

McGladrey & Pullen

Certified Public Accountants

Service Auditor's Report

Acclaim Benefits, LLC
Reimbursement and Continuation Services
Plymouth, Minnesota

For the Period
April 1, 2008, Through March 31, 2009

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I. INDEPENDENT SERVICE AUDITOR'S REPORT

Acclaim Benefits, LLC
Plymouth, Minnesota

We have examined the accompanying description of the controls related to the processing of Reimbursement Services, including flexible spending accounts (FSAs), transportation reimbursement, health reimbursement arrangements (HRAs) and Continuation Services, including COBRA and state continuation, leave of absence and retiree billing administration by Acclaim Benefits, LLC. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Acclaim Benefits LLC's controls that may be relevant to an Acclaim Benefits customer's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and Acclaim Benefits customers applied the controls contemplated in the design of Acclaim Benefits' controls; and (3) such controls had been placed in operation as of March 31, 2009. Acclaim Benefits outsources the mail distribution and statement generation to a third-party vendor, Loffler Group. Acclaim Benefits contracts with Lifeworks, a private nonprofit organization, for the initial incoming mail processing, scanning and batching of incoming reimbursement claims. The Lifeworks organization works within the Acclaim Benefits facility. Acclaim Benefits relies on a third party, Metavante, to issue and process stored value cards for FSAs. The accompanying description includes only those controls and related control objectives of Acclaim Benefits and does not include controls and related control objectives at any third-party organization. Our examination did not extend to controls of any third-party organization. The control objectives were specified by the management of Acclaim Benefits. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included 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 applications presents fairly, in all material respects, the relevant aspects of Acclaim Benefits' controls that had been placed in operation as of March 31, 2009. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and Acclaim Benefits' customers applied the controls contemplated in the design of Acclaim Benefits' controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, which are presented in Section III of this report, to obtain evidence about their effectiveness in meeting the related control objectives described in Section III during the period from April 1, 2008, to March 31, 2009. The specific controls and the nature, timing, extent and results of the tests are listed in Section III. This information has been provided to Acclaim Benefits' customers and to their auditors to be taken into consideration, along with information about internal control at Acclaim Benefits' customers, when making assessments of control risk for Acclaim Benefits' customers. In our opinion, the controls 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 April 1, 2008, to March 31, 2009.

The relative effectiveness and significance of specific controls at Acclaim Benefits and their effect on assessments of control risk at Acclaim Benefits' customers are dependent on their interaction with the controls and other factors present at individual Acclaim Benefits' customers. We have performed no procedures to evaluate the effectiveness of controls at individual Acclaim Benefits' customers.

The description of controls at Acclaim Benefits is as of March 31, 2009, and information about tests of the operating effectiveness covers the period from April 1, 2008, to March 31, 2009. 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 specific controls at Acclaim Benefits is subject to inherent limitations and, accordingly, errors or fraud 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 conclusions.

The information included in Section IV of this report, describing Acclaim Benefits' business continuity plan, is presented by Acclaim Benefits to provide additional information to Acclaim Benefits' customers and is not a part of Acclaim Benefits' description of controls placed in operation. The information in Section IV has not been subjected to the procedures applied in the examination of the description of controls related to the processing of transactions for Acclaim Benefits' customers and, accordingly, we express no opinion on it.

This report is intended solely for use by the management of Acclaim Benefits, its customers, and the independent auditors of its customers.

Minneapolis, Minnesota
March 31, 2009

McGladrey & Pullen, LLP

II. ACCLAIM BENEFITS, LLC'S DESCRIPTION OF CONTROLS

A. OVERVIEW OF OPERATIONS

1. Background

Search Corp, Inc. is a privately owned holding company. Search Corp owns Acclaim Benefits, LLC.

Acclaim Benefits is a Minnesota corporation that provides third-party benefit administration services, including FSAs, HRAs, transportation reimbursement, COBRA, state continuation, leave of absence and post-employment billing.

Acclaim Benefits utilizes custom-developed software to administer reimbursement and continuation services. The custom-developed claims processing, event tracking and billing applications currently operate on Dell PowerEdge servers.

2. Services

Acclaim Benefits provides products and services to facilitate employee benefits administration, including:

- FSAs
- Transportation Reimbursement
- HRAs
- Vision and Hearing Reimbursement
- COBRA/State Continuation
- Post-Employment Billing
- Leave of Absence Billing

3. Systems Overview

a. Applications

Reimbursement Services Application (RSA)

RSA is a comprehensive benefits claims processing and reporting system. RSA was custom-developed by Acclaim Benefits. Acclaim Benefits continues to maintain this system. RSA is the primary software solution used for the administration of FSAs, HRAs, qualified transportation fringe benefit plans and vision and hearing reimbursement. The system provides for reimbursement of claims, grace period tracking, check processing, letter generation, report generation, administration billing, nondiscrimination testing and provides integration with debit card transaction and commuter benefit platforms. Participant account inquiry is facilitated via call center functionality, as well as Web site and IVR integration. The system also allows clients to initiate changes in enrollments, new elections and terminations via the employer Web site.

Continuation Services Application (CSA)

CSA is a comprehensive benefits processing system. CSA was custom-developed by Acclaim Benefits. Acclaim Benefits continues to maintain this system. CSA is the primary software solution for the administration of COBRA, retiree billing, leave of absence billing and state continuation. The system provides for processing of qualifying events, election notification and tracking, coupons generation and premium collection/posting, letter generation, monthly reconciliation, report generation and administration billing. Participant account inquiry is facilitated via call center functionality, as well as Web site integration.

b. Operating Systems

RSA is a client-server application. The application and database reside on the same server. RSA runs on a Windows 2000 operating system. The database system operates under the SQL Server 2000 database engine. The system was developed using Visual Basic 6.0. Acclaim Benefits is running Version 16.2 of the RSA software.

CSA is a client-server application. CSA runs on a Windows 2000 operating system. The database system operates under a Windows 2000 operating system with a SQL Server 2000 database engine. The system was developed using Visual Basic.NET 2005. Acclaim Benefits is running Version 2.3.0 of the CSA software.

The remaining servers utilized for general application management are primarily Microsoft or Novell-based servers. These computers are equipped with consoles, disk drives, disk interfaces, tape drives and communications interfaces.

B. RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT, RISK ASSESSMENT AND MONITORING

1. Control Environment

a. Board of Directors

The Acclaim Benefits board of directors' reviews, approves and advises management regarding corporate plans and policies, and monitors company progress.

The board consists of the following members:

<u>Board Member Name</u>	<u>Institution</u>
Jeffrey Nevin	Acclaim Benefits
Jeffrey Ackerson	Acclaim Benefits
Thomas Singsank	Acclaim Benefits

b. Acclaim Benefits Organization

Acclaim Benefits is organized into various departments based on logical separation of duties and responsibilities. Reimbursement and Continuation Services report to the president and chief operating officer.

Executive officers review and approve Acclaim Benefits' activities and advise management regarding corporate plans and policies.

Management plans and budgets on an annual basis. Management of Acclaim Benefits is the responsibility of Jeffrey Ackerson, president and chief operating officer. Duties are segregated between Acclaim Benefits and its customers. The key individuals responsible for the daily operations of Acclaim Benefits include:

<u>Individual</u>	<u>Position</u>
Jeffrey Ackerson	President and Chief Operating Officer
Julie Thompson	Manager, Continuation Services
Thomas Singsank	Secretary and Treasurer
Rebekah Marczak	Manager, Reimbursement Services
Janeane Turner	Marketing Manager
Brenda Svestka	Sales Manager
Scott Coulthart	Technical Services Manager

The core management team of Acclaim Benefits is responsible for the day-to-day operations, as well as the future direction of Acclaim Benefits. Senior management meets monthly to review, approve and advise management regarding corporate plans and policies and monitors company progress. Acclaim Benefits prepares a fiscal budget each year that is used to manage the organization's fiscal matters for the coming calendar year.

c. Responsibilities

Acclaim Benefits' organization for Information Technology (IT), professional services and operations has been categorized into the following functional areas:

- IT development team

Acclaim Benefits' IT development team is charged with providing definition, programming, testing and support related to both existing software applications and requested application-level enhancements. Team members may work independently, in teams or in partnership with contracted help to achieve the development goals set forth by various business stakeholders.

- IT infrastructure team

Acclaim Benefits' IT infrastructure team is charged with providing diagnostics, maintenance and support related to both existing hardware, communications and networking systems, and requested/necessary upgrades or installations of new systems. Team members may work independently, in teams or in partnership with contracted help to achieve the goals set forth by various business stakeholders.

- Reimbursement Services administration

Reimbursement Services claims administration is responsible for coordinating and processing the payments of incoming FSAs, HRAs, transportation reimbursement and vision and hearing claims using RSA. Members of the reimbursement services administration team do not perform application system maintenance or development functions.

- Continuation Services administration

Continuation Services is responsible for coordinating and processing payments for incoming COBRA, retiree billing and leave of absence insurance payments using CSA. Members of the continuation services team do not perform application system maintenance or development functions.

- Billing

Group premium bills are input by the reimbursement services administration and the continuation services administration groups monthly; however, the actual production and distribution of invoices is completed by the Finance Team. The reimbursement services and continuation services staffs are responsible for input and update of fee information into both applications.

- Accounting

Accounting is responsible for financial management of the company, along with the following activities:

- Preparing financial statements and reports
- Performing customer billing, accounts receivable and collection functions
- Performing accounts payable functions

Groups are responsible for funding their claims. The Accounting department works with clients to assure group accounts used to pay claims are adequately funded to meet payment obligations to providers. Accounting performs a monthly reconciliation of the funding accounts.

d. Personnel Policies and Procedures

Personnel policies and procedures are documented in the employee handbook. New applicants are required to complete an employment application listing qualifications and references. New applicants are also subject to background checks that include education and employment verification. Background checks also include criminal court searches for all positions. An "at will" employment arrangement will not be entered into without the completion of an application and satisfactory background review. Acclaim Benefits maintains employee job descriptions describing primary job functions and responsibilities.

Personnel policies and procedures are communicated initially during new employee orientation and to all personnel as changes occur. Each employee must confirm, in writing, that they received the employee handbook.

Training of personnel is accomplished through supervised on-the-job training, seminars and in-house courses. Certain positions require completion of specific training. Employees are cross-trained, where practical, to ensure sufficient backup in the event of an unexpected termination, resignation or promotion.

Employees are immediately removed from their positions when terminated or discharged. Card-keys are obtained from terminated employees, and user accounts are disabled. An informal checklist is used when an employee separates from the organization to ensure all appropriate materials and information is returned to the company.

e. Written Standards and Procedures

Written standards and procedures exist for processing claims and events on the RSA and CSA systems.

- Operations procedures

The Operations Procedures Manual contains the standards and procedures for operator training, system operations, shift responsibilities, job run procedures with restart/recovery instructions, workflow standards, and documentation and tape librarian procedures.

- User documentation

Internal user procedures for RSA and CSA are documented and offer in-depth descriptions for the use of various system functions and the maintenance of system parameters.

- Development standards

Written standards and procedures exist for systems development, database management and the generation of reports from RSA and CSA. This includes descriptions of program change procedures, including authorization, assignment and tracking, coding conventions, testing conventions, code review, documentation, user verification and sign-off, and the software library update process.

