



Memorandum

Date

FEB 19 1992

From

Richard P. Kusserow
Inspector General

Subject

Follow-up Review of Radiology Services Paid by Empire Blue
Cross Blue Shield Under the Medicare Part B Program
(A-02-91-01025)

To

Gail R. Wilensky, Ph.D.
Administrator
Health Care Financing Administration

The purpose of this memorandum is to alert you to the issuance on February 20, 1992 of our final audit report on our follow-up review of the resolution of audit findings contained in a previously issued audit report (A-02-86-62022). A copy of the follow-up report is attached.

Our review concentrated on actions taken by the Health Care Financing Administration (HCFA) and the auditee, Empire Blue Cross Blue Shield (Empire), to ensure the implementation of recommendations contained in our prior report. Both HCFA and Empire had concurred with the findings and recommendations included in that report. In addition, HCFA had awarded Empire \$100,000 of supplemental funds to follow-up on the Office of Inspector General (OIG) recommendations. However, we found that Empire had not used these funds to recover \$1.3 million of reported overpayments even though, as stated in the subject report, we had provided them a detailed listing of the overpayments.

We also found that HCFA did not initiate sufficient monitoring action to ensure that overpayments reported in the prior OIG audit report were recovered by Empire. In addition, although Empire indicated that corrective action was initiated to preclude future overpayments, HCFA did not take adequate steps to ensure that actions taken by Empire were effective.

We are recommending that HCFA institute more effective procedures to ensure the prompt recovery of overpayments and the adequacy of the corrective actions initiated by

Page 2 - Gail R. Wilensky, Ph.D.

Empire. In addition, we are recommending that HCFA disallow \$100,000 of administrative costs reported by Empire on its final administrative cost proposal for the fiscal year ended September 30, 1987.

In its response, the HCFA regional office (RO) agreed that improvement is needed to ensure prompt and adequate implementation of corrective action. However, they did not believe that their monitoring of Empire's system modifications was inadequate since "the HCFA onsite representative ensured that corrective action did in fact take place..." In addition, they did not agree with our recommended disallowance of \$100,000 since Empire informed them that the \$100,000 was "...expended to recover overpayments identified in several other OIG audits."

We do not agree that HCFA's monitoring of Empire's system modifications was adequate since HCFA's regional staff, including the onsite representative, relied upon statements and documents provided by Empire without the benefit of independent verification. This could be an indication of a systemic problem that identified recoveries are not being processed for actual collection of funds. We are, therefore, planning to begin a review of the actions taken by various components within the Department to ensure that identified recoveries are collected.

Regarding the recommended disallowance of the \$100,000, the HCFA RO response to the draft report did not provide adequate justification to alter our opinion. The response did not identify the nature of Empire's expenditures comprising the \$100,000 or demonstrate that the additional funds were expended for the intended purpose and did not supplant funds included in Empire's basic contract.

If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits at FTS 646-7104.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FOLLOW-UP REVIEW OF RADIOLOGY
SERVICES PAID BY EMPIRE BLUE
CROSS BLUE SHIELD UNDER THE
MEDICARE PART B PROGRAM**



Richard P. Kusserow
INSPECTOR GENERAL

A-02-91-01025



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services
Region II

Memorandum

Date

From Regional Inspector General for Audit Services

To Theodore Shulman
Associate Regional Administrator
Division of Medicare, HCFA

Subject Follow-up Review of Radiology Services Paid by Empire Blue
Cross Blue Shield Under the Medicare Part B Program
(A-02-91-01025)

