

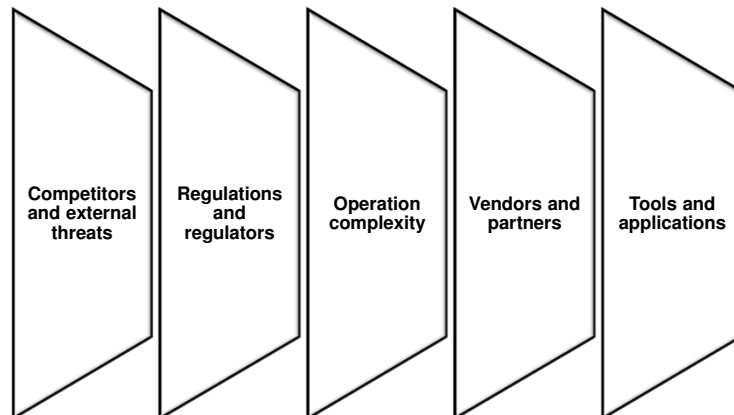
Audit Readiness and Internal Control, Post Reform

February 2015

Blue Cross Blue Shield of Michigan and Blue Care Network are nonprofit corporations and independent licensees of the Blue Cross and Blue Shield Association.

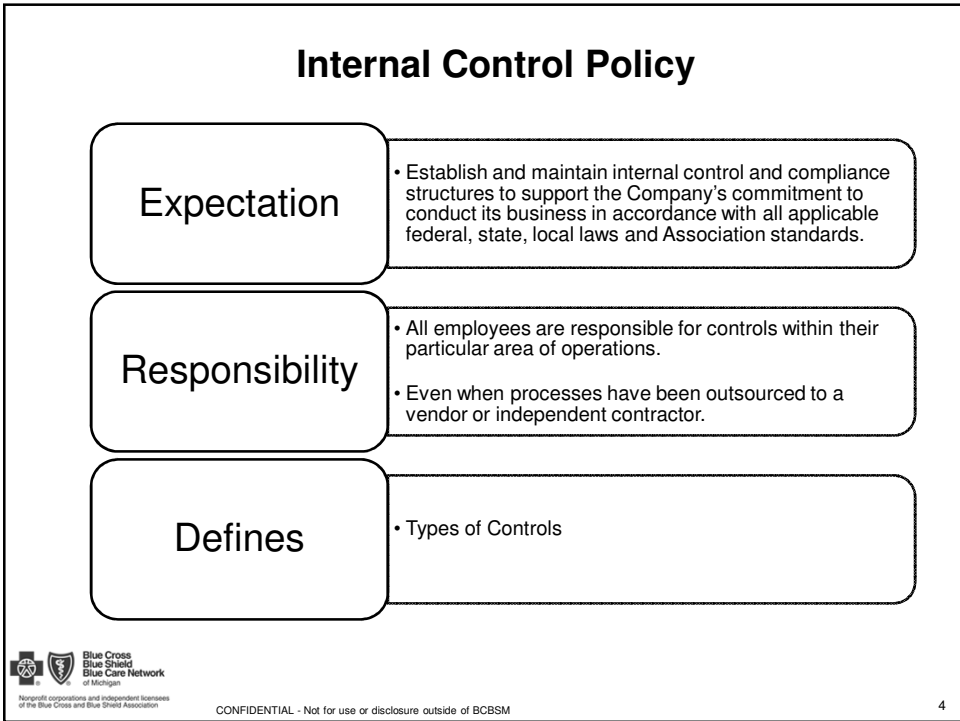
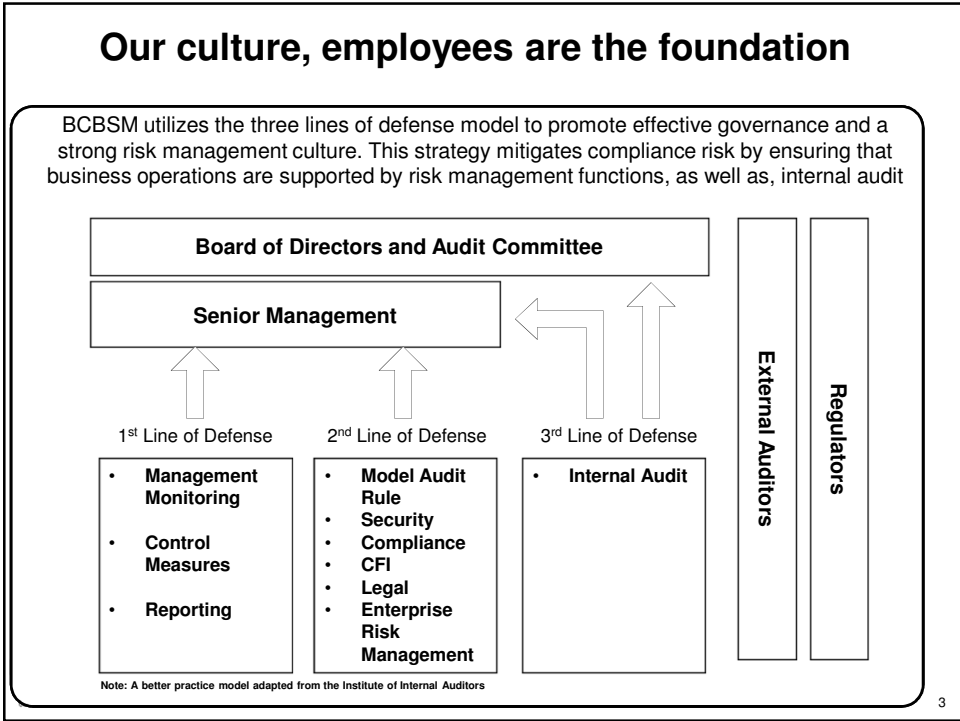
Risk and control is a part of everyday work

