

A comprehensive health care claims audit protects health plans and participants from mistakes and regulatory violations. This article outlines best practices for planning and conducting an audit.

How to Plan and Design Thorough Health Care Claims Audit



As health care costs continue to soar, and legislation and compliance grow increasingly complex, more self-insured health plans are conducting comprehensive health care claims audits to safeguard their plans. Here's what you, as plan sponsors or trustees, need to know about audits to protect your plans and plan participants.

It's essential for self-insured medical plans to hold thorough health care claims audits at regular intervals. Audits protect plans and participants from the mistakes, lapses and regulatory violations that can creep into third-party administrator (TPA) claims processing. An audit may uncover issues that may be occurring without your knowledge, including improper application of co-payments or excluded benefits, payment of benefits in excess of plan limits or for ineligible members, failure to adhere to Affordable Care Act (ACA) regulations regarding essential benefits or patient out-of-pocket maximums, and failure to coordinate with other insurance or Medicare.





benefits

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Unfortunately, far too many health care claims audits are poorly designed, planned and conducted. The reason? Precious little guidance exists on how to conduct them properly. Plans simply don't have ready access to established industry best practices and trustworthy guidelines. As a result, audits can leave critical gaps unaddressed and put plans at risk of costly legal actions, damage relationships with participants and tarnish an employment brand.

This set of best practices should help you design and prepare for a thorough health care claims audit. The process described in this article is for plans that work with a TPA. Plans that self-administer their claims may, however, draw lessons from this process.

1. Identify Your Objectives

The first step in developing objectives for a health care claims audit is to develop an overall risk profile and identify unacceptable risks (e.g., payment of claims for excluded benefits, payment of benefits for ineligible dependents) that apply to the plan. An experienced health care claims auditor can assist in this process. This risk profile will largely dictate health care claim audit goals and objectives, but typical goals and objectives include independent evaluations of:

- The health care claims cycle and TPA contractual performance guarantees
- A unique or complex health care claim cycle function
- A known or suspicious error or irregularity identified within the claims cycle
- Specific corrective action taken by a TPA.

When developing the plan risk profile, you should also focus on the following subprocesses of your TPA:

- Installation and maintenance of plan benefits
- Member information and health care provider information

- Claims receipts
- Entry and validation of member and plan information
- Claims adjudication
- Claims adjustment
- Claims payment
- Plan funding
- Plan reporting
- Quality assurance.

Objectives should be specific and measurable, and they should assist in addressing one or more of the identified unacceptable risks.

During the audit planning process, you should discuss underlying factors driving your objectives. This ensures that all concerns (even those that may not be readily apparent) are understood and properly addressed by the auditors. Based on the specific objectives, you and the auditors will together determine the auditing methodology and procedures, which also should be detailed in writing, in an engagement letter.

Prior to conducting the audit, you're required to submit the audit's scope and objectives, testing methodology and related procedures to your TPA for review and approval. This is why it's so crucial to carefully consider, understand and plan for all audit restrictions from the start.

2. Tailor Engagement Objectives to Your Specific Plan and TPA

The success of a health care claims audit relies greatly on how objectives are customized to fit the plan and the TPA. When customizing objectives, you should avoid vague language and ambiguous statements. Unlike financial statement audits, which must be performed in accordance with predetermined standards (such as the Public Company Accounting Oversight Board (PCAOB) Auditing Standards or generally accepted auditing standards (GAAS)), there is little guidance regarding health care claim audits. The procedures to be performed by the audit engagement team when conducting a health care claims audit can vary significantly and can incorporate just about anything a plan sponsor or auditor wishes.

In addition to the lack of standards relating to the process, most plans, especially collectively bargained plans, have unique aspects, such as nonstandard benefits, that require additional interpretation, planning and consideration. Generally, any aspect of a plan that differs from the TPA's fully insured products will require special review considerations. All unique aspects of a plan should be identified and discussed

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with your auditor before any determination is made relating to the engagement objectives.

