



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

United HealthCare: Overpayments for Services Provided by Long Island Spine Specialists

New York State Health Insurance Program



Report 2015-S-28

May 2016

Executive Summary

Purpose

To determine whether Long Island Spine Specialists, P.C. waived Empire Plan members' out-of-pocket costs, and if so, to quantify the overpayments made by United HealthCare resulting from this practice. The audit covered the period January 1, 2011 through December 31, 2014.

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, as well as their dependents. The Empire Plan is the primary health benefits plan for NYSHIP, covering a range of services from inpatient hospital care to outpatient surgical procedures and physician office visits. The New York State Department of Civil Service contracts with United HealthCare (United) to process and pay medical claims from health care providers for services provided to Empire Plan members.

United contracts with in-network participating providers who agree to accept payments, at rates established by United, to furnish medical services to Empire Plan members. Members pay a nominal co-payment to the participating provider for the services rendered. Members may also choose to receive services from out-of-network "non-participating providers." United reimburses claims from non-participating providers at amounts that are generally higher (and often significantly higher) than the rates participating providers agree to accept for the same services. Consequently, to encourage members to use less costly participating providers, the Empire Plan requires members to pay higher out-of-pocket costs (deductibles and co-insurance) when they use non-participating providers.

In accordance with the Empire Plan's requirements, when United processes a non-participating provider's claims, it is with the understanding that Empire Plan members are liable for a portion of the claimed amount, representing members' out-of-pocket cost-sharing obligations. However, if a non-participating provider does not collect (i.e., waives) a member's out-of-pocket costs, it will result in United making an excessive payment on the claim.

Our audit focused on claims submitted to United by Long Island Spine Specialists, P.C. (Long Island Spine), a non-participating provider located in Long Island, New York. During the period January 1, 2011 through December 31, 2014, United paid claims totaling \$24.8 million for services provided by Long Island Spine to Empire Plan members.

Key Findings

- Long Island Spine routinely failed to pursue collection of out-of-pocket cost-sharing obligations from Empire Plan members and, as such, we concluded Long Island Spine waived these amounts. Consequently, United made overpayments on claims submitted by Long Island Spine. Further, by not collecting members' out-of-pocket costs, Long Island Spine negated the incentive for members to use participating providers. This likely resulted in additional increased costs to the Empire Plan and, consequently, to taxpayers.

- From a random sample, we identified overpayments totaling \$226,309 that resulted from claims that were excessive due to the routine waiving of members' cost-sharing obligations. Based on a statistical projection of the sample overpayments to the population of Long Island Spine's claims, we determined United overpaid \$890,931 during the period January 1, 2011 through December 31, 2014.
- On one claim, for example, Long Island Spine charged \$14,000 and, based on this, United allowed \$5,800 as the reasonable and customary rate for the service. As a result, United paid \$4,640 on the claim and the member's out-of-pocket portion of the claim should have been \$1,160. However, Long Island Spine accepted the \$4,640 as payment-in-full and did not pursue collection of the \$1,160 due from the member. Because Long Island Spine accepted \$4,640 as the full payment, United should have only paid \$3,712 on the claim. This resulted in an overpayment by United of \$928 (\$4,640 - \$3,712). At the time of our audit testing, about nine months passed since the date of the service with no effort by Long Island Spine to collect the amount otherwise due from the member. Therefore, we concluded Long Island Spine waived the member's out-of-pocket cost obligation.

Key Recommendations

- Recover the \$890,931 in overpayments from Long Island Spine and refund the State accordingly.
- Work with the Department of Civil Service to pursue an appropriate course of action designed to prevent Long Island Spine from waiving Empire Plan members' out-of-pocket costs. This may include taking steps to bring Long Island Spine into the Empire Plan's participating provider network.

Other Related Audits/Reports of Interest

[United HealthCare: New York State Health Insurance Program – Overpayments for Services at the Capital Region Ambulatory Surgery Center \(2007-S-72\)](#)

[United HealthCare: New York State Health Insurance Program – Overpayments for Services at the Endoscopy Center of Long Island \(2007-S-73\)](#)

[United HealthCare: New York State Health Insurance Program – Overpayments for Services at the South Shore Ambulatory Surgery Center \(2008-S-11\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

May 5, 2016

Mr. Carl A. Mattson
Vice President, Empire Plan
United HealthCare 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 *United HealthCare: Overpayments for Services Provided by Long Island Spine Specialists*. 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*

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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, as well as their dependents. The Empire Plan is the primary health benefits plan for NYSHIP. The Empire Plan covers a comprehensive range of services including, but not limited to, inpatient and outpatient hospital services, surgical procedures, home care services, medical equipment and supplies, mental health and substance abuse services, and prescription drugs. The New York State Department of Civil Service contracts with United HealthCare (United) to process and pay medical claims for services provided to Empire Plan members. The State reimburses United for the payments it makes under the Empire Plan, and it pays United an administrative fee.

