

CORE ADMINISTRATIVE SERVICES, INC.

**REPORT ON THE POLICIES AND
PROCEDURES PLACED IN OPERATION AND
TESTS OF OPERATING EFFECTIVENESS**

**FOR THE PERIOD
JANUARY 1, 2010 THROUGH DECEMBER 31, 2010**

PRESENTED BY

**WOLCOTT & ASSOCIATES, INC.
12120 STATE LINE ROAD, SUITE 297
LEAWOOD, KANSAS 66209**

Table of Contents

	Page
Section I - Independent Service Auditors' Report Provided by Wolcott & Associates, Inc.	
Section II - Supplemental Information Provided by Wolcott & Associates, Inc.	
Objectives of the Examination	1
Test of Operating Effectiveness	1
User Control Considerations	2
Section III - Control Objectives, Description of Controls, Test of Operating Effectiveness and Results of Testing	
Organization and Administration	3
Computer Operations	6
Physical Security and Environmental Controls	9
Provider File Maintenance	11
Enrollment File Maintenance and Client Set-up	13
Claim Processing	16
Process of Fees and Claim Payments	21
Check Reconciliation and Report Preparation	24
Section IV - Description of Claim Administration Services by Core Administrative Services, Inc.	
Overview	26
Section V - Other Information Provided by Core Administrative Services, Inc.	
Disaster Recovery Plan	36

Section I
Independent Service Auditors' Report Provided by
Wolcott & Associates, Inc.

INDEPENDENT SERVICE AUDITORS' REPORT

March 17, 2011

Mr. Tom Wagoner
President
Core Administrative Services, Inc.
P.O. Box 90
Macon, Georgia 31202-0090

Dear Mr. Wagoner:

We have examined the accompanying description of the self-funded welfare benefit plan administrative services provided by Core Administrative Services, Inc. (Core).

Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Core's policies and procedures that may be relevant to a user organization's internal control structure, (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily, and (3) such policies and procedures had been placed in operation as of January 1, 2010.

The control objectives were specified by Core. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included Statement on Auditing Standards (SAS 70), "*Reports on the Processing of Transactions by Service Organizations*," and 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 aforementioned application presents fairly, in all material respects, the relevant aspects of Core's policies and procedures that had been placed in operation as of January 1, 2010. Also, in our opinion, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described policies and procedures were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific policies and procedures, listed in Section III attached to this letter, to obtain evidence about their effectiveness in meeting the control objectives during the period from January 1, 2010 to December 31, 2010. The specific policies and procedures and the nature, timing, extent, and results of the tests are listed in Section III.

This information may now be provided to user organizations of Core and to their auditors to be taken into consideration, along with information about the internal control structure at user organizations, when making assessments of control risk for user organizations.

Mr. Tom Wagoner
President
Core Administrative Services, Inc.
Page 2

In our opinion the policies and procedures that were tested, as described in Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from January 1, 2010 to December 31, 2010. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section III were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section III.

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

The description of policies and procedures at Core is as of January 1, 2010, and information about tests of the operating effectiveness of specified policies and procedures covers the period from January 1, 2010 to December 31, 2010. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence.

The potential effectiveness of specified policies and procedures at Core is subject to inherent limitations and, accordingly, errors or irregularities 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 conditions.

This report is intended solely for use by the management of Core, its clients, and the independent auditors of its clients.

Yours truly,

Wolcott & Associates, Inc.

Section II

Supplemental Information Provided by Wolcott & Associates, Inc.

OBJECTIVES OF THE EXAMINATION

The report on policies and procedures placed in operation and test of operating effectiveness is intended to provide interested parties with information necessary to obtain an understanding of those aspects of Core's internal control policies and procedures that may be relevant to a user organization's internal controls. This report, when coupled with an understanding of the internal control policies and procedures in place at user organizations, is intended to assist in the assessment of the total internal controls surrounding Core.

Our examination was restricted to selected services provided to users of the aforementioned facility of Core and, accordingly, did not extend to procedures in effect at user organizations. The examination was conducted in accordance with Statement on Auditing Standards ("SAS") No. 70, *"Reports on the Processing of Transactions of Service Organizations,"* of the American Institute of Certified Public Accountants. It is each interested party's responsibility to evaluate this information in relation to internal control policies and procedures in place at user organizations to obtain an understanding of the internal control policy and procedures and to assess control risk. The user's and Core's portions of the controls must be evaluated together. If effective user organization internal control policies and procedures are not in place, Core internal control policies and procedures may not compensate for such weakness.

Our examination included inquiry of appropriate management, supervisory and staff personnel; inspection of documents and records; observation of activities and operations and test of controls surrounding and provided by Core. Our test of controls were performed for the period from January 1, 2010 to December 31, 2010.

The description of policies and procedures and control objectives is the responsibility of Core's management. Our responsibility is to express an opinion that the policies and procedures are operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives, specified by Core's management, were achieved during the period from January 1, 2010 to December 31, 2010.

TEST OF OPERATION EFFECTIVENESS

An organization's internal controls consist of the control environment, accounting systems and control procedures. Following is a description of the control procedures, test procedures, test results and conclusion for each control objective specified by Core. In addition, any client control considerations identified are also provided for the control objectives.