- Segregation of duties

Duties are segregated within Acclaim Benefits. The functions of software development and maintenance, claims processing, event processing and computer operations are reasonably separated. Access to administer network components, operating systems and applications is limited to Operations staff based on their job responsibilities.

The following segregation of duties controls exist between the Acclaim Benefits' business units:

- Data entry personnel do not perform computer operations.
- Data entry personnel do not perform balancing and reconciliation activities.
- Claims processors do not audit or perform quality assurance of claim activities.
- Data entry personnel do not perform programming activities.
- Only assigned personnel perform network administration functions.

2. Risk Assessment

Adherence to controls is reviewed and monitored through a combination of ongoing departmental self-reviews. These reviews encompass monitoring account administration and operations. Results of the various assessments are communicated to management and the board of directors.

Oversight activities are generally performed by functions independent from operations and employee benefits administration.

3. Monitoring

Management reviews a variety of monthly reports to compare actual performance to budgeted and planned performance.

C. GENERAL COMPUTER CONTROLS

General computer controls include controls over computer operations, access, and systems development and maintenance. General computer controls, if suitably designed and operating effectively, provide an environment for the development and processing of applications to achieve specific application control objectives.

1. Controls Over General Computer Operations

a. Overview

RSA and CSA are operated by Acclaim Benefits at their processing facility in Minneapolis, Minnesota. Balancing and reconciliation procedures are performed by Acclaim Benefits employees other than the computer operations personnel.

The operational controls discussed below refer to operations at Acclaim Benefits as they relate to RSA and CSA. Acclaim Benefits is responsible for all computer operations activity related to both applications, including transaction processing, performance and capacity planning, tape backup processing and output distribution.

b. Problem Logs and System Enhancements

Acclaim Benefits performs all upgrades to RSA and CSA and the supporting technology infrastructure. The IT team documents system problems, identifies the problem and works with the vendor to request needed upgrades.

c. System Monitoring

The IT department is responsible for maintaining and updating all software used by Acclaim Benefits. System administration personnel monitor operations remotely during off-hours and are notified of problems through cellular phones and other remote notification services. The IT staff monitors system performance, reviews security reports, logs problems and implements system changes as directed by management. Operations staff verifies and monitors that data transmissions are complete and secure. Data transferred from other systems is subject to appropriate validation during processing. Server capacity is monitored regularly by checking hard disk space. Maintenance is currently performed after-hours and on weekends.

Acclaim Benefits' IT group uses an automated tool to monitor the critical servers on an hourly basis. The critical servers are equipped with a 24x7 paging system to notify the relevant IT staff if any of the servers go down. The network administrator accesses Microsoft (MS) Event Viewer when problems occur.

d. Backup of Production Data

A third-party backup service is used for daily backups. Acclaim Benefits has contract with Digitiliti, Inc. a remote backup service. Daily backups of all data are transmitted through a secure connection to a third party and stored at their main Minneapolis location and their backup location in St. Paul. A backup of all changes is also stored on a local backup server at Acclaim Benefits. Mission-critical files are stored on the servers, not on local workstations. Servers and workstations have antivirus software installed and activated. All servers are backed up daily. Backup tapes are used for storing programs and data. Access to the tapes is restricted to only personnel that are authorized access to the data center. On-site tape media are stored in the tape library. Duplicate daily backup tapes are sent off-site for retention. Each day tapes are tested for integrity.

e. Antivirus

Servers and workstations are protected by antivirus software with the most current signature. Acclaim Benefits runs Computer Associates' eTrust Antivirus products on servers and workstations. Each PC and server connects to the antivirus vendor's server hourly for signature updates.

f. Intrusion Detection System (IDS)

Acclaim Benefits contracts with a third party for IDS services. An external-facing IDS is monitored by a third-party vendor, who reports to IT personnel on a regular basis regarding attempted attacks, unauthorized access and other vital Internet activity. In the event of an actual Internet attack on the network, IT staff receives an e-mail notification from the third-party vendor informing them of the access attempt. A weekly e-mail is sent to the technical services manager reporting the activity over the last week.

Acclaim Benefits contracts with a third party for external intrusion testing. The penetration testing is done on an annual basis and a report is provided to the technical services manager.

g. Environmental Controls

Critical systems and servers are protected by an uninterruptible power supply (UPS). All systems are powered through the UPS for an average of 15 minutes. In addition, the UPS provides surge protection and power leveling.

Environmental controls are in place for the data center and are monitored by a third party 24x7. If the temperature exceeds operating standards, an automatic page is sent to relevant IT staff. A redundant five-ton HVAC system is on the roof of the office complex should the primary HVAC unit fail.

The data center is equipped with a two-stage dry pipe fire suppression system requiring both heat and smoke to activate. Pipes are armed in the event heat or smoke is detected in the data center, but do not activate. The second detected indicator triggers the fire suppression system.

Handheld fire extinguishers are placed throughout the facility and are inspected annually.

h. Insurance Coverage

Acclaim Benefits maintains insurance coverage against major risks. Insurance policies include an error and omissions bond, employee fidelity bond and a financial institution bond. Coverage is maintained at levels Acclaim Benefits management considers reasonable given the size and scope of its operations.

2. Controls Over Access

a. Overview

Acclaim Benefits maintains physical security controls over the operations facility. RSA and CSA are both processed at this facility. The facility is located in a multitenant office complex with an exterior door that is secured during non-business hours. Within this office suite, a receptionist is located at the main entrance to monitor entry to the Acclaim Benefits office space. All critical computer components, including file servers with access to user information, are secured within a computer room.

b. Logical Security

Acclaim Benefits personnel must first be authenticated to the network domain prior to initiating a session with RSA or CSA systems. Authorized users are assigned unique user names and privileges to the RSA and CSA based on their job requirements. Technical personnel manage the network, including the addition and deletion of users. Network security requires each employee to be uniquely identified and authenticated. Passwords are required to authenticate network users. User passwords and terminal capabilities are controlled by security administration. Terminated users are identified and removed from the network based on communication from appropriate management and Human Resources verification.

Network architecture supports segregating the network traffic to reduce the likelihood of eavesdropping. Violation logs are generated for each system on a daily basis and reviewed by the network administrator for irregular activities. Security policies are documented and communicated throughout the organization.

1) System Security Administration

The IT infrastructure team is responsible for assigning and maintaining network access privileges to employees based on their assigned responsibilities.

Logical security measures include the use of Windows, SQL and source code security (Visual SourceSafe [VSS]) to control access to production data files and library systems. Access to files on the network and claims system is controlled through individual user IDs and passwords. Password security has been established for the operating system,

source program maintenance, and RSA and CSA. A system security administrator is identified for each critical system to administer security, ensure compliance with established standards and review security violation reports. Users are assigned unique user IDs and passwords. Each user's network profile determines the applications the user can access.

2) Local Area Network (LAN) Access

LAN access is controlled by MS Windows Active Directory security. Users authenticate to the network and then to RSA and CSA. Policy settings in Active Directory force users to change their passwords every 45 days, lock out users after three failed login attempts and require a complex password with a minimum length of eight characters.

Remote access to the network is controlled. Remote users can connect to the internal network through a secure virtual private network (VPN) connection or through Citrix.

3) RSA Administration

The RSA administrator sets up and removes users from the system. When a new employee requires access to RSA, the hiring manager requests the system administrator to create a unique user ID and password.

The RSA administration is designed with logically separated menus and transaction codes specific for certain tasks. Authorized users are assigned to these menus and transaction codes based on their job requirements. Access to RSA is managed through the use of unique user IDs and passwords. Quarterly security reviews are performed to verify RSA users are in the appropriate roles and segregation of duties is maintained.

4) CSA Administration

The CSA administrator sets up and removes users from the system. When a new employee requires access to CSA, the hiring manager requests the system administrator to create a unique user ID and password.

The CSA is designed with logically separated menus and transaction codes specific for certain tasks. Authorized employees are assigned to these menus and transaction codes based on their job requirements. Access to CSA is managed through the use of unique user IDs and passwords. Quarterly security reviews are performed to verify CSA users are in the appropriate roles and segregation of duties is maintained.

5) SQL Database Access

RSA and CSA event and claims data is stored in an SQL database. The SQL database has file permissions set to restrict access to authorized users.

6) Source Code Access

Production source and object code for RSA and CSA is restricted to authorized personnel. Programming code for RSA and CSA is stored in the VSS tool. Programmers are assigned a unique user ID and password. They must authenticate themselves before they can check out and update programming code. Access to programming code for RSA and CSA is limited to authorized users.

c. Internet Security

An externally facing IDS is monitored by a third-party vendor who reports to IT personnel on a regular basis regarding attempted attacks, unauthorized access and other vital Internet activity. In the event of an actual Internet attack on the network, IT staff receives an e-mail notification from the third-party vendor informing them of the access attempt.

A firewall is strategically placed to control and filter information traffic to and from the Acclaim Benefits network. The following controls have been implemented to secure the network:

- Firewall rules restrict access to production servers and other network resources to authorized users.
- A firewall interrogates network packets to minimize the possibility of unauthorized persons obtaining access to secure network resources.
- The administration of production servers is restricted to only designated users, primarily system administrators.
- The security administrators perform changes to the firewall rules and routers. The firewall change management and monitoring process is informal.

Acclaim Benefits contracts with a third party to perform external intrusion testing.

d. Facility Access

Access to the computer room is controlled by a two-tier security strategy. Physical security is controlled by a proximity card system. Readers are installed at all key entry points and limit access to only authorized personnel. Additionally, a receptionist staffs the main lobby during regular operating hours. When the receptionist leaves for the day, the main doors are closed and require a proximity card for entry.

Physical security controls restrict access to the data center. The data center is located inside the primary office building. The doors to the data center are kept locked at all times and access is controlled through the use of proximity card readers. Only authorized IT personnel and senior management have card access to the data center. The corporate IT department sets up personnel with the appropriate level of physical access.

The check printing room is located inside the primary office building. Access to the check printing room is controlled by the corporate Finance department and is granted to employees with check printing privileges.

The IT Operational room is located inside the primary office building. Access to the IT Operational room is controlled by the corporate IT department. This room must be accessed in order to access the data center. Doors to the IT Operational room are kept locked at all times and access is controlled through the use of proximity card readers.

3. Controls Over Systems Development and Maintenance

a. Overview

1) Operating Software

New operating software releases are controlled. Technical support staff does not modify the Windows or SQL operating systems, but applies new releases and fixes as needed and provided by the vendor. Acclaim Benefits relies on standard application documentation provided by the software vendors to support the Windows and SQL operating systems.

2) Application Software

The internally developed RSA and CSA software is used to process claims and events. Source code changes to production are controlled. Source code changes are restricted in access to authorized personnel and are approved by management prior to their transfer into production. Requests for modification to existing applications are logged in a change request system and reviewed and approved by the development team lead. A work order system is used to track and implement changes promoted to production. When a change is ready for implementation, the developer completes a Change Implementation Request Form to request the move to production.