It is critical for you to be highly involved in the planning phase of the engagement. Since engagement objectives and procedures can vary widely, and because all plans have unique design aspects, you play a critical role in ensuring that all of a plan's intricacies are incorporated into the engagement objectives. It is during the planning phase that all important aspects of the plan must be considered in the engagement design, since matters that are left out or overlooked may never get adequately addressed in the audit. Even if these matters are identified later, audit restrictions or time restrictions will often limit the auditors' ability to address these matters.

You should work carefully with the engagement team to incorporate all concerns and significant aspects of the plan, including any areas of significant risk and audit limitations, into the engagement design. This includes determining the type of engagement to be performed, the standards to be followed, and the design of the engagement objectives and related procedures (100% electronic testing techniques and sampling techniques as well as inquiry, observation and inspection techniques).

3. Prepare and Execute the Required Agreements

The agreements listed below are a standard requirement for a health care claims audit. They should be prepared and compared against the TPA's audit requirements before you consider conducting an audit, to avoid potential months of redlining delays.

- Nondisclosure agreement (NDA)—This confidentiality agreement is a formal agreement in which one party agrees to provide a second party with confidential information about its business or services, and the second party agrees not to share this information with any outside party for a specified period of time.
- Health Insurance Portability and Accountability Act (HIPAA)/business associate agreement (BAA)—A contract between a HIPAA-covered entity and a HIPAA business associate is used to protect personal health information in accordance with HIPAA guidelines.
- Scope of services description/agreement—The agreement details audit objectives, testing methodology and related procedures conducted during the engagement.
- Auditor service agreement—The agreement between the plan sponsor and the audit provider details the

business arrangement. The business terms should be drawn up by the plan sponsor.

4. Identify and Select the Proper Audit Methodologies

There are four basic methodologies to consider for a health care claims audit. Although each has its individual benefits and limitations, collectively they provide a comprehensive health care claims audit. Here is a brief description of each methodology.

1. Operational Reviews

These are designed to broadly evaluate a TPA's administrative capabilities. An operational review typically includes a questionnaire to be completed by the TPA, which includes questions based on standard operational review criteria as well as applicable knowledge of specific weaknesses that may exist in the claims adjudication processing.

The audit team should validate the TPA's response to the questionnaire through on-site meetings, followup interviews with TPA subject matter experts and comparisons to the results of other field work performed. All of the detailed findings should be reviewed with TPA senior management, and its formal, unedited responses should be included in the final report.

2. Statistical Claims Reviews

These reviews evaluate a sampling of health care claims to provide greater insight into the quality of the TPA claims processing services. This involves a review of the claims population using statistically valid random samples or statistically valid stratified random samples. Once the claim sample has been selected, each claim should be tested in order to verify criteria such as:

- Eligibility of the claimant
- Coding of the critical data
- Benefits application
- Mathematical calculations
- Payment to the correct party.

The results of the statistical claims reviews should be measured against claim quality performance guarantees and industry standards.

3. Focused Claims Reviews

These relate to a select group of claims that most TPAs have difficulty in adjudicating and involve an evaluation of a

takeaways

- The first step in developing objectives for a health care claims audit is to develop an overall risk profile and identify unacceptable risks that apply to the plan.
- The four basic audit methodologies plans should consider include operational reviews, statistical claims reviews, focused claims reviews and electronic claims reviews.
- Audit provisions and limitations in an administrative services only (ASO) agreement with a plan third-party administrator (TPA) can have a significant impact on the appropriate audit methodology.
- The audit team should be independent from the TPA and those who work closely with the TPA to set up the administration of benefits.

nonstatistical sample of health care claims from a population of “high error risk” claims. Some examples of areas to consider focusing on include credit balances, high-dollar claims and claims that involve coordination of benefits.

4. Electronic Claims Reviews

These reviews identify systemic errors and costly areas of the claims adjudication process. This typically entails using specialized software to perform electronic reviews of 100% of the claims processed by the TPA on behalf of the plan to identify high error risk claims and to provide the financial impact of suspected errors.

5. Identify the ASO Contract Provisions and Limitations

The administrative services only (ASO) contract agreement language states how TPAs will handle the administration of claims, benefits, reporting and other administrative functions including claims audits. The audit provisions and limitations detailed in the ASO agreement can have a significant impact on how health care claims audits are conducted. If these provisions and scope limitations are not properly identified and understood early on, the audit design and methodology may need to be revised. Therefore, you need to be very familiar with the ASO audit restrictions to effectively determine what type of audit methodology is appropriate.