USER CONTROL CONSIDERATIONS

Core Administrative Services, Inc.'s applications were designed with the assumption that certain controls would be implemented by user organizations. In certain situations, the application of specific controls at user organizations is necessary to achieve certain control objectives included in this report.

This section describes other internal control structure policies and procedures that should be in operation at user organizations to complement the control structure policies and procedures at Core Administrative Services, Inc. User auditors should consider whether the following policies and procedures have been placed in operation at user organizations:

- Policies and procedures to ensure that changes to processing options are appropriately authorized, implemented and approved.
- Policies and procedures to ensure transactions are appropriately authorized, complete and accurate.
- Policies and procedures to ensure that erroneous input data are corrected and resubmitted.
- Policies and procedures to ensure that output reports are reviewed by appropriate users for completeness and accuracy.
- Policies and procedures to ensure that output received from Core Administrative Services, Inc. are routinely reconciled to relevant control totals.

The list of user organization control considerations presented above is not a comprehensive list of all internal control structure policies and procedures that should be employed by user organizations. Other internal control structure policies and procedures may be required at user organizations.

Section III

Control Objectives, Control Descriptions, Test of Operating Results of Testing

ORGANIZATION AND ADMINISTRATION

Control Objectives

The organizational control policies and procedures are designed to assure:

- Adequate supervision of personnel and adherence to control procedures.
- Separation of related duties.
- Employee performance is monitored and appropriate corrective action taken.
- Employees are well informed regarding the industry and their position responsibilities.

Control Procedures

Control procedures employed by Core include:

- Supervisory positions and approval levels exist within the operational component of Core to provide adequate supervisory control of operations.
- Duties relating to computer operations, check authorization, check issuance and account reconciliation are adequately segregated.
- Employment applications are reviewed, references are checked and interviews are held with employment candidates to assure that they are qualified to perform the positions' duties.
- Each employee's performance is monitored on an on-going basis, remedial action is taken when appropriate. Each employee is also given an annual performance appraisal by an immediate supervisor.
- Employees participate in company and department education programs. Where appropriate, employees attend industry training programs to remain current in the industry.
- Core currently uses the Eldorado (ECI) software program. Core continually reviews and updates, as needed, both software and hardware to maintain high quality client service.
- Employees, log on codes and passwords are deactivated upon termination.
- When hired, the employee signs that they had received the employee's handbook and this signed form becomes a permanent record in their personnel file.
- When hired, the employee signs a form stating that they have received a copy of the employee handbook and this signed form becomes a permanent record in their personnel file.

- New applicants are required to complete an employment application form in order to be eligible for employment.

Test Procedures

The following tests of organizational policies and procedures were performed:

- Reviewed the organization charts and management's supervisory procedures.
- Reviewed the employee's confidentiality signoff sheet and the employee handbook signoff sheet located in the employee's personnel file.
- Evaluated separation of duties through observation, and inquiries of management and employees.
- Evaluated personnel procedures and practices to assure that recruiting, training and retention activities are consistently performed.
- Through inquiries with management and reviewed personnel files to confirmed that reference checks and criminal background checks are performed on new employees.
- Reviewed training procedures through inquiries with appropriate personnel.
- Evaluated the information systems' plans for consistency with corporate objectives through inquiries of information systems' staff and testing of the system through observation.
- Tested the activity status of a sample of terminated employees' log on codes and passwords.
- Determined whether there is adequate segregation of duties between software, modification request, approval, development and production implementation.
- Reviewed HIPAA training documentation to verify employees have received their required HIPAA training.
- Reviewed a sample of personnel files to verify that new employees had a criminal background check.
- Reviewed a sample of personnel files to verify the existence of an employee signed form for the receipt of an employee handbook.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

COMPUTER OPERATIONS

Control Objectives

Computer operations control policies and procedures assure:

- Adequate adherence to control procedures.
- Reasonable assurance the operating system and software program development and maintenance is properly authorized, tested and approved prior to implementation.
- Appropriate offsite backup storage.

Control Procedures

Control procedures employed by Core include:

- Operational procedures are kept current by the operations staff.
- There is an audit trail feature on the system and is reviewed on a periodic basis.
- Application program development and testing is performed on the system that is separate from production.
- Changes to the system software are tested in a test environment before they are released for use on client transactions.
- The software package has an automatic logoff feature.
- Procedures are reviewed and periodically updated as needed.
- Formal backup procedures have been developed and implemented to assure backup of information is properly maintained, protected and kept current.
- Passwords are changed every 42 days for access to system applications.
- Copies of programs and backup materials are stored off-site server and a disaster recovery plan is in place.
- Internet firewalls and Secure Socket Layer (SSL) settings are configured to protect internal network and to encrypt transmissions across the Internet.

