



**BlueCross BlueShield
of North Carolina**



Enterprise Risk Management

***Improve Quality / Competitiveness / Costs
Through Proactive Management of Risk***

NC State Informational Session

May 21, 2004



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**BlueCross BlueShield
of North Carolina**



Agenda – SOX / ERM at Blue Cross Blue Shield North Carolina

Managed Care Industry

Blue Cross Blue Shield Of NC

Conversion

Implementation of SOX

Execution of Enterprise Risk Management



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The Managed Care Industry

- Twenty Public Companies 80 million
- Blue Cross Blue Shield Association 90 million
- Uninsured 43 million
- Medicare 40 million
- TOTAL 253 million





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**BlueCross BlueShield
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Our Company Goal

- Deliver quality, innovative services

Our Customer Promise

- Simplify
- Assist
- Empower



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2003 Company Highlights

Members Served: **2.9 million**

North Carolina Counties Served: **100**

Claims Processed Per Day: **over 140,000**

Dollar Value of Claims Processed: **nearly \$6 billion**

Customer Calls Per Day: **over 11,000**

Providers in Network: **over 36,000**

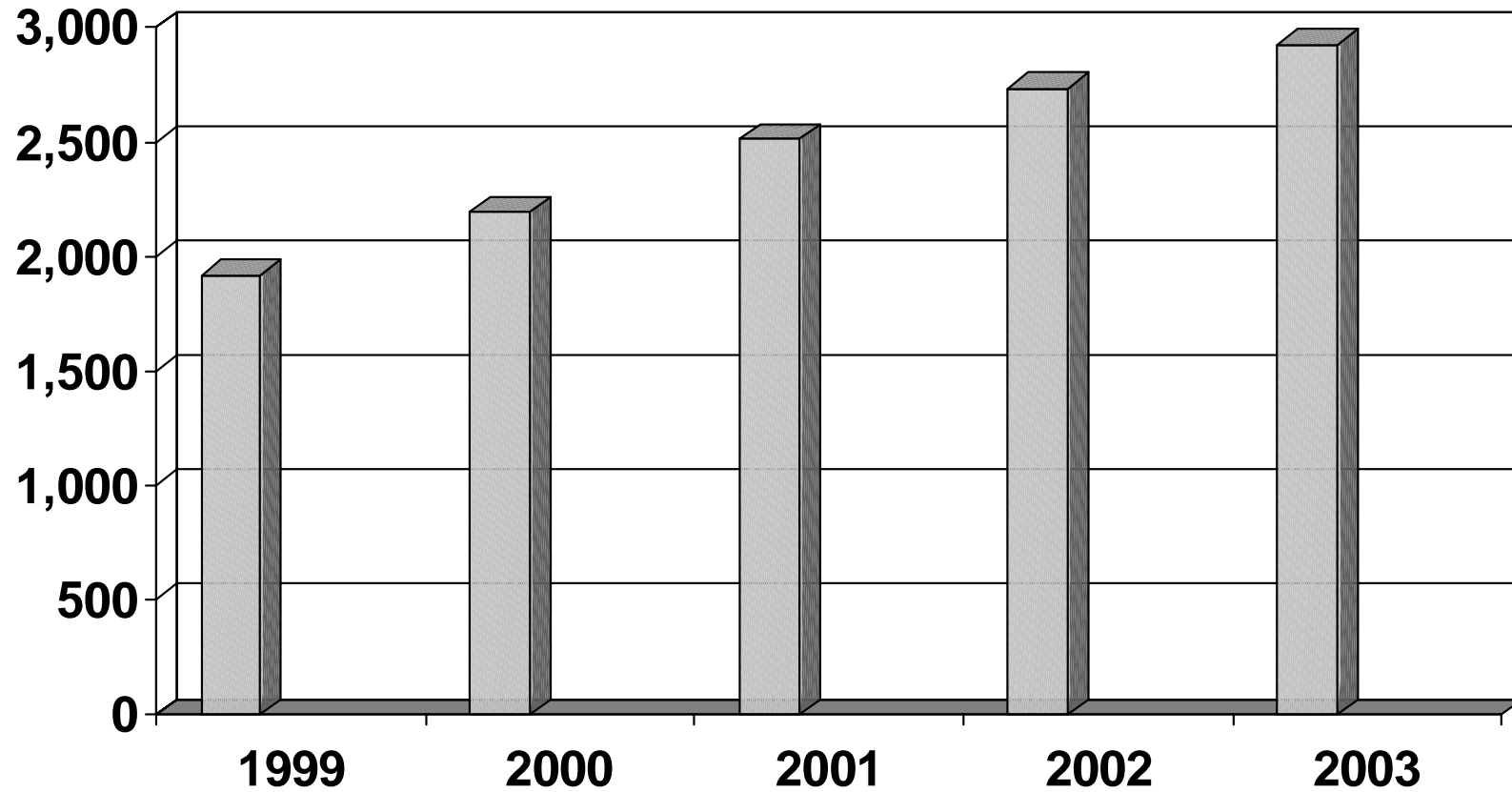
Employees: **over 3,200**





Growth in Membership Served

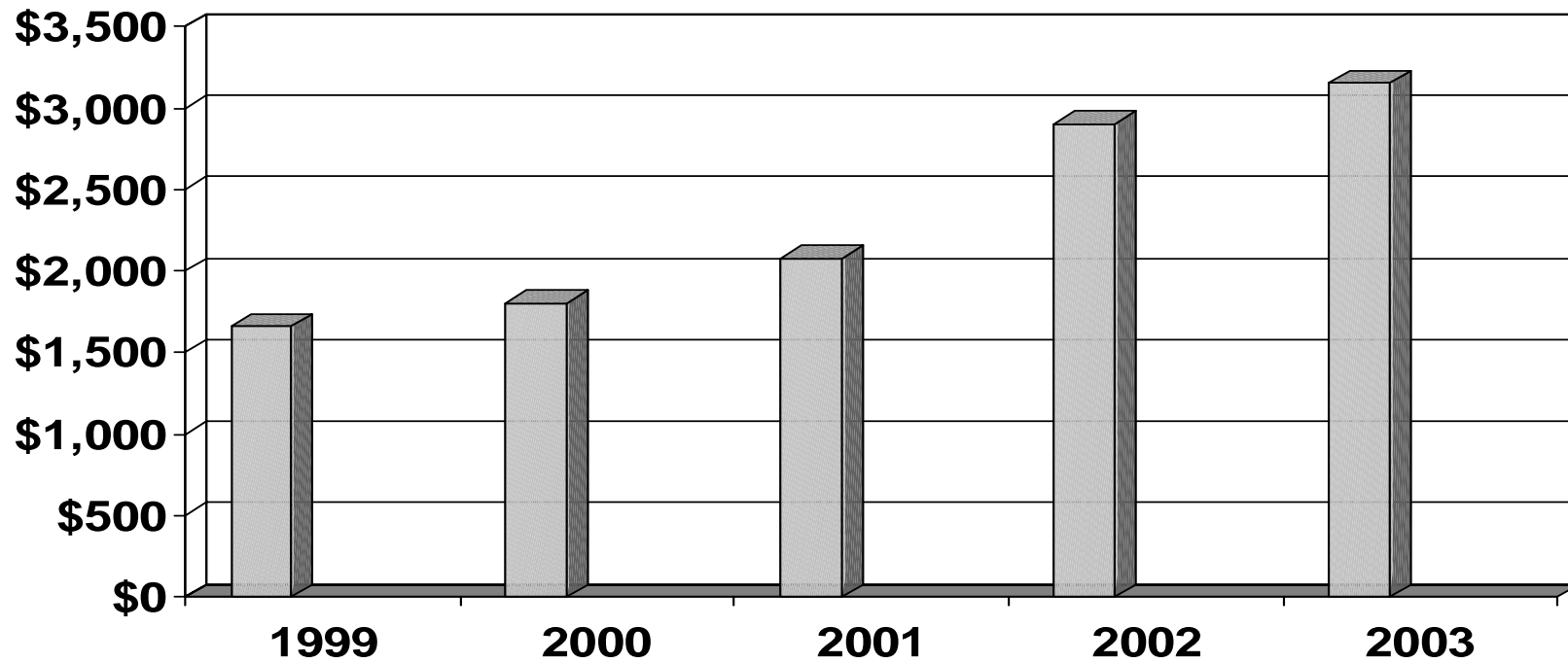
(values in thousands)





Growth in Revenue

(values in thousands)





Consolidated Statements of Income

(dollars in millions)

	31-Dec-01	31-Dec-02	31-Dec-03
Revenues			
Premiums	1861.6	2736.8	2911.1
Administrative fees and other revenue	131.1	151.1	182.8
Total Operating Revenue	1992.7	2887.9	3093.9
Net investment income	39.7	41.0	43.0
Net realized gains (losses)	45.4	(25.9)	17.0
Total Revenues	2077.8	2903.0	3153.9
Expenses			
Claims and medical expenses	1557.3	2270.3	2266.7
Operating expenses	386.6	498.0	576.3
Interest expense	2.0	12.4	16.2
Total expenses	1945.9	2780.7	2859.2
Income before income taxes	131.9	122.3	294.7
Income tax expense	46.3	46.2	98.4
Net Income	85.6	76.1	196.3

Note: Certain prior year amounts have been reclassified to conform with current year presentation.





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March Towards Public Setting (2002 / 2003)

- Review of Best Practices of Public Companies
- Sign off on Financials
- Compliance with:

Sarbanes-Oxley
Public Company Accounting Reform and Investor Protection Act



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Do you know status of our public conversion attempt?



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Decisions

- Not to convert to for-profit
- Compliance with SOX should still be pursued





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How do you implement SOX?

