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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 30, 2014

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

Re: New York State Health Insurance
Program: Empire BlueCross BlueShield
Selected Payments for Special Items for
the Period April 1, 2011 Through June
30, 2011
Report 2014-F-6

Dear Mr. O'Malley:

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, we have followed up on the actions taken by officials of Empire BlueCross BlueShield to implement the recommendations contained in our audit report, *New York State Health Insurance Program: Empire BlueCross BlueShield Selected Payments for Special Items for the Period April 1, 2011 Through June 30, 2011* (Report 2011-S-42).

Background, Scope, and Objectives

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. 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 New York State Department of Civil Service 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 in accordance with agreements

Empire negotiates with member hospitals. 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 (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 April 1, 2011 through June 30, 2011, Empire paid over \$31 million for 19,032 claims for special items.

We issued our initial audit report on December 7, 2012. The audit examined selected payments for special items made by Empire for the period April 1, 2011 through June 30, 2011. Our objective was to determine whether Empire paid claims for special items according to the provisions of the agreements between Empire and its member hospitals. We also sought to determine if payments for certain special items, in relation to the hospitals' actual purchase and acquisition costs, were reasonable. We concluded that Empire did not have adequate controls to ensure special items were paid according to contract limitations. As a result, Empire made a net overpayment of \$119,141 on 33 claims from hospitals that had contracts with Empire which limited the amounts that could be charged for special items.

The objective of this follow-up was to determine the implementation status, as of July 1, 2014, of the three recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

Empire officials made considerable progress in implementing the recommendations we made in our initial audit report. Of the three prior recommendations, two were implemented and one was partially implemented.

Follow-Up Observations

Recommendation 1

Recover the net overpayment of \$119,141 for the improperly paid claims.

Status - Implemented

Agency Action - Empire recovered the overpayments from the hospitals for the improperly paid claims.

Recommendation 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 support documentation (including invoices for special items) upon request.

Status - Partially Implemented

Agency Action - Empire officials have made significant progress ensuring that hospital agreements contain language that limits reimbursement for special items and requires hospitals to provide appropriate supporting documentation. Empire officials stated that the new language is added to a hospital agreement when each contract comes up for renewal. Consequently, updating all hospital agreements is a gradual process.

As of June 2014, 100 hospital agreements contained the language and five hospitals were in negotiation regarding the addition of the new language. However, 32 hospital agreements did not yet contain the new language. Empire paid these hospitals over \$40 million for special items during 2013.

Recommendation 3

Develop and implement internal controls to ensure that payments for special items are made in accordance with hospital agreements and are supported by appropriate documentation.

Status - Implemented

Agency Action - Empire officials have taken steps to enhance their controls over special item payments. Specifically, Empire entered into agreements with two private companies to identify overpayments for special items. One agreement addresses reimbursements for drugs, and the other addresses reimbursements for implants. One company will review Empire's payments for drugs to ensure compliance with drug reimbursement provisions included in Empire's agreements with hospitals. The second company will identify payments for implants that were reimbursed above the average cost based on the service provided.

Major contributors to this report were Ed Durocher, Laura Brown, and Rachelle Goodine.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issue discussed in this report. We also thank Empire's management and staff for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,



David Fleming
Audit Manager

cc: Mr. David Boland, Department of Civil Service
Ms. Stephanie Zoufaly, Department of Civil Service