Risk is the possibility that an event will occur that impacts our ability to achieve our objectives, goals, end results or other desired outcomes.



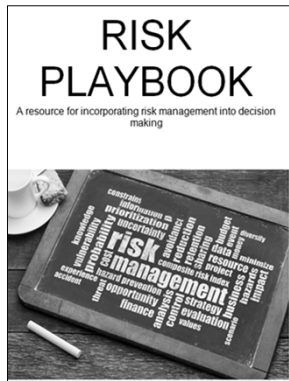
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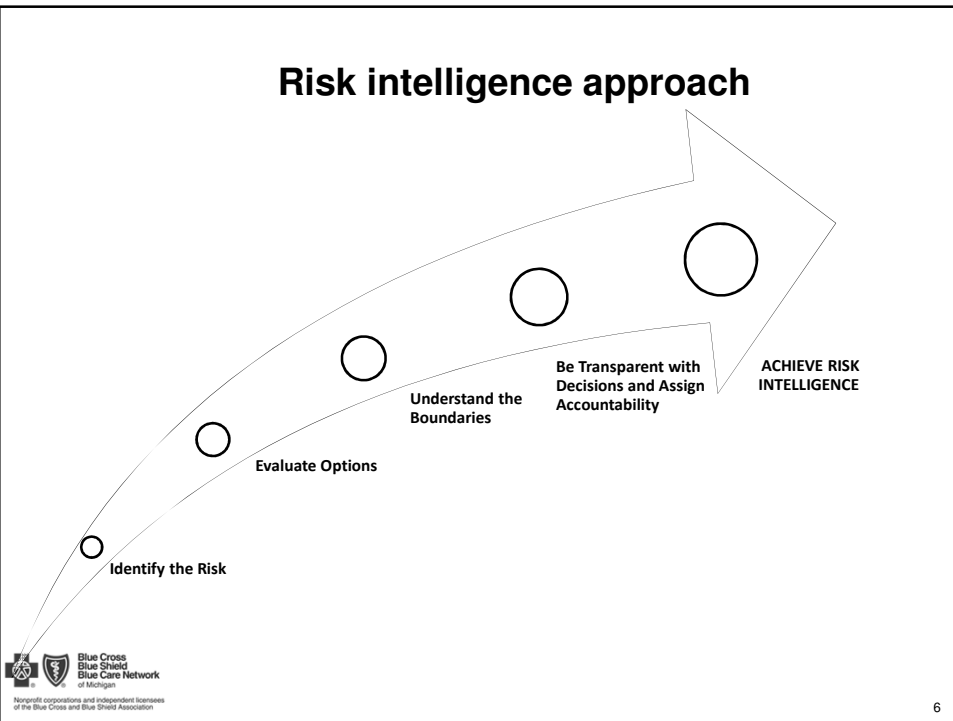
Risk Playbook

- ✓ Provide a resource to help employees consider risk in their decisions
- ✓ Imbed in Decision Making training and align with empowerment, ORSA, and the post reform "New Normal"



