

**EMPIRE HEALTHCHOICE, INC.**

**D/B/A EMPIRE BLUE CROSS AND BLUE SHIELD**

**SUMMARY OF RECOVERY EFFORTS RELATED TO SEPTEMBER 11, 2001**

**DESTRUCTION OF THE WORLD TRADE CENTER**

**AS OF NOVEMBER 28, 2001**

**DATE OF REPORT**

**JUNE 10, 2002**

**EXAMINER**

**MARTIN A. SCHWARTZMAN**

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NY 10004

June 10, 2002

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to directions from the Superintendent of Insurance, I have made an examination into the condition and affairs of Empire Healthchoice, Inc., D/B/A Empire Blue Cross and Blue Shield, a health service corporation licensed under Article 43 of the New York Insurance Law. The following report as respectfully submitted deals with Empire's recovery efforts related to the September 11, 2001 destruction of the World Trade Center.

Whenever the terms "the Corporation" or "Empire" appear herein without qualification, they should be understood to mean Empire Blue Cross and Blue Shield.

## **1. INTRODUCTION**

Empire Blue Cross and Blue Shield's ("Empire") Corporate Headquarters was destroyed on September 11, 2001, as a result of the terrorist attack on the World Trade Center. However, the Corporation has remained fully functional and intact since the incident despite the loss of its headquarters. Empire's management team and staff have been operating from other Empire sites, and other temporary locations since the attack.

## **2. GENERAL RECOVERY INFORMATION**

### **A. Immediate Response**

Within minutes of the attack:

- Empire's customer service lines were immediately rerouted so they could be answered at other sites, minimizing any adverse impact on members, customers and providers.
- Empire's Senior Management Team and other key employees were contacted and the first in a regular series of conference calls to assess the damage and begin the recovery process, was set up for 12:00 noon on September 11, 2001.
- As established by Empire's Disaster Recovery Plan, a "command center" was immediately established at the company's Melville, Long Island facility. The Senior Management Team and the Technical

Reliability Committee met twice daily in Melville beginning at 8:00 am on September 12, 2001 to oversee corporate operations and the recovery process.

Initial recovery efforts focused on two key areas: ascertaining the safety of its employees and data recovery.

An emergency hotline was immediately set up to facilitate contact with employees. The hotline number was widely distributed to media outlets and employees began to call in very quickly. Through the hotline, Empire was able to rapidly establish the location and safety of employees, get contact information (e.g., home and cellular telephone numbers), as well as to give employees information on the status of their co-workers. This line was also used immediately after the disaster to provide key information to employees. Further, outbound calls were placed to employees homes based on existing contact information to determine their status.

With respect to data recovery, key systems staff immediately reported to other Empire sites and began data recovery efforts. Because all information is retained on company maintained servers located at a secure offsite location that are backed up on a regular basis, Empire was able to restore nearly all data housed at the World Trade Center pursuant to Empire's Disaster Recovery Plan. The only data lost was data that was received after August 31, 2001, the date of the last back-up. New IT equipment (primarily servers) was immediately ordered, and with the cooperation of key vendors, delivered promptly. This enabled Empire, using the backed up data, to restore all data maintained at the World Trade Center through August 31, 2001.

Another component of the first phase of the recovery process was to immediately catalogue the amount of available space at other Empire sites that could be utilized immediately by dislocated employees and to identify which employees were essential personnel needed for the company to function smoothly. Within a few days, key employees were assigned to available locations, and the priority list continued to be used to assign employees to sites as additional temporary and permanent space became available.

## **B. Employee Issues**

Empire occupied ten (10) floors at One World Trade Center and one floor in the basement of Two World Trade Center. Approximately, 1,900 of the Company's 6,500 employees worked at the World Trade Center. Nine employees and two consultants were lost in the disaster. Four other employees required significant hospital stays but have now have been released; three were severely burned and will require extended care and rehabilitation. Numerous other employees were treated at the scene or local hospitals.