The Help Desk system is used to request and track infrastructure changes. Emergency break/fix requests are captured in the Help Desk as well.

b. Systems Development and Maintenance Controls

Acclaim Benefits follows a system development methodology to request and implement any changes into the production environment. A formal change management process is followed to authorize and approve changes to production. A program change request process is followed to document new systems requests, which are approved and prioritized by development management. The following description of systems development and maintenance controls applies to RSA and CSA.

1) System Modification

Development staff support and modify RSA and CSA. Changes to the RSA and CSA systems involve program fixes or enabling new functions. New system functions are promoted to production after they have been authorized and tested. System changes are recorded in the change request project database, which tracks the change request ID, requestor, date of the request, and description of the change, database affected and priority.

Application development is responsible for designing and implementing architectural changes to RSA and CSA. This group does not perform system software maintenance changes to production data files or migration of programs to production.

Program changes are tested prior to implementation into production. Users perform user acceptance testing to review and approve the functional changes. Program testing is performed on test files on the testing system using copies of production data or test data created specifically for the new program changes. Previous versions of RSA and CSA are backed up daily.

2) Source Management

Source and object code changes are controlled. Acclaim Benefits uses MS VSS for version control of its source code. Access to source and object code is restricted to authorized personnel through user privileges within VSS. Once project requirements have been defined and approved, the developers check out the latest version of the source code.

3) Systems Development Standards

Acclaim Benefits follows a systems development methodology to request and implement any changes into the production environment.

4) Requests for Modifications

Requests for modifications to existing systems and programs normally originate from users. A change request system is used to track new development, emergency fixes and routine maintenance. Management-level staff may submit a request, which may originate from a user, programmer or other staff, to change the system.

Users prepare a service request and submit the request to the development team. The request is logged and assigned a unique control number.

5) Approval of Requested Changes

On a case-by-case basis, management reviews the request and determines the scope and cost/benefit of the change. Management reviews and prioritizes the requests. After prioritization, requests are assigned to a programmer. Management assigns requests to programming staff based on the priority level and skill set of available programmers and their current workload.

6) Program Modifications

Programmers develop, edit and compile code. Access to these functions is limited to development staff only.

Procedures for program modifications differ depending on the nature of the change. Program "fixes" are typically more immediate in nature than program enhancements. A program enhancement is defined as adding functionality.

Each process follows the standard change control process; however, depending upon the urgency, some changes may be performed immediately and reviewed after completion.

7) Program Testing Controls

Various levels of testing are performed to ensure quality requirements are met prior to the release of the application into the production environment. The levels of testing are:

- Unit testing
- User acceptance testing

Unit testing is performed by the developer assigned to complete the program change. Unit testing is performed prior to the code being moved to the designated directory for installation. The developer ensures the program performs in accordance with the approved business and technical specification.

Users perform the user acceptance testing to review and approve the functional changes.

8) Release Scheduling

Acclaim Benefits schedules release based upon business need and does not follow a specific release schedule. Planned changes are scheduled for deployment one month in advance. Emergency changes are handled on a case-by-case basis by management.

9) End User Acceptance

Modifications and new development are tested by both developers and applicable end users per the specified test plan. Upon verification of the modification or new development, quality assurance coordinates user acceptance testing and forwards the test plans to the appropriate users. End user testing is performed in an isolated environment where the Quality Assurance department can set up and run focused tests.

10) Migration to Production

Only limited IT personnel at the Help Desk are assigned responsibility to migrate programs into production. When an authorized user has completed a migration to production, the source code is automatically removed from the staging library and put into production. The previous version of source code is on tape in the event it needs to be restored.

The Help Desk staff is assigned responsibility to migrate SQL program changes into production. Database logging is enabled.

11) Conversions

When new clients are obtained, plan information is converted to the Acclaim Benefits format using a controlled process. Typically, members of the development staff coordinate with administration to map all of the plan information into the format usable by the application.

c. Documentation Controls

Acclaim Benefits maintains technical and user documentation for RSA and CSA. When changes have been made to an application, these changes are incorporated into the manual that is distributed to the appropriate users and IT staff. Acclaim Benefits RSA and CSA technical documentation is available only to authorized personnel.

D. REIMBURSEMENT AND CONTINUATION SERVICES CLAIMS PROCESSING DESCRIPTION

The information provided relates to the various controls affecting the administration of reimbursement and continuation services. Acclaim Benefits outsources the mail distribution and statement generation to a third-party vendor, Loffler Group. Acclaim Benefits contracts with Lifeworks for the initial incoming mail processing, scanning and batching of incoming reimbursement claims.

1. Reimbursement Services

a. FSA Processing

1) Client Setup

Acclaim Benefits has documented procedures for the client setup process. Programmed controls are in place to detect missing data. The service consultant (SC) and/or account manager (AM) assigned to a new account coordinates with the client to complete the Plan Specifications Form and to help the client with designing the plan document and summary plan description. For new clients, the SC/AM requests a new client ID from the Finance department. A client ID is required before the client can be set up in RSA for the administration of reimbursement accounts. The SC/AM generates a completed Finance Form and routes it to the Finance department to set up the client in Solomon Financials.

The SC provides the Plan Specifications Form to the AM to set up the client in RSA. The AMs and SCs work together to administer the needs of the clients. Automated system controls in RSA require that key data elements for the client setup include: client address, effective dates, coverage period dates, plan maximums and minimums, locations and contact information.

Acclaim Benefits has designed controls to approve new client setup documentation. Client setup is performed using a Client Checklist to ensure completeness of each step being performed. After the client demographic information is entered, the specific plan information is entered for the client. Every client setup is reviewed by another AM and a verbal or e-mail approval is sent to the AM.

The SC/AM works with the client to perform annual plan reviews and to inform clients as regulatory changes occur.

2) Plan Setup (FSA and HRA Plans)

The AM creates the details for the plan information specified in the Client Setup Forms. Only the account plans selected by the client are set up. Online data entry is structured through the use of preformatted screens and prompts. The reimbursement account plan options include dependent care, health care, qualified transportation and HRAs. The

information entered includes the applicable plan year, the client information, plan/participant eligibility and minimum/maximum contribution amounts for the selected reimbursement accounts.

After the initial plan setup, the schedule information is entered. For each client, the appropriate reimbursement cycle and pay cycle (annually, biweekly, monthly, quarterly, semimonthly, weekly) is entered. The reimbursement cycle determines how often the client wants the claims to be batched and processed. The pay cycle determines how many payroll cycles and the contribution amounts collected from each participant's payroll check to meet the participant's elected annual contribution amount. Participant enrollment forms are reconciled to the data entered into RSA to verify accuracy and completeness. The plan funding (contribution amounts) are managed at the participant level. This data is populated into RSA through a secured file load from the employer Web portal. The second method for the participant setup is through a manual process. Participant enrollment forms are received via the secured Web portal, mail or fax. The participants are added into RSA by the enrollment specialists. The mailed forms are scanned into optical character recognition (OCR) and saved to the client folder on the network. After the mailed forms have been verified on the network, the paper copies are destroyed. System controls in RSA require that key data elements for the client setup include address, effective dates, coverage period dates, plan maximums and minimums, locations and contact information.

3) Participant Eligibility/File Load

Procedures for the input of participant eligibility are documented. Policies and procedures on electronic data feeds are documented and updated periodically. Clients can submit enrollment, eligibility and payroll deduction information via an electronic data feed. Clients send their data through the portal Web site or a secure File Transfer Protocol (FTP). Once a client has been set up on the Web portal and in RSA, the data is imported through Data Junction. Various edit and eligibility checks are performed by the application. Controls used to maintain file integrity include the use of control totals in the files or the client will provide the control totals to the shared Data Junction mailbox in a separate e-mail. Control totals are used to verify the number of records and dollar totals for the clients' participants' funding contributions.

Acclaim Benefits follows a standard procedure for the loading and processing of eligibility files. Clients upload eligibility files and participant changes to the client portal. The AMs pick up the file from the portal and save it to the network. Then Data Junction processes the file. Once the file is loaded, Data Junction sends an e-mail notification to the Data Junction inbox. The AM reviews the totals. The file data is verified and, if problems are identified, the AM will work with the client to resolve any issues.

4) Participant Enrollment

The procedures for the input of participant enrollment are documented. The AM is responsible for the initial setup of participants into RSA. The initial participant information is received in one of three ways, depending on the client's technology capabilities. The receipt format of the information determines the method of entry into the system:

- Completed enrollment forms—enrollment forms are received on the Acclaim Benefits forms or through a client-designed enrollment form. The enrollment form information is manually keyed into RSA by an AM and is reviewed by a manager.
- Electronic data file—Acclaim Benefits populates a field-mapping sheet with the client's assistance to correctly identify how the data is entered into RSA. This mapping sheet is given to the Information Systems (IS) department, which loads the electronic file directly into RSA database.
- IVR/Web online enrollment—the client sends an eligibility file to Acclaim Benefits to import into RSA for the new plan year. The client determines the open enrollment period during which the client's employees can log onto the Web enrollment option or call into the IVR enrollment option to make their election for the new year. A participant will access the Web site to select the plans they wish to participate in and the contribution levels for the year.

After the participant data is loaded into RSA, the account manager reviews 100 percent of the manual entry enrollment forms and selects a random sample of the automated loads to verify the accuracy. The AM performs a subsequent review of the completed enrollment forms. If data entry errors are detected, the entire participant submission is reviewed and corrected. Participant enrollment forms are reconciled to the data entered into RSA to verify accuracy and completeness.

New participants are added during the annual client enrollment process or during the occurrence of a qualifying event. Examples of some qualifying events are marriage, employee hired with the client or the birth of a child. New enrollments and change information is received through fax, mail or is included on the client's electronic data file.

Information entered into RSA from the enrollment forms varies in format by client, but generally includes the following:

- Personal information (name, date of birth, Social Security number, address)
- Plan information (applicable plan type, coverage level, effective date, per-pay-period amount)

After entering the basic information, the AM enters the specific plan enrollment data for the participant. For each plan the participant is enrolled, the AM verifies eligibility and enters the effective date, total annual contribution amount, and per-pay-period amount.

The AM also updates the plan information for terminated participants. The AM enters the termination date and flags the plan to stop contributions. The participant status is updated with the termination status to prevent claims from processing after the participant's loss of coverage date.

Account Summary Reports, Payroll Deduction Reports (if applicable) and Possible Termination Reports (if applicable) are sent to the clients showing all changes (additions, election changes and terminations) that have occurred for the previous period. These reports are delivered to the client through the employer portal or hard copies are mailed or faxed depending on the client's preference.

b. Claims Submission and Adjudication

1) Reimbursement Account Claims Entry

Policies and procedures on claim entry are documented and updated periodically. Participant claims are sent to Acclaim Benefits in three methods, mail, fax and e-mail.

Mailed claim forms are sorted and batched by a third party. Acclaim Benefits scans each batch into the OCR station. After the batch has been scanned, the batch is verified to assure all pages were captured. The batch is imported into the Fortis document imaging software for validation.

The data is imported into Fortis through an automated process occurring every 15 minutes. Once in Fortis, claim batches are reviewed for completeness and number readability in OCR by the claims processors. The batches are reviewed for signature, Social Security number, zip code and any questionable characters. The batch is then released out of Fortis and imported into RSA.