This report presents the results of our follow-up review of the resolution of audit findings contained in the subject report which was issued on April 20, 1987. Specifically, our review concentrated on actions taken by the Health Care Financing Administration (HCFA) and the **auditee**, Empire Blue Cross Blue Shield (Empire), to ensure the implementation of recommendations contained in the report. Both HCFA and Empire had concurred with the findings and recommendations included in that report. In addition, in June 1987, HCFA had awarded Empire \$100,000 of supplemental funds to follow-up on the Office of Inspector General (OIG) recommendations contained in all outstanding **OIG** audit reports. However, we found that Empire had not used these funds to recover \$1.3 million of reported overpayments even though, as stated in the subject report, we had provided them a detailed listing of the overpayments. We also found that HCFA did not initiate sufficient monitoring action to ensure that overpayments reported in the subject OIG audit report were recovered by Empire. In addition, although Empire indicated that corrective action was initiated to preclude future overpayments, HCFA did not take adequate steps to ensure that actions taken by Empire were effective. We are recommending that HCFA institute more effective procedures to ensure the prompt recovery of overpayments and the adequacy of the corrective actions initiated by Empire.

BACKGROUND

On April 20, 1987, the OIG, Office of Audit Services (OAS) issued a report on payments made by Empire under the Medicare Part B program for radiology services (A-02-86-62022). That report identified weaknesses in

Empire's computerized payment screens that, for Calendar Year (CY) 1984, resulted in estimated overpayments of \$1.3 million for radiology services which were paid as individual tests rather than as part of a lower cost group of tests. The report recommended that Empire recover the \$1.3 million and modify its payment screens to preclude future overpayments. On June 9, 1987, **HCFA's** regional office (RO), in its capacity as the Operating Division responsible for acting upon the findings and recommendations contained in that report, issued an audit clearance document (ACD) stating that they fully concurred with our findings and recommendations.

SCOPE OF AUDIT

Our follow-up review was conducted in accordance with Government auditing standards. Our objective was to determine if HCFA implemented the recommendations made in our prior audit and, if so, were the problems corrected. Our review covered the period April 20, 1987 (the date we issued our previous report) through December 31, 1990. During our follow-up review, we contacted HCFA regional officials and reviewed HCFA and Empire documentation relating to the status of proposed corrective actions.

This report is issued pursuant to the **OIG's** responsibilities under Office of Management and Budget Circular A-50 to review and report on management responses to OIG audit findings.

Our review was performed at the HCFA Region II office and Empire's offices in New York City during the period October 1990 through December 1990.

RESULTS OF PRIOR AUDIT

In our prior audit, we reported that during CY 1984 Empire overpaid approximately \$1.3 million for individual radiology services that should have been paid as part of lower cost group procedures.

Our prior review included claims which were processed manually and electronically. Although Empire's manual prepayment screens were generally effective in identifying claims improperly billed under individual procedure codes, its electronic data processing screens were not effective because the screens did not address a sufficient number of individual procedure codes. Therefore, the computerized

radiology payment screen was not always effective in preventing improper payment of individual tests. At the conclusion of the audit, we provided Empire with a detailed listing of the overpayments.

We recommended that Empire recover the overpayments of \$1.3 million, revise the computerized radiology payment screen to include all individual procedure codes that are part of group procedures, periodically monitor the effectiveness of the computer edits and provide training where appropriate.

HCFA RESPONSE TO PRIOR OIG REPORT

In response to our prior report, as evidenced by the ACD issued on June 9, 1987 (Exhibit I), HCFA and Empire fully concurred with our findings and recommendations. In addition, the ACD indicated that Empire had installed new radiology payment screens and had completed the provision of additional training. Also, the ACD cover letter to the audit liaison staff indicated that Empire was "effectuating recoupment of all applicable overpayments" and that "HCFA would continue to monitor the effectiveness of the overpayment recovery until full recoupment has been **made.**"

RESULTS OF FOLLOW-UP AUDIT

Although the ACD, dated June 9, 1987, indicated that HCFA and Empire concurred with our findings and recommendations and Empire had begun effectuating recoupment, we found that as of December 1990, Empire had not recovered the \$1.3 million of overpayments. Furthermore, documentation maintained by HCFA, indicated that HCFA had provided Empire \$100,000 of additional funding to recover the overpayments identified in all outstanding OIG audit reports. However, both prior and subsequent to the additional funding, HCFA was fully aware that no funds had been recouped by Empire for findings contained in the subject report. The HCFA did not take any action to require recoupment, as agreed upon in the ACD, or to independently verify that computerized edit changes, proposed by Empire to preclude future overpayments, were implemented or effective.

