



THE POWER OF A RISK REDUCTION AUDIT

5 keys to a better medical claims audit



For medical plan sponsors, the need for audits is a fact of life. (Or should be. If you're a medical plan sponsor and you haven't audited your claims administrator for several years – or ever – this discussion may be of particular interest to you.)

Audits are a necessary and powerful tool for sponsors to meet their fiduciary duty and ensure their third-party claims administrator (TPA) is properly processing and paying claims. After all, as plan sponsor you have turned over your benefits checkbook to an outside vendor who will pay millions of dollars of your employees' claims over the course of the relationship. This relationship should be subject to the same level of financial scrutiny as any other vendor relationship. Sponsors must conduct audits, and TPAs have entire teams devoted to facilitating independent audits. It's an accepted part of the relationship, and the plan sponsor's audit rights will be specifically detailed in the agreement between the plan sponsor and the TPA.

Not all audits are created equal. There's an art and a science to a successful audit.

Given that the TPAs have been around forever, and the prominent audit firms have been around almost as long – it'd be easy to assume that one audit isn't all that much different from another.

Every auditor works to develop a statistically valid sample that will create an accurate and insightful picture of a sponsor's overall medical plan spending. A good auditor then analyzes those claims line by line, dollar by dollar, benefit by benefit, onsite at the TPA's claims office. That deep dive into the data informs the findings that will benefit the plan sponsor through measurable improvements in plan administration.





But truly insightful and impactful audit results demand more than a solid sample and attention to detail. It takes a different mindset. It demands an approach focused on reducing risk and facilitating better outcomes.

Over the last 10 years, Conner Strong & Buckelew has, through its affiliate AIM, refined its audit approach to uncover deeper insights and actionable next steps for plan sponsors.

The Risk Reduction Audit offers an actionable plan for better, more efficient claims administration.

For plan sponsors looking to maximize the impact of their medical claims audits, it's worth understanding the critical ways in which a smarter, risk-driven approach and perspective will result in a better audit.

Here are five keys plan sponsors should consider.

1 A BETTER AUDIT STARTS WITH A BETTER ADMINISTRATIVE SERVICES AGREEMENT

Long before an auditor shows up on the doorstep of a TPA, many of the terms that will guide the audit process have already been established. The Administrative Services Agreement (ASA) between the sponsor and the TPA typically spells out a number of audit stipulations.

TPAs will typically include somewhat restrictive audit language in the ASA, employing their book-of-business and boilerplate language which will tilt in favor of the TPA. Sponsors may not even realize they're putting themselves at a disadvantage right off the bat.

Give it a double check. Before signing the ASA, sponsors should review a few elements:

- Restrictions on which third-party auditors can be used
- How frequently audits can be conducted
- The scope of audits
- The sample size of audits

An overly restrictive ASA can cripple the impact of an audit and strain the relationship between the plan sponsor and TPA. It's best to review and negotiate these terms at the start of a relationship or when renewing the ASA.

Often, getting an independent auditor's insights on an ASA before it's signed can help lead to a more effective audit in the future.

Through its affiliate AIM, Conner Strong & Buckelew has negotiated countless ASAs and has helped create a better audit framework for many plan sponsors. The firm's Risk Reduction Audit approach begins with a review of the existing ASA to define the terms of the audit and make sure the TPA is delivering what's intended – and what's required.

2 A BETTER AUDIT UTILIZES THE RIGHT METHODOLOGY

With the right ASA in place, a better audit can take the right approach to building an effective sample and collecting data. That means creating a statistically valid sample that will accurately reflect the larger population and include claims from small to large in ratios that will parallel their distribution in the full population.

AIM's sampling methodology:

- stratifies the claim population using the most critical variable – the claim paid amount.
- uses the characteristics of the claim population to determine the number of sample points required to produce statistically reliable results.
- allocates the sample to account for the variability and the number of claims in each stratum.
- separately examines the processing of zero-pay claims to evaluate the effectiveness of system-based edits (e.g., duplicate claims; application of deductible).
- provides a focused review of all high-cost claims over a specific dollar threshold, where the possibility of large dollar errors is increased.