Faxed claims are imported directly into OCR and verified in Fortis; valid claims are released by Fortis for import into RSA. All claims that have questionable data are manually reviewed before being released to RSA. Claims are subject to a number of edit checks and verification checks as they are adjudicated. All claims are audited for eligibility and accuracy.

Claims that are submitted through e-mail to the generic mail account are handled by the claim specialist and follow the fax process.

The hard copy batches are filed, retained for 60 to 90 days, and then shredded and destroyed. However, the electronic images are stored indefinitely on the network.

2) Reimbursement Account Claim Processing

Claims have various automatic edit checks at claim entry and at claim processing. Procedures for claims processing are documented. Claims are manually reviewed by claim specialists to ensure the claim request meets the eligibility guidelines of the plan. Claims that do not meet the plan requirements are denied. A denial notification is automatically generated and mailed to the participant.

During the claims import process from OCR to Fortis, Fortis reviews the claim against the participant data in RSA. The validation process checks the Acclaim Benefits participant ID/Social Security number to the zip code for the participant and reviews the plan effective date and end dates to the claim dates. Acceptable claims are passed into a processing queue, while rejected claims are moved into a verification queue and must be manually validated by a claims processor. Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.

The claims processor researches errors and reviews claims and supporting documentation to validate and process the accepted claims. Key elements in a claim are:

- Signatures
- Presence of a name
- Acclaim Benefits participant ID number and zip code matching participant data in RSA
- Itemized, third-party supporting documentation for all claimed amounts
- Matching dollar amounts between receipts and claim form
- Description of service on receipt
- Dates of service
- Provider identification on receipt
- Fund availability

Mailed nonstandard documentation from denial letters, debit card receipts or loose documentation without the supporting claim forms are rejected by the Fortis (OCR) system and images must be manually verified/reviewed by the claims processor. Eligibility issues, such as incorrect Social Security numbers, are reviewed. As these claims are corrected, they are passed into the processing queue of RSA.

During claims processing, the claims processor validates the personal information, eligibility information, special comments and the general claim information. The claim is reviewed for eligibility based on the participant's documentation and the processor must decide whether to accept the entire claim or part of the claim. If a claim is fully or partially denied, the processor enters the denial code to document the reason for denial. Reimbursement claims can also be pended to await further information. All claims can be reviewed through a historical audit trail in RSA that shows the specific activity, the date/time of the activity and the analyst who performed the activity.

3) Debit Card Adjudication Process--FSAs

Acclaim Benefits relies on a third party, Metavante, to issue and process stored value cards for FSAs. Metavante processes the transactions and sends data to Acclaim Benefits during a nightly update process.

RSA assigns a claim number to the debit card transactions. Claims are entered using unique claim numbers, which prevents entering of duplicate claims. Debit card transactions are adjudicated automatically through the Metavante Benefit Payment System for standard transaction purchases set by the client, such as co-pays for doctor visits and prescriptions. A manual adjudication process is followed for nonstandard purchases on the debit cards.

Debit cards are authorized only for medical and dependent expenses approved per statutory guidelines. If the claim is denied, RSA generates a debit card documentation request letter. Summary letters are mailed to the participants monthly, listing out claims

that need additional supporting documentation to be submitted before the claim can be substantiated. Once the documentation is received, the debit card specialist verifies the expense and either approves or denies the claim. After 60 days from the card transaction date, if the payment is still open and has not been remediated through a repayment, substantiation or counterbalancing claim, per employer approval the debit card is disabled for the remainder of the plan year.

4) Claim Adjustments—Reimbursement Services

The CSRs and AMs address participant inquiries that are received via phone and e-mail. The questions are recorded in the Call Log within RSA. The claims facilitator reviews the adjustment requests. The requested payment is either approved or denied, and the claims facilitator sends an e-mail notification to the CSR for communication back to the participant. The claims facilitator then updates the Call Log with explanation of actions taken. Claims adjustments and error corrections are logged and all are subject to the same controls as the original transaction.

5) Claim Auditing/Verification (FSAs, HRAs, Debit Card Processing)

Acclaim Benefits has documented reimbursement claim audit procedures. The claims processor checks the claim form against the supporting documents to verify the claim qualifies to be paid. The claims processor reviews the claim data in Fortis and RSA and changes/updates the information as necessary. The claims processor checks the receipts for provider name, date of services, amount and description of service. They also verify the presence of a signature on the claim form and verify the requested amount on the claim form.

RSA performs system checks on effective date of participant, benefits coverage and plan eligibility. Other checks include verifying the annual amount total.

All approved claims are reviewed and subjected to an audit process that is managed by the claims lead. A percentage of claims (5 percent) processed by each claims processor is reviewed for accuracy each month and results are reviewed with each of the processors. For new processors, 100 percent of the claims are reviewed until a minimum of 98 percent accuracy is being maintained. Future reviews are made on a sample of 5 percent of the claims processed by each individual.

RSA runs a weekly report to select a random sample of 5 percent of claims to audit for each employee. The claims facilitator exports the report into an MS Excel spreadsheet. The claims facilitator audits all claims with the exception of claims they processed. The claims facilitator reviews the claim in Fortis for dates of service, amount paid, claim signature and benefit code. Acclaim Benefits maintains a report of audit results, which is shared with individual employees. A summary of the claim audited and the audit results is maintained for each employee/processor in an MS Excel spreadsheet with detailed tabs for each month.

6) Reimbursement Account Participant Payments

After the claims specialist approves a claim for payment, a nightly process is run in RSA to review claim eligibility (participant amount available), client plans and payment schedules based on the client's reimbursement schedule. The payment batches are reconciled by the Finance coordinator. Then the batch count is reviewed for processing errors and check counts by client.

7) Participant Web Portal

Acclaim Benefits has documented procedures for setting up participant access to the individual participant portal. A participant's employer sends a preliminary participant listing with the participant's name, participant ID number/social security number, date of birth and e-mail address. The setup file is then used to authenticate the participant's access requests.

When a participant accesses the portal for the first time, they are asked to authenticate against the employer file by providing their, Social Security number or participant ID, date of birth and zip code. The participant information is verified against the participant data provided by the employer. If everything is a match, the user is sent an e-mail containing an authorization number that is used to validate their identity and grant them access into the system. The authorization number contained in the registration e-mail is logged in the participant database.

The registration e-mail contains a link back into the participant Web site system. This link has the user and authorization ticket embedded in it. If the participant that receives this e-mail did not request access to the system, they are instructed to contact Acclaim Benefits immediately. Once the verification link is clicked the participants account activated. Participant Web site claim history reporting is linked to the RSA application data for output accuracy and completeness. Participants access claim history through a secured Web browser. The participant portal is secured through Hypertext Transfer Protocol Secure (HTTPS) Secure Sockets Layer (SSL) security.

c. Accounting—Reimbursement Services Plan Funding and Billing

1) FSA and HRA Plan Funding

Accounting receives account funding via wire transfer, auto debit or check. Client account funding is accurate and complete. Once funding is received, Accounting enters a release date in RSA; this releases the check for printing. The checks are printed by the Finance department. When the checks are printed, a system e-mail is sent to the CSR with the check counts by client. The CSR verifies the check count and returns an e-mail notification of count accuracy before the checks can be collected by Loffler Group for distribution to the participants. The direct deposit notifications are printed. The Automated Clearing House (ACH) funding transactions are reported directly into RSA. The wire and paper checks are entered into RSA manually by the banking coordinators (Finance).

2) Client Billing

Administrative service billing is dispersed to each client. The monthly billing is defined through the service contracts with the client. Fee settings are entered into the system during the initial client setup by the billing specialist. Fees are either fixed or variable. Fixed fees are based on monthly flat fees, minimum fees, setup fees, etc. Variable fees are based on fees per employee per account.

Invoice generation is generally performed monthly. The invoice amount is originated in RSA. A file containing billing activity is pulled from RSA into Solomon Financials where invoices are produced and payments received are tracked. Client billings are reviewed every month by the billing specialist to validate accuracy of the billing statements. The invoices are mailed monthly to the client. When the payments are received back from the clients, the receipts are recorded and tracked through Solomon.

2. Continuation Services Administration

a. COBRA Account Setup and Enrollment

1) Client Setup

Acclaim Benefits has documented procedures for the client setup process. The SC meets with the client to review the COBRA Plan Specifications Form. The Plan Specifications Form is used to set up the carriers, rates and administrative process in CSA. The SC pulls the proposal from the marketing folder. The proposal is used to set up the appropriate fees in CSA and to complete the Administrative Services Agreement. When sending the Administrative Services Agreement to the client, the Business Associate Agreement is also sent. For new clients, the SC requests a new client ID from the Finance department. Acclaim Benefits has designed controls to approve new client setup documentation. A client ID is required before the client can be set up in CSA for the administration of continuation services.

The SC provides the Plan Specifications Form to the AM for setup of the client in CSA. The client ID number is required for setup in CSA. The client ID number is a unique client identifier. Automated system controls in CSA require key data elements for the client setup, include; address, effective dates, locations, contact information and billing setup information. Client setup is performed using a Client Checklist to ensure completeness of each step being performed. After the client demographic information has been entered, the specific plan information is entered for the client. System controls in CSA require that key data elements for the client setup include address, effective dates, coverage period dates, locations and contact information. Every client setup is reviewed using peer audit and an e-mail or verbal approval is sent back to the AM.

The SC and AM work with the client to perform annual reviews, make rate and/or plan changes, coordinate open enrollments and to inform clients as regulatory changes occur.

2) Plan Setup

The AM creates the detail for the COBRA accounts specified in the Client Setup Form. Only the client's specific plans are set up in CSA for COBRA continuation. Online data entry is structured through the use of preformatted screens and prompts. The types of

plans that can be continued through COBRA include medical, dental and vision insurance, and EAP and FSA plans. Life insurance options are available through Minnesota state continuation and retiree insurance plans are available for certain clients. Rates are entered for participant-only enrollments, as well as participant plus dependent enrollments or dependent-only enrollment.

3) Participant Eligibility

The client sends notification of qualifying events to Acclaim Benefits via fax, e-mail and client-secure FTP or through the employer Web portal site. The continuation specialists then set up the potential participant in CSA. A letter detailing the available plan information and eligibility and due dates must be sent to the eligible participant within 14 days of the notification of the qualifying event from the client. The client notifies all insurance carriers of the discontinuation of active coverage for all employees and dependents experiencing qualifying events.

The qualifying events that generate offers for COBRA coverage are determined by COBRA law and include events for the employee such as termination or a reduction of hours and dependent events such as death of the employee, divorce and loss of dependent status.

4) Participant Enrollment/Management

Acclaim Benefits follows standard enrollment procedures. After the employee information is entered into CSA, an enrollment package is automatically generated by the system. The enrollment package includes a welcome letter, a COBRA enrollment form, a COBRA waiver form, a list of employee legal rights and a HIPAA certification form, if this service is provided for the client.

A Letter History Log is maintained for all packages that have been requested and when the letters were sent out. All letters distributed are managed through the distribution center. Acclaim Benefits' practice is to mail out the enrollment package within two to three days of notification of the employee termination, although the COBRA legal requirement is within 14 days.