After the first few days, when Empire had sufficient information, several additional phone lines were set up to facilitate communication with employees. The first was an informational update line that employees could call and which allowed individual members of Empire's senior management team to leave voice mail messages for all employees, including those who were not back at work. Second, a grievance counseling hotline was also immediately established to provide guidance and assistance to employees and their families and friends during the wake of the disaster.

In addition to communicating with employees via phone, the company held grief-counseling sessions in the Bronx, Long Island City, Albany and New Jersey for all World Trade Center employees who wanted to attend. Meetings were also held at other Empire sites, both for World Trade Center employees who were working at alternative Empire locations, as well as for local employees who wanted to attend. Further, grief counselors were made available for informal meetings held by various employee groups. One on one counseling was also made available; both on site at the offices of Empire's behavioral health vendor, Magellan, as well as office based visits pursuant to Empire's employee assistance program.

Empire also held a memorial service to pay tribute to those Empire employees who were among the missing in New York on October 12, 2001 and in Albany on October 13, 2001.

### C. Infrastructure Impact

Empire lost all furniture, office supplies and equipment located at the World Trade Center site, as well as the use of the space. A summary of the telecommunications equipment and square footage lost is as follows:

<u>IT Equipment Lost</u>	<u>Square Footage Lost</u>	<u>Configuration</u>
Servers: 265	1 WTC 462,704 sq. ft.	Offices: 344
Desktops: 2,255	2 WTC <u>17,797</u> sq. ft.	Cubicles: <u>1,643</u>
Monitors: 2,268	TOTAL <u>480,501</u> sq. ft.	TOTAL <u>1,987</u>

Laptops: 413

TOTAL: 5,201

Empire lost other equipment as well, including photocopy machines, mail operations equipment, imaging equipment, kitchen equipment etc. A full inventory is being provided to its insurance carrier.

Empire also lost all mail that was on site and not yet imaged (imaged mail is available because it was not stored at the World Trade Center.). All member mail is imaged upon arrival; as a result only a couple of days worth of mail would have been unrecoverable. Empire estimates that approximately two day's worth of incoming mail (September 10 and September 11, 2001) was lost. In addition, all paper files and other paper documents were lost. The company is in the process of making a detailed assessment of what those documents were and obtaining duplicates, wherever possible.

#### **D. Temporary Work Locations**

Empire immediately established a temporary Corporate Headquarters at 3 Huntington Quadrangle, Melville, New York 11747, an existing Empire site. Empire also backfilled other Empire locations, including Bohemia, Yorktown Heights, Middletown and Albany. Several other temporary sites were immediately leased after the disaster; these sites will continue to house displaced employees until permanent facilities are available. This effort included working with several of our business partners, such as Xerox and IBM to rapidly find "hot sites" (pre-wired offices) in Melville and New York City for several departments. Empire also leased short term space at the W Hotel in Manhattan to house a couple of

hundred employees. In addition, an assessment was made as to whether some employees could work from home, and a number of employees have been doing so.

As temporary and permanent sites have become available, additional employees have been called back to work. Most employees have now returned to work.

#### **E. Permanent Sites**

Empire began working immediately with the real estate brokers used in the move to the World Trade Center to identify and lease permanent office space in New York City.

Empire signed a 14-year lease for approximately 100,000 square feet at 11 West 42 Street, New York, NY, which will house approximately 320 employees. Employees began moving into this space on November 19, 2001.

In addition, some WTC employees have been permanently relocated to other sites, including Melville and Middletown.

The remainder of the WTC employees will be located in temporary space for approximately two years. This space includes sites at 1440 Broadway and Park Avenue and 28<sup>th</sup> Street in Manhattan, as well as 2 Huntington Quadrangle in Melville. At the end of that term, approximately 1,300 employees from these sites will move to a new building that is being built in the MetroTech Center in Brooklyn.