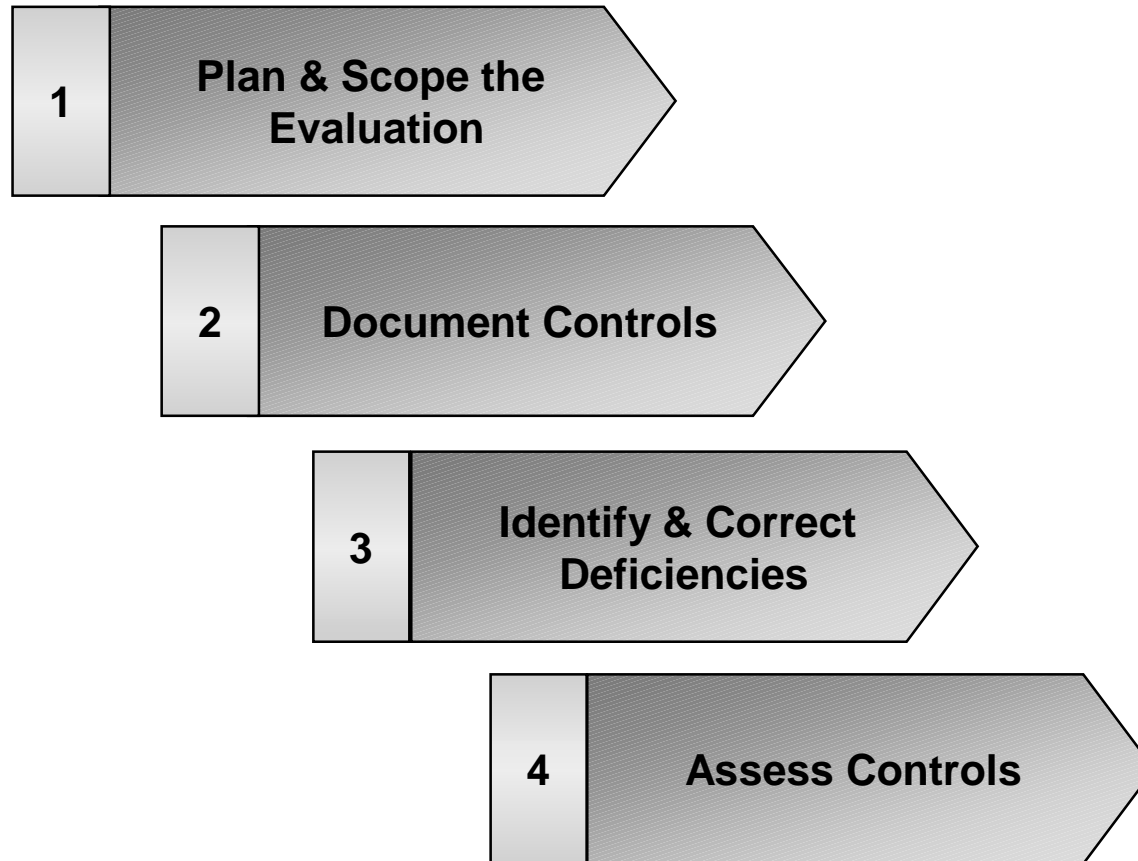


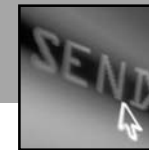
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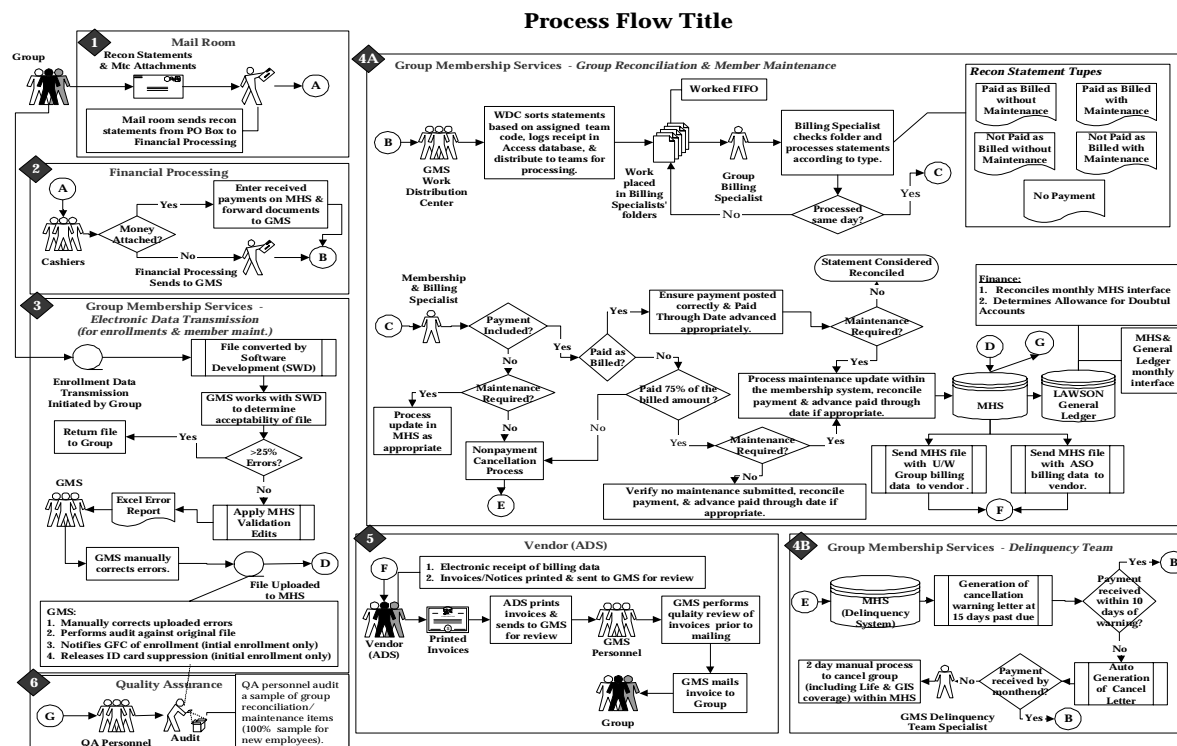
BCBSNC Internal Control Evaluation Process





Key SOX Deliverables

- Documented business processes





Key SOX Deliverables

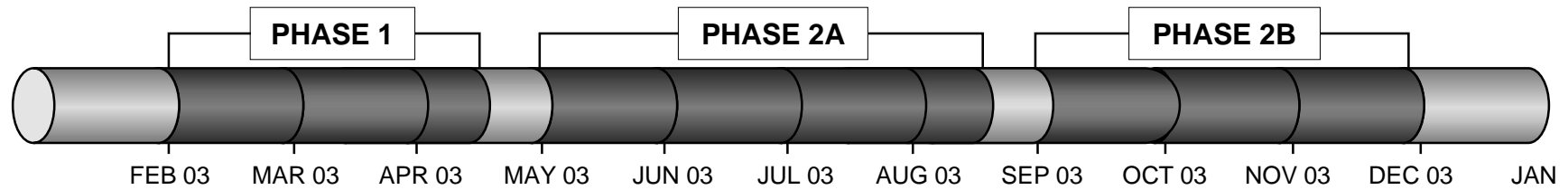
- Documented business processes
- Identified risks and controls: Gaps

Risks	Control	Relevant Control Objective	Control Assessment	Control Owner	Financial Statement Impact	GAP Reference
4A. Group Membership Services – Group Reconciliation and Member Maintenance						
R9: Processors can affect retroactive enrollment and terminations beyond the stated 30-day guideline leading to reduced billing amounts and premium revenues.	C17: Supervisor approval is required when extending a retroactive termination / enrollment beyond 30 days.	CO2, CO4	Moderate	C17: GMS Manager	Over/Under-statement of Revenue and AR	6-2





SOX Initiative Schedule



- Revenue
- Claims

- Revenue
- Claims
- Financial Reporting
- Actuarial
- Commissions
- IT Systems & Change Management

- Cash Management
- Investments
- Payroll
- Employee Benefits
- Purchasing
- FEP Program
- Taxes
- Facilities





SOX Assistance Project Timeline – Phase 1 Coverage

Sub-Processes			
Revenue	Individual Enrollment	Claims	Network Mgmt - Provider Fee Setup
	Individual Billing		Nonstandard Benefits Setup
	Group Enrollment		BlueCard Host Processing
	Group Billing (including ASO)		Vendor Management (Merck, DBP, Magellan)
	State Billing		LRSP Adjustments
	FEP Billing		LRSP Claims Payment Processing
			LRSP Refunds
			LRSP Suspense-Hold Claims
			MHS Adjustments & Solicited Refunds
	MHS Claims Payment Processing		
	MHS Suspense-Hold Claims		
	MHS Unsolicited Refunds		





SOX Assistance Project Timeline – Phase 2A Coverage