All enrollment packets are logged in CSA and tracked through an MS Excel spreadsheet for the distribution of packets to the potential participants. In support of the enrollment packet distribution, a scan is made of the enrollment packet envelope identifying the recipient and date of postmark for each of the packets distributed. A list of the enrollment packets sent and the scanned distribution proof are saved to the network.

Qualified beneficiaries who opt for COBRA coverage must send in the enrollment form to Acclaim Benefits within a 60-day window. These forms are sent to a lockbox (if a payment is included) or directly to Acclaim Benefits. The qualified beneficiary also sends the waiver form within 60 days to confirm that they will not be enrolling in the COBRA coverage. If there is no response from the qualified beneficiary in the 60-day grace period, their COBRA enrollment period expires and CSA automatically cancels them for failure to respond.

Qualified beneficiaries must send the enrollment form and check for the first payment (first payment with enrollment form is optional) to the specific Acclaim Benefits' post office lockbox. If a payment is not included with the enrollment form, the form must be sent to

Acclaim Benefits' physical address. The payments are deposited and the original paper enrollment forms, along with the envelope and copies of the check, are sent to Acclaim Benefits for processing. The COBRA specialist enters the relevant enrollment information into CSA. Enrollment information includes enrollee name, date of birth, address, dependent information, Social Security number, enrolled plans and length of time eligible. The payment batches are recorded for the participant by the COBRA specialist.

Qualifying Beneficiary Data Forms (QBDFs) received via mail or via the employer Web portal at Acclaim Benefits are maintained in a paper format and filed by client and then by participant name. Enrollment forms received are also filed in the same manner as the QBDF.

Qualified beneficiaries remain eligible for the COBRA plan as long as payments are sent to Acclaim Benefits every month until the applicable COBRA period expires. At that point, the enrollee is canceled by the CSA for eligibility ending. A cancel letter and HIPAA Certification Form, if this service is provided for the client, are sent to the enrollee. Cancel letters are always generated per COBRA notification requirements.

5) Annual Open Enrollment Process

Rate change notifications are sent out by Acclaim Benefits annually. This rate change notice is sent to the participants 30 days before the plan year-end for the client. If open enrollment information is sent with the rate change letter, the information is sent 60 to 90 days before the plan year-end for the client. If open enrollment information is sent, it is the participant's responsibility to review the plans and elect the plans for themselves or any dependents for whom they wish to continue coverage.

6) Ineligibility: Overspent Accounts

Participants who have received FSA payments in excess of the year-to-date contributions do not qualify for COBRA continuation for the FSA plan through the client. The overspent status is determined at the time of termination. If the premium that can be charged for the remainder of the plan year is greater than or equal to the benefit remaining on the plan, the account is overspent and COBRA is not offered for the FSA plan participant.

7) Retiree Management

The client may choose to offer retirees' insurance coverage to retired employees. In such cases, Acclaim Benefits manages the collection of monthly premiums for the client. The premiums are paid by the participant through the use of an ACH (direct withdrawal) or through a manual check. The plan options available to the retirees are determined by the clients.

8) Leave of Absence Administration

The client may choose to offer leave of absence administration for employees who are on extended leave. In such cases, Acclaim Benefits manages the collection of monthly premiums for the client. The premiums are paid by the participant through the use of an ACH (direct withdrawal) or through a manual check. The plan options are determined by the client.

b. COBRA Payment Processing

1) Participant Payments

A change report is sent to the client and insurance carriers every Monday with all changes that have occurred during the previous week. The change report includes participant address and plan enrollment changes (cancellations and new additions or changes).

Participant insurance premium payments are sent back to the client through a check, wire transfers or ACH deposit as determined by the client's needs.

Participant premiums are due the first of each month, as indicated on the coupon dates. As payments are received, the continuation specialist records the payments into CSA and eligibility is maintained. This process continues until payments stop being mailed or if the applicable COBRA period has expired. CSA generates a payment reminder letter for payments that are 15 days late and a cancel letter automatically after 30 days have passed and no payment has been received. Once this notification is issued, the enrollee's eligibility is terminated.

2) Payment Shortages

Payment discrepancies for payments that do not match the billing amount are automatically managed by CSA. For payments that are insignificantly less (defined as the lesser of \$50 or 10 percent of the total premium) than the amount due on the account, a Premium Shortfall Notice letter is sent for insignificant amounts shorted, with an extended grace period of 30 days allowed for remitting the remaining balance. For large discrepancies, the account follows the rules for nonpayment. The client determines if they will accept an insignificant payment as payment in full or if they will have Acclaim Benefits send out the letter for the insignificant amount requesting payment of the remaining balance owed.

3) COBRA Participant Inquiries

The AM and CSRs address participant questions and requests that are received via phone and e-mail. The questions are recorded in the Call Log within CSA. If there are any questions regarding a discrepancy between the amount for which a participant wrote a check and the amount the bank cashed the check for, a case is opened to research the payment questions. The case is used to track research and actions taken relating to the participants payments. The COBRA payment specialist reviews the adjustment requests and updates the Call Log with an explanation of actions taken. All other inquiries are recorded in the same manner.

c. Accounting—Client Billing

1) COBRA Administration Billing

Administrative service billing is performed for each client. The monthly billing process is defined through the service contracts with the client. Fee settings are entered into the system during the initial client setup by the continuation operations manager. Fees are either fixed or variable. Fixed fees are based on monthly flat fees, minimum fees, setup fees, etc. Variable fees are based on fees per participating members per account, overall election fee, activity based etc.

Invoice generation is typically performed monthly. The invoice amount is tracked through CSA, while the actual payment received is tracked in Solomon Financials. The client billings are reviewed every month by the continuation operations manager to validate accuracy of the billing statements. The invoices are mailed monthly to the client.

E. CONTROL OBJECTIVES AND RELATED CONTROLS

Acclaim Benefits' control objectives are included in the Information Provided by the Service Auditor section of this report. Although the control objectives and related controls are presented in the Information Provided by the Service Auditor section, they are an integral part of Acclaim Benefits' description of controls.

F. CUSTOMER CONTROL CONSIDERATIONS

The basic structure of claims processing is designed assuming that certain controls would be implemented by users to achieve stated control objectives. Acclaim Benefits' customers and their auditors should be aware of the following controls, which are the responsibility of the customer:

- Subscriber/participant numbers

The default process is to set up subscribers/participants with a subscriber ID equal to their Social Security number. Groups have the option of using an alternative ID as a supplemental identifier to be used on ID cards and for internal tracking purposes.

- Disaster recovery plan

All groups should have a comprehensive disaster recovery plan (DRP). The plan should address all areas of group operation, including IS functions and benefits processing. Each group should also develop steps to ensure continued operations during and following an emergency situation. The plan and emergency procedures should be tested periodically and communicated to all group employees.

- Membership eligibility and reconciliation of invoices

Groups are responsible for reviewing and reconciling the Acclaim Benefits-generated bill to ensure eligibility management systems contains current and accurate eligibility information for the group, as well as ensuring that the billed rates are in accordance with the administrative agreement and carrier contract terms.

- Electronic submission

Information provided electronically to Acclaim Benefits from customers should be complete, accurate, properly authorized and in accordance with the provisions specified between Acclaim Benefits and the customers. Data transmissions should be adequately encrypted to provide for privacy of any personal or medical information.

- Manual submission

Information provided manually to Acclaim Benefits from customers should be complete, accurate, properly authorized and in accordance with the provisions specified between Acclaim Benefits and the customers.

- Internet connections used should be protected

Acclaim Benefits' network connections are managed and measures are taken to mitigate the potential for intrusion and penetration. In order for customers to assure the data exchanged has integrity, their data network should be protected by using items such as firewalls, intrusion detection systems and virus protection software. (Note: This is a list of examples, not a complete list of required or recommended protective measures.)

- Control over output

It is the group's responsibility for determining which system reports they need to receive, determining that they have received all reports and ensuring report output is controlled. Output produced by the system is distributed directly to the requesting individual or department.

- Participant eligibility/qualifying event

It is the client's responsibility to notify Acclaim Benefits of the occurrences of changes to the participant eligibility and qualifying events that drive changes to a participant's plan eligibility. Qualifying events include, but are not limited to, the following events:

- Divorce, separation or dependent ineligibility (if client receives this information from the employee)
- Termination
- Reduction in hours
- Medicare entitlement (in certain cases)
- Death
- Bankruptcy
- Notice from employee/qualified beneficiary

- Notification of changes to rates and plan offerings (Reimbursement Services and Continuation Services)

It is the responsibility of clients to provide Acclaim Benefits timely notification of changes to the service plan offerings for all services (FSAs, HRAs and COBRA) and pricing rate changes for COBRA participants. Rate change notifications are sent out by Acclaim Benefits annually.

- Notification of changes to rates and plan offerings (Continuation Services)

This rate change notice should be sent to the participants 30 days before the plan year-end for the client. If open enrollment information is sent with the rate change letter, the information should be sent 60 to 90 days before the plan year-end for the client.

III. INFORMATION PROVIDED BY THE SERVICE AUDITOR

The following information pertains to tests of operating effectiveness performed by McGladrey & Pullen, LLP. Tests were performed only of those controls specifically identified.

Tests of the operating effectiveness of identified controls were performed during the period from April 1, 2008, through March 31, 2009. The nature, timing and extent of tests performed and related test results, along with the specific control objective they were designed to achieve, follow.

A. CONTROL ENVIRONMENT, RISK ASSESSMENT AND MONITORING

Control Objective 1: Controls provide reasonable assurance that the organization structure provides appropriate division of responsibilities so the functions of authorizing and processing claims are reasonably separated.

Control	Test Performed	Test Results
Duties are segregated within Acclaim Benefits. The functions of software development and maintenance, claims processing, event processing and computer operations are reasonably separated.	<ul style="list-style-type: none"> • Inspected organization charts for the designed segregation of duties. • Inquired of select management and staff personnel to determine if their job descriptions accurately portray their job responsibilities. • Inspected a sample of job descriptions for personnel and noted the appropriate segregation of duties. • Inspected a sample of job descriptions to determine that they do not describe potentially incompatible duties. • Compared job descriptions to the organization chart to determine the completeness of job descriptions provided by management. • Observed operations to determine functions and responsibilities performed by assigned personnel. • Inquired with management and identified the individual(s) responsible for physical and logical security administration and determined whether those individuals were assigned other incompatible duties. 	No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted.

ACCLAIM BENEFITS, LLC
REIMBURSEMENT AND CONTINUATION SERVICES

Control	Test Performed	Test Results
Access to administer network components, operating systems and applications is limited to Operations staff based on their job responsibilities.	<ul style="list-style-type: none">• Inquired of management regarding who has administrative access to servers, databases, networking equipment and applications.• Inspected the organizational chart and assigned job responsibilities to verify system administrators do not have incompatible duties.	No relevant exceptions noted. No relevant exceptions noted.

Control Objective 2: Controls provide reasonable assurance that management and the board of directors demonstrate through attitude, awareness and actions an atmosphere that enhances the effectiveness of specific controls.

