STATE OF NORTH CAROLINA
Office of the State Auditor

**Beth A. Wood, CPA**
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.ncauditor.net

**For Release: September 21, 2011**
**Contact: Dennis Patterson, 807-7513**

# State Auditor Beth Wood responds to Blue Cross/Blue Shield Regarding State Health Plan Risk Assessment Audit

**RALEIGH –** State Auditor Beth Wood on Wednesday responded to criticism of a September 13 audit of the State Health Plan Risk Assessment by officials of Blue Cross and Blue Shield of North Carolina. In a letter sent by BCBS Marketing and Sales Vice President Jack Kenley and a press release from President and CEO Brad Wilson, the company had claimed the report contained errors and was misleading.

In a letter to Kenley, Wood said the audit accurately depicted shortcomings in the Health Plan's procedures. The Health Plan agreed with all of the findings in the audit. The text of the letter reads:

"I am in receipt of your September 16 letter concerning the audit of the State Health Plan Risk Assessment conducted by my office. The subject of that audit – the State Health Plan – was asked to respond as required by professional auditing standards and they did so, agreeing with every one of our findings.

"We appreciate your offer to meet with our auditors to "help facilitate a better understanding of health claims processing…," but that will not be necessary. In the course of conducting several audits of the State Health Plan, including the terms of your contract for processing claims, our audit teams have become very familiar with your business.

"Our audit does not question the diligence or zeal of Blue Cross and Blue Shield in administering its contract with the State Health Plan. The terms of that contract, however, as has been pointed out in other audits, make it difficult for us to independently document that your company performs better than industry standards or offers the most efficient price for its services to the State Health Plan.

"In your letter and the accompanying press release you issued Monday you argue that our audit report contains errors or is misleading. To those specific charges, we offer the following responses:

- "Blue Cross and Blue Shield confuses the issue of $48.6 million in potential overpayments with the fact that the Plan should expect to receive about $72-$120 million a year in recoveries. Blue Cross and Blue Shield states "it is impossible to recover more funds than were actually overpaid" and concludes that "one of these statements must be wrong."

  "Logically it is impossible to recover more funds than were actually overpaid. However, our report never said that the $48.6 million is all that was overpaid. The $48.6 million is simply the amount that the Plan's external auditor, Thomas & Gibbs CPAs, PLLC, was able to identify as potential overpayments. Thomas & Gibbs does not function as a recovery auditor. It audits paid claims to determine compliance with the contract between BCBSNC and the Plan. Our report did not state that Thomas & Gibbs found all potential overpayments. In fact, we are reasonably sure that they did not. For example, the $48.6 million reported does not include findings of fraudulent claims payments, although some likely occurred.

  "The $72-$120 million a year is what the Plan should expect to recover based on a report from Navigant Consulting, Inc. The Plan hired Navigant specifically to conduct a performance and efficiency review of the Plan. The report states, "Overall, the BCBSNC recovery dollars are equal to little more than 1 percent of the SHP's [State Health Plan] total medical expenses, which is significantly below the industry average of 3 to 5 percent." For the State Health Plan, that would amount to $72 million to $120 million as stated above.

- “Blue Cross and Blue Shield says that our statement that it charges the Plan to collect on overpayment errors it makes is misleading. The company says there are many reasons that overpayments and coordination of benefit payment errors occur.

  “Perhaps. But reports from Blue Cross and Blue Shield to the Plan indicate that the majority of coordination of benefit payment errors was made because the company paid claims on the Plan’s behalf when the claims should have been paid by Medicare. The company then charged the Plan to correct those errors.

- “The company also takes issue that our report "implies that there was a period in 2010 during which no recovery efforts were in place." Our report did not imply that there were “no recovery efforts in place.” Our report stated that the Plan experienced a reduction in recoveries because Blue Cross and Blue Shield terminated contracts with some of its recovery vendors, and did so without notifying the Plan in advance.

- “Blue Cross and Blue Shield also takes issue with us for saying that "the Plan is at risk for overpaying medical claims because the Plan's auditors do not have access to BCBSNC contracts and cannot independently verify that the Plan receives the proper contractual discounts from BCBSNC's provider networks." Yet Blue Cross and Blue Shield acknowledges that "While it is true that they do not have access to the contracts themselves, auditors on more than one occasion have had direct access to our systems to examine the amounts of the discounts."

  “That is exactly our point. When determining whether the vendor (Blue Cross and Blue Shield) has paid claims correctly, the Plan’s auditors do not have information that is independent of the vendor to verify that claims were paid at the correct price. Total reliance on a vendor’s information system with no access to original source documentation is not independent verification.

“I hope this clarifies your understanding of what we reported in our audit. We take great care in our work to be both thorough and accurate, and we believe the latest audit of the State Health Plan meets those objectives.

“Sincerely,
“Beth A. Wood, CPA
“State Auditor”