Sub-Processes					
Revenue	GIS	Financial Reporting	GL Reconciliations	Commissions	Commissions – New Business
	Medicare+Choice Billing		GL Closing		Commissions – Renewals
	Medicare+Choice Enrollment		Financial Stmt Preparation & Notes		
Claims	BlueCard Home Claims		Statutory Stmt Preparation	IT Systems & Change Mgmt	
	FEP Claims - COB		Allowance for Doubtful Accounts		Systems Development & Testing
	Medicare+Choice Suspense		Goodwill & Intangibles Estimates		Adjudication Rule Development - LRSP
	Medicare+Choice Payment Processing	Other Assets & Liabilities	Adjudication Rule Development - MHS		
	Medicare+Choice Refunds & Adjustments	Post Retirement Benefits	Access Controls		
	Network Management (Contract Approvals)	Claims Reserve (Commercial & FEP)	Legislative Change		
	Product Development (Std Benefits Design)	Contract Reserves			
	Paper Claims Frond End (Inventory)	Underwriting (Individual, Small, Medium, & Large groups)			
Electronic Claims Frond End (Inventory)	Group & Individual Rate Setting				
	Corporate Budgeting & Cost Accounting				



SOX Assistance Project Timeline – Phase 2B Coverage

Sub-Processes					
Cash Management	Bank Reconciliations	Payroll	Payroll Run	FEP Program	FEP Draw Downs
	Wired Funds		Payroll Maintenance		FEP Refunds and Adjustments
	Cash Receipts		Bonus Payments		FEP Claims Processing
	Cash Payments	Benefits Setup	FEP Coordination of Benefits		
Investments	Purchasing Securities	Employee Benefits	Benefits Maintenance	Taxes	Calculation of Taxes
	Temporary Impairment		Benefits Payments		Tax Payments
	Valuation of Investments	Purchasing	Office Supplies	Facilities	Purchased
	Income Management		Services		Leased
	Selling Securities		IT		



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How can you leverage the investment in SOX compliance?