Control	Test Performed	Test Results
The Acclaim Benefits board of directors reviews, approves and advises management regarding corporate plans and policies, and monitors company progress.	<ul style="list-style-type: none"> • Inquired of management to confirm that daily oversight is provided for key activities. • Inspected a sample of board reports for evidence of monitoring activities. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Adherence to controls is reviewed and monitored through a combination of ongoing departmental self-reviews.	<ul style="list-style-type: none"> • Inquired of management that adherence to controls is reviewed and monitored via ongoing departmental self-reviews. • Inspected evidence and results of the departmental self-reviews to continuously monitor controls. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Executive officers review and approve Acclaim Benefits' activities and advise management regarding corporate plans and policies.	<ul style="list-style-type: none"> • Inspected a description of management responsibilities and a list of membership on management committees to confirm participation and discussion topics. • Inquired of management regarding the operation of various management committees, their purpose and meeting frequency and conformity with the description provided. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Management plans and budgets on an annual basis.	<ul style="list-style-type: none"> • Inquired of management regarding the presence and frequency of the planning and budgeting process. • Inspected a sample of Management Committee meeting minutes and verified the review of budget plan to actual. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 3: Controls provide reasonable assurance that personnel policies and practices control the hiring, training and termination of personnel.

Control	Test Performed	Test Results
<p>Personnel policies and procedures are communicated initially during new employee orientation and to all personnel as changes occur. Each employee must confirm, in writing, that they received the employee handbook.</p>	<ul style="list-style-type: none"> • Inspected information packet provided to new employees that contains personnel policies. • Inquired of personnel regarding the communication of new and existing policies and procedures to current and new employees. • Inspected a sample of employee files and verified the employee acknowledged receipt of employment policies. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Acclaim Benefits maintains employee job descriptions describing primary job functions and responsibilities.</p>	<ul style="list-style-type: none"> • Inspected a sample of job descriptions to determine their content and completeness and considered whether they included potentially incompatible duties. • Inspected job descriptions and compared to the organization chart to determine completeness of job descriptions provided by management. • Inquired of select management and staff personnel to determine that the job descriptions accurately portray actual job responsibilities. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Employees are immediately removed from their positions when terminated or discharged. Keys and passwords are obtained from terminated employees, and user accounts are disabled.</p>	<ul style="list-style-type: none"> • Inquired of management regarding termination procedures. • Inquired of personnel regarding employee termination procedures. • For a sample of terminated employees, inspected the Employee Termination request and confirmed system access was disabled. • For a sample of terminated employees inspected the Employee Termination Request from Human Resources to IT to remove all system access for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>New applicants are also subject to background checks that include education and employment verification. Background checks also include criminal court searches for all positions.</p>	<ul style="list-style-type: none"> • Inquired of Human Resources that new hires are subject to background investigations, education verification, employment verification and criminal checks. 	<p>No relevant exceptions noted.</p>

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Control	Test Performed	Test Results
Training of personnel is accomplished through supervised on-the-job training, seminars and in-house courses.	<ul style="list-style-type: none"><li data-bbox="609 300 1013 422">• Inquired of management that new hires receive on-the-job training and seminars needed to perform their job function.<li data-bbox="609 436 1013 583">• Inspected the desktop procedures to verify that documentation is available and used by new employees to assist in performing job responsibilities.	No relevant exceptions noted. No relevant exceptions noted.

B. GENERAL COMPUTER CONTROLS

1. Computer Operations

Control Objective 1: Controls provide reasonable assurance that procedures are in effect that ensure data is complete, accurately received and processed, and output is properly controlled and distributed.

Control	Test Performed	Test Results
Operations staff verifies and monitors that data transmissions are complete and secure.	<ul style="list-style-type: none"> • Inquired of management regarding the transmission and exchange of data with customers. • Inspected a list of file load schedules for future scheduled data exchanges in Data Junction and verified accuracy against prior-month schedules. • Inquired of operations regarding the technical controls for the protection of data during transmission. • Inspected procedures governing data transmission for completeness. • Inspected the technical settings to verify that encryption is utilized during data transmissions. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Data transferred from other systems is subject to appropriate validation during processing.	<ul style="list-style-type: none"> • Inquired of management regarding the process for validating transmissions during processing. • Observed data exchange and verified processes followed. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Participant access claim history through a secured Web browser.	<ul style="list-style-type: none"> • Inquired of operations regarding the access controls for the participant portal to view historical claim activity. • Inquired of the procedures followed to authenticate participants to access the participant portal. • Observed the portal controls for participant setup requires participants to enter: <ul style="list-style-type: none"> - Social Security number or participant ID - Date of birth - Zip code 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

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Control	Test Performed	Test Results
Participant Web site claim history reporting is linked to the RSA application data for output accuracy and completeness.	<ul style="list-style-type: none">Inquired of operations regarding the participant Web site controls for accuracy of participant data displayed.	No relevant exceptions noted.

Control Objective 2: Controls provide reasonable assurance that controls inherent in the computer hardware, operating system and other supporting software should be utilized to detect and report hardware malfunctions.

Control	Test Performed	Test Results
The IT team documents system problems, identifies the problem and works with the vendor to request needed upgrades.	<ul style="list-style-type: none">Inspected the internal issue tracking system, Help Desk, to verify it is used to track issues and subsequent resolutions.Inquired of IT personnel regarding problem identification and resolution procedures.	No relevant exceptions noted. No relevant exceptions noted.
Server capacity is monitored regularly by checking hard disk space.	<ul style="list-style-type: none">Inquired of IT personnel regarding performance and capacity monitoring.Inspected monitoring software summary console for server capacity data.	No relevant exceptions noted. No relevant exceptions noted.

Control Objective 3: Controls provide reasonable assurance that procedures are in effect to prevent the accidental or intentional destruction of data.

Control	Test Performed	Test Results
Critical systems and servers are protected by an uninterruptible power supply (UPS).	<ul style="list-style-type: none"> • Inquired of IT personnel regarding the use of the UPS. • Observed that critical systems are protected by a UPS. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
The critical servers are equipped with a 24x7 paging system to notify the relevant IT staff if any of the servers go down.	<ul style="list-style-type: none"> • Inquired of IT personnel regarding the server monitoring controls. • Inspected the paging system setting and confirmed it is configured to e-mail the IT staff every hour and in case of emergency events. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Environmental controls are in place for the data center and are monitored by a third party 24x7.	<ul style="list-style-type: none"> • Inquired of IT personnel that the data center environment is monitored for temperature. • Observed existence of HVAC and monitoring equipment. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 4: Controls provide reasonable assurance that system data is regularly backed up and archived data is available for restoration in the event of processing errors and/or unexpected interruptions.

Control	Test Performed	Test Results
On-site tape media are stored in the tape library.	<ul style="list-style-type: none"> • Inquired with management that backups are performed and stored in a secure location within the Operations facility. • Observed the on-site tape media secured within the Operations facility. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
A third-party backup service is used for daily backups.	<ul style="list-style-type: none"> • Inquired with management that third-party backup service is used to perform daily backups. • Inspected a report from the third-party backup service listing all the servers and directories to be backed up and verified critical systems were included. • Inspected a sample of electronic notifications sent to the IT staff to verify successful backup. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Backup tapes are used for storing programs and data. Access to the tapes is restricted to only personnel that have authorized access to the data center.	<ul style="list-style-type: none"> • Inquired of IT personnel regarding the process to back up data. • Observed the on-site tape media secured within the operations facility and verified access is restricted to authorized personnel. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Servers and workstations are protected by antivirus software with the most current signature.	<ul style="list-style-type: none"> • Inquired with IT management in regards to antivirus software configuration and update procedures. • Inspected a sample of file servers and workstations and verified antivirus software installation and activation. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

2. Control Over Access

Control Objective 1: Controls provide reasonable assurance that procedures are in place to monitor network security.

Control	Test Performed	Test Results
Acclaim Benefits contracts with a third party for IDS services.	<ul style="list-style-type: none"> • Inquired with IT management that a third party monitors network security. • Inquired with IT management that the third-party vendor notifies key IT personnel in the event of an attack. • Inspected a sample of reports from the third-party monitoring company for relevance and completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Acclaim Benefits contracts with a third party for external intrusion testing.	<ul style="list-style-type: none"> • Inquired with IT management about the procedures for reviewing the third-party external intrusion testing report and addressing the issues. • Inspected a sample of security incident notifications and inquired of management regarding their process for resolving identified vulnerabilities. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 2: Controls provide reasonable assurance that access to hardware, software and data is permitted only as authorized by management.

Control	Test Performed	Test Results
Security policies are documented and communicated throughout the organization.	<ul style="list-style-type: none"> • Inquired of the security administrator regarding existence of policies and general understanding by personnel. • Inspected security policies for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Terminated users are identified and removed from the network based on communication from appropriate management and Human Resources verification.	<ul style="list-style-type: none"> • Inquired of IT personnel that terminated users are identified and removed from the network following management notification. • Inspected a listing of network user IDs and confirmed with management that all user IDs were assigned to currently employed personnel and access was authorized by management. • For a sample of terminated employees, inspected the Employee Termination Request from Human Resources to IT to remove all system access for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Authorized users are assigned unique user names and privileges to the RSA and CSA systems based on their job requirements.	<ul style="list-style-type: none"> • Inquired of operations personnel that authorized employees are assigned to these menus and transaction codes based on their job requirements. • Inspected a sample of user access privileges to the applications and confirmed access is appropriate based on job requirements. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
User passwords and terminal capabilities are controlled by security administration.	<ul style="list-style-type: none"> • Inquired with Operations personnel that authorized users are authenticated to the applications with user IDs and passwords. • Inspected a list of the RSA and CSA application users for assigned functionally capabilities. • Inquired of operations personnel that the application users are assigned unique user names. • Inspected a list of Active Directory user names for uniqueness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 3: Controls provide reasonable assurance that physical access to computer equipment, storage media and program documentation is restricted to properly authorized individuals.

Control	Test Performed	Test Results
The facility is located in a multitenant office complex with an exterior door that is secured during nonbusiness hours.	<ul style="list-style-type: none"> • Inquired of management that the multitenant office complex facility's exterior door is secured during nonbusiness hours. • Observed that the exterior door of the multitenant office complex is secured during nonbusiness hours. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Within this office suite, a receptionist is located at the main entrance to monitor entry to the Acclaim Benefits office space.	<ul style="list-style-type: none"> • Inquired of personnel that during business hours, access to the suite is monitored by a receptionist. All visitors are identified and appropriately escorted. • Observed that the suite is monitored by a receptionist during business hours and visitors are identified and escorted. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Physical security controls restrict access to the data center.	<ul style="list-style-type: none"> • Inspected a report of active accounts on the proxy card system and reviewed for appropriateness. • Inspected a sample of the data center access logs for appropriateness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Access to the check printing room is controlled by the corporate Finance department and is granted to employees with check printing privileges.	<ul style="list-style-type: none"> • Inquired of the Finance department about the procedures for securing the check printing room and the access to the key. • Observed that the check printing room is locked when the checks are not being printed. • Observed that the office where the key to the check printing room is stored is locked when the occupant is not in office. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 4: Controls provide reasonable assurance that logical access to applications and data files is restricted to properly authorized individuals.