ASO agreement restrictions may include:

- Number of claims to be tested (typically 300 to 500 claims)

- Number of on-site auditors (typically three to five)
- Number of days on site for the audit (typically five days)
- Number of past months the audit can review (typically 12 to 24 months)
- Audit frequency (typically once per year)
- Dissemination of audit results
- Potential recoverable payments
- Use of data mining or electronic claim reviews
- Contingency fee arrangements with audit vendors.

Although this list of audit restrictions is relatively extensive, a capable engagement team will know how to navigate them and collaborate with the TPA to ensure your audit needs are met. When defining the engagement objectives and procedures, all audit restrictions should be carefully considered. Once you have an understanding of your goals, audit tools and methodologies, and the ASO restrictions, you’re ready to evaluate and engage a qualified audit team.

Contingency Fees and Audits

The role of a prospective auditor is to approach the audit in a manner consistent with professional responsibility and to perform such services with integrity, objectivity and the appropriate technical skills. Professional standards, such as those documented by the American Institute of Certified Public Accountants (AICPA) for CPAs, provide guidance on all these matters. For example, AICPA has determined that contingency fees impair independence. You need to consider this before contracting your audit firm using a contingency fee payment methodology.

6. Select an Experienced and Independent Audit Team

Once your audit goals and objectives have been established, an audit team should be assembled to develop the testing methodology and related procedures. First and foremost, the team should have significant experience in the health care claims industry. They also should have or be capable of efficiently building specific knowledge of your individual plans and TPAs, as well as the subprocesses of the TPA. This is especially true for a collectively bargained plan. Team members also can be pulled from sources within your organization. A truly experienced team has a diverse background and often includes certified professional billing and coding specialists, insurance specialists, CPAs, attorneys and

information technology (IT) professionals. At a minimum, the audit team should be experienced in providing each of the aforementioned critical audit methodologies.

Ideally, the audit team should be independent from the TPA and those who work closely with the TPA to set up the administration of benefits. This provides the greatest chance of ensuring that audits will be effective and deliver reliable outcomes.

7. Manage the Audit Process

First, request a time line from the auditors outlining all the events that need to take place and detailing actions, completion dates and responsible parties. A typical audit takes four to five months to complete.

Next, be sure that you, along with other primary stakeholders, are present at all planning meetings with your auditors. Concerns that are not properly articulated in the planning phase often do not get addressed properly during the audit. Also, make your TPA part of the planning process. This helps ease any tensions that may arise between auditors and administrators, and it ensures your audit remains in compliance with restrictions that might exist.

8. Develop a Final Report, Hold an Exit Conference and Conduct Followup Meetings

At the conclusion of the engagement, the auditors should provide a report that details the scope, objectives, procedures, findings, recommendations and the TPA's unedited response for each phase of the engagement. An exit conference should be held, and you, as the plan sponsor or trustees, the TPA and the auditors should all attend to review and provide additional input related to the engagement results. Takeaway questions should also be addressed with all attendees. Separate meetings or additional phone calls are discouraged because they may lead to confusion.


For issues regarding noncompliance and internal control deficiencies, you should monitor timely completion of corrective action by the TPA. The auditors can be an invaluable resource with respect to this process. When audits identify major issues, meetings should be held at regular intervals until these issues have been resolved. Routine monitoring of the plan should include followup audits on one-, two- or three-

year intervals depending on the size, complexity and nature of the plan. Prior audit findings may also dictate a more frequent monitoring.

9. Evaluate Each Audit

Upon the completion of the audit, you should meet with your audit team to determine how effective the audit was and what, if any, changes may need to be made to improve the audit process in the future. A summary of the results of this meeting should be maintained for future reference.

Achieving Audit Goals

The quintessential health care claims audit is comprehensive, independent and cost-effective. You can achieve all of these goals, along with the best possible outcomes, only if you invest the necessary time and effort. Working closely with your audit team and TPA to design and execute a thorough health care claims audit can lead to a valued partnership that will benefit your organization and your employment brand. 

bio



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