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SOX Compliance Process Benefits

Benefits Observed from Entire Process:

- 1. Formalization of the ERM function**
- 2. Document Process flows for use in in-house projects / underwriting / training**



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Enterprise Risk Management - Trends & Leaders

CareFirst
BlueCross BlueShield

Microsoft



JPMorganChase

Progress

Fidelity Investments



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Why Enterprise Risk Management for us?



“Enron faces 'hornet's nest' of charges ;
'Government is going to turn up the
heat” 



“WorldCom agrees to pay
\$500M in SEC fine” 



“CareFirst Board's Actions
Under Scrutiny” 



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Play video



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Speaking about Risks...



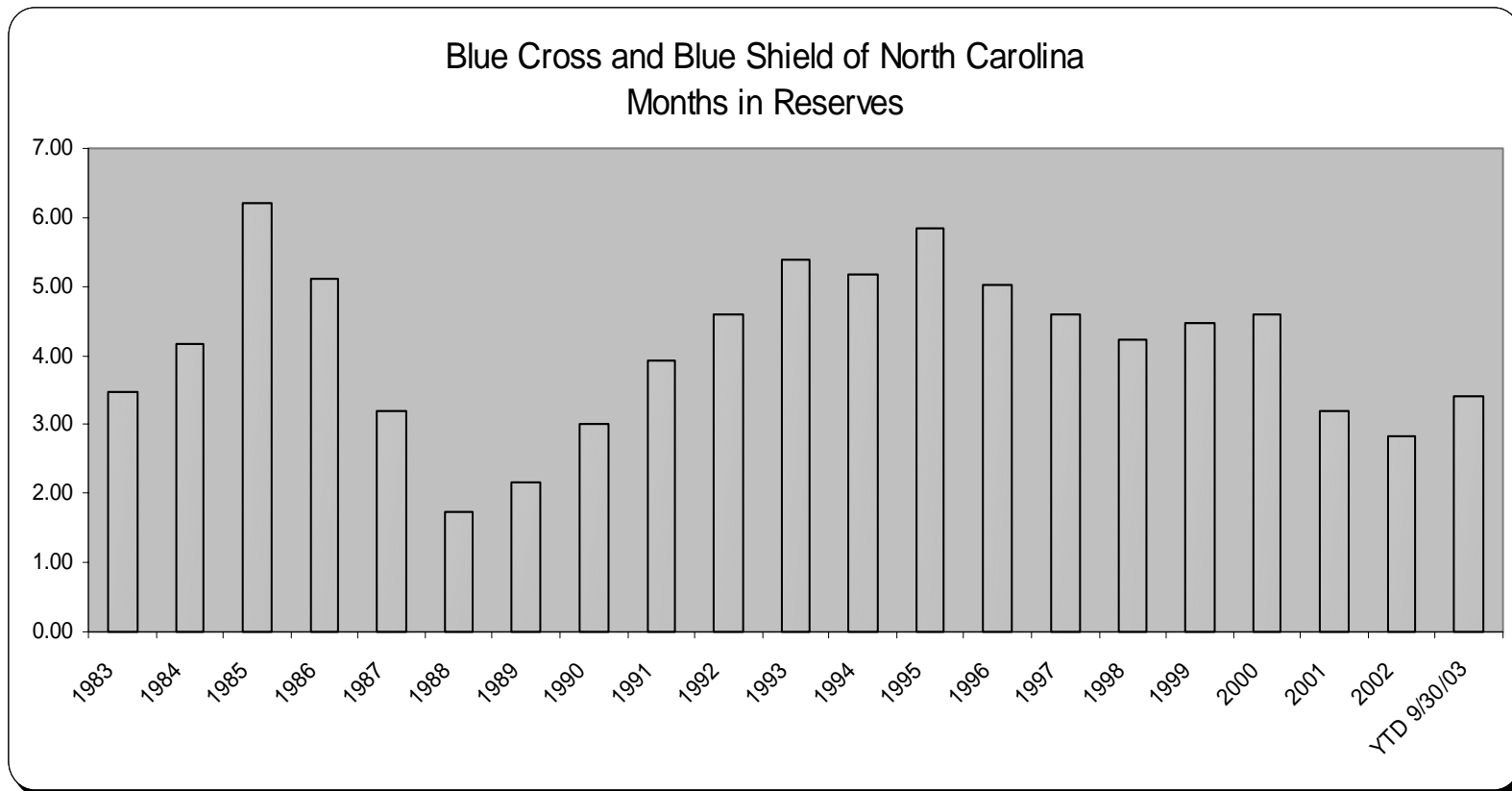
Major risks are:

Strategic and Process
related





Immediate Issue At BCBSNC





Other Risks At BCBSNC

Strategic Risks

- DOI Relationship
- Technology
- Migration to One Platform
- Access to Capital
- Legal Status



Process Level Risks

- Revenue
- Claims
- Financial Reporting





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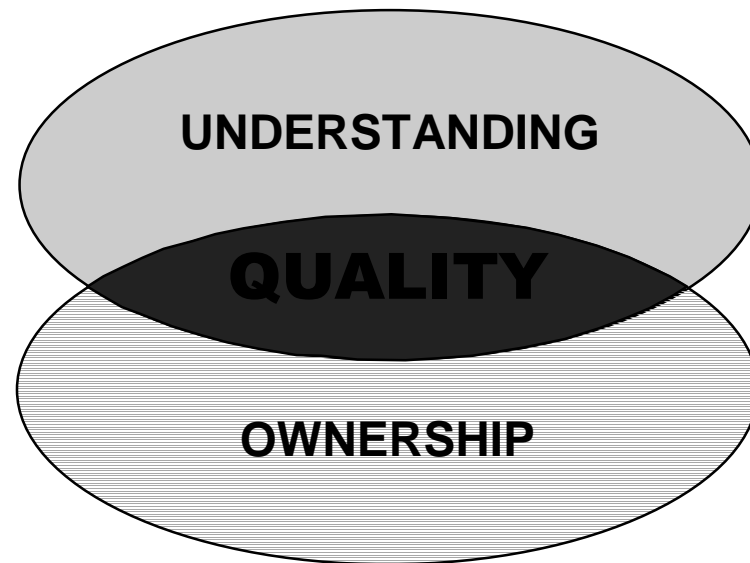


Should you implement SOX/ERM in a non-public environment?