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Risk intelligence approach

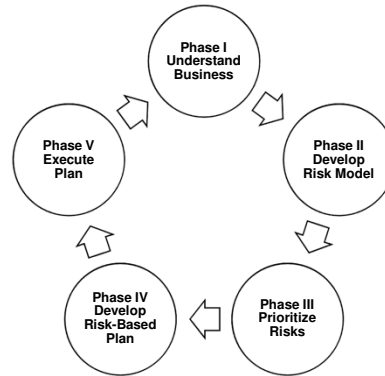


Executive survey responses and regulatory requirements are a major source of input for the annual plan

Audit and Compliance:

- Surveyed Vice Presidents and select non-executives
- Conducted 39 executive interviews and facilitated sessions
- Surveyed 300 employees from across the organization
- Analyzed input from regulatory agencies
- Evaluated prior audit findings and industry trends
- Received input from Audit Committee members
- Evaluated Centers for Medicare & Medicaid Services communications from the Office of Inspector General Report
- Evaluated regulatory and government guidelines

The annual risk assessment consists of a five-phase approach, as shown below:



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Our teams engaged in coordinated projects for efficiency with the business

NHRC National Healthcare Reform Compliance	CAAS Corporate Audit and Advisory Services (Internal Audit)	ITAAS IT Audit & Advisory Services	MAR Model Audit Rule
<ul style="list-style-type: none"> • Supports compliance related to the Affordable Care Act and Michigan Insurance Code • Supports the enterprise by providing objective compliance oversight • Performs compliance assessment, monitoring reviews and project advisory. 	<ul style="list-style-type: none"> • Performs operational audits and advisory services by examining risks and controls associated with all aspects of the business • Supports business initiative by performing special management requests including a mix of compliance, process, and focused audits. 	<ul style="list-style-type: none"> • Conducts audits to provide reasonable assurance the IT control structure is suitably designed and effectively implemented. • Provide consultative service to through risk assessments and lessons learned. • Conducts continuous auditing using Computer Assisted Audits 	<ul style="list-style-type: none"> • Provides support to the CEO and CFO to enable them to sign an accurate attestation letter as required under the Michigan Model Audit Rule law. • Evaluates and monitors the overall internal controls structure over financial reporting that prevents or detects material misstatements in the BCBSM statutory financial statements and filings





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We deliver a variety of services that focus on operational, IT, financial, compliance and regulatory audit readiness

Advisory Projects

-  Audit Readiness for Regulatory Reviews
 - Process Flows and Narratives
 - Self-Monitoring Tools
 - CMS Audit Coordination
-  Pre-implementation Advisory
 - Management Requests
 - Special Projects


Assessments and Monitoring Reviews

-  Compliance Assessments and Monitoring Reviews
 - Review of documentation for compliance
 - Testing for compliant transactions (benefits, products and claims)


Risk Assessments

-  Project Management Assessment
 - Governance and Strategy
 - Project Delivery
 - Vendor Management
-  Project (Business) Risk Assessment
 - IT General and Application Controls
 - Operational controls (Financial, Claims, Compliance, etc.)

Operational and IT Audits

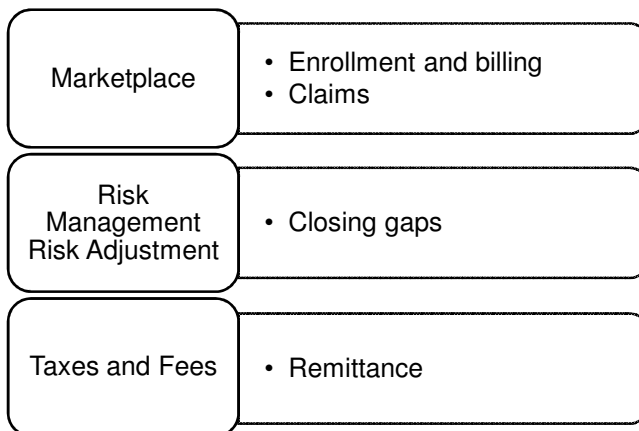
-  Operational and IT Control Reviews
 - Applications
 - Databases
 - IT Security
 - IT Operations
 - Actuarial, Finance, Fraud and Claims
 - Medicare and Medicaid
 - Vendor Management

Continuous Auditing

-  Automated Transaction Assessments
 - Computer Assisted Audit Tools test benefits, claims, user access, etc



