

The EPOCH Group, L.C.

Report on Controls Placed in Operation and Tests
of Operating Effectiveness for the Period

May 1, 2007 through May 31, 2008



The EPOCH Group, L.C.
May 1, 2007 through May 31, 2008

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Section I
Independent Service Auditors' Report



Independent Service Auditors' Report

The Board of Directors
The EPOCH Group, L.C.
Leawood, Kansas

We have examined the accompanying description of controls related to the RIMS application of The EPOCH Group, L.C. (EPOCH). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of EPOCH's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied the controls contemplated in the design of EPOCH's controls; and (3) such controls had been placed in operation as of May 31, 2008. EPOCH utilizes the outside automated clearinghouse services of WebMD and HealthLink, the electronic conversion services of Solution Data Systems, Inc. and the check printing services of Advanced Business Fulfillment in the processing of claims. The accompanying description includes only those control objectives and related controls of EPOCH and does not include control objectives and related controls of the above identified outside processing organizations. Our examination did not extend to controls of those above identified outside processing organizations. The control objectives were specified by the management of EPOCH. Our examination was performed in accordance with the standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the RIMS system presents fairly, in all material respects, the relevant aspects of EPOCH's controls that had been placed in operation as of May 31, 2008. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of EPOCH's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, which are presented in the Control Objective Matrices of Section II of this report, to obtain evidence about their effectiveness in meeting the related control objectives, described in the Control Objective Matrices of Section III, during the period from May 1, 2007 through May 31, 2008. The specific controls and the nature, timing, extent and results of the tests are listed in the Control Objective Matrices of Section III. This information has been provided to user organizations of EPOCH and to its auditors to be taken into consideration, along with the information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion, the controls that were tested, as described in the Control Objective Matrices of Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in the Control Objective Matrices of Section III were achieved during the period from May 1, 2007 through May 31, 2008. However, the scope of our engagement did not include tests to determine whether control objectives not listed in the Control Objective Matrices of Section III were achieved; accordingly, we express no opinion on the achievement of control objectives not included in the Control Objective Matrices of Section III.

The relative effectiveness and significance of specific controls at EPOCH and their effect on assessments of control risk at user organizations are dependent upon their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at EPOCH is as of May 31, 2008, and information about tests of the operating effectiveness of specified controls covers the period from May 1, 2007 through May 31, 2008. Any projection of such information to the future is subject to the risk that, because of changes, the description may no longer portray the system in existence. The potential effectiveness of specified controls at EPOCH is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

The information included in Section IV is presented by EPOCH to provide additional information to user organizations and is not a part of EPOCH's description of controls that may be relevant to user organizations' internal control as it relates to an audit of financial statements. The information in Section IV has not been subject to the procedures applied in the examination of the description of the controls related to the RIMS system and, accordingly, we express no opinion on it.

This report is intended solely for use by the Board of Directors and management of EPOCH, its clients and the independent auditors of its user organizations (clients).

/s/ **BKD, LLP**

Kansas City, Missouri
June 6, 2008

Section II
System Description Provided by
The EPOCH Group, L.C. Management

Company and Operations

The EPOCH Group, L.C., (EPOCH) is a Third-Party Administrator (TPA) of self-funded welfare benefit plans with offices in Overland Park, Kansas and St. Louis, Missouri. EPOCH provides claim processing and other related services to plans sponsored by public sector and private sector employers.

Control Environment and Management Philosophy

The control environment within EPOCH is driven by several elements that influence the control-consciousness of EPOCH employees and provide a foundation for other components of internal control. These elements include the integrity, ethical values and competence of the management teams and all other personnel; management philosophy and operating style and the manner in which management assigns responsibility and utilizes its people.

EPOCH is committed to providing top-quality service to its clients. EPOCH strives to acquire and retain highly qualified people and to install an enterprise wide attitude of integrity and control awareness.

Risk Assessment

EPOCH is required to meet the regulatory compliance standards for third-party administrators. EPOCH has a financial statement audit performed annually by **BKD, LLP**. EPOCH management has also established various internal quality control audit teams that perform ongoing testing of various aspects of the Company.

Human Resources

EPOCH's commitment to quality is reflected in the policies and practices employed for attracting and retaining employees. From inception, EPOCH vowed to hire only the most talented and knowledgeable industry experts, programmers and claim examiners. EPOCH employees combine technical ability with a strong understanding of the business processes of EPOCH targeted industries. The level of professionalism throughout the Company is reflective of the success EPOCH has had in attracting top-quality associates.

Hiring practices are designed to ensure that new employees are qualified for their job responsibilities. Each hiring of a new employee must be jointly approved by the Human Resource Department and the management of the department hiring the employee.

EPOCH has a structured interview process, which includes application screening, a screening interview, testing and at least two interviews. The Human Resource Department also performs criminal background checks and pre-employment drug testing for all potential employees.

Training of personnel is accomplished through supervised on-the-job training, outside seminars and in-house classes. Certain positions require the completion of special training. Department managers are also responsible for encouraging the training and development of employees so that all personnel continue to qualify their functional responsibilities.

Formal performance reviews are conducted yearly on April 1st. Employees are evaluated on job competencies and core values. An overall rating (exceptional, high achiever, valued contributor, inconsistent performer and non-performer) is assigned. Employees rated less than inconsistent performer should have a formal improvement plan with a timeframe.

Benefit Plan Set-up and Maintenance

The Marketing Department routes a new group application or contract changes to the Plan Building Department. The Plan Builder enters the new/revised group information into the RIMS claim processing system. The Plan Builder will also enter information regarding a change in contract benefits for existing groups.

After the group is entered in the system, another employee will run a series of test claims to verify that the edits are in place and the system is generating proper claim payments, accumulators, copayment and denials correctly. After test claims are completed and the new group checklist is completed, the group is moved into production.

Testing new client information involves using a virtual test system that mirrors the production environment. This testing includes all relevant databases that are essential to the claim processing function.

For each new client, the test will accomplish the same objective, but testing for each client differs depending upon how the client wants the plan set up. If an exception occurs while testing, the exception is corrected immediately and then retested.

There is no auto-adjudication on new groups for at least one month to ensure proper calculations.

Some groups request the test packets for verification that the benefits were tested and were entered into the system correctly.

EPOCH also requires the client to sign-off on the benefit plan booklet for verification that the plan booklet is correct.

Plan documents are generated by EPOCH personnel and are filed with the stop-loss carrier once these documents are approved by the client.

Provider Set-up and Maintenance

EPOCH issues claim checks to providers and/or plan participants. EPOCH maintains a record of each provider.

When a claim examiner processes a claim for payment to a provider that is not recorded in the provider file, the claim is routed to the Provider Maintenance Department electronic mailbox. The name, address and tax identification number data are entered by the provider maintenance personnel in the provider maintenance database, which is maintained in the RIMS system.

Claims are also routed to the Provider Maintenance Department electronic mailbox if there is a discrepancy between the information submitted on the claim and the information contained in the provider record. The correct provider information is determined and the provider record is updated. Then the system re-adjudicates the claim and routes it on to pricing and payment.

For those providers that are not affiliated with a Preferred Provider Organization, the claim is paid and a letter is generated requesting a completed W-9. If a W-9 is not received within 30 days, another letter is generated requesting a completed W-9. If no W-9 is received within the next 30 days, all future payments are denied.

Fee Schedule Set-up and Maintenance

EPOCH utilizes three types of fee schedules during the processing of claims: 1) Repricing submitted by the Preferred Provider Organization (PPO), 2) Fee schedule provided by the PPO and maintained in EPOCH's database and 3) Online access to various PPOs. Fee schedules reflect pricing that is determined by the individual PPOs. The Computer Operations personnel are responsible for uploading the fee schedules for the PPOs that provide this information. The Provider Maintenance Department is responsible for reviewing the fee schedules for accuracy.