ERM Goals



Proactive Risk Management vs. Reactive Issue Management





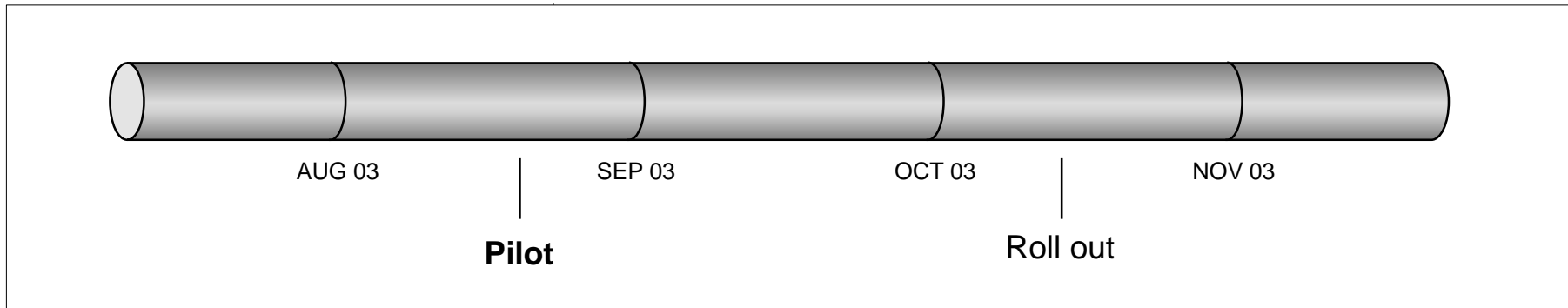
Reactive Issue Management

Process-Level Issue	Loss Category							Reputation	Productivity
	<i>Financial (net cost)</i>								
	Admin Costs	Interest Payment	Medical	Lost Revenue	Penalties				
1. ER Claims	Exceeds total financial cost of all other issues							High	High
2. Other Issues								Varies	Varies





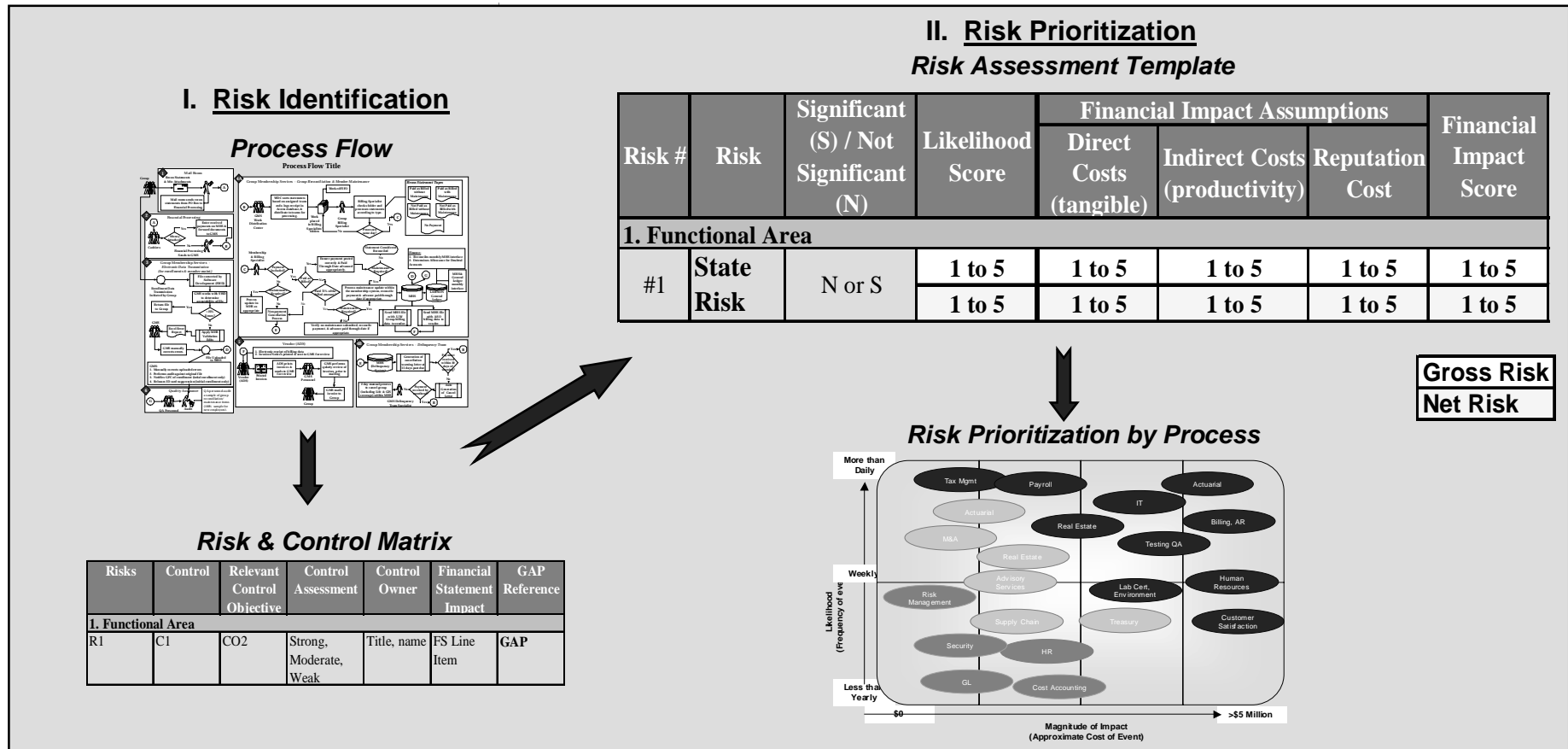
ERM Implementation - Pilot



	Business Area
Session #1:	Flowcharts
Session #2:	Process Risk Analysis
Session #3:	Review of Analysis Output and Process Owner Expectations
Session #4:	Wrap-up