**F. Disaster Recovery Plan**

Empire had an extensive Disaster Recovery Plan prior to September 11, 2001. The Disaster Recovery Plan helped Empire's management and staff to provide an immediate response to this catastrophic event, and provided for the establishment of a command center which, as noted above, helped to focus our rapid recovery efforts. In addition, pursuant to this plan, Empire had consolidated multiple IT systems, required that all divisions use company maintained servers, and provided for the regular back up of those servers. In addition, in connection with the planning, Empire had expanded its imaging capability and processes, thus minimizing the loss of data. The plan also required that all Empire business units have their own recovery plan in place. These plans provided an overview of the requirements, strategies, and proposed actions necessary to rapidly and effectively recover business operations following a disaster.

**G. Insurance Coverage for Losses**

Empire maintained three insurance policies to cover potential losses stemming from a catastrophe:

1. Business Property (\$31 million available for furniture, equipment, books, etc.);
2. Business Interruption (\$36 million for emergency recovery, including the differential for temporary rent costs); and
3. Computer Equipment (\$101 million for equipment throughout the Company).

Empire's carrier for all three policies is the St. Paul Insurance Company. Thus far, they have indicated that they do not intend to disclaim coverage, and have in fact provided over \$5 million in advance funds. Empire continues to work closely with them to provide appropriate documentation of its claims.

## **H. Foundation**

Following the disaster, Empire received numerous requests from employees and other Blue Cross Blue Shield plans that wanted to donate money to help the injured and the families of those who were lost in the attack. Empire established the "Empire World Trade Center Disaster Relief Fund" to provide financial and other assistance to its employees who were injured in the September 11 terrorist attack on the World Trade Center, as well as to the family members of Empire employees who remain unaccounted for since the disaster. Empire has contributed \$100,000 to the Fund and additional contributions of almost \$300,000 have been made to date by the Blue Cross and Blue Shield Association, a number of Blue Cross Blue Shield plans, Empire employees and private individuals and organizations. To date, Empire has distributed \$200,000 from the Fund and has established a \$150,000 scholarship fund for the children of Empire's employees and consultants who were lost in the disaster.

## **4. INDIVIDUAL DIVISION/DEPARTMENT RECOVERY EFFORTS**

**A. Finance**

Empire's financial system (the Oracle database) was housed in the Staten Island facility; no data was lost on any production system and Oracle was 100% recovered. However, when first reactivated, the financial system was operating on analog telephone lines, which were slow and caused delays. T-1 lines have since been installed, which enables faster transmission of the needed data to allow completion of the required financial reports due to regulators.

With respect to personnel, the finance department consists of several units. The World Trade Center based Finance Department personnel, including the Actuarial and Financial Analysis departments and Underwriting, are temporarily relocated to two Horizon Blue Cross and Blue Shield buildings in Newark, New Jersey. The Actuarial and Financial Departments currently are fully operational and anticipate meeting all reporting deadlines. It is anticipated that they will operate out of these temporary offices until the end of December, when they will relocate to New York City sites.

The Underwriting Department was in the middle of renewal season when the disaster occurred. Its main challenge was finding office space and the associated technology to get the underwriters back to work. Within a few weeks of the disaster, all underwriting staff was fully back to work and equipped with the technology needed to get their job done. Thirty day contractual notice requirements for January 1, 2002 (and earlier) renewals have been, or should be, met for all customers, with many of them receiving more notice than is customary. However, the Underwriting department did lose customers' paper underwriting files. These files will be rebuilt on a going-forward basis. Additionally, some programming

regarding this Department's new Group Underwriting System was lost. Empire's Systems Division is now recreating this code.

Empire moved most of its accounting department to its Albany site in 1997 and the accounting area continued to operate uninterrupted after September 11, 2001.

For approximately two weeks after the disaster the Treasury Department operated from remote locations. The Cashiers' operation was re-located to Albany on September 17, 2001, and resumed the processing of incoming cash. The external cash lock box and incoming wire transfer process was not interrupted. The remaining Treasury operations were re-located to Long Island. During this period, Empire maintained adequate short-term liquidity to guaranty the timely and uninterrupted payment of all obligations. Incoming cash flow was temporarily delayed however, until the postal service resumed operation. Empire's cash flow has since returned to normal. Investment activity continued throughout the period. The Treasury Department's primary records were secured off-site, and they are in the process of re-creating certain documentation files.