According to the HCFA Audit Resolution Manual (ARM), Section **0704-3-20A**, which is included in Part II of the HCFA Regional Office Manual, "The resolution of the audit is the responsibility of the Action Official and shall include all actions required to fully resolve all issues."

The manual further states that the resolution of each audit shall include:

1. timely correction of management, system, and program deficiencies;
2. timely decision on and recovery of the proper amount of financial adjustments to be upheld;
3. monitoring the organization to ensure that the corrective actions on deficiencies have been adequately implemented and that the system is operating effectively: and
4. establishing safeguards, when necessary, to protect the Department's interests where organizations are unwilling or unable to institute timely corrective actions or subsequently fail to comply with previous agreements on corrective actions.

Additionally, Section 0704-3-20B of the HCFA ARM states that to resolve audit findings in a timely manner, HCFA should, among other actions, ensure that a **"satisfactory plan of corrective action"**, including time schedules, to correct all deficiencies has been negotiated with and communicated to the **auditee.**"

Our review indicated that, although HCFA generally has sufficient follow-up procedures for resolution of audit findings, no effort was made to ensure Empire's prompt recoupment of the \$1.3 million of overpayments. Although both HCFA and Empire concurred with the amount of overpayment, HCFA did not establish a ****satisfactory plan of corrective action**, including time schedules...** with Empire, as required by the HCFA ARM. As a result, since no plans or dates for corrective action were established, no corrective action was taken. In this regard, since the issuance of our prior report in April 1987, we found no evidence that Empire had commenced recoupment procedures or that HCFA actively monitored Empire's efforts.

On December 18, 1989, Empire sent the HCFA RO a letter indicating that they planned to cease their collection efforts for the \$1.3 million of overpayments. However, they also indicated that approximately \$300,000 of the

\$1.3 million of overpayments was referred to the **OIG's** Office of Investigation (01). The referral to 01 was made because several of the providers who had received overpayments identified in our report, were subjects of an ongoing OIG criminal investigation. The reason provided by Empire for ceasing their collection efforts was that, in accordance with Section 7100.1 of the Medicare Carriers Manual, the overpayments had exceeded the "...four year time limitation on reopening overpayment recoveries...". Empire also stated that "...with each of the findings being deleted, the payment dates of the **claims** involved were aged thus causing the reopening time limits to be exceeded shortly after the findings were published by **OIG.**" Contrary to Empire's contention, after the issuance of our report on April 20, 1987, they had from 8 to 20 months to initiate recoupment of the overpayments prior to the expiration of the Q-year time limitation. Therefore, Empire had more than enough sufficient time to initiate recoupment of all the overpayments.

In June 1987, at Empire's request, HCFA awarded Empire a supplemental budget increase of \$100,000 for OIG audit follow-up activities related to all outstanding OIG audit reports. In its supplemental budget award letter to Empire, HCFA stated that "**It** is understood that the funding for line 5 [**\$100,000**] is acceptable to complete the existing OIGAA audits." At the time of the supplemental award (June 1987), the subject audit on radiology **claims**, which identified \$1.3 million of overpayments, was one of the ****existing OIGAA audits**** referred to by HCFA. However, although Empire claimed additional expenditures of \$100,000 on its annual cost report for that year, there was no evidence that Empire attempted to recover any portion of the \$1.3 million.