Test Procedures

The following tests of computer operation controls were performed:

- Evaluated operations procedures and obtained assurance that control practices are consistently performed.
- Discussed with appropriate personnel the policies and procedures for implementing changes to current and new system software.
- Reviewed the database where the participant's web site passwords are stored to verify that participant passwords are encrypted.
- Reviewed the backup procedures and obtained assurance that critical information is properly maintained, protected and kept current on an off-site server.
- Discussed with appropriate personnel to verify that changes in the system's configuration are approved before changes are released into production.
- Discussed with appropriate personnel and obtained assurance that the programmer does not have access to the production portion of the system.
- Scanned the online Windows 2003 settings for evidence users are given a unique ID.
- Discussed with appropriate personnel that programmers do not have access to the payment file.
- Observed Core's web site, noting SSL technology is used and is forced.
- Discussed with personnel and reviewed system edits to verify the system has an audit trail and that it is reviewed on a periodic basis.
- Reviewed access of users to special privileged commands for appropriateness.
- Reviewed the use of anti-virus software.
- Reviewed e-mail scanning process to verify that employee's e-mails and attachments are scanned for viruses.
- Through discussion with appropriate personnel and reviewed system setup, verified that the following password controls have been appropriately configured:
 - Passwords are encrypted when stored,
 - Passwords are user maintainable,

- Passwords are revoked after five invalid attempts,
 - Passwords are not displayed on the system screens,
 - Passwords expire after 42 days and
 - Password length is minimum of 7 alphanumeric characters.
- Reviewed the automatic logoff feature, ensuring that the logoff time is reasonable.
- Reviewed backup logs to verify backup procedures are being performed.
- Reviewed the disaster recovery plan.
- Discussed with appropriate personnel and reviewed a sample of system logs to verify that violation reports are reviewed on a periodic basis and to verify that the firewall is operating appropriately.
- Discussed with personnel that changes to the firewall and router rules are appropriate.
- Discussed with appropriate personnel to verify that employee's can not load unapproved software programs.
- Reviewed server patch listing to verify servers have been updated.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

PHYSICAL SECURITY AND ENVIRONMENTAL CONTROL

Control Objectives

Physical security and environmental control's policies and procedures assure:

- Controlled access to the corporate offices.
- Employee safety and the protection of Core resources.
- Reasonable assurance that physical access to the processing center and operation of the computer and related processing equipment is limited to authorized personnel.

Control Procedures

Control procedures employed by Core include:

- Physical access to the building is monitored and controlled by a receptionist or number key pad locks during normal business hours. After normal business hours, doors to sensitive areas within the building are locked and are protected by an alarm system.
- Core's offices are protected by fire extinguishers and fire sensors.
- The check printer is secured.
- The computer room is kept locked and only authorized personnel are issued the key.

Test Procedures

The following tests of physical and environmental controls were performed:

- Reviewed the security control policies and procedures and obtained assurance that access to Core's resources are appropriately restricted.
- Observed the check printer cartridge is kept locked when not in use.
- Reviewed the environmental protection controls to assure that they are tested and maintained.
- Confirmed the existence of fire extinguishers and fire sensors through observation.
- Confirmed through observation that the computer room access was limited to only authorized personnel.

- Reviewed selected individuals with access to the computer room and determined whether access was appropriate based on the individual's job responsibilities.
- Observed that the computer room has separate air conditioning system.
- The uninterruptible power supply is on a self testing basis.
- Observed the key pad system in use.
- Confirmed with management that key pad codes are changed on a random and on an as needed basis.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

PROVIDER FILE MAINTENANCE

Control Objectives

Provider file maintenance control procedures provide assurance that:

- Provider file additions are to be made promptly and information is to be accurate.
- Access to the system for purposes of adding or correcting information in the provider file system is limited to the provider file clerks. These individuals shall not have access to claim processing or eligibility portions of the system.

Control Procedures

Control procedures employed by Core include:

- Provider file clerks add providers to the file based on data provided on the claim forms. Physician names, addresses and tax ID number changes are made in the system by the provider file clerk as received from providers and claim department personnel.
- Access to the provider maintenance screens in the system is protected by a user ID and a blind password. The user ID that is assigned to provider maintenance clerks limits access to the provider maintenance screens.
- Access to provider file maintenance screens is denied by adjuster ID limitation to those who have access to the claim processing, eligibility maintenance and data entry portions of the system.
- On-line edits help ensure provider data is entered accurately and completely.
- Any additions or changes to provider information (e.g. address, tax identification number, etc.) are sent to the Provider File Maintenance Department.
- The provider file clerk sends and receives W-9s for all providers that are not affiliated with a Preferred Provider Organization.

Test Procedures

The following tests of the provider file maintenance were performed:

- Reviewed documents in the files for requests to change provider information.
- Obtained assurance through observation of the provider file clerk that the access was limited to the provider file maintenance screens.

- The Core provider maintenance employee was observed in an attempt to access the eligibility and claim processing screens using their operator codes and passwords.
- Five Core employees were asked to access the provider maintenance file screens using their operator codes and passwords.
- Interviewed employees whose position's responsibilities related to the provider file maintenance activity.
- Obtained a selected sample of non-PPO providers to verify that W-9 forms are received prior to payment.
- Submitted a test transaction with incomplete provider information and noted that the system edit required provider information be entered completely.
- Performed a walk-through of the fee schedule loading process and reviewed confirmation of audits to verify PPO network information is loaded correctly and is audited after loading into the system.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

ENROLLMENT FILE MAINTENANCE AND CLIENT SET-UP

Control Objectives

Enrollment file maintenance control procedures provide assurance that:

- Client eligibility records are to be maintained on a current and accurate basis.
- COBRA notices are mailed promptly; eligibility and premiums are properly monitored.
- Access to the system for purposes of maintaining the eligibility system is limited to eligibility clerks and supervisors. Those individuals shall not have access to claim processing or provider maintenance portions of the system.