Control	Test Performed	Test Results
<p>Acclaim Benefits personnel must first be authenticated to the network domain prior to initiating a session with RSA or CSA systems.</p>	<ul style="list-style-type: none"> • Inquired of IT personnel that access to the applications is facilitated by the network. • Observed logon process to verify that users must first authenticate to the network prior to initiating a session in the applications. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Network security requires each employee to be uniquely identified and authenticated.</p>	<ul style="list-style-type: none"> • Inquired of IT personnel that the company requires each employee to be uniquely identified and authenticated to the network. • Inspected a list of network user names to confirm that each employee must be uniquely identified and authenticated to the network. • Inspected a list of Domain Administrators for appropriateness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Passwords are required to authenticate network users.</p>	<ul style="list-style-type: none"> • Inquired of IT personnel that passwords are used to authenticate Windows users. • Inspected password parameters for all users to confirm password parameters are set up to mitigate the risk of unauthorized users gaining access to confidential data. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>A firewall is strategically placed to control and filter information traffic to and from the Acclaim Benefits network.</p>	<ul style="list-style-type: none"> • Inspected network topology, noting that transactions entering the secured network pass through a firewall. • Inspected the network architecture for evidence of unprotected network paths between the production and test environment. • Observed the existence of firewalls in the data center. • Inspected the Cisco ASA firewall configuration file for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

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The SQL database has file permissions set to restrict access to authorized users.	<ul style="list-style-type: none"> • Inquired of IT personnel if user IDs and passwords are required to access the SQL database. • Inspected SQL database file permissions to confirm access is restricted to authorized users. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Production source and object code for RSA and CSA is restricted to authorized personnel.	<ul style="list-style-type: none"> • Inquired of IT personnel if user IDs and passwords are required to access VSS. • Inspected user list to confirm access is restricted to authorized users. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Access to programming code for RSA and CSA is limited to authorized users.	<ul style="list-style-type: none"> • Observed a user authenticate to VSS. • Inspected a list of VSS users for appropriateness. • Inspected network file directory permissions where the source code is stored for appropriateness of settings. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

3. Systems Development and Maintenance

Control Objective 1: Controls provide reasonable assurance that modifications to existing programs and systems are suitably authorized, designed, written and tested, and unauthorized changes are prevented.

Control	Test Performed	Test Results
<p>Acclaim Benefits follows a system development methodology to request and implement any changes into the production environment.</p>	<ul style="list-style-type: none"> • Inspected programming standards for completeness and comprehensiveness. • Inquired of programming management, staff and programmers regarding the use of programming standards and their frequency of update. • Inquired of development staff regarding the building of technical specifications and user requirements for the proposed changes. • Inspected a sample of technical specification documents for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>A formal change management process is followed to authorize and approve changes to production.</p>	<ul style="list-style-type: none"> • Inspected Change Request Forms and program change procedures for completeness. • Inquired of programming management regarding program change procedures. • Traced a sample of change requests through the process, from initiation to completion, and inspected them for proper authorization and adherence to the Change Management Policy. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>From a sample of 30 change requests, we noted that five changes did not contain documented approvals to authorize their release to production. In all five instances, the change request was documented, approved, prioritized, designed and tested, yet the approval to release to production was not documented.</p>
<p>Users perform user acceptance testing to review and approve the functional changes.</p>	<ul style="list-style-type: none"> • Inspected test procedures for completeness. • Inspected the testing documentation for a sample of RSA and CSA changes for completeness. • Inquired of programming supervisory personnel regarding testing procedures and the review and authorization process for transfer of programs into the release library. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

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Control	Test Performed	Test Results
New operating software releases are controlled.	<ul style="list-style-type: none">Inquired of technical support personnel regarding operating software release testing and patch procedures.	No relevant exceptions noted.

Control Objective 2: Controls provide reasonable assurance that modifications to existing programs and systems are suitably authorized, designed, written and tested, and unauthorized changes are prevented.

Control	Test Performed	Test Results
<p>Acclaim Benefits uses MS VSS for version control of its source code. Access to source and object code is restricted to authorized personnel through user privileges within VSS.</p>	<ul style="list-style-type: none"> • Inquired of programming management regarding access to and availability of source and object code. • Observed administrator log on to VSS to verify it complies Acclaim Benefits' security policy. • Inspected the VSS user listing to verify only authorized personnel have access to CSA and RSA code. • Inquired of programming management regarding the change control process and verified use of any data-altering utilities is highly restricted. 	<p>No relevant exceptions noted.</p> <p>We noted the Admin password length did not meet the organization's standard for password settings.</p> <p>We retested the password length on May 1, 2009, and noted it increased to 10 characters.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Source code changes to production are controlled.</p>	<ul style="list-style-type: none"> • Inquired of programming staff regarding access to and the availability of program source code. • Inquired of operations and programming management regarding program change procedures and the transfer of changed programs into production. • Inspected programming manuals for documented program change procedures. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 3: Controls provide reasonable assurance that complete and current documentation of the entire system is available to allow users, programmers and operators to work with and maintain the system.

Control	Test Performed	Test Results
Acclaim Benefits maintains technical and user documentation for RSA and CSA.	<ul style="list-style-type: none"> • Inquired of management regarding responsibilities for various types of documentation. • Inspected technical and user documentation for thoroughness. • Inquired of programming management regarding the documentation update process. • Inquired of programming staff regarding the process for requesting changes to documentation. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Acclaim Benefits' RSA and CSA technical documentation is available only to authorized personnel.	<ul style="list-style-type: none"> • Inspected the intranet documentation library to verify access to technical documentation is provided only to authorized personnel. 	<p>No relevant exceptions noted.</p>

C. APPLICATION CONTROLS—FUNCTIONAL AREAS AND SUPPORTING APPLICATION SYSTEMS

Control Objective 1: Controls provide reasonable assurance that client contract terms are accurately reflected within the claims systems. Changes to terms within client contracts are promptly reflected within the applications.

Control	Test Performed	Test Results
A client ID is required before the client can be set up in RSA for the administration of reimbursement accounts.	<ul style="list-style-type: none"> Attempted to set up a new client using an existing client ID number (Finance number). 	No relevant exceptions noted.
Programmed controls are in place to detect missing data.	<ul style="list-style-type: none"> Attempted to set up a new client without entering in a client ID number (Finance number). 	No relevant exceptions noted.
A client ID is required before the client can be set up in CSA for the administration of continuation accounts.	<ul style="list-style-type: none"> Attempted to set up a new client using an existing client ID number (Finance number). Attempted to set up a new client without entering a client ID number (Finance number). 	No relevant exceptions noted. No relevant exceptions noted.
Automated system controls in RSA require that key data elements for the client setup include client address, effective dates, coverage period dates, plan maximums and minimums, locations and contact information.	<ul style="list-style-type: none"> Attempted to enter a new client with an invalid expense plan. Attempted to enter a new client plan with the daycare reimbursement account greater than \$5,000. 	No relevant exceptions noted. No relevant exceptions noted.
Automated system controls in CSA require that key data elements for the client setup include address, effective dates, locations, contact and billing information.	<ul style="list-style-type: none"> Attempted to enter a new client with an invalid expense plan. 	No relevant exceptions noted.
Acclaim Benefits has documented procedures for the client setup process.	<p><u>RSA and CSA:</u></p> <ul style="list-style-type: none"> Inquired about and inspected written departmental policies and procedures. Inspected written department documentation and procedures for completeness. 	No relevant exceptions noted. No relevant exceptions noted.
Acclaim Benefits has designed controls to approve new client setup documentation.	<ul style="list-style-type: none"> Inquired of plan specialist regarding the Reimbursement and Continuation Services administration client plan setup process and contract approvals. Inspected a sample of client setup documents for key approvals. 	No relevant exceptions noted. No relevant exceptions noted.

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Control	Test Performed	Test Results
Acclaim Benefits has designed controls to approve new client setup documentation (continued).	<ul style="list-style-type: none">Observed the new client setup process for Reimbursement and Continuation Services.	No relevant exceptions noted.

Control Objective 2: Controls provide reasonable assurance that participant enrollments are processed accurately and timely.

Control	Test Performed	Test Results
Participant enrollment forms are reconciled to the data entered into RSA to verify accuracy and completeness.	<ul style="list-style-type: none"> • Inspected a sample of participant enrollment forms to verify coverage elected was accurately input into the system. • Inquired of Acclaim Benefits personnel regarding the process for entering participant enrollment into systems. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Procedures for the input of participant enrollment are documented.	<ul style="list-style-type: none"> • Inquired about and inspected written departmental policies and procedures for participant enrollment. 	<p>No relevant exceptions noted.</p>
Acclaim Benefits follows a standard procedure for the loading and processing of eligibility files.	<p><u>File Load Process (Electronic Eligibility):</u></p> <ul style="list-style-type: none"> • Inquired of specialists about the eligibility file load process. • Inquired of specialists about the process to set up clients for the eligibility file load process and the required file format. • Observed the file load process for identifying input errors and observed the process for resolving data errors before the eligibility files are processed. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Control totals are used to verify the number of records and dollar totals for the clients' participants' funding contributions.	<ul style="list-style-type: none"> • Observed the file load process for adherence to policies. • Inspected a sample of client file loads to verify the use of control totals in the electronic files received. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Internal user procedures for RSA and CSA are documented and offer in-depth descriptions for the use of various system functions and the maintenance of system parameters.	<ul style="list-style-type: none"> • Inquired of specialist about documented procedures for the CSA and RSA system functions for operation and maintenance of system parameters. • Inspected written departmental policies and procedures. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.	<p><u>FSA Participant Enrollment:</u></p> <ul style="list-style-type: none"> • Attempted to edit a participant by changing the plan effective date to a date in the future. 	<p>No relevant exceptions noted.</p>

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Control	Test Performed	Test Results
<p>Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.</p>	<p><u>FSA Participant Enrollment:</u></p> <ul style="list-style-type: none"> • Attempted to terminate (end coverage) a participant by entering a date prior to effective start date. • Attempted to set up a client plan with a minimum fund participation election value of \$100. • Attempted to add a participant for the client with a fund participation election of less than the clients' minimum election amount. • Attempted to add a participant for the client with a fund participation election of greater than the maximum election amount. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Programmed controls are in place to detect missing data.</p>	<ul style="list-style-type: none"> • Attempted to edit a participant without entering a Social Security number. • Attempted to enter a negative annual contribution amount for a participant. • Attempted to enter a participant without adding a state code designation. • Attempted to enter a participant without adding a zip code. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 3: Controls provide reasonable assurance that plan setup is processed accurately within the system.

Control	Test Performed	Test Results
The AM creates the details for the plan information specified in the Client Setup Forms. Only the account plans selected by the client are set up.	<u>RSA--Plan Setup:</u> <ul style="list-style-type: none"> • Inquired of process followed for plan setup. • Inspected written department documentation and procedures for completeness. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Online data entry is structured through the use of preformatted screens and prompts.	<ul style="list-style-type: none"> • Observed the process followed for setting up plans for Reimbursement Services. • Inspected a sample of new clients and verified the plan setup options selected in the system match the plan specification forms completed for the client. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
The AM creates the detail for the COBRA accounts specified in the Client Setup Form. Only the client's specific plans are set up in CSA for COBRA continuation.	<u>CSA--Plan Setup:</u> <ul style="list-style-type: none"> • Inquired of process followed for plan setup. • Inspected written department documentation and procedures for completeness. • Observed CSA process for plan setup. • Inspected a sample of new clients and verified the plan setup options selected in the system match the plan specification forms completed for the client. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 4: Controls provide reasonable assurance that claims are processed for only eligible expenses.

