New York State Health Insurance Program

UnitedHealthcare: Reasonable and Customary Reimbursement Rates for Delayed Claims

Report 2018-S-60 | December 2019

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller
Division of State Government Accountability

Audit Highlights

Objectives

To determine whether UnitedHealthcare (United) paid claims using reasonable and customary (R&C) reimbursement rate schedules that did not correlate with the date of the service on the claims, and to calculate the corresponding financial impact. The audit covered the period January 1, 2017 through December 31, 2018.

About the Program

The New York State Health Insurance Program (NYSHIP), administered by the Department of Civil Service (Civil Service), provides health insurance coverage to over 1.2 million active and retired State, local government and school district employees, and their dependents. The Empire Plan is the primary health benefits plan for NYSHIP, covering nearly 1.1 million members.

Civil Service contracts with United to administer the medical/surgical benefits portion of the Empire Plan. United contracts with in-network providers to deliver services to Empire Plan members. Members may also choose to receive services from out-of-network providers. United's reimbursement for certain out-of-network claims is 80 percent of the R&C rate for the service. R&C rates are updated every six months. From January 1, 2017 through December 31, 2018, United paid over $416 million for 255,807 out-of-network claims based on R&C rates.

Key Findings

- United's automated claims processing system uses only the two most recent R&C rate periods (i.e., reimbursement rates from the prior 12 months) to process all R&C claims – even claims for services that occurred before those rates took effect.
- From a sample of 100 claims, we calculated a potential cost savings of $214,008 for 84 claims that were paid using an R&C rate period that was not in effect on the date of the service.

Key Recommendations

- Evaluate the feasibility of processing R&C claims based on their date of service (thereby using the R&C rate in effect on the date of the service).
- Review the claims identified in this audit and assess whether recoveries are warranted.

Office of the New York State Comptroller
Division of State Government Accountability

December 12, 2019

Mr. Carl A. Mattson
Vice President, Empire Plan
UnitedHealthcare National Accounts
13 Cornell Road
Latham, NY 12110

Dear Mr. Mattson:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, 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 the New York State Health Insurance Program entitled *UnitedHealthcare: Reasonable and Customary Reimbursement Rates for Delayed Claims.* 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.

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,

Division of State Government Accountability

Contents

Glossary of Terms

Term	Description	Identifier
Civil Service	Department of Civil Service	*Agency*
Delayed claim	A claim paid using a later rate period that was not in effect on the date of service	*Key Term*
Empire Plan	The primary health benefits plan for NYSHIP	*Key Term*
NYSHIP	New York State Health Insurance Program	*Program*
R&C rate	Reasonable and customary rate. The Empire Plan defines the R&C rate as the lowest of: the provider's actual charge for the service, the provider's usual charge for the same or similar service, or the usual charge of other providers for the same or similar service in the same or similar geographic area.	*Key Term*
R&C rate period	The rate periods for medical, surgical, and anesthesia services are January 1 through June 30 and July 1 through December 31 (six-month periods of time).	*Key Term*
United	UnitedHealthcare	*Auditee*

Background

The New York State Health Insurance Program (NYSHIP), administered by the Department of Civil Service (Civil Service), is one of the nation's largest public sector health insurance programs. NYSHIP covers over 1.2 million active and retired State, participating local government and school district employees, and their dependents. The Empire Plan is the primary health benefits plan for NYSHIP, covering about 1.1 million members. The Empire Plan provides its members with four types of health insurance coverage: medical/surgical, hospital, prescription drug, and mental health and substance abuse coverage.

Civil Service contracts with UnitedHealthcare (United) to administer the medical/surgical portion of the Empire Plan. Medical/surgical benefits cover a range of services including, but not limited to: office visits, diagnostic testing, outpatient surgery, physical therapy, chiropractic services, home care services, and durable medical equipment. United processes and pays claims submitted by health care providers on behalf of Empire Plan members.

United contracts with a large network of participating providers (in-network providers) who deliver medical/surgical services to Empire Plan members. However, members may also choose to receive services from non-participating (out-of-network) providers. Certain out-of-network claims are reimbursed at 80 percent of the reasonable and customary (R&C) rate for covered services. The Empire Plan defines the R&C rate as the lowest of: the provider's actual charge for the service, the provider's usual charge for the same or similar service, or the usual charge of other providers for the same or similar service in the same or similar geographic area. United uses data maintained by FAIR Health, a non-profit organization approved by the State, to determine R&C rates.

During the audit period, January 1, 2017 through December 31, 2018, United paid over $5.8 billion for claims for services provided to Empire Plan members. Of this, United paid over $416 million for 255,807 out-of-network claims based on R&C rates.

Audit Findings and Recommendations

We reviewed 100 high-risk R&C claims and found 84 were paid using a later R&C rate period that was not in effect on the date of service. We concluded that United's claims processing system does not pay all R&C claims consistently and that paying the claims in our sample using the rate in effect on the date of service could result in cost savings of $214,008.

Processing of Delayed Claims

The Empire Plan Certificate of Insurance generally requires out-of-network claims to be submitted for payment no later than 120 days after the end of the calendar year in which the service occurred. However, we found that United's automated claims processing system is not designed to process these claims consistently, even when they are submitted within the required time frame. United's system uses only the two most recent R&C rate periods to process all R&C claims – even claims for services that occurred before those two rate periods. Claims that were not paid using the rate in effect on the date of service are known as delayed claims. As R&C rates typically increase over time, United may be paying more for delayed claims than it would if it processed all claims using the rate in effect on the date of service.