Fee tables are loaded into the RIMS test system. After updating the fee tables, a report is generated showing:

- Total records read,
- Total records updated; and
- Total records rejected.

Research is performed on records that were rejected and are cleared. All rejected records are corrected before fee tables are moved into production.

Member Enrollment Set-up and Maintenance

EPOCH maintains the eligibility records for all of its clients. This includes additions, terminations and COBRA records.

Groups send eligibility updates using one of three mechanisms: 1) tape/electronic files transfer, 2) enrollment cards or 3) online data entry.

For the groups that send eligibility tapes or electronic transfers, the information is received by the Information Systems Department personnel. Files are loaded by the Information Systems Department and errors are identified during the transfer process. Once the eligibility file is updated, a summary report and an exception report are generated. Any exception transactions must be reviewed and entered manually by the operator. Any error that cannot be corrected is sent back to the client for further investigation.

For groups that send enrollment by faxes, paper or e-mail, the enrollment information is entered by the eligibility clerk using the add or maintain eligibility screen.

The Eligibility Department is notified of any eligibility changes by the Human Resource contact at the employer, also known as the Group Administrator. Changes in membership or eligibility, including additions and coverage modifications require written documentation from the employer, such as fax, e-mail or submission of an application/change form from the Group Administrator. The Marketing Department is responsible for verifying that open enrollment is occurring (for addition requests) or that a qualifying event has taken place that would allow a member to make changes to his or her coverage (for coverage change requests). Once these conditions are verified, the Eligibility Department will make the requested changes in the eligibility maintenance portion of the RIMS system.

EPOCH's Internal Audit Department reviews the changes made by the Eligibility Department for accuracy of data entry.

Claims Processing

Claims processing or adjudication is the process of receiving medical claims from providers and processing these claims for payments based on the benefit plan rules, fee schedules and provider/member/employer settings. The adjudication process validates the individual services on a given claim against benefits rules and fee schedules. Claims can be entered into the RIMS system in one of two methods; 1) manually through the Claims Module, or 2) via Electronic Data Interface (EDI), which incorporates files from automatic clearinghouse WedMD and HealthLink, a third party vendor used to convert claim data from paper claims into electronic format.

EDI claims are electronic claims received directly from outside sources for processing. EDI claims are entered into the RIMS system through an automated process. Initially, these claims are set to an “open” status. During the automated entry process, the RIMS system automatically generates and populates the claim number field for the claims. Also, at this point, the RIMS system will locate the provider and member information from the appropriate modules and populate the required demographic fields in the claims.

When EPOCH receives paper claims, it will scan the claim through an optical character resolution (OCR) software where the claim information is converted to an electronic format and treated as an EDI claim. The Internal Audit Department selects a random sample of claims, both paper and EDI, to verify that the claims were entered accurately into the RIMS system.

Auto Adjudication

Once all the daily claims files have been imported into the RIMS claims processing system, the auto adjudication process is run to examine all claims in an “open” (not adjudicated) or “adjudicate” status and determine the amount of payment for these claims. The system will then “pay” and/or “deny,” which are both final statuses, indicating no further processing of the claim is necessary.

When the RIMS system encounters a claims entry that it cannot properly process, it creates an edit message and places the claim in an open status. These open claims are reported to management each day and must be manually resolved by claims processing examiners who are trained to investigate and resolve the errors that are encountered. When a claims examiner resolves an error, the RIMS system maintains a log that tracks the clerk’s logon ID and date on the claim history. The claims examiner will then re-adjudicate the claim to process it into a final status.

Administrative Service Contracts

EPOCH serves as an administrator of its clients’ medical, dental, disability and other claims. The employer’s contract requires EPOCH to receive and process their employees’ claims. The employer is required to fund, at the direction of EPOCH, employers claims account. Billing for these employers includes administrative service fees, stop-loss premium and other related services as agreed upon with the employer.

Check registers are printed and sent to the client on either a weekly or monthly basis. The checks and Explanation of Benefits (EOB) are sent electronically to ABF, which then mails these items to the appropriate persons.

The Marketing Department sends the rates, factors and other information to the Accounting Department, which then prepares the reports of all participants and the accompanying monthly bill.

Payment Processing

On a daily basis, the payment processing routine extracts adjudicated claims ready for payment. The Computer Operations Department operates the payment process. The RIMS system is used to conduct payment processing. A check number and paid date are assigned to the claims during payment processing for reference. Checks are created for the amount eligible as calculated during the adjudication process. An automated edit routine is also conducted to determine that the check numbers assigned during payment processing are not duplicate check numbers.

After the payment processing routine has been completed, a listing of checks to be generated is sent to an outsourced check printing company. The scope of this report does not include the controls in place to support the processing of claims checks by the check printing vendor. Control totals are used to identify that a complete list of checks required was received by the Company, and the amount of checks generated is verified by EPOCH prior to the checks being sent to providers or members.

Coordination of Benefits

Coordination of Benefits (COB) is a process of accounting for claims in which a member is covered by more than one insurance provider or benefit plan. When a member has a COB, the two benefits are coordinated so that no more than 100 percent of the total covered expenses are paid. The Internal Audit Department audits a sample of claims entered by each claims personnel on a monthly basis for accuracy of input into the RIMS system.

Data Center and Other Controls

Data Center Controls for EPOCH are supported by the Information Systems Department at EPOCH. The Information Systems Department is responsible for computer operations, security, backup functions and program change control. In addition, the Information Systems Department handles certain non-critical network file backups and facilitates help desk inquiries.

EPOCH uses the RIMS software program operated on HP9000 hardware. EPOCH continually reviews and updates, as needed, both software and hardware to maintain high quality client service.

Segregation of Duties

In support of medical claims processing, EPOCH has established an Information Systems Department, which supports and maintains the RIMS system. As a result, management has segregated responsibilities among the following functional areas:

- Computer Operations
- Network Operations
- Technical Support
- Information Security
- Application Development

Computer Operations

The Information Systems Department is responsible for monitoring processing, correcting or escalating processing problems and reporting problems and system availability to management.

Day-to-day monitoring of the system and the computer networks is the responsibility of the Director of Information Systems, the operators and the Network Administrator. The operators are responsible for monitoring the systems and responding to management questions/requests. The operators are also responsible for identifying, documenting and correcting problems that they have identified or that have been reported. The Network Administrator has the same responsibilities for supporting the computer networks.

Problems are documented and tracked using an electronic format procedure. The problem ticket requires the following fields to be completed:

- Personnel contacted
- Times contacted
- Date of incident
- Applications affected

Tape and Disk Management

Backup scheduling activities are performed using a combination of RIMS server tools and backup system through Windows. Transactions are backed up on an every two hour basis, while a full system backup is performed every evening.

Outside vendors are utilized to store the claims and network backup tapes off-site. A rotation schedule is utilized for backup tapes in order to provide efficient use of the tapes. For critical network and application backups, the tapes are on a four-week rotation schedule. EPOCH also performs backups of non-critical network data nightly. RIMS (UNIX) backups are performed on a regularly scheduled basis.

Logical Security

EPOCH has a formal, written security policy. The security policy, Internet Code of Conduct and other EPOCH policies are reviewed with new employees during orientation. Each user has received training related to HIPAA privacy and security.

The EPOCH Information Systems Department has standards, procedures and practices to help ensure the confidentiality, integrity and availability of information assets owned by EPOCH. The department provides guidance and support for management and EPOCH clients.

Corporate data security policies, standards and procedures have been developed and implemented by EPOCH. The security policies express EPOCH's commitment to protect information assets, define information assets and establish policies regarding appropriate security standards, procedures and practices. Security administration procedures have been developed and implemented. Processes have been established to address issues such as:

- Processing Access Requests – A Security Access Request Form must be completed by management for employees to receive a user ID to access the mainframe. Upon completion and approval, the Security Officer will create a user ID.
- Resetting Passwords – In order to have their passwords reset, users are required to turn in a ticket and the Security Officer will reset the user ID.