Control Procedures

Control procedures employed by Core include:

- Each report of a new entrant, termination or change in coverage is recorded in the system promptly. Each transaction is audited for accuracy prior to preparation of ID cards.
- Clients receive monthly eligibility listing and listed monthly billings which are used to confirm coverage.
- As clients report terminations, the Eligibility Department forwards this information to the COBRA department where the enrollment material and instructions are prepared and mailed. 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.
- When COBRA eligibility expires, the participant is notified and the eligibility record is updated.
- On-line edits help ensure eligibility data is entered accurately, completely and that the participant is eligible for services on the date of service.
- For new groups, the client must sign-off on the Schedule of Plan Description (SPD) to verify that the SPD is correct before any claim payment is generated.
- Access to the eligibility maintenance screens in the system is protected by a user ID and a blind password. The user ID that is assigned to eligibility maintenance clerks is limited to the eligibility maintenance screens.

- Access to eligibility maintenance screens is denied by user ID limitation to those who have access to the claim processing, provider maintenance and data entry portions of the system.
- The employee responsible for the new plan implementation tests system parameters for new clients to ensure that data is processed correctly and in accordance with client specifications.

Test Procedures

The following tests of the enrollment file maintenance were performed:

- The eligibility employee was observed in their attempt to access the provider and claim processing screens using their operator codes and passwords.
- Five Core employees were asked to access the enrollment file maintenance screens using their user log-on codes and blind passwords.
- Verified, through observation that COBRA checks were deposited on the same day that there were received.
- Obtained assurance, through discussion, that new plan parameters are tested and approved prior to releasing into the production side of the system.
- Inspected a sample of COBRA participants and noted that enrollments were generated based upon qualifying events.
- Inspected a sample of Plan participants and noted that a valid enrollment form was received for each participant.
- Reviewed sample service agreements to verify that they are signed by the plan sponsor.
- Observed Core's enrollment web site noting SSL technology is being used.
- Scanned signed copies of the SPD's sign-off sheet or email from the client to verify that the client approved the SPD.
- Traced a sample of hours worked for Taft-Hartley groups from the employer's payroll report to the CAT-Taft system then to the ECI claim system to verify eligibility was entered correctly and hours worked were in agreement with the employer statement.
- Submitted a test transaction with incomplete member information and noted that the system edit appropriately denied payment as member was invalid.

- Obtained assurance through discussion that eligibility clerks cannot change participant address over the telephone. All changes must be in writing.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

CLAIM PROCESSING

Control Objectives

Control policies and procedures assure that:

- Valid claims are processed accurately and promptly. In this regard the following standards have been adopted:
 - At least 98% of all claims shall be processed for the correct payment amount and payment made to the correct payee.
 - The magnitude of payment accuracy shall be no less than 99% measured as the sum of the payments made correctly over the sum of all payments made.
 - 85% of clean claims shall be processed within 14 calendar days of the receipt of all necessary claim information.
 - Every reasonable effort shall be made to recover overpayments and to issue subsequent payments if claims are initially underpaid.
- Access to the claim processing system shall be limited to the individuals in the claims department.

Control Procedures

Control procedures employed by Core include:

- 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.
- Group edits in the ECI system ensures an enrollee is assigned to a valid group and assist in determining benefit levels associated with the group.
- The Vice President of Claims monitor results of Internal Audit activity and assist the training manager in the design of training activity to correct identified examiner deficiencies.
 - Based on accuracy, length of employment, experience and knowledge of medical terms, examiners are assigned authorization limits above which a supervisory review must be made prior to releasing claim payments.

- The Vice President of Claims review all claims in excess of the authorization limit.
- The Vice President of Claims perform random audits on 2 claims per day, per examiner. The Vice President of Claims sends the errors to the claim examiner to review and initiate corrective action, if necessary. If the claim examiner disagrees with the error, a rebuttal is sent to the Vice President of Claims for resolution.
- Each claim examiner is assigned an user ID and a password. The combination of these codes: (1) permits access to the claims processing screen, (2) defines the processor's authority limit and (3) records the processor's name on all claims processed.
 - Passwords for individuals not in the claim department will not provide access to the claim processing portion of the system. Claim examiners cannot use their passwords to access other parts of the system for other than "read only" purposes.
- Refunds are to be credited to the appropriate claim and the refund check is to be mailed to the client for reimbursement. A copy of the check goes to the Vice President of Claims and the original check goes to the Accounting Department.
- The inventory of paper claims received by the Claim Department are monitored to ensure complete and timely processing.
- Claims are priced programmatically at appropriate amounts.
- Procedure edits ensure a procedure is valid for payment based upon the participant history.
- The mail personnel batch the claims and correspondence from providers, members and plan sponsors by day. Claims are then sorted by received date and processed on a first-in, first-out (FIFO) basis.
- All correspondence received from providers, members and plan sponsors is date stamped by mailroom personnel.
- Reinsurers are notified when a participant has reached fifty percent of their stop-loss deductible.

