
STATEMENT ON AUDITING STANDARDS (SAS 70)
“Report on the Processing of Transactions by Service Organizations”

Conducted by
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OBJECTIVES OF THE SAS 70 AUDIT

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 SecureOne’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 the user organizations, is intended to assist in the assessment of the total internal controls surrounding SecureOne.

Our examination we restricted to selected services provided to users of the aforementioned facility of SecureOne 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 SecureOne’s portions of the controls must be evaluated together. If effective user organization internal control policies and procedures are not in place, SecureOne’s 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 SecureOne. Our test of controls were preformed for the period from February 1, 2004 to January 31, 2005.

The description of policies and procedures and control objectives is the responsibility of SecureOne’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 SecureOne’s management, were achieved during the period from February 1, 2004 to January 31, 2005.

TEST OF OPERATING EFFECTIVENESS

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

USER CONTROL CONSIDERATIONS

SecureOne'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 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 SecureOne. 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 SecureOne are routinely reconciled to relevant control totals.

The list of user organization control considerations presented above is not a comprehensive list of 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.

TEST RESULTS

- In our sample of claims, **99%** were processed correctly.
- In our sample of claims, **99.82%** 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.
- **Seventy-eight 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: Twenty-two percent of the sampled claims were processed, meaning benefits were paid, within 7 calendar days of the initial receipt of the claim. Fifty-six percent of the sampled claims were processed between 8 to 14 calendar days. Twenty-one percent of the sampled claims were processed between 15 to 30 calendar days. One percent of the sampled claims were paid after 30 days. The average turnaround time in our claim sample was 11.6 days.**

NOTE: The claim payment accuracy test results have a 95% confidence level and a precision of plus or minus 1.4%. As a result, we are 95% confident that the true accuracy rate in the population is not less than 97.6%. 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.