- Monitoring Violations – Security violation reports are reviewed by Information Systems Department on a daily basis.
- General Information Security Standards – Standards are documented and periodically updated.

Upon separation or termination from the Company, an employee's ID is canceled and all special privileges are removed. The System Administrator reviews and deletes any dormant passwords on a monthly basis.

Critical systems and application data sets are protected by features built into the RIMS software program. Access to reports showing possible access violations are generated by the system and reviewed by the Information Systems Department. In addition, special privileged attributes have been assigned only to individuals who require the attributes to perform their job functions.

Anti-virus protection software is used to protect the infrastructure from computer based viruses. Computer workstations and LAN servers are configured to perform scans of files for known viruses on a continuous basis. Anti-virus protection software is updated nightly for LAN servers and computer workstations.

Application Development and Program Change Control

The application programmers perform software changes. Changes are made to system software because of business requirements, reporting problems or user requests.

EPOCH has documented requirements and standards for system changes. The standard change management tool at EPOCH is the Custom Program Rollover Form. Change requests are required for changes to hardware, software or any other changes that could impact productivity or clients. Information that is required in a change request includes:

- A detailed description of the proposed change;
- Justification for the change;
- Special instruction;
- A backout plan;
- Affected systems; and
- Documentation of peer review and approval.

Separate change records are created for each proposed change. All affected groups are identified in the original change request and the requester coordinates the change with such groups. Each change is reviewed by a peer and signed off by authorized personnel. If a change record is modified, the record is reapproved. Two employees schedule all changes. All changes are released into production by the Vice President of Information Systems or the System Administrator.

Procedures for emergency changes have also been established. The emergency change procedures are similar to normal change procedures except that the authorization process is accelerated. If an emergency change is required, the Vice President of Information Systems or the System Administrator must authorize it. The possible impact of a change in the system must be considered prior to implementing an emergency change.

Network changes are only released after production hours and on Fridays.

Data Communications

The network at EPOCH consists of GigaBit segments. The various segments are linked using routers, switches and firewalls, as appropriate.

Routers are used to connect different segments of EPOCH internal network and to route communication traffic appropriately across different network segments.

“Whats up Gold” (software package) supports a graphical user interface to monitor the network. The network is documented through the graphical user interface, which presents a diagram of the network and allows network specialist to select specific segments or devices using a mouse to obtain more detailed information.

There are redundant firewalls for external access and redundant firewalls for internal access. Firewall violation reports are reviewed on a daily basis. For external firewall violations, an alarm system notifies (via e-mail) an EPOCH network security employee immediately of server violations or attacks.

VPN access is also available. A session cannot be established on the mainframe until the approved user has at least two sets of valid IDs and passwords.

TCP/IP is the primary protocol in use for most traffic to servers, Windows and RIMS system.

Physical Security

Physical security for the on-site data center at EPOCH is controlled by use of a combination keypad lock on the door. A unique code is distributed to only authorized EPOCH Information Systems personnel.

Physical access to the Overland Park office and the St. Louis office of EPOCH is controlled by badge card system. The offices are monitored by a receptionist during normal business hours. After normal business hours, the main door is locked and also controlled by a badge card along with an alarm system. Some people have unlimited access to the offices after normal business hours. An access report is generated and reviewed on a periodic basis in order to assess the reasonableness of after hours access.

Computer operations areas are protected by the following environmental control systems:

- Fire extinguishers
- Smoke detectors
- A separate A/C unit
- Temperature and humidity monitors
- UPS (uninterrupted power service), including battery backup and generator power

Processing of Expenses

If requested by employers, EPOCH administrative service fees and other related expenses are processed for payment by a clerk in the accounting department. The steps in this process are described below:

- A copy of information needed to generate monthly automatic payments of EPOCH’s administration fees from plan checking accounts or invoices to be mailed to clients are received from the accounting department.

- The statement information or payment information is reviewed by the accounting department and upon approval, the statement is sent to the client for payment, or where the client has agreed to automatic monthly payment, a check payable to EPOCH is issued from the plan checking account.

Check Reconciliation and Report Preparations

EPOCH performs check reconciliation for those clients who request the service. The process is as follows:

- Bank statements and canceled checks are received from the bank by the accounting department.
- Using the computer system, the check register data file is retrieved and each canceled check is entered into the system by check number.
- The system then produces the account balance, which is verified to the balance reported by the bank.

EPOCH prepares a complete set of monthly reports for each client. System generated reports include:

- Check register
- Paid claim report and analysis
- Benefit analysis report
- Aggregate and specific claim reports
- Other reports as agreed to with the client

EPOCH Internal Control Program and Reporting Process

Control Environment

The control environment creates the foundation for effective internal control, establishes the “tone at the top,” and represents the apex of the corporate governance structure. The issues raised in the control environment component apply throughout an Organization.

Strategic Planning

The senior management team annually sets strategic goals and detail plans to achieve them, which are approved by the Board. The senior management team then prioritizes them and assigns the responsibility to an individual for carrying out the plan throughout the year and reporting to the senior management team on a monthly basis.

Organization and Relationships

Roles and responsibilities for the Organization are delineated in an organizational chart and with job descriptions for most positions. Job responsibilities are conveyed verbally during the interview process. Internal controls for HIPAA privacy and security are conveyed during new hire orientation on the employee’s first day. In addition, managers are responsible for completing department specific HIPAA training with the employee. Employee performance is monitored on an ongoing basis and evaluations are performed annually.

Management of Human Resources (HR)

There is a new employee and terminated employee checklists that HR uses to ensure procedures are followed. If a termination is involuntary, then contact with Technology Services is made immediately to revoke building and system access. Additional training, changes to procedures and manual updates are made based on auditor’s feedback for continual process improvement. EPOCH has a set of core values that is promoted within the Company.

Education and Training of Users

Company wide meetings are held periodically that incorporate company-wide values training. Training is provided to new employees during new employee orientation on the employee’s first day, which includes an overview of HIPAA privacy and security. It is the responsibility of the employee’s manager to complete specific HIPAA training within the first 30 days. Training is provided on third-party billing for those new to the industry. Additional training is provided on a department-by-department basis based on job responsibilities.

Information and Communication

COSO states that information is needed at all levels of an organization to run the business and achieve the company's control objectives. However, the identification, management and communication of relevant information represents an ever-increasing challenge. The determination of which information is required to achieve control objectives and the communication of this information in a form and time frame that allow people to carry out their duties support the other four components of the COSO framework.

Information Architecture

Management has defined procedural guidelines within claims teams.

Authorization levels for individuals within teams are defined.

EPOCH management has performed a HIPAA risk assessment and uses this document to establish classification standards for data.

Management has defined security levels within claims systems at the departmental level.

Communication of Management Aims and Directions

Management has provided the teams and departments with processing guidelines and claims guides.

Management has formulated specific security guidelines for employees in the employee handbook and various guidelines.

Management has assigned responsibility to the Human Resources Department to ensure that employees comply with guidelines and the handbook.

Management uses a time reporting system, production reports and annual evaluations to assess compliance with EPOCH policies, procedures and standards.

Risk Assessment

Risk assessment involves the identification and analysis by management of relevant risks to achieve predetermined objectives, which form the basis for determining control activities. It is likely that internal control risks could be more pervasive in the IT organization than in other areas of the Company. Risk assessment may occur at the Company level (for the overall organization) or at the activity level (for a specific process or business unit).

Assessment of Risks

The management team meets periodically to review performance statistics, risks and updates on annual objectives. Risks discussed are those that are cross departmental in nature. There is no agenda, minutes, issues list or other type of formal documentation for the meeting that would provide a framework for assessing and tracking risk mitigation activities. A HIPAA Security Risk Assessment is periodically performed by management.

Data center access is restricted by use of a key card access system.

