

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICARE 2002 FINANCIAL
STATEMENT ACTIVITY AT NORIDIAN
MUTUAL INSURANCE COMPANY**



**JANET REHNQUIST
INSPECTOR GENERAL**

**OCTOBER 2002
A-07-02-04001**

Office of Inspector General

<http://oig.hhs.gov/>

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

October 28, 2002

Common Identification Number A-07-02-04001

Mr. Jay Martinson
Vice President
Noridian Mutual Insurance Company
4305 13th Avenue South
Fargo, ND 58103

Dear Mr. Martinson:

This final report provides you with the results of our audit work related to the Medicare 2002 financial statement activity at Noridian Mutual Insurance Company (Noridian). The objective of our audit was to determine whether Medicare fee-for-service claims were: furnished by certified Medicare providers to eligible beneficiaries; reimbursed by Medicare contractors in accordance with Medicare laws and regulations; and medically necessary, accurately coded, and sufficiently documented in the beneficiaries' medical records. The period of this audit was the quarter of January 2002 through March 2002.

Our review of 423 claims totaling \$240,656 disclosed that 58 claims did not comply with Medicare laws and regulations. These 58 claims had 80 line item errors representing \$3,999 in improper payments. An additional 21 line items were billed for less services or with a lower code than was supported by the medical records. These 21 line items would have resulted in \$2,689 in additional payments if the provider had billed the maximum supportable code or number of services supported by the medical records. One other line item was underpaid \$72 because it was manually priced incorrectly during the payment process. The combination of the overpayments and underpayments resulted in a net overpayment to providers totaling \$1,238. Most errors were detected by medical reviews coordinated by the OIG. When these claims were originally submitted to Noridian, they contained no visible errors. In addition, we found that accounting controls over certain financial statement activities need to be improved in order to prevent misstatement of the CMS financial statements.

Specifically, we recommend that Noridian:

- Deny and recover Medicare payments totaling \$3,999.
- Ensure that the reconciliation of the CMS Form 1522 includes a comparison of total funds expended to the detailed financial activity.

BACKGROUND

This audit was performed in conjunction with the financial statement audit required by the Chief Financial Officer Act of 1990, as amended. The results of this review will be combined with the results at other Medicare contractors to establish a nationwide payment error rate. The OIG will prepare a consolidated report of the nationwide results of the Medicare contractors' reviews. That report will be provided to the independent accounting firm of Ernst & Young L.L.P. for their use in rendering an audit opinion on the Centers for Medicare and Medicaid Services' (CMS) Financial Statements for 2002.

The CMS administers the Medicare program by contracting with private organizations to pay and process Medicare claims. CMS has contracted with Noridian as a fiscal intermediary (FI) and a Medicare Carrier. In its FI capacity, Noridian processes and pays Part A claims for hospitals and other medical providers. In its carrier capacity, Noridian processes Part B claims primarily for physicians.

With respect to financial reporting, Noridian prepares CMS Forms 1521 (Contractor Draws on Letter of Credit) and 1522 (Monthly Contractor Financial Report) each month to reconcile Medicare's benefit payments per the contractor's bank to CMS and contractor records. Noridian prepares a separate set of financial reports in its capacity as an FI and carrier.

The CMS Form 1521 summarizes the vouchers the banks submit to the Federal Reserve to request transfers of funds to the contractor's bank account. The amounts drawn by the bank for benefit payments are reported on the CMS Form 1521 as *Voucher Total* and these disbursements are included on the CMS Form 1522 as *Total Funds Drawn*.

The CMS Form 1522 reports all "Paid Claims" and "Non-Claims Transactions" for the month to CMS. The "Non-Claims Transactions" represent items such as cost report settlements, periodic interim payments, and cash collections. The net "Paid Claims" and "Non-Claims Transactions" in a given month account for the "*Total Funds Expended*" on the CMS Form 1522. The *Total Funds Expended* also represents the sum of all checks and electronic funds transfer payments issued during the calendar month, less voided checks and overpayment recoveries.

For the months of January through March 2002, *Total Funds Expended* on the CMS Forms 1522 prepared by Noridian for Part A totaled 623.6 million and *Total Funds Drawn* on the CMS Forms 1522 prepared by Noridian for Part A totaled \$595.3 million. For the months of January through March 2002, *Total Funds Expended* on the CMS Forms 1522 prepared by Noridian for Part B totaled \$875.7 million and *Total Funds Drawn* on the CMS Forms 1522 prepared by Noridian for Part B totaled \$940.8 million.