Other audit approaches use algorithms or screening software to build a sample that relies too heavily on automation. This approach won't result in a representative and meaningful sample. Some auditors promise a 100% review of all claims, ignoring the complexity of varying claims and level of analysis required to develop truly actionable insights from the data in a reasonable amount of time. Efficiency in completing the audit is critical, as TPAs typically limit the amount of time an audit firm can be onsite.

Still other auditing firms promise large recoveries based on audits of the most expensive claims and analysis of potential overpayments. These so-called contingency audits are a short-sighted approach to evaluating TPA performance that ultimately fail to realize the long-term benefits – and potential returns – of a risk-focused audit.



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A Risk Reduction Audit rejects these shortcuts and short-term promises in favor of a quality sample and a focus on long-term effectiveness.

AIM's review of each sampled claim will include the following detailed analysis:

- Was the claimant eligible for medical plan benefits on the dates of service submitted?
- Do the amounts actually paid by the TPA agree with what has been calculated as payable on that claim by the AIM onsite audit team – based on the expenses that are eligible under the plan?
- Were the correct plan deductible, copayment, coinsurance levels, and plan maximum limits applied?
- Was the appropriate provider of service (facility or physician) reimbursed under the claim, and was the provider's network status accurately determined?
- Were the correct/appropriate network discounts, negotiated fees, or usual and customary (U&C) allowances (as applicable) applied to the eligible expenses? (For network facilities, primary source contract documentation will be requested to support the network allowances.)
- Were ad-hoc fee negotiations conducted on large, out-of-network hospital claims?
- Were effective cost-management techniques such as precertification, medical necessity review and/or case management applied to the claim as appropriate?
- Does the TPA's claim system have appropriate controls to prevent the payment of duplicate charges and other ineligible expenses?
- Was the claim paid correctly with regard to the coordination of benefits, including potential third party liability or workers compensation coverage?

In a Risk Reduction Audit, these questions are closely aligned with the plan sponsor's focus and objectives for the audit. What's more, a Risk Reduction Audit will go beyond a simple audit of the claims transactions to encompass a full review of the vendor relationship. It will look at all aspects of the TPA's operations including quality assurance for claim processing, utilization management, reporting capabilities and pricing controls to identify operational or administrative issues that could lead to broader claims processing and service issues, and offer recommendations for resolution.

In many cases, a full operations review which makes these system-wide analyses a core focus is a necessary review tool.

This big-picture and deep-dive approach is utilized in every AIM Risk Reduction Audit, enabling the auditors to identify the issues and opportunities that could most severely impact a TPA's processing.

3 A BETTER AUDIT IS STRATEGIC ABOUT TIMING

Typically, a plan should conduct a medical claims audit every two to three years, assuming past audit results were satisfactory. But if a previous audit uncovered significant errors, a quicker follow-up may be warranted. Sponsors may want to revisit the TPA with an audit after only a year to make sure errors are corrected and to confirm that the TPA hasn't come up with whole new ways of committing errors.

Within this general timeline, a risk-focused approach to audits is a bit more strategic. It's critical to watch for signs that an audit may be warranted.

Often, the best place to watch for signs an audit is needed is among covered employees.

- If there's an increase in employee complaints and appeals about benefits and payments, it may suggest the TPA is paying too slowly or is inefficiently processing claims.
- At the same time, suspiciously little feedback from employees could suggest many claims are being paid with insufficient scrutiny.

In either case, it pays to monitor employee sentiment around benefits and investigate any notable changes.

Once an audit is underway, the timeline is usually relatively predictable. The entire audit is scheduled to fit in a 90-day timeline. During the preparation and pre-audit phase, the auditor receives and scrubs data from the TPA. Then an on-site audit is conducted at the TPA, typically lasting around five days.

4 A BETTER AUDIT LASTS UNTIL THE SPONSOR IS SATISFIED

Once the auditor drafts the findings and reviews with the TPA, they're presented to the plan sponsor at a readout meeting. For some audit firms, the readout meeting marks the conclusion of the relationship. Such auditors present their findings, pack up and leave. With more comprehensive audits like the Risk Reduction Audit, the readout meeting is where insights become actionable. It's not the end of the audit – it's the beginning of the next phase.

Good auditors, such as those who conduct Risk Reduction Audits, are a lot like a dog with a bone. They don't let go or give up until issues are resolved. That means identifying and creating value from the findings presented at the readout meeting.