Monitoring

Monitoring, which covers the oversight of internal control by management through continuous and point-in-time assessment processes, is becoming increasingly important. There are two types of monitoring activities: continuous monitoring and separate evaluations.

Compliance with External Requirements

EPOCH management has ensured that the data center is equipped with adequate environmental controls to protect EPOCH and client data and the EPOCH Technology Services infrastructure.

EPOCH management has conducted a business impact analysis that considers the impact of the failure of key systems on the ability of EPOCH to meet its contractual obligations. Management is using this analysis to maintain its business continuity and disaster recovery plans.

Management of Quality

Legal and regulatory compliance is addressed at several levels. EPOCH contracts with legal advisors and participates in periodic calls to deal with ERISA, HIPAA and TPA compliance. EPOCH is a member of the Society of Professional Benefit Administrators and stays current on regulations through newsletters and participation in the organization. EPOCH strives to stay abreast of changes before regulatory compliance dates. This includes sending out plan amendments, making internal process changes, changing plan templates, conducting HIPAA training and sending communications to clients.

Manage Performance and Capacity

Technology Services management has in place automated tools to alert on-call employees to issues with critical Technology Services systems.

Technology Services management has in place automated tools to e-mail and page employees if system parameters fall below preset intervals.

Management uses the weekly and monthly Technology Services management meetings and the Request for Tangible Asset process to evaluate and acquire infrastructure that meets performance and capacity objectives.

Monitoring

Management has defined performance indicators to assist it in meeting service level agreements that are defined in contracts with clients.

Management tracks open claims through a daily inventory report to ensure that EPOCH meets defined service levels.

Management monitors the delivery of services. There were no reported occurrences of a failure to meet the defined service levels during the testing period of May 1, 2006 through April 30, 2007.

Adequacy of Internal Control

Performance goals are monitored on an ongoing basis and reported to senior management in the monthly Director's meetings. Some performance goals are included in contracts as performance guarantees with contractual penalties, if not met. Types of claims goals that are tracked include: average answer time for claims, turn around days, call abandonment numbers and claims accuracy. Many clients have their own auditors that periodically review statistics onsite.

Independent Assurance

Review from EPOCH's parent company, vendors and consultants are obtained prior to major software upgrades. Documentation is frequently provided to auditors to meet external audit requirements.

Quality Assurance Department

There is a quality assurance department that has various audit responsibilities. These include review of a minimum of 2% of all claims received on a monthly basis to verify financial and data accuracy. Audits are done for re-pricing to verify correct amounts are used. Calls are audited for each customer service representative to verify accuracy and courtesy. Claim populations are stratified and random samples are selected from each strata to verify accuracy of claim payments on a monthly basis.

Summary

The description presented above is designed to provide the reader a brief description of the activities performed by EPOCH. EPOCH's management believes the activities are appropriate for the services provided.

EPOCH's specific control objectives and related control activities are included in Section III of this report, "Information Provided by Service Auditor," and captioned as "Provided by EPOCH." Although the specific control objectives and control activities are included in Section III, they are nonetheless an integral part of EPOCH's description of controls.

User Control Considerations

This report is restricted to services provided to users of EPOCH and, accordingly, does not extend to controls in effect at user locations. Client organization (Groups) personnel authorize, initiate and approve all transactions; therefore, they have the primary responsibility concerning the validity of information processed by EPOCH.

Objectives to be Achieved by User Organizations

It is not feasible for all of the control objectives relating to the processing of transactions to be completely achieved through EPOCH's implemented controls. While EPOCH fully achieves some objectives, procedures performed by user organizations contribute significantly to the overall achievement of control objectives. This section highlights procedures that should be considered by user organizations in order to fully achieve desired control objectives. Other control objectives may be defined by the users and must be achieved solely by the user.

User Considerations

Plan Design and Enrollment

1. Written Benefit Plan Parameters Correspond to the RIMS system

Client organizations have the responsibility to verify that their written benefit plan parameters are complete and accurate as described in the EPOCH Design completed during implementation.

2. Claims System Specifications

Client organizations are responsible for ensuring that client specific data is complete, accurate and authorized prior to submission to EPOCH.

3. Enrollment and Billing Data

Client organizations are responsible for ensuring that enrollment data is complete, accurate and authorized prior to submission to EPOCH and that rates paid for third-party administration services agree to invoices and contracts.

Claims Processing and Adjudication

4. Reconciliation of Claims Billings

Client organizations are responsible for the review of and comparison of claim billing reports generated from the RIMS system to the invoice from EPOCH to determine that claim payments generated by EPOCH reconcile to the amounts charged to the client.

Section III
Information Provided by Service Auditor

Information Provided by Service Auditor

EPOCH management provided a description of controls included in Section II of this report, “System Description Provided by The EPOCH Group, L.C. Management.” Only the key control objectives identified by EPOCH management that support control objectives have been identified in this section.

SAS 70 Overview

The SAS 70 (Statement on Auditing Standards No. 70, *Service Organizations*) is an auditing standard developed by the American Institute of Certified Public Accountants (AICPA). The SAS 70 provides guidance that allows a service organization such as EPOCH to disclose their control activities and processes to their customers (user organization) and their customers’ auditors (user auditor). The service organization employs an independent accounting and auditing firm (service auditor) to examine its control objectives and control activities. The service auditor issues a Service Auditor’s Report to the service organization at the end of the examination that includes the auditor’s opinion.

Objectives of the Examination

This report on examination of controls placed in operation is intended to provide interested parties with information sufficient to understand the basic structure of controls within EPOCH. This report, when coupled with an understanding of controls in place at user locations, is intended to permit evaluation of the total system of internal control surrounding transactions processed through the reviewed systems.

Our examination was restricted to selected services provided to system users by EPOCH and, accordingly, did not extend to controls in effect at user locations. It is each interested party’s responsibility to evaluate this information in relation to controls in place at each user location in order to assess the total system of internal control. The user and EPOCH portions of the system must be evaluated together. If effective user controls are not in place, EPOCH controls may not compensate for such weakness.

Our examination included interviews with key personnel, review of available documentation and security procedures, and observation and inspection of certain controls surrounding and provided by the EPOCH systems. Our examination was performed as of May 31, 2008, and was designed only to clarify your understanding of the information contained in the attached description. In addition, we applied tests to specific controls to obtain evidence about their effectiveness in meeting the related control objectives, described in the Control Objectives Matrices of this section, during the period from May 1, 2007 through May 31, 2008.

Auditors using this report as part of their review of a user’s system of internal controls may conclude that EPOCH’s description of controls provides a basis for reliance thereon and for restricting the extent of their substantive tests. Alternatively, user auditors may elect not to rely on controls within EPOCH’s system. In that event, they should accomplish their audit objectives by other means.

The objectives of EPOCH's controls are to provide reasonable, but not absolute, assurance about such things as:

- Protection of data files, programs and equipment against loss or destruction
- Prevention of unauthorized use of data records, programs and equipment
- Proper handling of input and output data records
- Reliable processing of data records
- Reliable processing of enrollment
- Reliable processing and payment of claims

The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and, additionally, that evaluation of internal control necessarily requires estimates and judgments by management.

Control Objective Matrices

Figure 1 – Acquire Technology Infrastructure			
Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
<p>Controls provide reasonable assurance that technology infrastructure is acquired so it provides the appropriate platforms to support business applications.</p>	<p>1) Documented procedures exist and are followed to ensure that infrastructure systems, including network devices and software are acquired based on the requirements of the business applications they are intended to support.</p>	<p>Obtained and inspected Epoch Tracking Sheet. Ascertained that Epoch does track the implementation of IT infrastructure, and that Blue Cross Blue Shield of Kansas City (BCBS) acquires and manages the EPOCH IT infrastructure. Obtained the most recent BCBS SAS70 and ascertained that BCBS appears to have adequate controls that support the EPOCH IT infrastructure.</p>	<p>No relevant exceptions noted.</p>

Figure 2 – Install and Test Application Software and Technology Infrastructure

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that the systems are appropriately tested and validated prior to being placed into production processes and associated controls operate as intended.	1) A testing strategy is developed and followed for all significant changes in applications and infrastructure technology, which addresses unit-, system-, integration- and user acceptance-level testing to help ensure that deployed systems operate as intended.	Obtained and inspected testing plans for power outages and for QicLink system upgrade during the period.	No relevant exceptions noted.
	2) Interfaces with other systems are tested to confirm that data transmissions are complete, accurate and valid.	Obtained and inspected documentation for the creation and use of a test file.	No relevant exceptions noted.