Objectives, Scope, and Methodology

The objective of our audit was to determine whether Medicare fee-for-service claims were: furnished by certified Medicare providers to eligible beneficiaries; reimbursed by Medicare contractors in accordance with Medicare laws and regulations; and medically necessary, accurately coded, and sufficiently documented in the beneficiaries' medical records.

We reviewed the contractor's reconciliation of its paid claims tapes, total funds expended, and funds drawn for each of the monthly CMS Forms 1521 and 1522 in the January through March 2002 quarter. After verifying the reconciliation and comparing the total funds expended as reported on the CMS Form 1522 to the paid claims tapes, we selected a random sample of 50 beneficiaries from the quarter stratified into 4 strata determined by total amounts of payments for services per beneficiary. Noridian processed 423 Medicare claims (89 claims were processed by Noridian as an FI and 334 claims were processed by Noridian as a carrier) for our sample beneficiaries during the quarter.

To determine whether payments were in error, the claims were reviewed to verify that the payment was for a covered service furnished to an eligible beneficiary by an eligible provider in accordance with Medicare laws and regulations; the claim was coded, priced, and paid correctly; and the paid claim was accurately recorded and reported by the contractors and CMS to its general ledger.

Specifically, medical reviewers from the two peer review organizations reviewed the medical records for the hospital inpatient claims. The remainder of the medical records was reviewed by the FI and carrier medical reviewers to determine whether the services were covered by Medicare and the coding was correct. To determine whether services were furnished to eligible beneficiaries by an eligible provider, we reviewed the Social Security Administration's beneficiary eligibility records for the 50 beneficiaries and the CMS provider eligibility files as well as the OIG's excluded provider list for all providers in our sample of 423 claims. For each of the claims, we also verified that Medicare was the primary payer and that the payment was not a duplicate. To determine whether the claim was priced correctly, we independently priced 34 claims for 5 beneficiaries. We independently recalculated all manually priced claims. To determine if the claim was paid correctly and accurately recorded and reported by the contractor to CMS, we verified that all services were subjected to applicable deductible and co-insurance amounts. In addition, we reconciled the paid claims tapes to the total funds expended as reported on the CMS Forms 1522 for each of the three months we sampled.

Our audit was performed in accordance with generally accepted government auditing standards. Our tests of internal controls were generally limited to Noridian's reconciliation and Medicare financial reporting processes. Our audit work was performed at Noridian's offices in Fargo, North Dakota during February 2002 through August 2002.

FINDINGS AND RECOMMENDATIONS

We identified overpayments totaling \$3,999 in our sample of \$240,656 of Medicare claims. We also found that accounting controls over certain financial statement activities need to be improved in order to prevent misstatement of the CMS financial statements. Specifically, we found:

- Medicare payments totaling \$3,999 should be denied. These denials primarily resulted from medical reviewers determinations that services were unnecessary, coded incorrectly, or not sufficiently documented. A detailed description of each medical service denial is reported in Appendix A. When these claims were initially submitted to Noridian, they contained no visible errors.
- Noridian's reconciliation procedures for verifying the accuracy of total funds expended reported on its CMS Form 1522 were inadequate. Specifically, Noridian did not compare the total claim and non-claims activity per their system to the amount of total activity reported on the CMS Form 1522. Without this comparison, Noridian did not ensure that the figures reported to CMS were accurate.
- Benefit payment figures reported by Noridian on the CMS Form 1522 in its capacity as an FI were misclassified between Part A and Part B. The classification discrepancy is a result of a system deficiency within a Medicare shared claims processing system.¹
- Noridian's reported outstanding check figures were inaccurate because Noridian's outstanding check register includes checks that were outstanding for more than one year, checks returned as undeliverable, and checks that had been voided. Checks that have not been presented for payment within one year of issue and undeliverable checks must be voided by the Medicare contractor. Voided checks should not be reported to CMS as outstanding.