We also found that **HCFA's** follow-up procedures need improvement. Since the issuance of the ACD on June 9, 1987, the HCFA RO consistently indicated on its quarterly status report to **HCFA's** central office audit liaison staff that Empire **was** pursuing collection of \$1.3 million of overpayments, although we could find no evidence to substantiate that statement. In addition, **HCFA's** quarterly status reports submitted after December 1989, continued to state that Empire was continuing to pursue collection of the overpayments even though, **as** discussed above, Empire had informed HCFA that they were ceasing any future collection efforts. Even though HCFA awarded Empire an additional \$100,000 to pursue recovery of the overpayments

identified in all outstanding OIG audit reports, we found no evidence to indicate that HCFA closely monitored Empire's collection effort or took steps to ensure that Empire utilized the \$100,000 appropriately.

Our review also disclosed that **HCFA's** monitoring of Empire's system modifications, designed to preclude similar overpayments, was inadequate. According to Section **0704-3-30D** of the HCFA ARM, the ****Action Officials will monitor the organization's implementation of actions to correct all deficiencies until the Action Official has determined, based on a follow-up review, that the actions have in fact been taken and have resulted in correction of the deficiencies.**** Our review disclosed that HCFA did not independently verify that computer program modifications, proposed by Empire to detect and prevent future overpayments, were implemented and whether such modifications, if made, resulted in correction of the prior deficiencies. In our opinion, independent verification of computer program modifications in a highly complex computer environment, such as at Empire, necessitates, at a minimum, post-modification testing. In that regard, the HCFA ARM states: **"The Action Official may conduct the followup** [sic] review personally or may request that it be conducted by the OIGAA [currently OIG-OAS] or others who possess the capability to perform the review.** However, we found no evidence that HCFA conducted any independent **post-**modification testing. Instead, it appeared that HCFA relied almost exclusively on Empire's statements and documents explaining the corrective actions they had taken or intended to take.

RECOMMENDATIONS

We recommend that HCFA:

. . .Strengthen its procedures to ensure prompt recovery of overpayments and effectuate corrective actions. As required by the HCFA ARM, HCFA should always establish a timetable for implementation of audit recommendations.

. . .Independently ensure that corrective actions on deficiencies noted in future audit reports are promptly and adequately implemented and are effective in resolving the reported deficiencies.

. . .**Disallow** administrative costs of \$100,000 which were included on Empire's Final Administrative Cost Proposal for fiscal year ended September 30, 1987.

HCFA COMMENTS

Our draft report which was issued on March 7, 1991, requested that HCFA respond to the draft report within 30 days. After requesting two extensions, HCFA responded to our draft report on May 21, 1991 (Exhibit II). In its response, HCFA indicated that they ****concur with the recommendation that corrective actions on deficiencies noted in future audit reports should be promptly and adequately implemented.**** However, HCFA did not believe that its monitoring of Empire's system modifications was inadequate, stating that **"The HCFA onsite representative ensured that corrective action did in fact take place in accordance with the HCFA Audit Resolution Manual.**** Additionally, HCFA did not agree with our recommended disallowance of \$100,000 since Empire informed them the \$100,000 was **"...expended to recover overpayments identified in several other OIG audits.****

OIG RESPONSE

We do not agree. The **HCFA's** monitoring of Empire's system modifications was clearly inadequate and was not in accordance with the HCFA ARM. The HCFA stated that its **onsite** representative had ****ensured**** that Empire had taken adequate corrective action. However, HCFA did not indicate in its response how its field representative had ****ensured**** the adequacy of Empire's corrective action. During our review, we determined that the method used by HCFA to ensure the adequacy of Empire's actions was to rely solely upon Empire's assertions that appropriate and effective action had been taken. As stated in the body of this report, HCFA did not independently verify the accuracy of Empire's assertions. The HCFA has not presented any additional data in its response to alter our opinion that **HCFA's** follow-up was inadequate or that its reliance on unverified statements by Empire did not constitute compliance with Section **0704-3-30D** of the HCFA ARM.