Test Procedures

The following tests of the claim processing system were performed:

- 211 claims processed by Core during the January 1, 2010 to December 31, 2010 were randomly selected. Each claim was reprocessed to measure payment accuracy and elapsed time was measured.
- Procedures of the internal audit function were evaluated through inquiries of supervisory staff and the internal audit staff.
- Traced sample of flex enrollment forms to the claim system to verify information was entered correctly and beginning balances were in agreement.
- Reviewed enrollment forms to verify the client employees are required to fill out the flex enrollment forms.
- Scanned a selection of paper flex claims for evidence that flex claims submitted have either an itemized bill or paper receipt for reimbursement.
- Scanned a selected of paper flex claims for evidence that the spending account form is signed and dated.
- Authorization procedures were evaluated by reviewing documents in the files and interviewing supervisory staff.
- Using the Core password, three fictitious passwords were randomly selected and three attempts were made to access the computer system.
- Reviewed the ECI notes for documentation related to the claims selected for review.
- Observed mail personnel batch assignments on a FIFO basis.
- Traced a sample of refund checks from the copy of refund check to the claim system and noting the claim was credited for the appropriate amount and checks traced to the deposit slip.
- To determine the adequacy of the claim processing system, we processed fictitious claims on Core's system. The processing of fictitious claims included:
 - Duplicate claim,
 - Claim without other carrier's payment,
 - Claim with invalid CPT code,
 - Claim with date of service after received date and
 - Claim processed on a terminated group.

- Observed personnel date stamping correspondence.
- Four claim examiners were observed in their attempt to access the eligibility and provider screens using their operator codes and password.
- Two Core employees were asked to access the claim processing screens using their operator codes and passwords.
- Traced a sample of claims in the claim selection to the participant stop-loss file notification to verify that the reinsurance carrier was notified.

Test Results

- 100% of the claims in our sample were processed correctly.
- 100% of the dollar payments were correct. This was measured as 100% less the sum of the overpayments and underpayments each expressed as percentages of the total dollars paid in the sample.
- All refunds traced were credited to the correct claim and checks were mailed to the client for depositing.
- Eighty-four percent of the claims in our sample were either processed within 14 calendar days of their initial receipt or the file was documented to support a need for additional time to receive information needed to properly process the claim. This information is further broken down as follows: Fifty-six percent of the sampled claims were processed, meaning benefits were paid, within 7 calendar days of the initial receipt of the claim. Twenty-eight percent of the sampled claims were processed between 8 to 14 calendar days. Ten percent of the sampled claims were processed between 15 to 30 calendar days. The remaining six percent of the claims in our sample was paid after 30 calendar days from the date of receipt of claim. The average claim processing time in our sample was 8.6 days. The turnaround time calculated does not differentiate between a clean claim or a claim that required additional information.
- The system pends all claims over the claim examiner's authority limit.
- The mail personnel batches assignments on a FIFO basis.
- Attempted to log-on by creating three unauthorized passwords. Access was appropriately denied.

- All attempts were denied when the claim examiners were observed in their attempt to access the eligibility and provider screens using their operator codes and password.
- All attempts were denied when the two Core employees were asked to access the claim processing screens using their operator codes and passwords.
- All test claims were appropriately denied for payment.

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

Note: The claim payment accuracy test results have a 95% confidence level and a precision of plus or minus .4%. As a result, we are 95% confident that the true accuracy rate in the population is not less than 99.6%. This rate is excellent as compared to the rates observed by Wolcott & Associates, Inc. in similar audits and the error rate reported by other claim auditors.

PROCESSING OF FEE AND CLAIM PAYMENTS

Control Objectives

Control policies and procedures provide reasonable assurance that:

- Each client is charged fees applicable to the plan.
- Vendors are accurately and promptly paid.
- Claim payments are promptly and accurately processed.

Control Procedures

Control procedures employed by Core include:

- As part of the renewal process, the Client Service Department who prepares the setup sheet, sends the rates, factors and other information to the Director of Finance and Accounting who then reviews the information. The Accounting Clerk enters the changes into the system. After the changes to the system are completed, the Director of Finance and Accounting verifies the changes.
- The claim analyst audits all first payments of a new client for accuracy of calculated benefits and other information.
- The account receivable is credited when Core receives the administration fee and stop-loss premium. The stop-loss premiums are then paid to the carrier on a timely basis.
- The checks are printed in the check printing room.
- Beginning and ending check numbers are logged by the ECI system. The printer's log is verified on a random basis. Checks are folded and stuffed in envelopes, which contain the EOB's and are metered and mailed.

Test Procedures

The following tests of the processing of fee and claim payments were performed:

- Reviewed the fee and claim payment process to obtain assurance that these payment processes are adequately segregated and adequately controlled. Observed invoices being paid and reviewed the documents for formal approval.

- Selected one monthly billing for a sample of clients and traced paid invoices to the accounts billing statements and to the client's check copy.
- Selected one month of stop-loss premiums for a sample of clients and traced payment from the client's paid invoice to the amount paid by Core to the stop-loss carrier.
- Observed the check printing process to ensure all necessary measures are taken for adequate security.
- Verified that blank check stock is kept locked.
- Observed the procedures regarding check stock usage.
- Observed that overpayment recovery checks are deposited on the same day that there are received.
- Observed procedures performed by the Accounting Department to verify the print quality, completeness and accuracy of the check printing process.
- Confirmed that beginning and ending check numbers are recorded in the system and that all check numbers are in sequential order.
- Traced a sample of contribution payment for Taft-Hartley groups from the copy of the deposit slip to the CAT-Taft system daily payroll contribution report.
- Traced a sample of contribution payments for Taft-Hartley groups from the copy of the deposit slip to the bank statement.
- Traced a sample of contribution payments for Taft-Hartley groups from the copy of the deposit slip to copy of the employer's check.
- Traced a sample of contribution payments for Taft-Hartley groups from the employer's contribution check to the employer's payroll report and then to the CAT-Taft's payroll contribution report.
- Review access to the check printer to verify the employee needs two sets of passwords to access the check printer.

