



October 29, 2004

Arlene Larson
Manager, Self Insured Health Plans
State of Wisconsin Department of Employee Trust Funds
P. O. Box 7931
Madison, WI 53707-7931

Re: BlueCross BlueShield of Wisconsin
2002 and 2003 State of Wisconsin Department of Employee Trust Funds
health insurance audit performed by Claims Technologies Incorporated (CTI)

Dear Arlene:

This letter is the formal response by BlueCross BlueShield of Wisconsin (BCBSWi) to the State of Wisconsin Department of Employee Trust Funds (ETF) claims administration audit report findings for 2002 and 2003. Claims Technologies Incorporated (CTI) performed this audit in March 2004 and the findings were presented to the ETF and BCBSWi on July 23, 2004. We appreciate the opportunity to address and respond to CTI's audit findings, their recommendations and areas for improvement.

The following responses will address the general findings as stated in the Analysis of the Claim Administration Audit for the Wisconsin Employee Trust Fund Medicare Annuitants, SMP, Standard, and Standard II Plans document dated September 7, 2004 and the Executive Summary of Claims Administration Audit Findings dated October 26, 2004.

Audit Findings/Opportunities for Savings and Improvement

The following areas were identified as opportunities for improvement.

Work Related Conditions and Subrogation

Claims are electronically identified by Meridian for potential worker's compensation or subrogation cases based upon a combination of specifically identified primary diagnosis codes and a dollar threshold. This dollar threshold of \$200 is an accumulation of all claims with a traumatic related diagnosis. Claims meeting these criteria are stopped for investigation.

Approximately four years ago, Meridian began utilizing a \$500 threshold to investigate potential worker's compensation and subrogation cases on all BCBSWi business. As a result of the audit findings and discussions with ETF, the threshold amount has been changed back to the original \$200 for the State of Wisconsin account. This was done on a go forward basis effective April 2004. In addition, all claims since the year 2000 that fell below the \$500 threshold (above \$200) are being investigated for potential worker's compensation or subrogation liability. Results of this review will be presented to the ETF.

BCBSWi has been working closely with Meridian, CTI and ETF to address any concerns or process improvements related to worker's compensation and subrogation investigations. To demonstrate this, Meridian has reviewed all worker's compensation cases during the audit period (2002-2003) in which the amount paid exceeded \$5,000 per case. The population of these cases was identified by the CTI audit-screening tool called ESAS™ (Electronic Screening and Analysis System). ESAS is a series of proprietary computer programs developed by CTI to screen claims data for areas of potential recovery opportunities, and/or potential problems within specific categories of a claim administrator's systems and procedures. A total of forty-eight cases were identified through this tool.

The results of reviewing the forty-eight Worker's Compensation cases is listed below. In each situation, Meridian had previously identified the claims as potential Worker's Compensation cases and proceeded with an investigation.

- 25 cases- Questionnaires were previously sent out by Meridian. Responses received back indicated that the conditions were medical in nature and not work related.
- 2 cases- Questionnaires were previously sent out by Meridian. Meridian is actively pursuing these cases based upon the responses received.
- 9 cases- The primary diagnosis indicated on the claim was not for a work related injury.
- 4 cases- Questionnaires were previously sent out by Meridian. Meridian is awaiting responses.
- 8 cases- Questionnaires were previously sent out by Meridian. These cases were included as part of the formal audit. No errors cited.

Meridian also reviewed an additional population of subrogation cases identified by CTI through ESAS™. CTI provided a total of 140 cases to BCBSWi for the audit period (2002-2003). Twelve were included with the formal audit and no errors were found. The top cases with the highest dollars were reviewed for this analysis. In each case, the amount paid exceeded \$5,000. This represented 15 subrogation cases.

The results of our analysis are listed below for the fifteen subrogation cases. In each situation, Meridian had previously identified the claims as a potential subrogation case and conducted an investigation. The results of these reviews were placed into the following categories.

- 2 cases- Cases were actively pursued by Meridian prior to the audit and each case was settled.
- 8 cases- Questionnaires were previously sent out by Meridian. Meridian received a response that the condition was medical in nature and not due to an accident.
- 5 cases- Questionnaires were previously sent out by Meridian. Meridian received a response that the member was the driver at fault or due to a motor vehicle accident in which no other car was involved.

Discussions with ETF, CTI and BCBSWi regarding areas of opportunity will result in future processing changes. The electronic process to identify potential worker's compensation and subrogation cases will be enhanced by the end of the first quarter of 2005. System alterations to utilize secondary diagnosis codes to identify potential cases are being investigated at this time. The method of investigation for unrelated injuries/illnesses was changed September 2003 to cause these conditions to be investigated for subrogation potential. BCBSWi and Meridian are open to any future considerations or discussions with ETF to support the State of Wisconsin account.