Regarding the recommended disallowance of the \$100,000, **HCFA's** response to the draft report indicated that the funds were used to recover overpayments identified in other OIG reports. Additional inquiries we made after receiving **HCFA's** comments disclosed that HCFA based its comments upon

statements by Empire and information included on Empire's quarterly **Medicare** Recovery Reports for quarters subsequent to the awarding of the \$100,000. However, HCFA did not determine the nature of the Empire expenditures comprising the \$100,000 nor did HCFA demonstrate that the \$100,000 was expended for the intended purpose and did not supplant funds included in Empire's basic contract. Empire's responsibilities as a Medicare Carrier, and for which they receive funds **as part** of their basic contract, include the recovery of Medicare overpayments. Accordingly, at a minimum, HCFA should have determined if Empire had incurred \$100,000 of incremental cost in recovering overpayments. An example of an incremental cost related to recoveries is the cost of additional staff not anticipated under the **basic** contract but hired specifically to accomplish the recoveries. On June 4, 1991, in response to our inquiries, **HCFA** requested Empire to provide additional information to provide ****sufficient detail-to explain exactly how the supplemental funding was spent"** (Exhibit II). Empire responded on July 23, 1991 (Exhibit III). However, Empire's response did not provide the specificity requested by **HCFA** regarding how the \$100,000 was spent (i.e., dates, amounts, services, etc). Therefore, HCFA was not provided with sufficient information to assess whether Empire expended the funds appropriately and for incremental costs associated with its collection efforts. As a result, HCFA could not be assured that the additional funds were not used by Empire to supplant funds provided in Empire's basic contract.



John Tournour

Attachments

Memorandum

Date 15 JUNE 1987
15 JUN 1987

Refer to: DFO:B:4

From Regional Administrator
HCFA, New York

To &it Liaison Staff
Office of Executive Operations

Subject Audit Clearance Documents (ACD)
Empire Blue Cross Blue Shield Part B
Audit Nos. 02-86-62022

Attach& is the Audit Clearance Document for OIGOA Report No. 02-86-62022 of Empire Blue Cross Blue Shield Part B for overpayments made for radiology claims improperly paid as individual procedures instead of group procedures.

As shown in the attach& documents the Carrier has agreed to all of the findings and is effectuating recouments of all applicable overpayments. We will continue to monitor the effectiveness of the overpayment recovery until full recoument has been made.

Please contact Philip G. Labasi at (8) 264-2790 if you have any questions regarding this memorandum.

WT
William Toby

Attachment

AUDIT CLEARANCE DOCUMENT
PART 1

Date 6/9/87

Audit Control No. A-02-86-62022 Report Date April 22, 1987

Cognizant POC HCFA Program MEDICARE

Other POCs _____

Grantee/Contractor _____

Name Empire Blue Cross/Blue Shield of New York

Address 622 Third Avenue

City New York State New York Zip Code 10017

Grant/Contract No. 84-021-1

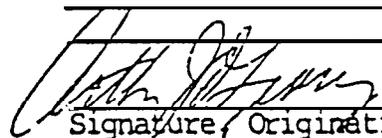
Common Accounting No. N/A Appropriation No. N/A

Audit Recommendation: \$09991601 - overpayments of \$1.32 million. P09990402 - install computer screens to identify individually billed radiology tests that are part of group procedures. \$59957710 - train personnel to preclude overpayments.

Amounts Recommended for Financial Adjustment:

<u>Finding Code-Cost Element</u>	<u>Amount Recommended</u>	<u>Amount Sustained</u>
1. <u>09991601</u>	<u>\$ 1,320,000</u>	<u>\$ 1,320,000</u>
2. _____	_____	_____
3. _____	_____	_____
4. _____	_____	_____
Totals	<u>\$ 1,320,000</u>	<u>\$ 1,320,000</u>

Action Taken on Recommendation: ii09990402 - all screens have been installed as of May 31, 1987. #59957710 - all additional training has been completed.