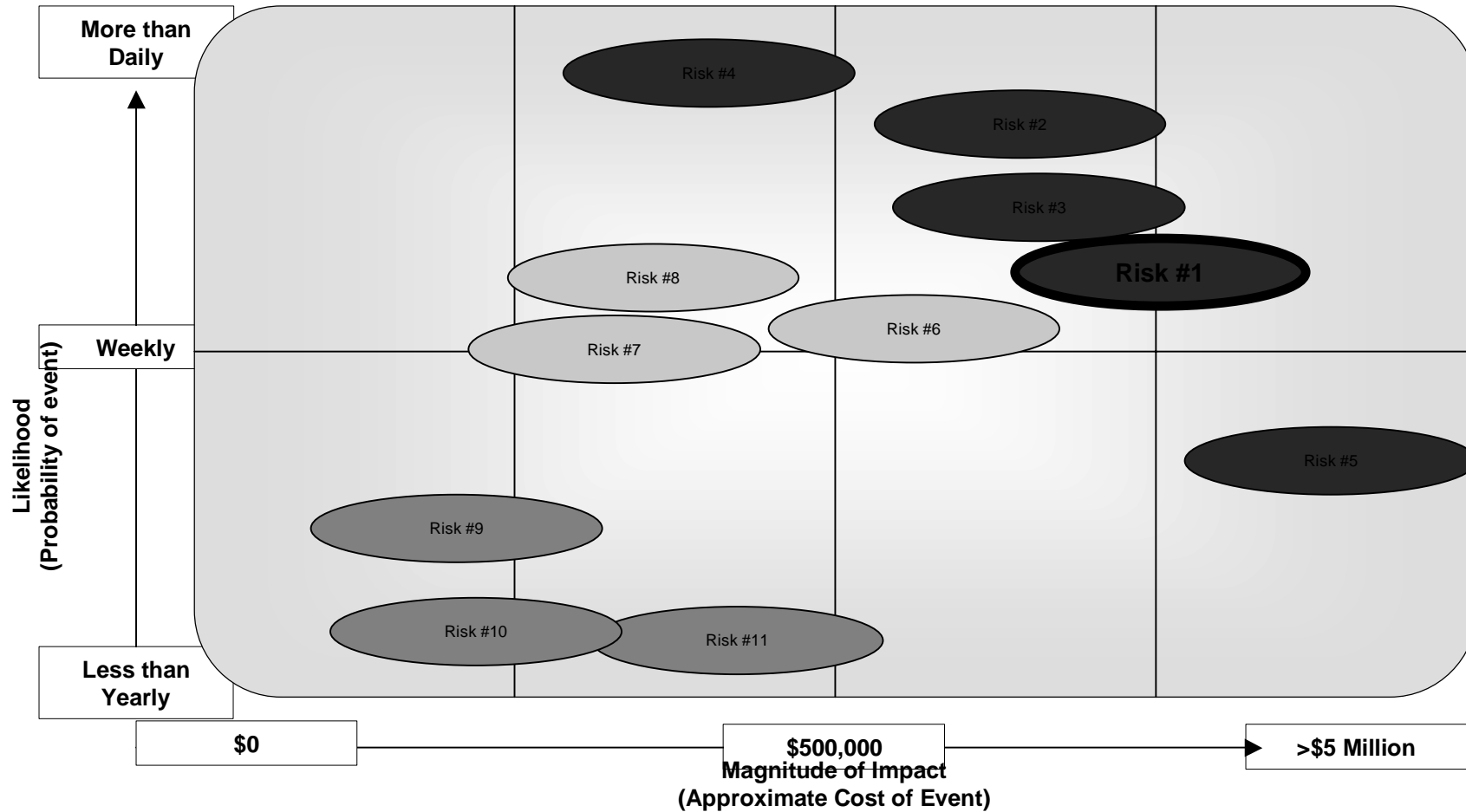


ERM Implementation - Rollout





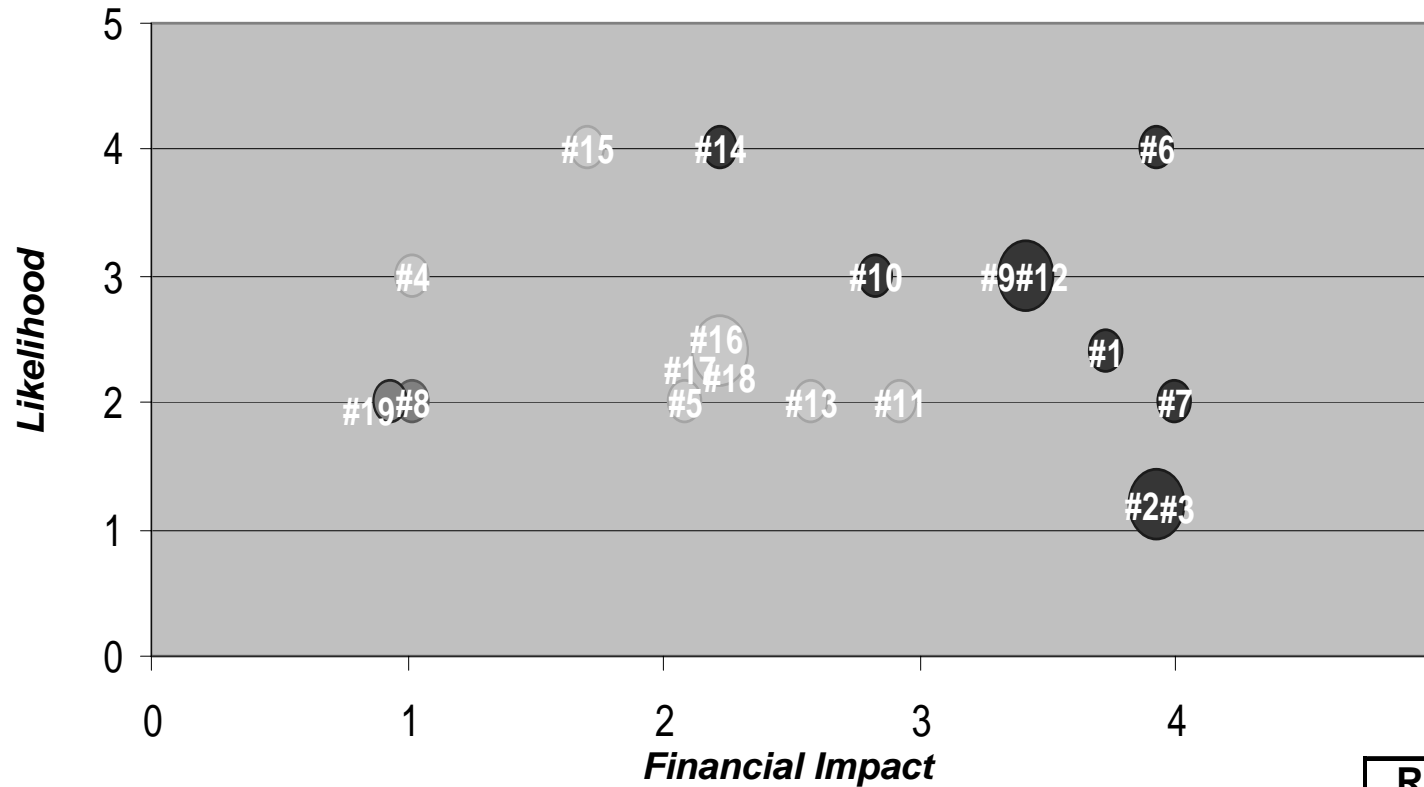
Risk Prioritization by Process





Risk Prioritization *(example analysis)*

Graphical Risk Assessment



Risk Profile:
High
Moderate
Low



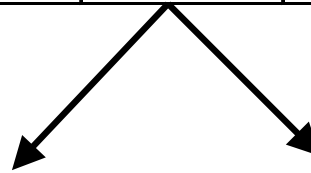


Process Risk Reporting & Action Plan

Risks identified as **RED** will be reported biannual to ERM along with the status of any proposed action plans.

Draft Template

Risk #	Red Risks (Considering controls in place)	Description of Control Environment Improvement Opportunity	Risk Ownership Level (Unit / Enterprise)	Business Unit (s)	Action Plan	Timing	Month End Status	Validated by Corp Audit (Y/N)
#1	State risk	Describe why and how control environment does not adequately mitigate the stated risk.	Enterprise Level or Business Unit Level	Specify Business Unit(s)	Explain proposed action plan.	Provide timing horizon	Indicate progress toward stated plan of action	Y or N

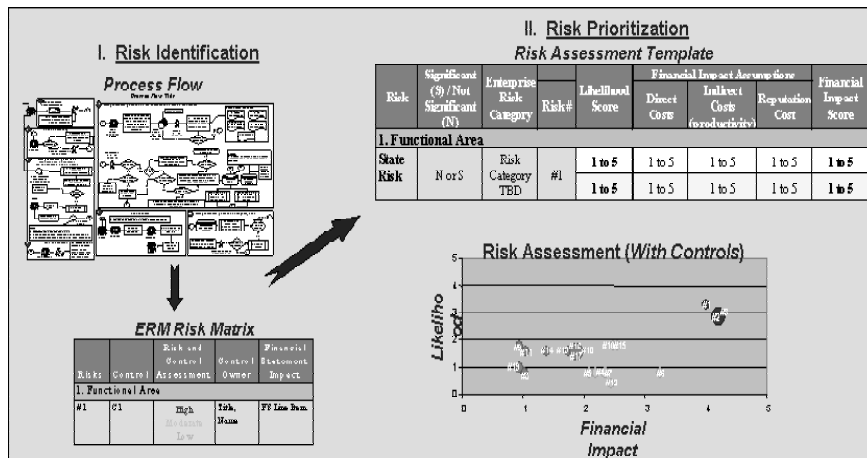


Unit Specific Risk	Enterprise Risk
Action plan and timing to be articulated by designated process owner	Action plan and timing to be coordinated by ERM with input from identified business units



Coordination with Corporate Audit Services

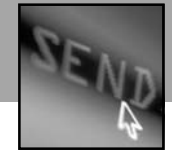
- Facilitated Risk Assessment Sessions with Business Units & Periodic Follow-up



Corporate Audit Services

- Review process documentation, risk matrices and gap analyses for accuracy during internal audits and other efforts
- Test controls identified in high priority risk areas





SOX Documentation on Web

http://intraweb.bsbcnc.com/ia_ConsultingSvcs/index.html



Sarbanes-Oxley Process Analysis
These documents are preliminary drafts and have not been fully reviewed and validated by the business owner.

Section 1	Section 2	Section 3 (in process)