Coordination of Benefits (COB)

Findings related to incorrect COB processing were related to not investigating other insurance coverage specifically for a spouse of a subscriber that has primary coverage with Medicare. The spouse in this instance does not have Medicare coverage. In our claims system, COB updating occurs automatically by sending other insurance inquiry letters and pending claims when an update is overdue or not received. This automatic update feature did not cover the specific scenario listed above. BCBSWi implemented a new procedure January 2004 to address this situation for annual verification of a spouse's other insurance information.

Specific to the claims identified in the audit findings for 2002-2003 either a telephone call or letter of inquiry was used to investigate each claim. In all instances no other insurance coverage was applicable. All members fitting the above scenario from 2000 to present have been identified and letters of inquiry have been sent to these individuals for updating. BCBSWi sent out approximately 405 letters of inquiry. Currently, 252 letters have been returned to BCBSWi, 250 indicated no other insurance coverage was applicable. The remaining two members indicated they had other insurance coverage. Our system had already reflected that other insurance coverage was applicable thus no

claims adjustments were required. A second request letter will be sent in November to the 153 members who have not responded to our initial letter.

Miscellaneous Policy Provision Issues

Findings identified by CTI as Miscellaneous Policy Provisions issues such as coverage of routine foot care, home infusion therapy services and hearing aids have been reviewed and corrected. Analysis of these findings was primarily single case instances due to the manual review of claims. With any situation being reviewed, we determine if the root cause has a system, human or claim submission component. Based on our review of these findings, it appears they were due to human intervention. We have provided feedback to the applicable examiners as well as the rest of the staff regarding these findings for educational purposes.

Verification of Dependent Eligibility

BCBSWi has procedures in place to routinely investigate dependent eligibility. Findings from CTI identified thirty-six potential cases of dependent eligibility verification through ESAS™. Three cases of the thirty-six cases were presented to BCBSWi from the formal audit. One case was removed from the findings after documentation was presented and ETF review occurred. The remaining two cases were for the same dependent but on two different claims. These claims were for a previously identified permanently disabled dependent. BCBSWi administrative procedures related to permanently disabled dependents involve a thorough review to declare the member permanently disabled according to contract terms then annual verification is not conducted. The annual disability verification process applies to temporary disability situations. After discussion with ETF, CTI and BCBSWi it was determined a follow-up investigation letter would be sent verifying permanent disability status. A disability verification letter has been sent to the member cited during this audit. The remaining thirty-three claims/dependents have not been presented to BCBSWi for investigation. BCBSWi would be happy to review each situation for appropriate processing. CTI recommends that BCBSWi develop procedures to verify all enrollment forms from ETF are complete and periodically verify disability status for members previously deemed permanently disabled. BCBSWi will work with the ETF to develop this procedure.

Performance Benchmarking

Since the audit performed for plan years 2000- 2001, BCBSWi has improved or maintained ratings in the top two performance quartiles (3rd or 4th) in seven of the eight categories for Medicare Annuitants and five of the eight categories for the SMP, Standard and Standard II plans.

Ratings of the categories appearing in the lower performance quartiles such as Documentation Accuracy- Financial for SMP, Standard and Standard II plans, Documentation Accuracy- Frequency for SMP, Standard and Standard II plans, Financial Precision for Medicare Annuitants and Accurate Processing Frequency for SMP,

Standard and Standard II plans may be attributed to the inclusion of certain findings of the audit that we do not believe to be actual errors based on adherence to the Administrative Agreement. Policy and procedure changes implemented by BCBSWi as a result of the 2000-2001 audit finalized October 2003 were minimally impacted by the 2003-2003 audit performed in 2004. The new procedures identified and implemented as a result of both audits will contribute to performance improvements and scores for future audits.

Performance Guarantees

We believe category findings demonstrating a decrease in performance could be overstated. Methods of calculation used by CTI in its findings are not the same methods that BCBSWi uses to report similar data to the State. These results are not statistically valid for all strata and cause distortion in the weighted average computations. BCBSWi suggests larger sample sizes to determine whether the weighted average performance statistics are valid for the entire population.

Written Inquiries-Performance Guarantees

During the audit conducted in 2003 for plan years 2000-2001 the written inquiry measurement was clarified with ETF. Since fourth quarter 2003 the performance result has been consistently below the expected timeframe of 12 days.

In conclusion, BCBSWi would be happy to participate in any additional discussions regarding the audit findings and continuous improvement ideas with CTI and the ETF. Follow up on the open items will be conducted with ETF. BCBSWi appreciates the opportunity to service the State of Wisconsin business and value our long-term relationship. Please do not hesitate to contact me at (920) 923-8334, if you have any questions or comments.

Sincerely,



Lisa R. Halbach
Director of Client Service Operations

- c: Kathy Ledvina, Vice President of Operations
Larry Bach, Manager of Customer Care Operations
Randy Alt, Vice President, Meridian Resource Corporation