Example coordinated projects



Types of projects – Marketplace advisory example

Marketplace Process Design Reviews

- Identify a lead for the project
- Communicate objectives at kick-off
- Identify where key controls should be
- Prioritize
- Recommend controls

Audit Readiness:

1. Policies and procedures
2. Communications for hand-offs across departments
3. Reconciliations/balancing
4. Reporting

Key success factors, common risk and issue language

Impact	Color	Summary Definition
Critical	Red	An issue, or combination of issues, that has or may result in material impact to the organization. Examples include loss of sensitive information requiring widespread public breach reporting activities or failure to meet corporate goals or strategies.
High	Orange	An issue, or combination of issues, that may or has resulted in a significant impact to the organization. Examples include significant financial impact or beneficiary or reputational harm affecting a significant population of individuals.
Medium	Yellow	An issue, or combination of issues, that may or has resulted in moderate obstacles to compliance with required laws and regulations. This level of issue can also represent more control concerns or process improvements recommendations.
Low	Green	An issue that represents a control concern or a process improvement opportunity that are minor in nature. No significant beneficiary or financial impact but requires monitoring.
Insignificant	White	An issue that has little or no impact on the current environment, but requires monitoring, tracking or consideration in future risk or control assessments.

Key success factors, common reporting and escalation

Risk Severity	Decision Makers	Informed/Consulted
Critical	Senior Leadership and/or Executive Oversight Committees	Enterprise Risk Management CEO and/or Board
High	VPs from impacted areas	Executive Oversight Committees
Medium	Directors	VPs of impacted areas
Low	Managers, Team Leads	Directors of impacted areas



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Key success factors, common taxonomy









Category	Sub Categories		
Strategic	Competition Change Management Strategy and Innovation Organizational Structure and Governance	Policies, and Procedures and Internal Controls Mergers and Acquisitions Brand Management and Reputation Market Intelligence	Strategic Relationship Internal Interdependency Execution Planning
Operational	Healthcare Reform Provider Value Vendor Management Provider Network Relations Resource Capacity	Business Interruption Customer Distribution Business Performance Management Knowledge and Intellectual Capital	Facility Management and Physical Security Government Business Core Business Functions
Legal and Regulatory	Compliance Contract Compliance Legal	Regulatory Accreditation Privacy	Illegal Acts Unauthorized Use Management and Employee Fraud
Human Performance	Decision Making Leadership	Performance Management Communications	Culture
Information Technology	Process, Technology Design and Execution Data Integrity, Availability and Confidentiality	Technology Reliability and Recovery Technology Infrastructure and Architecture	IT Security IT Governance
Financial	Credit and Liquidity Equity Investment Portfolio Subsidiary Performance Post Employment Benefit	Obligations Administrative Efficiency Capital and Surplus Capital Planning Budgeting and Financial Planning	Accounting and Tax Information External Reporting and Disclosure Credit Rating Downgrade
Reserving, Pricing & Underwriting	Adverse Selection Price Revenue Price Revenue – Adverse Trend	Rate Adequacy Risk and Product Management	Benefit Cost Management Business and Product Portfolio
External	Inflation Economy	Catastrophe	Political



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Common tools – MetricStream

Key capabilities

-  Built-in enterprise work flow
-  Centralized framework for storing, organizing, and classifying key documents
-  Provides an integrated approach to managing compliance requirements
-  Enables control sharing to limit touch points in the business
-  Provides a single system to record to manage, track, and remediate all issues
-  Dashboards provide enterprise-wide visibility into the issue management process
-  Centralized repository to organize, manage, store, change regulatory content
-  Enables monitoring of supplier performance on scorecards to proactively identify and implement timely corrective actions



Deliverables from coordinated projects

- Internally - Shared controls matrix that shows the following:
 - Category (operational, compliance or financial)
 - Criteria (e.g. regulatory requirements)
 - Confirmed Control Gaps
 - Remediation Recommendations
 - Risk Ranking
 - Business Action Plan and Estimated Completion Date

Appendix A – Draft Observation matrix depicting critical and high risk issues and controls impacting Individual Marketplace Process Flows