<p><u>Claims and Revenue Process Flows</u></p> <p>Claims Process Flows:</p> <ul style="list-style-type: none"> BlueCard Host LRSP – Claims Payment, Refunds, Adjustments, Suspends Power MHS – Payments, Refunds, Adjustments, Suspends/Holds Vendor Management – Dental, Mental, Pharmacy Benefit Setup, Non-Standard Provider Contract Setup <p>Revenue Process Flows:</p> <ul style="list-style-type: none"> Group – Overview, Enrollment, Billing Individual – Overview, Enrollment, Billing FEP Billing State Billing 	<p><u>Financial and Actuarial Reporting Flows</u></p> <ul style="list-style-type: none"> Financial Statement Preparation General Ledger Reconciliations Goodwill and Intangibles Estimates Post Retirement and VEBA Benefits Other Accounts Payable Premiums <p>Actuarial: Purchasing</p> <ul style="list-style-type: none"> Claim Reserves, Underwritten and FEP Group and Individual Rate Setting Underwriting – Group & Individual <p>Medicare Plus Choice – All Areas</p> <p>Information Technology:</p> <ul style="list-style-type: none"> Adjudication Access Controls System Development <p>Legislative Change</p>	<p>Treasury:</p> <ul style="list-style-type: none"> Cash Management Investments Cash Receipts & Disbursements Bank Reconciliation's- Wired Funds <p>Purchasing</p> <p>FEP Claims – Processing Refunds, Adjustments, Cash Management</p> <p>Facilities</p> <p>Tax Accounting</p> <p>Employee Benefits</p> <p>Payroll</p>

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FINANCE

- Corporate Audit Services
- Applied Systems Knowledge
- Audit & Consulting Services
- Plan Performance & Analysis
- Financial Audit Services
- Feedback and Assistance

Audit & Consulting Services

- [Corporate Audit Services Charter](#)
- [Corrective Action Plan \(CAP\) Guidelines](#)
- [Internal/External Audit Policy](#)
- [External Audit Schedule](#) (Excel Spreadsheet)
- [Annual Audit Plan](#) (Microsoft Word file)
- [Novell Self Assessment](#) (Microsoft Word file)

What is our Mission?

Who are we?

What do we do?

How do we help the Plan?

Note: Additional Phase 2B process documentation will be posted to the web as it becomes available.