Figure 3 – Manage Facilities

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that the service organizations maintain the security and availability of its systems.	1) Access to facilities is restricted to authorized personnel and requires appropriate identification and authentication.	Obtained and inspected BCBS Kansas Facilities Access Document adopted by EPOCH. By observation and inspection, tested access to the secure areas, including the data center and the print area. Ascertained that areas with liquid assets such as check stock and data systems are secure and require that the card holder is a member of a defined group. Obtained and inspected list of current users and matched against the list of terminated employees during the attestation period. Ascertained that terminated employees have been removed from the access control system.	No relevant exceptions noted.
	2) Physical facilities are equipped with adequate environmental controls to maintain systems and data, including fire suppression, uninterrupted power service (UPS) power backup and air conditioning.	By observation and inspection, ascertained that the data center is equipped with a dry pipe fire suppression system, a UPS system and ascertained that the batteries have been maintained and replaced within the audit period. By observation and inspection, ascertained that the data center building is equipped with a generator system for emergency power and a dedicated computer room air conditioning system (CRAC).	No relevant exceptions noted.

Figure 4 – Ensure System Security

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that business systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss of data.	1) An information security policy exists and has been approved by an appropriate level of executive management.	By inquiry of the CIO, ascertained that The Epoch Group has adopted the BCBS Information Security Policy. Obtained and inspected the most recent BCBS SAS 70 and ascertained that a security policy exists and is approved by an appropriate level of management.	No relevant exceptions noted.
	2) A framework of security standards has been developed that supports the objectives of the security policy.	By inquiry of the CIO, ascertained that Epoch has adopted the BCBS Information Security Standards. Obtained and reviewed the most recent BCBS SAS 70 and ascertained that a framework of security standards exists.	No relevant exceptions noted.
	3) Procedures exist and are followed to authenticate all users of the system to support the validity of transactions.	Obtained and inspected Domain Policy Settings. Ascertained that procedures exist and are followed to authenticate all users of the system to support the validity of transactions. Obtained and inspected the Epoch Domain Policy Settings and ascertained that the settings control access to IT systems.	No relevant exceptions noted.
	4) Procedures exist and are followed to maintain the effectiveness of authentication and access mechanisms (e.g., regular password changes).	Obtained and inspected Domain Policy Settings. Ascertained that procedures exist and are followed to maintain the effectiveness of authentication and access mechanisms (e.g., regular password changes).	No relevant exceptions noted.

Figure 4 – Ensure System Security (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	5) Procedures exist and are followed to ensure timely action relating to requesting, establishing, issuing, suspending and closing user accounts.	Obtained and inspected System Security flow process, a listing of new hires and terminated employees during the attestation period and Footprint tickets requesting access. Selected a random sample of terminated and new hires and ascertained that they had been disabled in the system or had appropriate access rights.	No relevant exceptions noted.
	6) Access rights are periodically reviewed and validated using the RIMS software application.	Obtained and inspected Access rights review matrix.	Exception noted. The supplied documentation is not dated.
	7) Where network connectivity is used, appropriate controls, including firewalls, intrusion detection and vulnerability assessments, exist and are used to prevent unauthorized access.	Obtained and inspected LAN/WAN diagrams, border device configuration files and border device log files. By inquiry of the CIO, ascertained that EPOCH has adopted the network connectivity controls of BCBS. Ascertained that BCBS is now responsible for maintaining these devices for EPOCH.	No relevant exceptions noted.

Figure 4 – Ensure System Security (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	8) IT security administration logs security activity and identified security violations are reported to management.	Requested system logs of system devices during the audit period. Logs were lost unexpectedly due to a defective unit within the system. A sys log tracker is to be installed to prevent future loss.	Exception noted, we have ascertained that BCBS has assumed responsibility for maintaining network security going forward. We obtained and inspected the most recent BCBS SAS 70 report and ascertained that BCBS has controls in place to log and report to management security activity and any identified security violations.
	9) Appropriate segregation of duties over requesting and granting access to systems and data exist and are followed.	Obtained and inspected EPOCH organizational Chart, process for granting and removing access to data, and Footprint tickets requesting adding and removing access and listing of terminated and new employees. Compared a selected sample against current user list. Ascertained that appropriate segregation of duties over requesting and granting access to systems and data exist and are followed.	No relevant exceptions noted.

Figure 5 – Manage the Configuration

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that all IT components, as they relate to security, processing and availability, are well protected, would prevent any unauthorized changes and assist in the verification and recording of the current configuration.	1) Only authorized software is permitted for use by employees using Company IT assets.	Obtained and inspected EPOCH Employee handbook and ascertained that policy prohibits employees from installing unauthorized software on their systems. Observed that employees are required to acknowledge the policy by signing a form retained by human resources. Reviewed a sample of signed forms.	No relevant exceptions noted.
	2) System infrastructure, including firewalls, routers, switches, network operating systems, servers and other related devices, is properly configured to prevent unauthorized access.	Obtained and inspected LAN/WAN diagrams. Obtained and inspected border devices configuration files. Obtained border device log files. Ascertained that BCBS is now responsible for maintaining these devices for EPOCH.	No relevant exceptions noted.
	3) Application software and data storage systems are properly configured to provision access based on the individual's demonstrated need to view, add, change or delete data.	Obtained and inspected Access rights review matrix.	Exception noted. The supplied documentation is not dated.
	4) IT management has established procedures across the organization to protect information systems and technology from computer viruses.	Obtained and inspected screen images of the AV configuration. Ascertained that AV software is installed to protect information systems.	No relevant exceptions noted.

Figure 6 – Manage Problems and Incidents

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that any problems and/or incidents are properly responded to, recorded, resolved or investigated for proper resolution.	1) IT management has defined and implemented a problem management system to ensure that operational events that are not part of standard operation (incidents, problems and errors) are recorded, analyzed and resolved in a timely manner.	Obtained and inspected operational logs for the attestation period, a limited number (all available) of help desk tickets (Footprints) from within the attestation period and a listing of all tickets generated during the period. Ascertained that management has defined and implemented a problem management system to ensure that operational events that are not part of standard operation (incidents, problems and errors) are recorded, analyzed and resolved in a timely manner.	No relevant exceptions noted.
	2) The problem management system provides for adequate audit trail facilities, which allow tracing from incident to underlying cause.	Obtained and inspected a limited number (all available) of help desk tickets (Footprints) from within the attestation period, and a listing of all tickets generated during the period. Ascertained that the tickets provide an audit trail of problems and incidents from cause to resolution.	No relevant exceptions noted.

Figure 7 – Manage Data

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that data recorded, processed and reported remain complete, accurate and valid throughout the update and storage process.	1) Policies and procedures exist for the handling and distribution of data and reporting output.	Obtained and inspected Report Factory Policy and process, the tape restoration logs and Backup Jobs Definitions. Ascertained that backup is now performed primarily across the WAN to a remote site for real-time recovery and that procedures exist for the handling and distribution of data and reporting output.	No relevant exceptions noted.
	2) Management protects sensitive information, logically and physically, in storage and during transmission against unauthorized access or modification.	Obtained and inspected backup policy, backup procedure, Network diagrams, VPN logs and Report Factory process. Ascertained sensitive information is protected during storage and transport.	No relevant exceptions noted.
	3) Management has implemented a strategy for cyclical backup of data and programs.	Obtained and inspected Backup Policy 1, Backup Procedure and Tapelogs. Ascertained that a policy and procedure are in place for cyclical backup of data.	No relevant exceptions noted.
	4) Periodically the effectiveness of the restoration process and the quality of backup media is tested.	Obtained and inspected backup restoration logs. Ascertained that operational necessity requires that data is restored on an as needed basis.	No relevant exceptions noted.