 6/10/87
Signature, Originating Official Date Signature, Approving Official Rte



DEPARTMENT OF HEALTH & HUMAN SERVICES

 Health Care
 Financing Administration
 Region II

 Memorandum

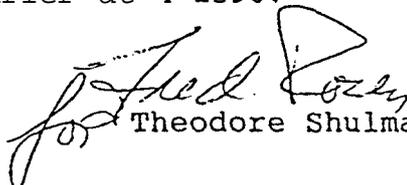
Date **MAY 21 1991**
 From Associate Regional Administration
 Division of Medicare, New York
 To Regional Inspector General for Audit Services
 Subject Follow-up Review of Radiology Services Paid by Empire Blue Cross
 Blue Shield and Corresponding Overpayment (CINA-02-86-62022) -
 CIN A-02-91-01025)

We have reviewed the draft report concerning the above audit and have the following comments. We believe that HCFA's monitoring of Empire's system modifications were adequate and appropriate to the situation. The HCFA onsite representative ensured that corrective action did -in fact take place in accordance with the HCFA Audit Resolution Manual.

We concur with the recommendation that corrective actions on deficiencies noted in future audit reports should be promptly and adequately implemented.

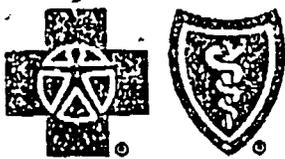
We do not agree with the recommended disallowance of \$100,000. At the time the \$100,000 was issued in FY 1987 for OIG audits, Empire had numerous outstanding OIG audits. After discussions with Empire, it was determined that the funding was expended to recover overpayments identified in several other OIG audits. As a result, Empire did not have enough funds to initiate recovery actions on the Radiology Services audit.

If you have any questions or require additional information, please contact Martin Brenrier at 4-2590.


 for Theodore Shulman

MAY 22 1991

RECEIVED



Empire
Blue Cross
Blue Shield

2651 STRANG BOULEVARD, YORKTOWN HEIGHTS NY 10598-2996

July 23, 1991

Mr. **Saverio** DeRosa
Director, Financial Management
Division of Medicare
Health Care Financing Administration
26 Federal Plaza
New York, NY 01278

Dear Mr. **DeRosa**:

As requested in your letter of June 4, 1991 to Mr. Neil Hoosier, this is to provide you with additional information regarding the supplemental funding of \$100,000 received on June 25, 1987 for OIG audits.

To put the \$100,00 in historical perspective, you will recall that our FY 1987 Line 5 funding until receipt of the \$100,000 was \$581,000 less than our budget request. We were operating, therefore, significantly below our assessed need in FY 1987 and in prior years as well. At the time of our FY 1987 supplemental budget request, nine (9) OIG Audit reports were in house: four (4) were in progress, three (3) had not yet been addressed and two (2) more had just been received (including CIN A 02-86-62022).

On receiving the supplemental funds, we devoted additional resources to assessing and requesting further refunds related to the four (4) OIG studies already in progress. Below are the recovery results realized following our issuance of refund requests:

<u>Quarter</u>	<u>Dollars Recovered</u>
June - Aug., 1987	\$ 69,332.69
Sept. - Nov., 1987	28,772.04
Dec. - Feb., 1988	127,604.60
Mar. - May, 1988	74,020.50
	<u>\$299,729.83</u>

July 12, 1991
Mr. Saverio DeRosa
Page 2

Attached for your reference are the related quarterly reports submitted to Mr. Martin Brenner by our Internal Audit Department. I am sure you realize that the fruits of the efforts involved in calculating complex overpayments are not reaped for several months. Funds provided in the fourth quarter of FY 1987 do not reveal immediate results. Also, our FY 1987 funding shortfall was followed by a funding shortfall in FY 1988. OIG's audit activities at Empire Blue Cross and Blue Shield were expanding at this time while our resources for implementing their findings were not. This raises serious concerns about the lack of coordination between OIG's and the carrier's respective levels of effort and resources assigned to them.

please let me know if any further information is needed. I can be reached at (914) 243-7661(2).

Sincerely,



Paula Monetti
Director
Medicare Part B
Program Safeguards

PM:lo
Attachments

cc: Mr. Neil Hoosier