## **B. Operations**

The majority of Empire's customer service and claims processing operations are located at Empire facilities in Albany, Melville, and Middletown, all of which have remained in operation uninterrupted since September 11, 2001.

However, it is estimated that Empire lost approximately 1.5 days worth (approximately 36,000) of incoming claims as a result of claims received but not yet imaged/stored electronically. Electronic submissions were not affected at all and are being processed normally. Empire has, however, requested that providers re-submit any claims that were mailed during the period between September 5, 2001 to September 11, 2001. Claims submitted on or after September 12, 2001 are not affected. It should also be noted that claim receipts from September 11, 2001 through September 30, 2001 were down by approximately 6,000 per day but they have now returned to normal levels.

Empire's call centers remained operational throughout the disaster; all calls that would have been answered at the World Trade Center were rerouted to other call centers within minutes. There were some delays in answering calls on September 11, 2001 and September 12, 2001 due to additional volume at the alternate call centers. These delays were eliminated by September 13, 2001.

With respect to the membership and billing function within Operations, Empire immediately suspended its automatic cancellation policy through October 31, 2001 for individuals and groups. This policy would normally cancel policies for groups that did not pay their premiums on time. Empire has made every effort to exercise care and responsible judgment in making determinations regarding claims, cancellations and non-renewals of policies insuring those impacted by the tragedy.

Group account and membership information, financial data and administrative systems data is also housed at a remote facility and was not affected by the events of September 11, 2001. Based upon a comparison of Membership and Billing inventory (both paper and Excel items) from immediately prior to

the disaster to an Excel count taken on the morning of September 12, 2001, Empire believes that it lost approximately:

- 626 membership applications (maintenance)
- 240 membership inquiries (changes, terminations, etc.)
- 200-300 new group submissions in various stages of completion (e.g., the group and members may have already been loaded but the cash not reconciled)
- A few dozen pieces of cash although the actual number is likely to be larger depending upon how many items were in Cash Management. These numbers do not include any additional items that were received in the mailroom and were waiting to be imaged. We believe that two (2) days worth of mail was lost and that could translate to an additional 2,000 + pieces (aggregate of applications and inquiries).
- Approximately 50,000 ID cards produced between September 5 and 11<sup>th</sup> had to be re-run.  
(Note: Empire's vendor, Personix assisted to successfully get the ID cards re-run).

The Membership and Billing staff is working closely with Empire's Sales Department regarding re-submission of the lost documents and it is expected this department will make a full recovery.

**C. Systems**

All of Empire's core systems are operating. As noted above, all systems are regularly backed up, and backed up data has been fully recovered. Some systems development work was temporarily halted after the disaster.

Because of Empire's scanning and imaging initiatives over the past years, the loss of paper claims was minimal. Empire's scanning and imaging capacity was large enough to handle the additional paper volume caused by the disaster and this area has experienced no back up.

Cisco, along with several other IT vendors with which Empire maintains ongoing business relationships with, have been extremely responsive to the Corporation's need to secure new equipment on an expedited basis. No issues regarding replacement of equipment have been identified.

Empire's web site was unaffected by the disaster, providing an excellent channel for communicating to the general public, employees, members, customers, brokers and providers throughout this period.

**D. Audit**

Most Audit functions were located at the World Trade Center. After September 11, 2001, the Internal Audit Department operations were curtailed, with only limited work-at-home capabilities, except for the Corporate Performance Department, which was immediately transferred to Empire's Middletown facility.

The Audit Department lost a large number of documents as a result of the disaster. All hard-copy audit work papers from 1996 through 2001 were destroyed. However, the Administrative Time and Tracking System and data files on shared computer drives are intact and several electronic documents are retrievable to aid in the rebuilding of some audit work papers.

The Internal Audit Department's 2001 Work Plan was significantly curtailed because of the disaster, and some audits were outsourced to Ernst & Young.

Only four (4) of the nine (9) members of the Internal Audit Department were called back to work. Empire is seeking to outsource this function, which will offer maximum flexibility in resource allocation and better access to specialized skills and talent in the marketplace.