Medicare Payment Errors

Medicare payments totaling \$3,999 did not comply with Medicare laws and regulations. Specifically, our review of 423 claims totaling \$240,656 disclosed that 58 claims had 80 line item errors representing \$3,999 in improper payments. These improper payments primarily resulted from medical reviewers' determinations that services were unnecessary, coded incorrectly, unallowable, or not sufficiently documented.² In addition, the medical reviewers determined that providers submitted 21 line items for less services or with a lower code than was supported by the medical records. These 21 line items would have resulted in \$2,689 in additional payments if the providers had billed the maximum supportable code or number of services supported by the medical records. One additional line item was underpaid \$72 because it was manually priced using the prior year's rates. The combination of the overpayments and underpayments resulted in a net overpayment to providers totaling \$1,238. A detailed description of

¹ Multiple CMS contractors use this shared claims processing system. Noridian does not maintain or control this system.

² Medical reviewers from Noridian and two Peer Review Organizations reviewed the medical records for the 423 claims in the sample. The PROs review claims for hospital inpatient services. The North Dakota PRO reviewed 1 claim and the Minnesota PRO reviewed 16 claims.

each medical service error is reported in Appendix A. When these claims were submitted to Noridian, they contained no visible errors. The denials were apparent only after detailed medical reviewer scrutiny of the medical records obtained from the providers by the OIG.

Reconciliation of Total Funds Expended

The Noridian reconciliation process of total funds expended was not adequate. According to CMS Program Memorandum AB-02-008, Medicare contractors are required to provide CMS a monthly reconciliation of the total funds expended as reported on the CMS Form 1522. While Noridian conducted a detailed reconciliation of system transactions to funds expended, the reconciliation form did not include a comparison to the total funds expended figure reported on the CMS Form 1522. Because the reconciliation was not performed properly, Noridian did not have assurance that its total funds expended figures reported to CMS were accurate. In fact, as a result of a computer conversion problem, the total expended funds reported to CMS for January 2002 were understated by \$4.3 million. This error was reversed on Noridian's March 2002 CMS Form 1522. Consequently, the quarterly financial reports submitted to CMS were accurate.

Classification of Benefit Payments

Noridian incorrectly apportioned its benefit payments between the Medicare hospital insurance (HI) trust fund (Part A) and the supplementary medical insurance (SMI) trust fund (Part B) on its monthly CMS Form 1522. CMS requires FI's to report benefit payments in separate categories on the CMS Form 1522 for trust fund accounting purposes. To illustrate, during one week in January 2002, Noridian misclassified \$7,849 in SMI payments as HI payments. The misclassification was caused by a system error within a shared system that CMS maintains for the use of some of its contractors. According to Noridian personnel, it is likely that every CMS Form 1522 that Noridian submitted in its FI capacity within the last few years has included this error.

Outstanding Checks

Noridian reported incorrect outstanding check figures on the monthly CMS Forms 1522. CMS requires contractors to cancel undeliverable checks and checks that are outstanding for more than one year. The outstanding check figures reported to CMS were not accurate and included checks that should have been canceled because Noridian's outstanding check register included checks that were outstanding for more than one year, checks returned as undeliverable, and checks that had been voided.

Recommendations

We recommend that Noridian:

- Deny and recover Medicare payments totaling \$3,999.

Mr. Martinson – Page 6

- Ensure that the reconciliation of the CMS Form 1522 includes a comparison of total funds expended to the detailed financial activity.
- Alert CMS to the system deficiencies that have caused expenditures to be allocated to the incorrect Medicare trust fund.
- Ensure that the outstanding check figures reported to CMS are accurate.

AUDITEE COMMENTS

Noridian concurred with our recommendations. At the exit conference, they agreed to recover the \$3,999 in improper Medicare payments. During the audit, Noridian provided written responses to the three other recommendations included in the report. The complete responses are included in Appendix B.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

