois, Department of Civil Service
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