For medical, surgical, and anesthesia services, the R&C rate periods are six months: January 1 through June 30 and July 1 through December 31. Table 1 illustrates how United's claims processing system would process the same January 2018 claim if submitted at different points in 2018 (the rate period used to pay the claim is highlighted). For example, a claim with a January 1, 2018 date of service submitted any day in 2018 would be processed using the appropriate rate period of January-June 2018.

Table 1 – Example: Rate Period for Date of Service Is Available in System

Date Processed	Current Rate Period	Prior Rate Period
January 2018	January-June 2018	July-December 2017
February 2018	January-June 2018	July-December 2017
March 2018	January-June 2018	July-December 2017
April 2018	January-June 2018	July-December 2017
May 2018	January-June 2018	July-December 2017
June 2018	January-June 2018	July-December 2017
July 2018	July-December 2018	January-June 2018
August 2018	July-December 2018	January-June 2018
September 2018	July-December 2018	January-June 2018
October 2018	July-December 2018	January-June 2018
November 2018	July-December 2018	January-June 2018

Despite different processing dates, the rate period corresponding to a 2018 date of service is available in the claims processing system and is used for all claims processed in 2018.

Table 2 shows how this same claim (with a 2018 date of service) would be processed if submitted in 2019 (i.e., up to 120 days after the end of the calendar year in which the service occurred). The rate information used to pay the claim in 2018 is no longer available in the claims processing system in 2019. As a result, the claim is now paid using the rate for July-December 2018 instead of the rate for January-June 2018 (the rate period when the service was provided).

Table 2 – Example: Rate Period for Date of Service Is Not Available in System

Date Processed	Current Rate Period	Prior Rate Period
January 2019	January-June 2019	July-December 2018
February 2019	January-June 2019	July-December 2018
March 2019	January-June 2019	July-December 2018
April 2019	January-June 2019	July-December 2018

To illustrate the impact of United's method for processing delayed claims, using data provided by United, we analyzed two R&C claims for the same service provided by the same provider on the same date that were processed and paid differently. For the services that occurred on February 22, 2017, one claim was processed in August 2017 and was paid using the January-June 2017 rate of $520. The other claim was processed in March 2018 and was paid using the July-December 2017 rate of $3,300. The first claim was processed using the R&C rate in effect when service occurred, while the second – a delayed claim – was processed using a later rate period, resulting in an additional $2,780 in payment.

In addition to United's automated claims processing system, claim processors manually review claims, including those not fully processed through the automated processing system, claim adjustments, and claim appeals. In their review, claim processors can manually look up the R&C rate periods in effect when the services occurred and apply those to claims being reviewed. However, claim processors do not specifically review delayed claims.

We reviewed 100 high-risk R&C claims for services provided between January 1, 2017 and December 31, 2018 and identified 84 delayed claims. For example, we identified a claim processed in 2018 using the January-June 2018 R&C rate of $14,947 instead of the $6,900 rate effective when the service occurred in November 2017. We estimate a potential cost savings of

$8,047 for this claim and a total of $214,008 for the 84 delayed claims in our sample.

Recommendations

1. Evaluate the feasibility of processing R&C claims based on their date of service (thereby using the R&C rate in effect on the date of the service) by, for example, making more rate periods available in United's claims processing system or manually processing delayed claims.
2. Review the claims identified in this audit and assess whether recoveries are warranted.

Audit Scope, Objectives, and Methodology

The objectives of our audit were to determine whether United paid claims using R&C reimbursement rate schedules that did not correlate with the date of the service on the claims, and to calculate the corresponding financial impact. The audit covered the period January 1, 2017 through December 31, 2018.

To accomplish our audit objectives and assess related internal controls, we interviewed United officials, reviewed key documents, and reviewed a sample of claims for the audit period. We selected a judgmental sample of 100 claims where the R&C rate period used for payment appeared to be different from the date of service (high risk of being a delayed claim). For each claim, we verified with United which R&C rate period was used to pay the claim and identified the claim as delayed if the rate period used for payment was different from the date of service. For claims identified as delayed, we calculated potential cost savings as the difference between what was paid and what we estimated would be paid using the rate period in effect on the date of service. Because we reviewed a judgmental sample, we are not projecting the results of our findings.

Statutory Requirements

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.

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 to certain boards, commissions, and public authorities, some of whom have minority voting rights. 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.

Reporting Requirements

We provided a preliminary report of our audit observations to United officials for their review and comment. Their comments were considered in preparing this report.

Within 180 days after the release of this report, we request that United officials report to the State Comptroller, advising what steps were taken to implement the recommendations contained in this report, and where recommendations were not implemented, the reasons why.

Contributors to Report

Executive Team

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Andrea Inman - *Audit Director*

Paul Alois - *Audit Manager*

Laura Brown - *Audit Supervisor*

Devisha Gujjar - *Examiner-in-Charge*

Andrea Majot - *Senior Editor*

Contact Information
(518) 474-3271
StateGovernmentAccountability@osc.ny.gov
Office of the New York State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Like us on Facebook at facebook.com/nyscomptroller
Follow us on Twitter @nyscomptroller
For more audits or information, please visit: www.osc.state.ny.us/audits/index.htm