Item	Process	Health Risk	Criteria	Condition	Business Processes	Business Owner	Risk Level	Status
1	IRA	Compliance / Fin.	45 CFR 155.210 - QIP rules and benefit information. An enterprise requirement: A QIP issuer must set rules for an entire benefit year on the QIP plan year (QIP) justification. A QIP issuer must include the Evidence a justification for a rate increase prior to the implementation of the increase. A QIP issuer must prominently state the justification on its web site.	Affected documentation of the processes used to develop rates and loading those rates into MTV was not available for review.	Rate development report components in MTV to the rates coming across in the regional QIP development interface. An variance is within 0.01 and the rate discrepancy report and a monthly review. Rates are loaded through the process for any benefits and single.		Critical	Open Documentation of a process to complete the rates needed on the exchange to ensure the plan in agreement with the rates in MTV has not been provided.
2	3	FCI Op	GDSP operations	This tool has not yet been set up and running by Day 1 (1/1/14) and there is no documented contingency plan.	The QIP tool vendor implementation has been selected. QIP is currently functioning and an impact analysis is being completed to support the QIP tool, and has not been completed as a substitute for the implementation of a the process. An alternative manual process is currently in place for monitoring the QIP tool when QIP tool. The process will continue to be modified as QIP provides additional data.		High	Open



Deliverables

Externally, customer facing examples, final reports

- Process flows showing control points
- Final summary reports
- Narratives



Summary of Key Controls and Recommendations
The key control themes and recommendations give the business insight on opportunities for improvement. Below is a high-level summary of the key controls and recommendations. Further detail can be found in Observation Matrix (Appendix A).

Control Theme	Recommendations
Completeness and Accuracy	<ul style="list-style-type: none"> Review and update the list of active policies to ensure it is current and accurate. Review and update the list of active policies to ensure it is current and accurate.
Documentation	<ul style="list-style-type: none"> Review and update the list of active policies to ensure it is current and accurate. Review and update the list of active policies to ensure it is current and accurate.
Identify and Remediate	<ul style="list-style-type: none"> Review and update the list of active policies to ensure it is current and accurate. Review and update the list of active policies to ensure it is current and accurate.
Review and Approval	<ul style="list-style-type: none"> Review and update the list of active policies to ensure it is current and accurate. Review and update the list of active policies to ensure it is current and accurate.
Reconciliation	<ul style="list-style-type: none"> Review and update the list of active policies to ensure it is current and accurate. Review and update the list of active policies to ensure it is current and accurate.

Organization	Blue Cross Blue Shield of Michigan (BCBSM)		
Process	Distribution of Summary of Benefits and Coverage - Account Services & Benefit Administration		
Process Owner(s)	Account Services & Benefit Administration - Carol Donovan		
Compliance Issue(s)			
Applications	<p>The supporting applications are:</p> <ul style="list-style-type: none"> GENESSEE: Online tool for health insurance coverage used to provide benefit plan details during application/enrollment. INSURE Customer Service (INSURECS): Used by Customer Service Representatives to capture/store member information and to document interactions with members. TRACKER AND REPORTING TOOL: Application used to track and report SBCs provided through the SBC Factory. SBC Factory (SBCFACT): Back end application used to support production of SBCs. SBCS Edge: Desktop application primarily used for testing, but with capability to produce SBCs. Sumitomo: Quoting tool for large groups, also capable of producing SBCs. SMART: Quoting tool used for large groups, also capable of producing SBCs. 		
Prepared by	Reviewed by		
Effective date	1/1/2014	Last Review Date	12/28/2013

Table A: Applicable PPACA Requirements

Section 1001 of the Patient Protection and Affordable Care Act ("PPACA") introduces Section 2713 of the Public Health Service Act ("PHS Act"), which provides guidelines on the development and utilization of a uniform explanation of coverage documents and standard definitions (i.e. Summary of Benefits and Coverage, or "SBC"). This document is subject to specific standards requirements on:

- Delivery** - Delivery must be provided upon specific triggering events (application, enrollment, renewal, upon request, and material modifications to plans/benefits) within specific timeframe parameters, as shown in the following table:

SBC Delivery Requirements	
Triggering Event	Timeframe Parameters
Application	No later than 1 business day before the start of application
Renewal	No later than 30 days prior to the start of the policy year



Lessons learned

When partnering up on coordinated compliance projects:

1. Set clear project goals and objectives and gain business buy-in
2. Set frequent communications internally and with the stakeholder
3. Build team environment
4. Develop Coordinated Project Guidelines, tactical
5. Work direct with business, but interview PMO for advisory projects
6. Agree early on report type and audience
7. Appoint a lead for administration
8. Agree on document storage