**E. Fraud**

The entire Fraud Department was located at the World Trade Center but is now back in operation. The flagged provider unit was operating out of Empire's Middletown office within two weeks of

September 11. The remainder of the Fraud Department commenced operating at temporary space at the W Hotel approximately 30 days after the disaster. All of this staff will be relocated to the 1440 Broadway site before the end of the year, and will ultimately be located at MetroTech in Brooklyn, NY.

Empire's Fraud Abuse and Management system ("FAMS") is intact and fully operational. All FAMS data was recovered, including the provider flagging function and electronic fraud case history. Hard-copy case evidence is missing, and every effort is being made to recreate these paper files.

**F. General Counsel**

Empire's Legal Department was housed entirely at the World Trade Center. The General Counsel's office was initially operating in Melville, and has now been moved to 11 W. 42 Street. The remainder of the staff is currently located at Yorktown Heights. The Department is fully operational, and continues to provide advice internally and to defend lawsuits. All of the staff is expected to be relocated at two sites in Manhattan before the end of the year.

With respect to litigation, all paper files were lost, and for cases that were being handled solely by in house counsel, efforts are focused on reconstructing files, through copying documents from adversaries and the courts. Empire has recovered the management description of all litigation, which has been helpful in restoring the more significant cases. With respect to the smaller cases, the litigators and paralegals have spent time at the various courthouses identifying cases to ensure that all dates are met.

Empire's legal management system, CLMS, which has substantial information on all litigation, was just restored and is in the process of being updated.

With respect to corporate records, Empire has Board and Committee minutes from 1994 through present stored electronically. The company is attempting to restore attachments and meeting material files by working with outside counsel, Board Members, regulatory authorities and consultants who attend and / or receive copies of these documents on a regular basis.

Empire is also in the process of obtaining copies of licenses, filings, corporate seals and all other official, corporate governance documentation for Empire and its subsidiaries.

With respect to contracts with outside vendors, a list of all such vendors is maintained on the financial system for payment purposes. As noted above, that system is intact and all vendors continue to be properly paid. Empire is in the process of retrieving copies of all contracts that Empire maintained with these vendors. Similarly, Empire is assessing what other required documentation was lost, and a project team is systematically pursuing copies of all necessary documentation.

The Purchasing Department is also fully operational and is providing guidance and assistance with the physical replacement of furniture, equipment and other supplies.

**G. Human Resources and Services**

The Human Resources and Services Department ("HR&SD") operates from numerous sites. Although paper personnel files were lost, HR&SD retained most information electronically and this

information was not lost as a result of the events of September 11, 2001. The HR&SD continues to operate from all sites where Empire employees are located.

## **H. Medical Management**

Empire's Medical Management unit continued to operate without interruption after the disaster. Medical management functions for Empire's commercial and national accounts were not located in the World Trade Center. Call center activities and clinical review functions are located in Albany. In addition, Empire's "24 by 7" toll-free nurse call center Healthline, is located at Empire's Melville office and was not impacted by the events of September 11, 2001. Empire did implement a moratorium on administrative medical management functions (i.e., administrative denials to providers for no notification of admission pursuant to contracts) due to the tragedy and its impact on providers in the New York metropolitan area between September 11, 2001 and September 30, 2001.

Empire's Grievance (in the customer service division) and Appeals (in the medical management division) units are also located in Albany and were not impacted operationally. All grievances and appeals were handled as usual and according to the required timeframes throughout this period of time.

The only area of medical management adversely impacted by the World Trade Center tragedy was the medical management program for BlueChoice Senior Plan, Empire's Medicare HMO. The clinicians that provide the medical management for this program were located in the World Trade Center. All telephonic functions were transferred to Albany staff on September 11, 2001. They were transferred back

to the Senior Plan staff effective September 25, 2001, at which time the staff was relocated to temporary space in Manhattan, at the offices of Magellan Behavioral Health. The appeals unit for Senior Plan was not impacted.