Figure 8 – Manage Operations

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that authorized programs are executed as planned and deviations from scheduled processing are identified and investigated, including controls over job scheduling, processing, error monitoring and system availability.	1) System event data logs are designed to provide reasonable assurance as to the completeness and timeliness of system and data processing.	Obtained and inspected operations logs for the attestation period. Ascertained that the logs appear to provide assurance that data processing is completed in a timely manner.	No relevant exceptions noted.
	2) Management has established and documented standard procedures for IT operations, including scheduling, managing, monitoring and responding to security, availability and processing integrity events.	Obtained and inspected operations logs for the attestation period. Ascertained that process was in place to monitor, document and to respond to IT processing issues.	No relevant exceptions noted.
	3) End-user computing policies and procedures concerning security and integrity exist and are followed.	Obtained and inspected EPOCH Employee handbook. Ascertained that policy governs end user behavior and responsibilities. Obtained and inspected a sample of signed acknowledgement forms.	No relevant exceptions noted.
	4) User-developed data are regularly backed up and stored in a secured area.	We obtained and inspected backup configurations and logs. Ascertained that if user developed data is stored on the network it is backed up as part of normal backups.	Exception noted, we were unable to ascertain that users are storing their files on a drive or network share that is regularly backed up and tested.
	5) User-developed systems, such as spreadsheets and other end-user programs, are secured from unauthorized use.	Obtained and inspected Domain Policy settings and Data Matrix for user access rights review. Ascertained that the controls restrict access to users granted rights to these systems.	No relevant exceptions noted.

Figure 8 – Manage Operations

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	6) Access to user-developed data is restricted to a limited number of users.	Obtained and inspected Domain Policy settings and Data Matrix for user access rights review. Ascertained that the controls restrict access to users granted rights to these systems. Ascertained that these rights are restricted by job type and department.	No relevant exceptions noted.

Figure 9 – Electronic, Web and Manual Claims Submission Controls and Processing

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Controls provide reasonable assurance that manual, electronic and Web claims are submitted completely, accurately and only once.	1) EDI claims media is received by authorized personnel.	Through inquiry, noted that access to file transfer port files used to retrieve EDI claims information is appropriately restricted with two sets of passwords and to specified Information Systems personnel.	No relevant exceptions noted.
	2) Control totals exist for EDI claims files to show the total claims to be processed. These totals are matched against the total claims entered into the RIMS system.	Through inquiry and observation, we reviewed the EPOCH computer operations personnel monitor the process of importing EDI claims into the RIMS system.	No relevant exceptions noted.
	3) For EDI claims, claim numbers are automatically assigned by the RIMS system during claims entry.	Through inquiry and observation, noted the RIMS system automatically assigns a unique claim number to each claim during the EDI import process.	No relevant exceptions noted.
	4) Duplicate claim numbers cannot be assigned or processed within the same database by the RIMS system for EDI and paper claims.	Reviewed a claim being adjudicated a second time to verify that a duplicate claim number could not be entered into the system. Also reviewed a claim number that was created randomly and denied by the system as an invalid claim number.	No relevant exceptions noted.

Figure 9 – Electronic, Web and Manual Claims Submission Controls and Processing (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	5) Manual claims are entered by data entry clerks and automatically assigned a unique claim number by the system.	Observed manual claims being opened and scanned into the OCR system, noting the OCR system will assign a unique claim number to each claim as it is scanned into the system.	No relevant exceptions noted.
	6) Edit and validation checks are applied to EDI and manual claims information and duplicate claims are rejected by the RIMS system. The following edits are applied: <ul style="list-style-type: none"> • Member, service date and services; and • Member, provider and services. 	Submitted duplicate transactions for processing in the RIMS system and noted the claims were rejected as expected. Also submitted several claims with invalid or incomplete ICD-9 codes, noting they were rejected as designed by the system.	No relevant exceptions noted.
	7) Each claim examiner is assigned a user log-on code and a blind password. The combination of these codes (a) permits access to the claims processing screen, (b) defines the claim examiner's authority limit and (c) records the claim examiner's name on all claims processed. Claim examiners cannot use their passwords to access eligibility and provider relations modules for other than "read only" purposes.	Judgmentally selected a sample of employees to access the claims processing, using their user log-on codes and blind passwords. Also, reviewed to determine they had "read only" access to eligibility and provider relation modules.	No relevant exceptions noted.

Figure 9 – Electronic, Web and Manual Claims Submission Controls and Processing (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	<p>8) The Vice President of Operations and Director of Human Resources monitor results of Internal Audit activity and assists the trainers in the design of training activity to correct identified claim examiners' deficiencies.</p> <ul style="list-style-type: none"> • During the training process, all claim examiners are audited on a 100% basis and remain on 100% audit until their performance meets the established accuracy levels. Each claim examiner is then given an authorization limit, which may be modified based on performance results. • The supervisors or internal auditors review all claims in excess of the examiner's limit. The internal auditors perform random audits of 2% to 5% per claim examiner, based on the previous day's productivity. The internal auditors send the errors to the supervisors and they then forward the errors onto the claim examiners. The claim examiners then send their audit appeals back to their supervisor and then they are returned to the internal auditors and, if needed, corrective action is taken. 	<p>Obtained for three months copies of Quality Assurance (QA) audits performed by the QA department and reviewed results, noting the error ratio was within the 95% procedural guideline, and 99% financial guideline established by management.</p>	<p>No relevant exceptions noted.</p>

Figure 9 – Electronic, Web and Manual Claims Submission Controls and Processing (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	9) Open claims from auto adjudication are isolated in a management report and resolved by claims processors.	Observed that claims remaining in open status during the auto adjudication process are included in the open claims listing report for daily resolution by EPOCH claims processors. Observed that the claims processors work the claims from oldest to most recent and that claims are being paid within the ten-day turn-around guideline established by management.	No relevant exceptions noted.

Figure 10 – Claims Adjudication Controls and Processing

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Claims are processed completely, accurately and only once.	<p>1) Claims data submitted into the RIMS system for adjudication is subject to the following types of programmed edits/validation checks:</p> <ul style="list-style-type: none"> • Provider name/number; • Member name/number; • Procedure code; • Procedure code valid for diagnosis code; and • Patient eligibility. 	<p>Selected a random sample of 184 and a key item sample (all claims over \$200,000) of 27 claims. Each claim was reviewed for valid and complete information in the defined fields. Specific attributes tested were:</p> <p>* Data entry – i.e., date of service, proper member, correct provider, charged amount.</p> <p>* Covered ICD-9 Code – was the ICD-9 code a covered expense.</p> <p>* Eligibility – was the patient covered at the time of service.</p> <p>Submitted a series of test claims transactions into the RIMS system with invalid or incomplete information in the defined fields and noted that the transactions rejected as expected.</p>	<p>A total of 207 claims in our sample were processed correctly for a payment accuracy of 98.1043%.</p> <p>A total of 99.9934% of the dollar payments were correct after adjustments. This was measured as 100% less the sum of the over-payments plus under-payments expressed as a percentage of the total dollars paid in the sample.</p>
	2) A formula is defined to calculate coverage amounts when Coordination of Benefits (COB) is included with the claim.	Submitted test claims into the RIMS system for verification of COB edit and calculation.	No relevant exceptions noted.
	3) Member claims history is updated automatically when a claim is processed for the member.	Submitted test claims for processing and noted that the member’s claim history is automatically updated with the claim detail.	No relevant exceptions noted.