**2002 CFO Audit
Noridian
Fargo, North Dakota
2nd Qtr. FFY 2002
Schedule of Error Claims During Medical Review**

ICN	Denied Services	Error Code	Reason For Denial	Denied Amount
20205800724002	2	21	Insufficient Documentation	\$ 61.03
1802058185740	1	31	Incorrect Coding	30.69
1602021072770	1	21	Insufficient Documentation	20.99
1602021072780	1	21	Insufficient Documentation	20.99
1602021072780	1	21	Insufficient Documentation	20.99
1602021072780	1	21	Insufficient Documentation	20.99
1602039035510	1	21	Insufficient Documentation	19.34
1602039035510	1	21	Insufficient Documentation	19.34
1602039035510	1	21	Insufficient Documentation	19.34
1602039035510	1	21	Insufficient Documentation	19.34
1602049196090	1	21	Insufficient Documentation	19.34
1602049196090	1	21	Insufficient Documentation	19.34
1801361146340	-1	31	Incorrect Coding	-22.38
1501351059170	1	21	Insufficient Documentation	24.02
1501351059170	1	21	Insufficient Documentation	24.02
1501351059170	1	21	Insufficient Documentation	24.02
1501351059170	1	21	Insufficient Documentation	24.02
1501351059180	1	21	Insufficient Documentation	24.00
1902031029890	1	31	Incorrect Coding	3.90
4602077731000	-1	31	Incorrect Coding	-11.73
20134800778302	1	60	Unbundling	16.49
20202900861202	1	60	Unbundling	16.22
20202900861202	1	60	Unbundling	16.76
20203141311308	1	31	Incorrect Coding	0.00
20205608535404	3	31	Incorrect Coding	396.03
20205900762102	1	25	Medically Unnecessary	18.04
20201000858802	-1	31	Incorrect Coding	0.00
20201000858802	-1	31	Incorrect Coding	0.00
20201000858902	-1	31	Incorrect Coding	0.00
20202300640202	2	90	Other Error	532.40
20202300640202	-1	90	Other Error	-272.35
20202300640202	-1	90	Other Error	-271.22
20203000049602	2	90	Other Error	0.00
20203000049602	-2	90	Other Error	0.00
20204200437302	23	31	Incorrect Coding	0.00
1901360094130	1	21	Insufficient Documentation	28.01
1901365171170	1	31	Incorrect Coding	78.74
1902022091030	1	41	Services Billed Were Not Rendered	28.16

ICN	Denied Services	Error Code	Reason For Denial	Denied Amount
1902038200710	1	21	Insufficient Documentation	22.42
1902038200710	1	41	Services Billed Were Not Rendered	0.91
1902038200720	1	41	Services Billed Were Not Rendered	5.86
20201400734802	1	21	Insufficient Documentation	62.36
2202014005080	-1	31	Incorrect Coding	-20.66
2202044003130	-1	31	Incorrect Coding	-20.66
2401346011140	-1	31	Incorrect Coding	-10.45
2401351025840	1	35	Non-Covered/Unallowable Service	21.60
1902050002140	1	41	Services Billed Were Not Rendered	19.59
20135500617702	1	21	Insufficient Documentation	1.69
20135500617702	1	21	Insufficient Documentation	3.47
20135500618502	-1	31	Incorrect Coding	-48.47
20200400355802	1	21	Insufficient Documentation	22.29
20204400005802	1	21	Insufficient Documentation	20.34
20204400005802	1	21	Insufficient Documentation	20.34
20204400005802	1	21	Insufficient Documentation	20.34
20204400005802	1	21	Insufficient Documentation	20.34
1802046186120	-1	31	Incorrect Coding	-19.22
0201362105170	-1	31	Incorrect Coding	-20.88
0201362105170	-3	90	Other Error	-34.01
1802043032880	1	31	Incorrect Coding	10.81
1802043032880	-1	31	Incorrect Coding	-21.84
1802043032880	1	31	Incorrect Coding	5.40
20203600369302	1	25	Medically Unnecessary	275.87
20205016001904	1	25	Medically Unnecessary	0.00
20205300824602	1	25	Medically Unnecessary	25.57
0202057104820	1	40	Not The Billing Provider	49.45
0202057104820	10	40	Not The Billing Provider	114.16
1901362100690	-1	31	Incorrect Coding	-8.83
2902073142610	-1	31	Incorrect Coding	-10.58
1902077209250	1	31	Incorrect Coding	10.98
20205800319002	-1	31	Incorrect Coding	-155.96
3801355016300	1	21	Insufficient Documentation	8.24
3802007081500	1	31	Incorrect Coding	18.68
3802007081500	1	31	Incorrect Coding	80.92
3802007081500	1	31	Incorrect Coding	38.59
3802016021060	1	21	Insufficient Documentation	46.26
3802016021060	1	21	Insufficient Documentation	44.02
3802022004770	1	21	Insufficient Documentation	7.39
3802030019270	1	21	Insufficient Documentation	7.43
3802036008160	1	21	Insufficient Documentation	7.39
3802036009230	1	21	Insufficient Documentation	10.17
3802071003790	1	21	Insufficient Documentation	7.10
3802071003790	1	21	Insufficient Documentation	7.39
0102025049190	1	21	Insufficient Documentation	27.80
0102025049200	1	21	Insufficient Documentation	27.80