**I. Medical Delivery**

Most of Empire's medical delivery staff was located in the World Trade Center. This area is primarily responsible for the maintenance of Empire's provider networks, as well as provider relations, and provider e-business functions. All of these functions are fully operational.

Medical Delivery is also responsible for provider credentialing, which was adversely affected as a result of the loss of the WTC. All credentialing files were lost. Replacement of lost physician credentials files will be accomplished through a contract with a credentialing vendor. It is anticipated in connection with this contract that this function will remain outsourced to this vendor.

Copies of provider contracts were also lost. However, all rates are loaded on the system, so the loss of the contracts has not adversely impacted Empire's ability to pay claims promptly and accurately. Copies of the contracts are being recovered from network providers.

**J. Medicare Operations**

Customer service and claims processing for Medicare Part A and B are handled at our facilities in Bohemia, Yorktown and Syracuse, NY, as well as those in Harrisburg, PA, and Middletown, CT. They are fully operational and were not affected by the disaster.

**K. Sales**

Empire's sales force was located at a variety of offices, including the World Trade Center. The disaster resulted in a few relatively minor delays associated with some of Empire's sales processes, such as the issuance of new enrollment kits and renewal activity.

In addition, Empire lost paperwork on approximately 200 small groups in the community market. General Business Agents ("GBA's") were asked to reach out to groups affected in order to get them to re-submit their paperwork.

After the disaster, discussions were immediately held with a number of customers to reassure them that Empire remained fully operational, and at Empire's request, the New York State Insurance Department also contacted several of the Company's larger clients to assure them that the Company remains a viable, active entity. Sales representatives contacted most, if not all groups, to advise them that Empire was fully operational. For the most part, enrollment remains strong and requests for proposals continue to come into Empire.

Total corporate enrollment as of September 31, 2001 totaled 4,393,549 members, representing an increase of 290,275 members, or 7.1 percent, from year-end 2000.

**L. Senior Plan**

The disaster had minimal impact on BlueChoice Senior Plan, Empire's Medicare HMO product or its operations. The Senior Plan Department was able to file the ACR with Centers for Medicare and Medicaid Services by the September 17, 2001 regulatory due date.

Senior Plan Medical Management was fully operational as of September 25, 2001 and Senior Plan Operations and its compliance staff were fully operational in temporary space as of October 3, 2001.

**4. SUMMARY AND COMMENTS**

A number of factors contributed to Empire's effective response to the disaster:

Undoubtedly, disaster planning, especially as it related to the back-up of electronic data and the uniformity of servers, was a significant contributor to Empire's data recovery.

Empire also believes that in part, its Strategic Management and Implementation Program ("SMI") and its continuous quality improvement program, contributed significantly. This process requires all

employees to understand the operations of the entire company and how their individual functions may impact other departments and the corporation as a whole. Most management employees attend weekly meetings at which all major company projects are discussed. As a result, a large portion of Empire's staff, immediately following the disaster, knew precisely what the effects of the disaster would be and what needed to be done. Moreover, the SMI system encourages employees to act independently and to push projects to completion; accordingly, even when middle management could not contact senior management, they did not hesitate to do what they knew needed to be done.

Furthermore, Empire's IPTV system, which is a closed circuit television system where employees can observe management meetings from their desks and from remote locations, had provided all employees with first hand knowledge about the company and its management. This gave strong credibility to management, even in its absence, and helped employees feel they were empowered to act. Similarly, employees receive a constant flow of information, updates and training about the company, through distribution and discussion of the strategic and annual plans at periodic Straight Talk sessions. At these sessions, management presents current company status to all employees, and provides employees an opportunity to ask questions. All of this helped provide employees with the knowledge they needed and the confidence to proceed.

Finally, Empire's believes its employees themselves were a key factor in its fast recovery. Empire has a very stable workforce that has repeatedly shown its commitment to the company. The dedication, responsibility and hard work of all of the individuals who work at Empire were clearly contributing factors. Notwithstanding the trauma employees had been through, many World Trade Center employees reported

to work at other sites within hours of the disaster, and many more by the next morning. Empire's workforce deserves much of the credit for the rapid and efficient recovery.