**Figure 10 – Claims Adjudication Controls
and Processing (Continued)**

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	4) Reinsurers are notified when a participant has reached 50% (based on submitted cost) of their stop-loss deductible.	Reviewed a sample of participants' stop-loss files to verify that the reinsurance carriers were notified when the participants reached 50% of their stop-loss deductible.	No relevant exceptions noted.
	5) Reimbursement from the stop-loss carriers for patients that have exceeded the stop-loss deductible is received and forwarded to the client.	Reviewed a sample of large claims for participants that exceeded the stop-loss deductible to verify that the reinsurer had reimbursed the client for amounts in excess of the deductible.	No relevant exceptions noted.

Figure 11 – Refunds and Adjustments Controls and Processing

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Claim refunds and adjustments are researched and deposited in the appropriate customer account and history files are updated to reflect the change.	1) If adjustment is performed, the original claim is retrieved from the claims history database and is updated to reflect the correct information. At this time, the system assigns a unique document control number to the adjusted claim.	Reviewed a sample of refund checks from the refund check copy to the claim system and noted the claim was adjusted for the appropriate amount.	No relevant exceptions noted.
	2) A refund log is utilized to track refund checks and ensure that adjustments are performed. In addition, appropriate segregation of duties is maintained for handling of the refund check.	Observed the accounting department procedures and noted that a refund log is maintained and appropriate personnel are performing the adjustments and handling of the refund checks.	No relevant exceptions noted.

Figure 12 – Claim Payment and Reporting

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Claim payments are processed accurately, completely and only once.	1) Check numbers are automatically assigned by the RIMS system for payment batches.	Reviewed check registers of one client, verified that check numbers were assigned by the PowerPlus system in sequential order as designed.	No relevant exceptions noted.
	2) Computer operations personnel verify the starting check numbers to ensure duplicate checks are not created.	Observed check registers that are downloaded to ABF, a third-party check producer, are sequential. The download sent to ABF is confirmed prior to check production. Selected a sample of check file downloads and compared to ABF e-mail confirmation.	No relevant exceptions noted.
	3) A claim’s status is updated during the claim finalization process. The paid date and check number, along with check amount fields, are appropriately populated with the appropriate information.	Observed that after the claim finalization process, the status of the claim is paid. The paid date, check number and check amount fields are populated in the claim file. Reviewed a sample of paid claims and noted the status was changed and the payment information was accurately populated in the claim file.	No relevant exceptions noted.
Claims payment transactions are transmitted to the external check printing vendor completely, accurately and only once.	4) Control totals are used to match the amount of payments generated during the payment processing to the amount submitted to the check-printing vendor for printing.	Observed the confirmation of control totals from ABF, a third-party check producer, to the file totals generated from the RIMS system. In addition, we selected a sample of personnel at EPOCH to verify that they do not have access to change mailing addresses in the check file submitted to the check printing vendor.	No relevant exceptions noted.

Figure 12 – Claim Payment and Reporting (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	5) Payment information is accumulated in the member and provider history files.	Submitted test claims for processing and noted that the member's claim history is automatically updated with the claim detail.	No relevant exceptions noted.

Figure 13 – Group Benefit Setup and Maintenance

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Group Benefit program information is entered for processing accurately, completely and only once.	1) Procedures for the set-up of benefit plans within the RIMS system exist and are communicated to employees.	Obtained and reviewed the Group Implementation/Renewal/Termination Plan and noted its availability to employees. Observed and inspected documented procedures for the set-up of benefit plans. Reviewed a sample of new groups being added to the system, noting that procedures are followed as documented.	No relevant exceptions noted.
	2) Benefit plans are input into the RIMS system only after an authorized request from the group is received from the Marketing Department.	Reviewed a sample of new benefit plans and noted an authorized request was received from the Marketing Department prior to inputting the plan into the RIMS system. In addition, observed and noted authorized signatures from the client were included in the plan document.	No relevant exceptions noted.
	3) An individual not responsible for entering the plan parameters conducts testing of the new benefit plan design on the claims system to ensure it agrees to the Summary Plan Description approved by the group. Test results are documented.	Reviewed a sample of new benefit plan testing documentation and reviewed for appropriateness and sign-off by the individual testing the plan.	No relevant exceptions noted.
	4) Changes made to benefit plans are based upon authorized requests from the Marketing Department.	Reviewed a sample of changes to the benefit plans made during the year and noted the request was authorized by the Marketing Department.	No relevant exceptions noted.

**Figure 13 – Group Benefit Setup and Maintenance
(Continued)**

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	5) Individuals in the Plan Building Department audit all claims for new benefit plans for a period of time prior to releasing the plan to the Claim Department.	Through inquiry, noted that individuals in the Plan Building Department conduct claim audits for all new benefit plans prior to releasing to the Claim Department.	No relevant exceptions noted.
	6) Based on a plan's benefit specifications and the enrollment specifications, the RIMS system calculates the claim coverage.	Reviewed a random sample of claims processed by EPOCH during the period, noting the claim was processed according to plan benefit and enrollment specifications.	No relevant exceptions noted.

Figure 14 – Member Enrollment Setup and Maintenance

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Member enrollment setup and maintenance is entered for processing accurately, completely and only once.	1) Procedures for the set-up of member information within the RIMS system exist and are communicated to employees.	Observed and inspected documented procedures for the set-up of member information. Through inquiry, noted procedures are distributed to personnel and updated as required.	No relevant exceptions noted.
	2) The Eligibility Department reviews enrollment for new members and changes to eligibility data entered by the Eligibility Department from a paper form.	Reviewed a sample of enrollment cards and noted the Eligibility Department reviews the forms for new members and changes to eligibility data for adherence to client specifications related to probationary periods, open enrollment and qualifying events.	No relevant exceptions noted.
	3) The Eligibility Department reviews enrollment for new members and changes to eligibility data entered electronically or through tape.	Reviewed the audit report from an employer who utilized a tape to update eligibility data; the audit reports are generated for the Eligibility Department to manually update.	No relevant exceptions noted.

Figure 14 – Member Enrollment Setup and Maintenance (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	4) Additions to eligibility file data are made on the basis of either the member form received from a group administrator, or changes submitted with their tape information.	<p>Observed and noted that additions to the eligibility file data are made on the basis of either the member form received from a group administrator or changes in their tape information.</p> <p>Reviewed a sample of members from new groups and enrollment changes into the RIMS system by the Eligibility Department and noted that the additions were initiated via an authorized new member enrollment form. Exception reports are generated from tape loads and are entered manually.</p> <p>Reviewed a sample of members from the claims test to check that eligibility was properly reflected on changes input into the RIMS system by the Eligibility Department.</p>	No relevant exceptions noted.
	5) The RIMS system contains edits to identify eligible participants, in order to process and pay claims for active members.	Submitted a test transaction with incomplete member information and noted the system edit appropriately denied payment as member was invalid.	No relevant exceptions noted.
	6) Edit and validation checks are applied to member information and duplicate member information is rejected by the RIMS system.	Reviewed an audit report for client eligibility loads. Errors are manually corrected or sent back to the client to be researched.	No relevant exceptions noted.
	7) Monthly billings are generated and mailed to groups for review of eligible members.	Reviewed a sample of group billings forwarded to group for review of all eligible members.	No relevant exceptions noted.