Auditors typically provide that value by navigating the back and forth between the plan sponsor and the TPA.

Too often, as a claim makes its way through adjudication, it's like a game of telephone.

With each step in the process, the claim deviates a little bit from the processing structure stipulated in the governing plan documents. A better audit takes the sponsor's Summary Plan Description (SPD) as its "source of truth" and works to better align the TPA's book of business approaches and claims guidelines with the sponsor's SPD. For the SPD describes the Plan as it has been designed, codified, and communicated to the employees.

This is a key differentiator for AIM and its risk-centric auditing approach. Auditors should stay engaged with the sponsor until they're satisfied with the results and the process improvement strategies that will drive more efficient and accurate claims processing.

At the same time, the auditor should engage with the TPA in a collaborative approach. The better auditor is not confrontational in a way that causes relationship issues for a client long after the audit. The focus should always be on identifying issues objectively, and having them corrected to avoid future issues or gaps.



5 A BETTER AUDIT FOCUSES ON THE FUTURE

Too many plan sponsors and their auditors approach the audit process with a backwards mentality. They consider errors and money recouped from faulty claims administration a “win.” The reality is, the best audit results you could hope for would reveal zero issues – every claim was processed to perfection.

Of course, that’s virtually impossible. No well-executed audit has come back with zero errors – and every audit will return with a number of findings that will improve the TPA’s claims administration.

The industry average for overpayments discovered in the better audit varies between 2% and 5%.

Even at well-run TPAs with a watchful plan sponsor, claims issues can fall between the cracks.

In some cases, discovering issues with large claims can result in a considerable return from the TPA. But that shouldn’t be the primary goal of an audit. The real value of audits lies in their power to foster process improvements that correct existing errors and prevent them from occurring in the future. Correcting one small processing hiccup or adjudication issue may not result in a major payout immediately following the audit, but it can drive considerable savings over time as well as improve employees’ experience with the plan.

Ultimately, a Risk Reduction Audit embodies this more impactful, long-term outlook. Consequently, it makes calculating the return on investment of these solutions-oriented audits more challenging.

The immediate ROI of a typical AIM audit is often 3:2 or 2:1.

Though that’s not always the case. The total return realized over years or even decades could be significantly greater.

CASE STUDY

EFFECTIVE RISK REDUCTION AUDITING AT WORK

The Situation:

A large regional employer transitioned to a self-insured plan but failed to conduct an audit for several years after making the switch. When the company finally decided it was time to review their TPA's practices, it discovered it had approved an Administrative Services Agreement that considerably restricted the size of the audit sample. AIM was able to effectively get the TPA to waive the sample limit, but not without considerable effort and persuasion.

The Better Audit Approach:

With the terms of the audit agreed upon, AIM developed a statistically valid, random sample claim audit. Additionally, at the client's request, a separate review put particular emphasis on claims identified as potential duplicates.

The Better Insights:

AIM's audit revealed that the TPA was meeting industry benchmarks for claims processing and financial accuracy. However, it also identified major errors in claims adjudication, including considerable unwarranted fees and incorrectly coded active employees. What's more, the audit did in fact reveal gaps in the TPA's process for identifying (and rejecting) duplicate claims.

The Better Result:

AIM's audit resulted in \$50,000 in improper fees returned to the client and \$500,000 in savings from correctly coding employees. The TPA agreed to additional examiner training and system oversight to create a long-term solution to the duplicate payment issue.

All told, the client's return on investment for the audit was approximately 30:1.

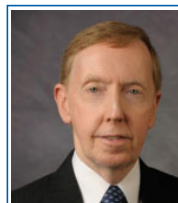
Although this type of ROI is unusual, it does happen on occasion, and offers evidence of the wisdom in the "trust, but verify" approach to monitoring the Plan's vendor relationships.

RISK REDUCTION AUDITS – A BETTER AUDIT SOLUTION

Medical plan audits are a necessity, but shouldn't be an afterthought. The details matter. A better audit has a better structure, focused execution and more impactful goals. Conner Strong & Buckelew, through its affiliate AIM, offers this superior approach with a Risk Reduction Audit, creating a path toward more efficient operations, lasting benefit plan savings and an employee population more satisfied with their medical benefits.

To learn more about Risk Reduction Audits, visit

www.aim-benefits.com



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