Control	Test Performed	Test Results
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.	<u>RSA—Eligible Expenses:</u> <ul style="list-style-type: none"> • Inquired of Acclaim Benefits personnel regarding the process for entering for determining eligible expenses. • Inspected written departmental policies and procedures for determining eligible expenses. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Procedures for claims processing are documented.	<ul style="list-style-type: none"> • Inspected a sample of RSA claims to determine if eligible expenses are accurately recorded in the RSA. • Observed the claims specialist for tracking claim denials in the RSA. • Inspected a sample of RSA denial claims and verified accuracy. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 5: Controls provide reasonable assurance that the claims adjudication process ensures complete and accurate data is input.

Control	Test Performed	Test Results
Procedures for claims processing are documented.	<ul style="list-style-type: none"> • Inquired about and observed written departmental claim input policies and procedures. • Inspected a sample of FSA claims and verified they were paid accurately. • Inspected a sample of FSA claims to determine that claims are paid to only eligible members. • Inquired of personnel regarding claim audit procedures. • Inquired of specialist about and inspected written departmental policies and procedures for performance reviews. • Inquired about the monthly claims audit process for the review of paid and denied claims. • Inspected a sample of audits for claims processed during the audit period. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.	<p><u>FSA Claim Adjustments:</u></p> <ul style="list-style-type: none"> • Inquired about the claim adjustments process. • Observed the claim adjustments process. • Inspected a sample of claim adjustment forms and verified changes were accurately captured in the RSA. <p><u>Continuation Services:</u></p> <ul style="list-style-type: none"> • Inquired and observed the process for participant setup. • Inspected a sample of participant setup forms. • Inquired regarding the process for notifying participants of COBRA coverage eligibility. • Observed the participant notification process for informing participants of COBRA coverage eligibility. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

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Control	Test Performed	Test Results
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing (continued).	<ul style="list-style-type: none"> • Inquired regarding the open enrollment process. 	No relevant exceptions noted.
Acclaim Benefits follows standard enrollment procedures.	<u>Continuation Services:</u> <ul style="list-style-type: none"> • Inquired about and observed COBRA enrollment policies and procedures. 	No relevant exceptions noted.
Output produced by the system is distributed directly to the requesting individual or department.	<ul style="list-style-type: none"> • Inquired and observed the process for generation of participant letters. • Inquired and observed processes for letter generation to clients for plan and participant changes. • Inquired about and observed the process for retiree billing. • Inquired and observed the process for leave of absence administration. • Inquired regarding the process to change annual rate changes. • Inquired about and inspected the procedures followed for the CSA plan setup audits. • Inspected the plan setup audit checks performed for a sample of new clients. • Inquired about the participant billing and payment handling process. • Inspected a sample of payments to validate the amounts posted to the participant accounts accurately. • Observed payment adjudication process. • Observed payment batch posting process. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.	<u>Debit Card Processing:</u> <ul style="list-style-type: none"> • Inquired of specialist about debit card setup process. • Observed and discussed procedures with personnel performing debit card transaction processing. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

ACCLAIM BENEFITS, LLC
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Control	Test Performed	Test Results
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing (continued).	<ul style="list-style-type: none"> • Inquired of specialist about and inspected written debit card policies and procedures. • Inspected a sample of debit card claims and verified claims were accurately processed. • Observed adjudication process for processing debit card claims. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Online data entry is structured through the use of preformatted screens and prompts.	<p><u>Continuation Services:</u></p> <ul style="list-style-type: none"> • Inquired and observed the process for participant setup. • Inspected a sample of participant setup forms to verify key data. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Programmed controls are in place to detect missing data.	<ul style="list-style-type: none"> • Attempted to enter a participant without adding the date or description for the participant's qualifying event. • Attempted to enter a participant without adding the eligibility period for the participant's coverage. • Observed the participant notification process for informing participants of COBRA coverage eligibility. • Inquired regarding the open enrollment process. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Acclaim Benefits follows standard enrollment procedures.	<p><u>COBRA:</u></p> <ul style="list-style-type: none"> • Inquired about and observed COBRA enrollment policies and procedures. • Inquired and observed the process for generation of participant letters. • Inquired and observed processes for letter generation to clients for plan and participant changes. • Inquired about and observed the process for retiree billing. • Inquired and observed the process for leave of absence administration. • Inquired regarding the process to change annual rate changes. • Inquired about and inspected the procedures followed for the CSA plan setup audits. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

ACCLAIM BENEFITS, LLC
REIMBURSEMENT AND CONTINUATION SERVICES

Control	Test Performed	Test Results
Acclaim Benefits follows standard enrollment procedures (continued).	<ul style="list-style-type: none"> • Inquired about the participant billing and payment handling process. • Inspected a sample of payments to validate the amounts posted to the participant accounts accurately. • Observed payment adjudication process. • Observed payment batch posting process. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.	<p><u>Debit Card Processing:</u></p> <ul style="list-style-type: none"> • Observed and discussed procedures with personnel performing debit card transaction processing. • Inquired of specialist about debit card setup process. • Inspected a sample of debit card claims and verified claims were accurately processed. • Observed adjudication process for processing debit card claims. • Inquired of specialist about and inspected written debit card policies and procedures. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 6: Controls provide reasonable assurance that the system rejects invalid or incomplete claims and identifies the invalid claims on exception reports (Reimbursement Services).

Control	Test Performed	Test Results
The claims processor researches errors and reviews claims and supporting documentation to validate and process the accepted claims.	<ul style="list-style-type: none"> • Inquired of specialist about the procedures for reviewing the claims research process. 	No relevant exceptions noted.
Claims are subject to a number of edit checks and verification checks as they are adjudicated.	<ul style="list-style-type: none"> • Inspected a sample of claims through processing to verify they were paid according to the terms of the plan. • Inspected a sample of adjustments and verified the adjustment request was completed and approved. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
Claims adjustments and error corrections are logged and all are subject to the same controls as the original transaction.	<ul style="list-style-type: none"> • Verified the adjusted amount for each of the selected adjustments. • Inspected reason codes for a sample of adjustments for appropriateness. • Observed an Acclaims Benefits specialist to determine the contents of a scanned batched. • Inquired of specialist of how scanning exceptions are handled. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 7: Controls provide reasonable assurance that the system prevents the input of duplicate claims.

Control	Test Performed	Test Results
Claims are entered using unique claim numbers, which prevents entering of duplicate claims.	<u>Claim Verification:</u> <ul style="list-style-type: none">• Inquired of staff about the claim verification process.• Inspected required fields for reimbursement claims:<ul style="list-style-type: none">- Social Security number or participant ID number- Signatures- Date of service- Explanation of benefits	No relevant exceptions noted. No relevant exceptions noted.

Control Objective 8: Controls provide reasonable assurances that the claims adjudication process ensures claims are paid in accordance with the provisions of the client's plan.

Control	Test Performed	Test Results
<p>Once funding is received, Accounting enters a release date in RSA; this releases the check for printing.</p>	<p><u>FSA Payment Funding:</u></p> <ul style="list-style-type: none"> • Inquired of the funding/contribution release process in RSA for the processing of client funding for the participant expense reimbursement accounts. • Observed the funding/contribution release process in RSA to verify the timely release of client funding to participant accounts timely. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Transactions are subject to a number of edit checks and verification checks as they are entered and submitted for computer processing.</p>	<p><u>FSA Payment Funding:</u></p> <ul style="list-style-type: none"> • Inquired of funding specialist about the FSA payment funding process. • Inquired of funding specialist regarding the payment batch reconciliation process to validate that payment recorded in the RSA reconcile to the participant checks printed. • Inspected a sample of check batches with the funding specialist for the payment batch reconciliation process to validate the check amounts provided to participants. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>Controls used to maintain file integrity include the use of control totals in the files or the client will provide the control totals to the shared Data Junction mailbox in a separate e-mail.</p>	<ul style="list-style-type: none"> • Inquired of the physical and process controls for printing claim reimbursement checks. • Observed the check printing process. • Inspected the location used for printed participant claim checks to confirm the security around the check stock and process for printing of claim checks. • Inspected a sample of payment batches for process controls and to verify the check payments amounts matched the payment amounts in the RSA. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

Control Objective 9: Controls provide reasonable assurance that clients receive a bill in accordance with the client contract that clearly details charges for the billing period.

Control	Test Performed	Test Results
<p>The client billings are reviewed every month by the billing specialist to validate accuracy of the billing statements.</p>	<p><u>Client Billing—Reimbursement Services (FSA and HRA):</u></p> <ul style="list-style-type: none"> • Observed and inquired of specialist regarding client billing review procedures. • Inspected a sample of RSA monthly client billing statements and verified the invoice amounts are accurate. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>
<p>The client billings are reviewed every month by the continuation operations manager to validate accuracy of the billing statements.</p>	<p><u>Client Billing—COBRA (Continuation Services):</u></p> <ul style="list-style-type: none"> • Observed and inquired of specialist the procedures to review client billings. • Inspected a sample of CSA monthly client billing statements and verified the invoice amounts are accurate. 	<p>No relevant exceptions noted.</p> <p>No relevant exceptions noted.</p>

IV. OTHER INFORMATION PROVIDED BY ACCLAIM BENEFITS, LLC

(The following information is the responsibility of Acclaim Benefits. No procedures or tests were performed on this information.)

American Institute of Certified Public Accountants (AICPA) Guidance

The AICPA has published guidance indicating that business continuity planning is a concept that addresses how an organization mitigates future risks as opposed to actual controls that provide user auditors with a level of comfort surrounding the processing of transactions. As a result, a service organization should not include in its description of controls (Section III of this report) a control objective that addresses business continuity or contingency planning.

Business Continuity Description

Acclaim Benefits' policy is to respond to a Significant Business Disruption (SBD) by safeguarding employees' lives and our property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all books and records, and allowing our customers to transact business.

Acclaim Benefits' continuity plan anticipates two kinds of SBDs, internal and external. Internal SBDs affect only the ability to communicate and do business, such as a fire in the building. External SBDs prevent the operation of a number of firms, such as a terrorist attack, a city flood, or a wide-scale regional disruption. Acclaim Benefits' response to an external SBD relies more heavily on other organizations and systems.

Acclaim Benefits' Business Continuity Plan is divided into a Crisis Communication Plan, a Disaster Recovery Plan and a Business Resumption Plan. These documents contain the information and predetermined processes necessary for Acclaim Benefits' to communicate with customers, employees and business partners, assess the status of all systems and environments, quickly reestablish working environments, and resume regular business practices to the greatest extent allowed by the SBD.

In addition, Acclaim Benefits' has a redundant backup process with records stored at multiple off-site locations in a geographically separate area. Acclaim Benefits' maintains a recovery facility with the capability to conduct the same volume of business as the primary site. In the event of an SBD, Acclaim Benefits will retrieve and restore backup files at the recovery facility, where Acclaim Benefits will continue operations.