Figure 14 – Member Enrollment Setup and Maintenance (Continued)

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	8) Claims manager performs random audits of transactions input by the Eligibility Department.	Reviewed a sample of audit reports, noting that errors are identified and corrected either internally or through cooperation with the group client HR Department.	No relevant exceptions noted.
	9) Access to the enrollment file maintenance screens in the system is protected by a user log-on code and a blind password. The user log-on code that is assigned to the eligibility personnel is limited to the enrollment file maintenance screens.	Reviewed a sample of eligibility employees to access the provider maintenance and claim processing maintenance screens, using their user log-on codes and blind passwords.	No relevant exceptions noted.
	10) Access to enrollment file maintenance screens is denied by user log-on code limitation to those who have access to the claim processing and provider maintenance portions of the system.	Judgmentally selected a sample of claim processing and provider maintenance employees to access the eligibility file maintenance screens, using their user log-on codes and blind passwords.	No relevant exceptions noted.
	11) As clients report terminations, this information is entered into the system and COBRA enrollment material and instructions are mailed (if that service has been elected). If COBRA enrollment material is returned, the COBRA participant data is entered into the system and premium statements are mailed on a monthly basis. If enrollment material or premium is not received, the participant is terminated from coverage.	Observation and testing of the COBRA system, noted that system notes regarding first notice date cannot be deleted or changed. Confirmed through observation that COBRA checks are secured in a locked cabinet prior to deposit or mailed to the client.	No relevant exceptions noted.

**Figure 14 – Member Enrollment Setup and Maintenance
(Continued)**

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	12) Client employees must fill out an enrollment form to accept flexible spending account.	Reviewed enrollment forms to verify that the client employees are required to fill out the flex enrollment forms.	No relevant exceptions noted.
	13) Flexible spending account claims must have appropriate back-up.	Reviewed a sample of paper flex claims for evidence that flex claims submitted have either an itemized bill or paper receipt for reimbursement.	No relevant exceptions noted.

Figure 15 – Group Billing Setup and Maintenance

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Group billing information is entered for processing accurately, completely and only once.	1) Changes to billing rates are made based on an authorized request from the Marketing Department.	Reviewed a sample of contracts from EPOCH’s client listing. Verified contracts for appropriate signatures and that the appropriate administrative fees were billed.	No relevant exceptions noted.
	2) The stop-loss premiums are accurately paid to the carrier and in a timely manner.	Reviewed a sample of stop-loss premiums from EPOCH’s client listing and traced copy of client’s check or wire transfer to EPOCH’s Billing Summary spreadsheet. Traced the total from the spreadsheet to copy of EPOCH’s check that was sent to the reinsurance company.	No relevant exceptions noted.

Figure 16 – Provider Setup and Change Management

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Provider Profiles are set up correctly and updated for changes accurately, completely and only once.	1) Procedures for the set-up of providers within the RIMS system are documented, distributed and updated regularly.	Sampled the set-up of new providers into the RIMS system, noting that most providers are updated from network providers on a weekly basis file download.	No relevant exceptions noted.
	2) Out-of-network providers are added to the provider file. A W-9 is requested for any tax ID that is not already in the provider file.	Discussed with appropriate personnel that if W-9s are not received from the new provider within 90 days, the policy is to process the claims for the new provider for the 90 days. If a W-9 is not received after 90 days, all new claims are to be denied until a W-9 is received. Reviewed a sample of claims payments to verify they were denied if the provider is not a Preferred Provider Organization (PPO) and failed to return a completed W-9 after 90 days.	No relevant exceptions noted.
	3) Access to the provider file maintenance screens in the system is protected by a user log-on code and a blind password. The user log-on code that is assigned to the Provider Maintenance personnel limits access to the provider maintenance screens.	Reviewed a sample of employees to access the eligibility maintenance and claim processing maintenance screens, using their user log-on codes and blind passwords.	No relevant exceptions noted.
	4) Access to provider file maintenance screens is denied by user log-on code limitation to those who have access to the claim processing and eligibility maintenance portions of the system.	Judgmentally selected a sample of employees to access the provider file maintenance screens, using their user log-on codes and blind passwords.	No relevant exceptions noted.

**Figure 16 – Provider Setup and Change Management
(Continued)**

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
	5) Internal audit conducts random testing of the data entry for provider maintenance employees.	Reviewed with internal audit and verified the results of Quality Assurance audits of the monthly reports for a sample of months.	No relevant exceptions noted.
	6) The provider name edit and validation check is applied to changes made to providers and related information.	Submitted a test transaction with incomplete provider information and noted the system edit required provider information be entered completely.	No relevant exceptions noted.

Figure 17 – Provider Fee Schedule Tables Setup and Change Management

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Provider Fee Schedule Tables are set up correctly and updated for changes accurately, completely and only once.	1) Procedures for the loading of fee schedules received from the PPO are documented, distributed and updated regularly.	Observed and inspected documented procedures for the loading of fee schedules. Through inquiry, noted that procedures are distributed to personnel and updated as required.	No relevant exceptions noted.
	2) Claims are calculated using the appropriate PPO fees.	Reviewed a sample of claims to confirm repricing was accurate.	No relevant exceptions noted.

Figure 18 – Current Procedural Terminology Codes Setup and Maintenance

Provided by EPOCH		Provided by BKD	
Control Objective	Control Activity	Testing Procedures	Results
Current Procedural Terminology Codes are set up correctly and updated for changes accurately, completely and only once.	1) EPOCH uses the Current Procedural Terminology (CPT) codes as developed and maintained by the American Medical Association (AMA) and each code is assigned a unique procedure code.	Through inquiry and observation, noted documented procedures for the set-up of CPT codes.	No relevant exceptions noted.
	2) IT makes all procedural terminology modifications, including additions for new codes, changes to existing codes and deletions as revisions from the AMA require.	Selected a sample of CPT codes to verify that the update was performed accurately and reviewed by the Audit Department.	No relevant exceptions noted.

Section IV
Other Information Provided by
The EPOCH Group, L.C. Management

Other Information Provided by The EPOCH Group, L.C. Management

Business Continuation Planning

EPOCH has developed a disaster recovery plan to allow for the restoration of the technical environment at EPOCH. This plan has been in place for several years and was being updated during the first 2008 fiscal year. The updated plan is to include a local disaster recovery facility and any additional business requirements that have come about since the original plan was developed. A copy of the Disaster Recovery Plan will be maintained at the off-site tape storage facility and the local disaster recovery facility. The disaster recovery plan will contain information needed for recovery, including contact names and numbers, equipment listings and classification of types of disasters with appropriate actions for each. Testing of this plan will be scheduled to occur once each year.

Section V
Glossary

Term	Definition
ASC	Administrative Service Contracts – arrangement in which employers utilize SC as a processing service manager. These employers ask that SC receive and process their employees’ claims and they will reimburse EPOCH for the agreed upon administrative fee.
CPT Code	Current Procedure Terminology codes used to identify the type of procedure performed.
COB	Coordination of Benefits – a process of accounting for claims in which a member is covered by more than one insurance provider or benefit plan.
Employer	Company that has signed an agreement with EPOCH to establish medical claim processing for their employees.
Employer Fee Schedule	Employer fee schedules are a listing of fees established by the employer that they are willing to pay for services provided.
EDI	Electronic Data Interchange – the electronic communication of business transactions, such as orders, confirmations and invoices between organizations.
Fund	Defined at the carrier level, this record designates the bank account information to be used for the claim payments.
Mass Adjudication	Process of validating claim information and determining appropriate amount to pay for a specific procedure and/or claim, based on information about the member, benefit plan, provider and procedure code.
Member	Individual who is signed up to use EPOCH as the medical claim administrator.
Member Restriction	A record that is attached to a member which will cause claims to pend for a specific review. Restriction types currently include COB, Qualified Medical Support Orders and outstanding refund due from Member.
Participating Provider	Doctor who has signed an agreement with various Preferred Provider Organizations to provide services at contracted rates.
Pend	A transaction that is “on hold” due to one or more failed edit/validation checks. Must be resolved by EPOCH personnel.
Provider	Any doctor that provides services to a Member.
Provider Fee Schedule	Provider schedules reflect pricing that is determined by the individual provider.
RIMS	Software used by EPOCH for adjudication of claims and all services related to the processing of claims.