United contracts with in-network health care providers who agree to accept payments, at rates established by United, to furnish medical services to Empire Plan members. United remits payments directly to these “participating providers” based on claims they submit for the services provided. Members pay a nominal co-payment to the participating provider for the services rendered.

Members may also choose to receive services from out-of-network “non-participating providers.” To limit its costs (and those of the State), United pays non-participating provider claims the “reasonable and customary” rate for the service, which is defined as the lowest of: the actual charge for the service; or the usual charge by the provider for the same or similar service; or the usual charge of other providers in the same or similar geographic area for the same or similar service. However, reasonable and customary rates are generally higher (and often significantly higher) than the rates United pays to participating providers for the same services.

To encourage members to use less costly participating providers, the Empire Plan requires members to pay higher out-of-pocket costs (including deductibles and co-insurance) when they use non-participating providers. After the member meets an annual deductible, United pays the member 80 percent of the reasonable and customary cost of the service, and the member is responsible for the remaining 20 percent of the cost (i.e., the co-insurance). When United pays a claim submitted by a non-participating provider, the payment is generally made to the Empire Plan member, and the member is then responsible for paying the provider. The member is also responsible for settling any other unpaid balance with the non-participating provider, including any out-of-pocket amounts owed.

Our audit focused on claims submitted to United by Long Island Spine Specialists, P.C. (Long Island Spine). With respect to the Empire Plan, Long Island Spine is a non-participating provider. Long Island Spine specializes in issues relating to the spine, including orthopaedic spine surgery and pain management, and maintains facilities in four locations on Long Island: Commack, West Islip, Garden City, and Manorville. During the period January 1, 2011 through December 31, 2014, United paid over \$24.8 million in claims submitted by Long Island Spine for services rendered to Empire Plan members.

Audit Findings and Recommendations

Waiving of Members' Out-of-Pocket Costs

In accordance with the Empire Plan's requirements, when United processes Long Island Spine's claims for services provided to Empire Plan members, it is with the understanding that members are liable for a portion of the claimed amount, representing members' out-of-pocket cost obligations. However, our audit found that Long Island Spine routinely failed to pursue collection of Empire Plan members' out-of-pocket costs. Consequently, Long Island Spine's billed amounts to United were inflated by the amount of the waived member out-of-pocket costs, which caused United to make excessive payments for these claims. Using statistically valid methods, we determined United made \$890,931 in overpayments on Long Island Spine's claims during the period January 1, 2011 through December 31, 2014. Also, by not collecting members' out-of-pocket costs, Long Island Spine negated the incentive for members to use participating providers. This likely resulted in increased costs to the Empire Plan and, consequently, to taxpayers.

Because Long Island Spine did not pursue collection of members' out-of-pocket cost obligations, they should have reduced their claims to United by the amounts of those out-of-pocket costs. Thus, United should have paid 80 percent of the reduced amount Long Island Spine intended to accept as payment-in-full. By not collecting the members' out-of-pocket costs, Long Island Spine effectively waived Empire Plan members' portion of the claim, causing United to pay 100 percent of Long Island Spine's actual charges (i.e., the amount they intended to accept as payment-in-full) for the services. For example, on one claim Long Island Spine charged \$14,000 and United allowed \$5,800 (as the reasonable and customary rate) for the service. United paid \$4,640 (80 percent of \$5,800) and the member's out-of-pocket portion of the claim should have been \$1,160. However, Long Island Spine accepted United's \$4,640 payment as payment-in-full and waived the \$1,160 due from the member. Therefore, Long Island Spine's actual charge for the service should have been \$4,640, and United should have paid \$3,712 (80 percent of \$4,640). This resulted in an overpayment by United of \$928 (\$4,640 - \$3,712).

To determine the amount of the overpayments for the audit period, we selected claims submitted by Long Island Spine in which United was the primary payer, United's payment totaled at least \$200, and members' out-of-pocket cost obligations were included on the claims. From January 1, 2011 through December 31, 2014, we identified 2,697 claims totaling \$19.8 million meeting these criteria. To determine whether Long Island Spine waived members' out-of-pocket costs, we selected a random sample of 230 of the 2,697 claims. We reviewed Long Island Spine's financial records for the 230 sampled claims and determined Long Island Spine waived all or a portion of the Empire Plan members' out-of-pocket costs for 210 (91 percent) of the 230 claims. In the remaining 20 instances, we concluded that out-of-pocket costs were not waived. Nevertheless, based on our overall audit testing, we concluded that Long Island Spine routinely waived members' out-of-pocket costs.