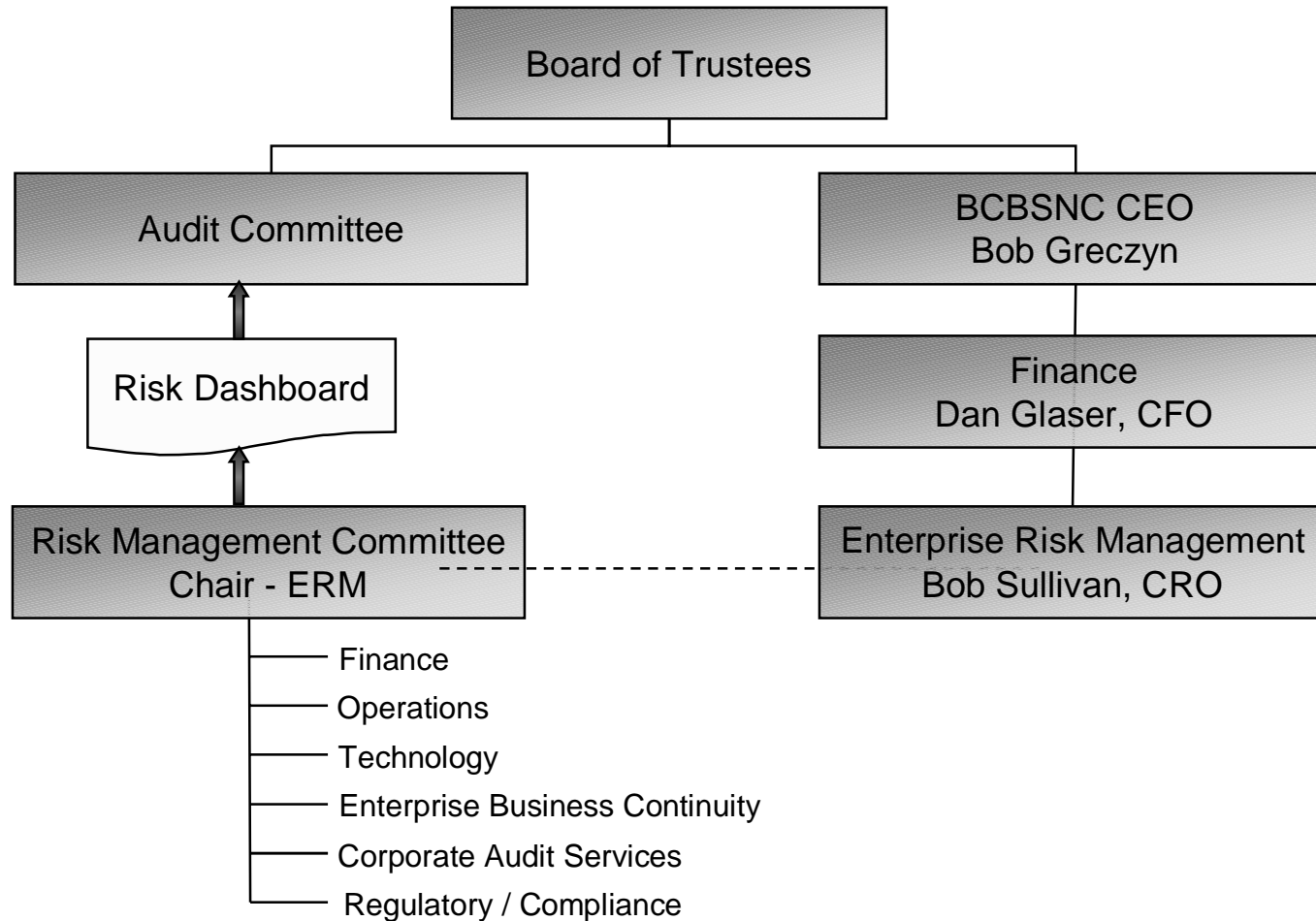
ERM Initiative

Targeted Risk Management Culture ↓	Stage	Timing	Deliverables
	1	4Q 2003	Complete Pilot with Group Billing and Group Enrollment
	2	4Q 2003 / 1Q 2004	Rollout of Phase 1 – Revenue and Claims
	3	1H 2004	Rollout of Phase 2A (Financial Reporting, Actuarial Commissions, and IT) and Phase 2B (Cash Mgmt, Investments, Taxes, Payroll, Employee Benefits, Purchasing and Facilities) using Pilot Approach
	4	3Q 2004	Strategic Risk Assessment
	5	4Q 2004	Ongoing monitoring and evolution of both strategic and process risk assessments





Enterprise Risk Management Organization Chart (DRAFT)

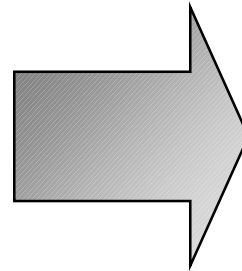




Transforming Risk Management

Yesterday / Today

- Fragmented Data
- Reactive Solutioning
- Focus on Required risks
- Risk are “bad” things
- Punishment for loss

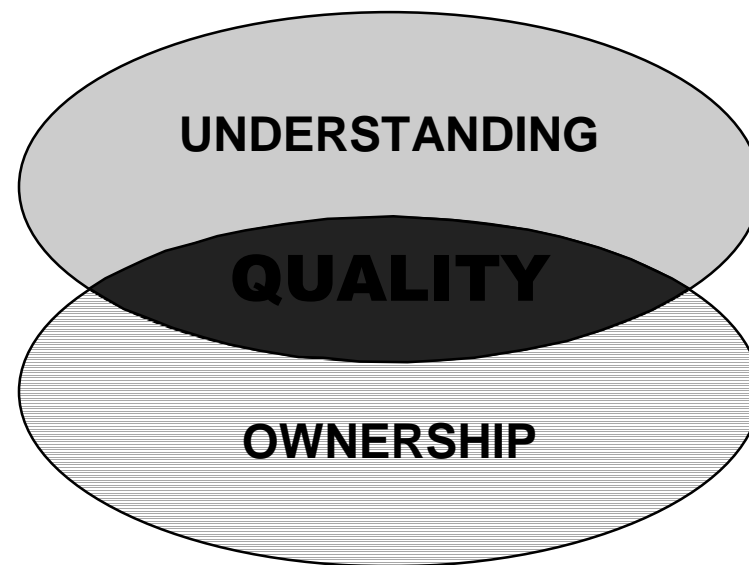


Tomorrow

- Risk Dashboard
- Proactive Monitoring
- Focus on Critical Risks
- Risks are inevitable
- Incentives for proactive management



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Advocate Proactive Risk Management vs. Reactive Issue Management



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NAIC Model Law Changes – SOX

- The National Association of Insurance Commissioners (NAIC) is considering implementing sections of SOX into existing Model Laws.
- Improve the quality and reliance of financial data
- Adoption as early as 2005.



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