ICN	Denied Services	Error Code	Reason For Denial	Denied Amount
0102025049210	1	21	Insufficient Documentation	27.80
0102025049220	1	21	Insufficient Documentation	27.80
0102025049230	1	21	Insufficient Documentation	27.80
0102025049240	1	21	Insufficient Documentation	27.80
0102025049250	1	21	Insufficient Documentation	27.80
0102025049260	1	21	Insufficient Documentation	27.80
0102025049270	1	21	Insufficient Documentation	27.80
0202009111750	1	21	Insufficient Documentation	4.84
0202009111750	1	21	Insufficient Documentation	3.00
1802074024020	1	41	Services Billed Were Not Rendered	3.00
1802029232700	1	41	Services Billed Were Not Rendered	30.74
1802067223780	1	41	Services Billed Were Not Rendered	51.29
1802074158180	1	41	Services Billed Were Not Rendered	23.31
1602049213710	-1	31	Incorrect Coding	-22.62
1802056420500	1	21	Insufficient Documentation	91.82
20204400042002	3	55	MSP Error	976.63
1901320366990	-1	90	Other Error - Manual Pricing	-71.52
20136100511502	-1	31	Incorrect Coding	<u>-1,716.90</u>
				\$ <u>1238.47</u>



A CMS Contracted
Carrier/Intermediary

4305 13th Avenue South
Fargo, ND 58103-3373

July 25, 2002

Mr. Randy Parker
Office of Inspector General
Office of Audit Services
Region VII /Room 284A
601 East 12th Street
Kansas City, Missouri 64106

Re: Noridian response to three OIG draft Objective Attributes Recap Sheets (OARS)

Dear Mr. Parker:

Noridian received from the OIG a draft of three FY2002 OIG CFO audit OARS. Noridian is writing this document as a response regarding the conditions cited within the OARS.

The following is Noridian's responses to the Conditions noted by the OIG in corresponding order:

1. OIG OARS Condition and Recommendation:

Condition: The 3/31/02 outstanding check registers for two Part B bank accounts included 21 checks which had been outstanding at least 12 months and had a check amount of \$3,000 or greater. Of the 21 checks, nine checks had MCS system check status code 05 – research meaning they were “Do Not Forward” checks, three checks were status code 07 – void reissue, six checks were status code 09 – stop pay awaiting reissue, and three checks have been purged from the MCS system. We observed from the outstanding check registers that there were numerous checks at least 12 months old and for less than \$3,000.

Recommendation: We recommend that Noridian remove from the current month's outstanding check registers the \$121,750.82 of status code 07 and 09 checks from our review and any other checks for less than \$3,000 that have a status code of 07 and 09.

We recommend that Noridian determine the status of the three purged checks, and if warranted, void these checks and remove them from the current month's outstanding check register.

NORIDIAN RESPONSE: Noridian agrees with the OARS recommendation to remove the “07” status – void reissue and “09” status – stop pay awaiting reissue checks from the outstanding check register. Noridian will remove the “07” status checks identified in the audit and will develop procedures in the future to remove checks identified in this type of check status from the outstanding check register. Upon review of checks listed in a “09” status - stop pay awaiting reissue, it was determined that only nine checks in a “09” status were incorrectly included in the check registers. Eight of the nine checks were a conversion issue, and the remaining was a beneficiary check that had a held address preventing the check from finalizing. All checks have been moved to a correct status location and the claims have been readjusted to pay out again. Noridian has complied with the recommendation to remove checks in a “07” and “09” status from the current month's outstanding check register.



2. OIG OARS Condition and Recommendation:

Condition: For Part A, Noridian does a separate reconciliation for North Dakota and Minnesota. The total funds expended per the HCFA 1522 which is attributable to that particular state is reported on the reconciliation for that state. Part B is done in the same manner. A separate reconciliation is done for each of the four regions (platforms).