Test Results

The control procedures outlined above and on the previous pages were in effect and were sufficient to provide reasonable assurance that the control objectives were met during the period from January 1, 2010 to December 31, 2010.

CHECK RECONCILIATION AND REPORT PREPARATION

All clients have their own plan checking account from which Core is authorized to issue checks for benefits and Core fees. Core performs the check reconciliation for all their clients, using the bank statement.

Control Objectives

Control policies and procedures provide assurance that:

- All canceled checks are promptly and accurately recorded and the bank statement is reconciled to the check register on a monthly basis.
- Client reports are prepared and distributed promptly after the end of each month.

Control Procedures

Control procedures employed by Core include:

- The accounting clerk assigned to this function records all canceled checks in the system each month. The accounting clerk then reconciles, for the clients who have so requested, each check register each month.
- Following the close of each month, the following reports are prepared from the system:
 - Check register,
 - Paid claim report and analysis,
 - Account transaction report, and
 - Other reports as agreed to with the client.

Following review by the accounting department, the reports are mailed to each client.

Test Procedures

The following tests of the check reconciliation and report preparation process were performed:

- Reviewed policies and procedures with the Accounting Department to obtain assurance that all procedures are followed in accordance with the policies.

- Reviewed and inquired with management on these reports for accuracy and completeness.
- Selected a sample of plans and verified through the system that all contracted reports are generated on the first day of the following month.
- Reviewed one month's bank reconciliations of four clients to verify that bank reconciliations are performed on a timely basis.
- Reviewed monthly statements for checks cleared and funds deposited for reasonableness.

Test Results

The following exception was noted:

- Core performs the reconciliation of the bank account for all their clients.

No other exceptions were noted.

Recommendation

Our recommendation is as follows:

- We recommend Core encourage their clients to perform their own bank reconciliation function, in order to tighten the control process.

Management's Response

Management concurs with this observation.

Section IV
Description of Claim Administration Services by
Core Administrative Services, Inc.

OVERVIEW

Core Administrative Services, Inc. (Core) is a Third Party Administrator (TPA) of self-funded welfare benefit plans with offices in Macon, Georgia. Core provides claim processing and other related services to plans sponsored by public sector and private sector employers.

MANAGEMENT PHILOSOPHY

The control environment within Core is driven by several elements that influence the control-consciousness of Core 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.

Core is committed to providing top-quality service to its clients. Core provides an online ISP, which allows customers enrollment, SPD availability, claims status viewing and ID card ordering. Core also provides an integrated healthcare program, which incorporates utilization management, case management, and diseases management. Core strives to acquire and retain highly qualified people and to install an enterprise wide attitude of integrity and control awareness.

RISK ASSESSMENT

Core is required to meet the regulatory compliance standards for Third Party Administrators.

Core management has also established various internal quality control procedures that perform ongoing testing of various aspects of the organization.

HUMAN RESOURCES

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

Core has a structured interview process, which includes application screening, a screening interview and at least two interviews. The Human Resource Department also performs criminal background and reference checks for all potential employees.

New employees must sign an acknowledgment form, which includes a statement that they have received and read a copy of the employee manual. The manual includes:

- Introduction,
- Employment Policies,
- Expectation and Standards,
- Work Environment,
- Pay-Related Information,
- Benefits and
- Closing Words.

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 on a periodic basis. Employees are evaluated on objective criteria based on performance. An overall rating is assigned to each employee (far above expectations, above expectations, meets expectations, below expectations, far below expectations). Employees rated less meet expectations are placed on an action plan for a specified period. The employee is terminated if no improvement has been made.

2010 CORE INFORMATION SYSTEMS AND TECHNOLOGY UPDATE

2010 represented the second year of several major initiatives to improve and advance the technology infrastructure of the Company. These initiatives continue to focus on member and employer centric business processes, to improve automation, data accuracy, audit ability and compliance, and strengthen business continuity preparedness. All of these initiatives are intended to reduce costs and improve customer-centric interactions and efficiency.

Member and employer centric business processes have been enhanced through a variety of secure-web based applications that extend customer service and customer self-service capabilities. The results of which have been improved member satisfaction, reduction in customer service inquiries and improved timeliness in responding to employer and member requests. The external communications abilities have been enhanced to include new secure email encryption to protect patient privacy and improve communication with providers in case management. These systems were implemented in the third quarter of 2010 without any substantive adverse impact to client or member customer service.

Internally the primary plan management and claims adjudication systems have been entirely upgraded with commercially proven solutions from industry leading vendors. In addition to expanded capabilities in the types of plans that can be managed, the degree of automation increased dramatically. Along with increased plan capabilities, several ancillary systems were upgraded for improved efficiency of paper-to-electronic work flow, claims tracking and full compliance with all claims payment, EDI and regulatory reporting capabilities.