For 65 of the 210 overpaid claims, Long Island Spine wrote off the outstanding balances (i.e., members' out-of-pocket cost obligations) from the patients' accounts. For the remaining 145

overpaid claims, Long Island Spine's patient account records indicated the members had an outstanding balance due. However, for 61 of the 145 claims, we determined that Long Island Spine had granted financial hardship waivers to the patients, indicating that Long Island Spine forgave (waived) the members' out-of-pocket costs (despite the outstanding balances). Further, Long Island Spine did not disclose the hardship waivers to United and, therefore, United based their payment on charges that included the members' waived out-of-pocket costs. Based on our review, we concluded Long Island Spine's intent was to accept the amounts paid as payment-in-full, and waive the outstanding balances for the 61 claims. Additionally, for another 32 of the 145 claims, Long Island Spine credited the patients' accounts for an amount equal to United's payment plus \$20 – which is a common in-network co-payment amount. According to United officials, some out-of-network providers charge Empire Plan members an amount equal to the member's in-network co-payment. Thus, we concluded that the collection of the \$20 for these patients demonstrates Long Island Spine's intent to waive the members' remaining outstanding balances.

Additionally, as shown in the table below, we determined many of the 145 outstanding balances had been outstanding for several years. In fact, for 71 (49 percent) of the 145 claims in question, the members' balances had been unpaid for two years or longer at the time of our audit fieldwork. Also, Long Island Spine's financial records did not note any attempt to collect the outstanding balances for the 145 claims, indicating that Long Island Spine likely intended to accept the amounts already paid as payment-in-full and effectively waive the members' obligations. In the previous example (in which United overpaid a claim by \$928), at the time of our fieldwork, about nine months had passed since the date of the service without any effort by Long Island Spine to collect the amount otherwise due from the member. We, therefore, concluded Long Island Spine waived the member's out-of-pocket cost obligation.

Length of Time That Balance Was Outstanding From Date of Service Until Audit	Number of Claims	Percent of Claims
Less than one year	35	24%
Between one and two years	39	27%
Between two and three years	32	22%
Between three and four years	32	22%
More than four years	7	5%
Total Number of Sampled Claims With Outstanding Balances	145	100%

Based on our random sample, we identified overpayments totaling \$226,309 that resulted from claims that were excessive. In submitting claims, Long Island Spine routinely submitted excessive charges, and did not reduce their claims by the amounts of members' out-of-pocket cost obligations that were waived. A projection of these overpayments to the entire population of claim payments, using statistically valid sampling methods (including a 95 percent single-sided confidence level), resulted in an audit overpayment of \$890,931.

We note that the submission of an insurance claim with false information, such as excessive

service charges, may constitute insurance fraud pursuant to State Law. The New York State Insurance Department (now known as the New York State Department of Financial Services) concluded that it may be a fraudulent billing practice and violation of the State Insurance Law when a provider routinely waives out-of-pocket cost obligations and accepts amounts from the insurer as payment-in-full. Officials at the New York State Department of Civil Service and the New York State Department of Financial Services are concerned about the impact of fraudulent and/or abusive billing practices in the Empire Plan. Officials have been concerned that providers who routinely waive Empire Plan members' out-of-pocket costs do so intentionally to benefit from the higher reimbursement rates for non-participating providers.

Additionally, waiving cost-sharing obligations negates a member's incentive to use lower-cost in-network participating providers, which can result in additional costs to the State. By not collecting members' total out-of-pocket cost obligations, Long Island Spine negated Empire Plan members' financial incentive (lower out-of-pocket costs) to use in-network participating providers, which likely resulted in additional increased costs to the Empire Plan and, consequently, to taxpayers.

Prior to this audit, the Office of the State Comptroller had issued a series of audit reports about non-participating providers who routinely waived members' out-of-pocket cost obligations. (For examples of those reports, please see the Other Related Audits/Reports of Interest referenced in this report's Executive Summary.) As a result of those prior audits, United, with the assistance of State oversight authorities, recovered overpayments and brought several of the providers in question into its network of participating providers. By doing so, this helped to reduce the incidence of waiving of members' out-of-pocket costs and saved material amounts of taxpayer dollars.

Recommendations

1. Recover the \$890,931 in overpayments from Long Island Spine and refund the State accordingly.
2. Work with the Department of Civil Service to pursue an appropriate course of action designed to prevent Long Island Spine from waiving Empire Plan members' out-of-pocket costs. This may include taking steps to bring Long Island Spine into the Empire Plan's participating provider network.

Audit Scope and Methodology

The objective of our audit was to determine whether Long Island Spine waived Empire Plan members' out-of-pocket costs, and if so, to quantify the overpayments made by United resulting from this practice. The audit covered the period January 1, 2011 through December 31, 2014.

To accomplish our audit objective, and assess internal controls related to our audit objective, we interviewed United officials and reviewed a random sample of 230 claims submitted by Long Island Spine. We reviewed Long Island Spine's financial records to determine if they routinely failed to collect the out-of-pocket costs for Empire Plan members, and consequently submitted improper

claims to United. Based on the overpayments identified in the sample, we used a statistically valid projection to determine the total overpayments made during the audit period.

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 objective. 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 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.

Authority

The 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.

Reporting Requirements

We provided preliminary copies of the matters contained in this report to United officials for their review and comment. Their comments were considered in preparing this final report.

Within 90 days of the final release of this report, we request that United officials report to the State Comptroller advising what steps were taken to implement the recommendations included in this report.

Contributors to This Report

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