While Core has never experienced a loss of data through system malfunction or technology failure, Core implemented a comprehensive business continuity plan for data replication, data recovery and data security. These plans increase the company's ability to withstand internal technical malfunctions, physical risks from fire, water or smoke damage, and hardens the infrastructure from nature disaster to improve and sustain operations on behalf of clients.

DATA OPERATIONS

The Information Technology 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 Information Technology Department. The Department is responsible for monitoring the systems and responding to management questions/requests. The operators are also responsible for identifying problems, documenting problems and correcting problems that they have identified or that have been reported.

Problems are documented and tracked using an electronic media.

Redundant Array of Inexpensive Disks (RAID 1) 1 disk technology is employed to ensure data integrity in the event of a hardware failure. RAID 1 is a method where information is spread across several disks, using techniques such as disk striping and disk mirroring to achieve redundancy, lower latency and/or higher bandwidth for reading and/or writing and recoverability from hard disk crashes.

LOGICAL ACCESS

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

Corporate data security policies, standards and procedures have been developed and implemented by Core. The security policies express Core'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 - Appropriate management must approve all access request for the claim system before the System Administrator will create a user ID. In addition, special privileged attribute's have been assigned only to individuals who require the attributes to perform their job functions.
- Resetting Passwords - In order to have their passwords reset, users are required to call the Information Technology Department to reset the user ID.
- 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.

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

SYSTEM MAINTENANCE

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

All affected groups are identified in the original change request and the requester coordinates the change with such groups. Each change is reviewed by the ECI administrator and tested in a test environment. All changes are released into production after production hours by the Information Technology Department.

Network changes are only released after production hours.

DATA COMMUNICATIONS

The network at Core consists of Ethernet segments. The various segments are linked using routers and switches as appropriate.

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

Ethereal 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 is a firewall controlling external access. Firewall violation reports are reviewed on a daily basis.

Sniffers are used to isolate problems, such as frequent transmission errors on specific network Ethernet segments.

BACKUP PROCEDURES

All servers at Core performs a complete backup each weeknight to a off-site server.

Backup logs are checked each morning by the Information Technology Department.

Backup information is tested on a periodic basis.

CONTINGENCY PLANNING

Core's Information Technology Department has developed a business continuity plan. The plan is designed to restore the technical infrastructure (CPU power, communication links and disk space) and the operating system. The exact hardware and telecommunication configuration to be restored in the event of a disaster. The plan is designed to allow for the technical infrastructure and operating system supported at the Information Technology Department to be restored at an alternate processing facility within the time frame specified .

PHYSICAL ENVIRONMENT

The computer room at Core does not have any windows located on an outside wall of the building. Walls in the computer room extend from floor to ceiling. Heat and smoke detectors have been installed throughout the building. The computer room is located on the second floor to minimize damage from flooding. Hand-held fire extinguishers have been placed throughout Core.

The computer personnel manually control the computer room and building temperature. The temperature is kept between 65 and 70 degrees Fahrenheit. Humidity is kept between 40% and 70%. Access to environmental controls is limited to the approved personnel.

Electrical power is supplied by the local electric utility. A UPS system can provide up to 2 hours of auxiliary power to the computer room.

Physical access to Core's office is controlled by a receptionist and a key pad system.

PROVIDER FILE MAINTENANCE

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

Claims are also routed to the Provider Maintenance Department 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 pended and a letter is generated requesting a completed W-9. If no W-9 is received, all claim payments are denied.

ELIGIBILITY FILE MAINTENANCE

Core maintains the eligibility records for most of their clients. This includes additions, terminations and COBRA records. Core utilizes a proprietary software system (CAT-Taft), which allows the Taft-Hartley clients to track eligibility for their workforce.

Once the plan has been approved, the system is set-up with the client information so that eligibility information can be entered. ID cards are then produced.

The service agreements provides Stirling and the client with the following information:

- Outline of the specific services purchased by the client.
- An outline of the responsibilities of the client and Stirling.
- Description of all fees associated with the services described.
- Group information, PPO., drug carrier and stop-loss carrier information.

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

Sales routes a new group application or contract changes to the Plan Building Department. The plan builder enters the new/revised group information into the ECI 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 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 database that is 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.

CLAIM PROCESSING

The major function of Core is the accurate and timely processing of claims submitted for payment under client welfare plans. The major steps in this process include:

- Mail is opened and sorted in the mail room. All claims and correspondence are scanned and date stamped. Claims are then forwarded for imaging electronically into the system. The claim adjuster enters the participant's Social Security number together with the date of service plus all additional information pertinent to the claim in order to assign a claim number. The claim adjuster also performs a visual review of the claim documents for evidence of alteration or other fraud. Each day's claim mail is then distributed to the appropriate claim adjuster. For claims that cannot be input electronically, the data entry clerk enters the participant's Social Security number together with the date of service plus all additional information pertinent to the claim in order to assign a claim number.
- For those claims that can be scanned, the claims are sorted by claim type (HCFA's or UB's). After sorted by claim type, the claims are further sorted by pricing sheets, attachments and itemized bills. The scanning process is an intelligent character recognition system used to enter the majority of paper claims. The scanned claim is move from the scanning processing to a software application that includes form identification, intelligent character recognition and correction of validation errors.
- Auto adjudication is run every morning for all claims. Any claims that do not auto adjudicate will a notification will be sent to the examiner to work the exception of the claim. The any remaining data elements are entered into the system at this time to complete adjudication of the claim.
- Each plan's benefit provisions are retained in the system's memory as well as information regarding participant history. The plan parameters in the system will permit the software program to calculate most claims.
- Once the adjuster is satisfied with the claim calculation and payment instructions, the entry is completed, and the claim is ready for check issuance.
- All claim payments beyond \$30,000 are reviewed by the Clinical Department before they are released for payment.
- Each claim adjuster is assigned an authority limit (the maximum dollar amount for which they may issue a check). All claims beyond that dollar limit are reviewed by the supervisor or the internal auditors before they are released for payment.

- If an adjustment is being processed, the original claim is retrieved from the claim history database and is updated to reflect the current information. At this time, the ECI system assigns a unique document control number to the adjusted claim. The claim is re-adjudicated and all error conditions must be resolved by the adjustment clerk.
- When the claim is re-adjudicated, the system determines whether there is an overpayment, underpayment or no change to the original payment amount. The adjusted claim is then routed to pricing, payment and history.
- Adjustment reports are generated on a monthly basis and are reviewed by management. Reports show all adjustments made and reasons for the adjustment.

Core performs some in-house repricing for PPO's. The repricing can be performed via a modem access to the PPO's mainframe, Internet access, hard copy list and by using the ECI claim software.

A random audit is performed for each adjuster. This audit is based on 2 claims per adjuster, per day. The percentage of claims audited is based on the adjusters level of experience and historic performance quality. The audits are completed when the claims are in a pre-payment status.

Core's Stop-Loss Department generates reports on first day and the fifteenth day of every month showing those participant that have reach 50% of their specific deductible. Tables have been generated from several reinsurance carriers for trigger diagnosis or catastrophe illness notification.

Once the participant has exceeded their specific deductible, within two weeks, the Stop-Loss Department is responsible for filing a claim with the reinsurance carrier for reimbursement of monies that exceeded the specific deductible.

Each carrier has its own requirement requested information for reimbursement. Most carriers require enrollment, pre-certification and subrogation information along with medical claims.

After the initial reimbursement is received, Core files any other payments for reimbursement on a monthly basis. Most carriers require that the reimbursement be over \$1,000 unless it is the final filing. If large claims are being processed, filing will be sent sooner than monthly.

Core has 30 days following the end of the contract year to file the final claims with the carrier.

FLEX CLAIM PROCESSING

Information is given to the Flex Department by the Marketing Department. For new accounts the Flex Department will setup a client bank account and run a series of test checks before issuing live checks.

- Flex claims must be submitted to Core. The employee must complete the employee information and must be signed and dated for the claim to be considered valid.
- Claim forms are sent to the flex claim examiner on a daily basis. Core policy is to have one week turnaround time on all flex claims to ensure claims are paid promptly.
- Flex claims submitted for reimbursement must have the itemized bill or receipt showing:
 - Name,
 - Date of service,
 - Type/Description of service,
 - Name of provider and
 - Requested amount of reimbursement.
- Dependent/child care flex claims submitted for reimbursement must have the itemized bill or receipt showing:
 - Name of dependent,
 - Date of services,
 - Name of provider,
 - Tax ID and
 - Requested amount of reimbursement.
- The flex claim examiner will review each claim for eligibility and accuracy and enter the information into the ECI claim system.
- The ECI claim system has controls built in to avoid duplicate claims and pending claim amounts. If duplicate claim is submitted, the claim examiner will deny the claim and a letter is generated explaining the denial.
- Core also uses a debit card system to process electronic flex claims. Client employees are given a debit card that can be used to pay for medical and/or dependent care expenses. Instead of submitting a paper claim, the funds are automatically taken out of the employee's flexible spending account.
- Transactions are reviewed by physical review of the information. If the electronic claim amount submitted is questionable, Core reserves the right to request a paper claim with the necessary documentation.

PREPARATION OF CHECKS

Claim checks are processed on a daily basis for most groups. The Check Printer prints the checks daily that were processed for that particular group for the previous day. Major portions of this process include:

- Claim payments are spooled off the main system in group order and are readied for printing.
- Check stock is loaded into the printer and each check is printed.
- Check registers are printed for each client.
- Checks are then picked up by the Check Printer to be reviewed.
- The checks are then entered in the check log.
- Checks are folded and stuffed in envelopes. The envelopes are then stamped first class postage rates and taken to the post office.

PROCESSING OF EXPENSES

Core 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 Core's administration fees from plan checking accounts, or invoices to be mailed to clients are received from the Marketing 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 Core is issued from the plan checking account.

CHECK RECONCILIATION AND REPORT PREPARATION

Core performs check reconciliation for all clients. 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.

Core prepares a very 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, and
- Other reports as agreed to with the client.

SUMMARY

The description presented above is designed to provide the reader a brief description of the activities performed by Core. In our opinion, the activities are appropriate for the services provided. We observed no situations where activities were, in our opinion, non-existent or lacking in any material way based on our understanding of the contracted services provided to clients.

Section V
Other Information Provided by CORE

Disaster Recovery Plan

Core has a disaster recovery plan.

- Plan uses updated information,
- All pages in the Plan are indexed,
- Service contact information,
- Equipment priority task listing,
- Plan has list of vendors and
- Plan has listing of application inventory, specialized equipment and software requirements.

The plan is periodically tested by testing backup information.