Recommendation: We recommend Noridian additionally perform consolidated reconciliations for Parts A and B that include the actual amounts reported as total funds expended on that month's HCFA 1522.

NORIDIAN RESPONSE: Noridian agrees with the OARS recommendation to perform consolidated 1522 reconciliations each month. Noridian has added a worksheet within the 1522 reconciliation spreadsheet to produce a consolidated 1522. This change is effective for the June 2002 1522 reports. Noridian has complied with the recommendation to produce a consolidated 1522 reconciliation on a monthly basis.

3. OIG OARS Condition and Recommendation:

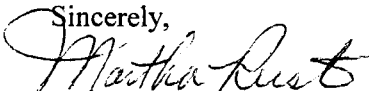
Condition: The January 2002 CMS Form 1522 Section B "Classification of Benefit Payments" misclassified benefit payments between Part A and Part B of A. Noridian classified a net <\$7,849.25> of SMI benefit payments as HI benefit payments. This amount consists of Claims Accounts Receivable – SMI (payment) for \$2,657.36 less Claims Accounts Receivable Withholding – SMI of \$10,545.72 plus Interest – SMI of \$39.11. This misclassification pertains to the 1/31/2002 weekly claims payment. There were four other weekly claims payments in January 2002 that were not reviewed.

Recommendation: We recommend Noridian alert Region VIII CMS about this programming error within the Florida Shared System.

NORIDIAN RESPONSE: Noridian agrees with the OARS recommendation to notify CMS and the FISS maintainer regarding the HI/SMI classification discrepancy. Noridian has researched this issue and found that this system deficiency was submitted by Empire NY on March 9, 1999 during the FY 1999 CFO audit under PAR # NY1532. This PAR has been reviewed by the Part A financial workgroup and is currently in a ready status awaiting release by CMS to FISS. Noridian is initiating discussion with Empire NY to review and discuss any procedures they have implemented to provide a manual work-around until the system correction is completed. Noridian has complied with the recommendation to notify both CMS and the FISS maintainer about this global issue.

Noridian appreciates the opportunity to provide additional information prior to the issuance of the final OIG audit report. If you have any questions or concerns, please feel free to contact me at (701) 277-5223.

Sincerely,



Martha Rust

Cc: Linda Tran
Lori Borelli
Steven Smetak
David Breuer
Teresa English
Kathy Ellingson



A CMS Contracted
Carrier/Intermediary

4305 13th Avenue South
Fargo, ND 58103-3373

August 9, 2002

Mr. Randy Parker
Office of Inspector General
Office of Audit Services
Region VII /Room 284A
601 East 12th Street
Kansas City, Missouri 64106

Re: Noridian response to a revised OIG draft Objective Attributes Recap Sheets (OARS)

Dear Mr. Parker:

Noridian received a revised OIG OARS regarding outstanding checks. Noridian is writing this document as a response regarding the conditions cited within the revised OARS.

OIG OARS Condition and Recommendation:

Condition: The 3/31/02 outstanding check registers for two Part B bank accounts included 21 checks which had been outstanding at least 12 months and had a check amount of \$3,000 or greater. Of the 21 checks, nine checks had MCS system check status code 05 – research meaning they were “Do Not Forward” checks, three checks were status code 07 – void reissue, six checks were status code 09 – stop pay awaiting reissue, and three checks have been purged from the MCS system. We observed from the outstanding check registers that there were numerous checks at least 12 months old and for less than \$3,000.

The Do Not Forward checks are returned to Noridian by the Post Office because of an incorrect address. According to a Noridian official, they retain these checks in a locked file cabinet while they attempt to locate the address of the provider.

Recommendation: We recommend that Noridian remove from the current month’s outstanding check registers the \$121,750.82 of status code 07 and 09 checks from our review and any other checks for less than \$3,000 that have a status code of 07 and 09.

We recommend that Noridian determine the status of the three purged checks, and if warranted, void these checks and remove them from the current month’s outstanding check register.

We recommend that Noridian alert CMS Region VIII regarding the MCS weakness that does not permit the contractor to void a returned (status 5) check without deleting the claim history and determine whether another solution exists pending a system correction.

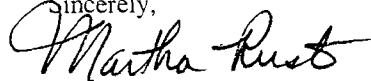
NORIDIAN RESPONSE: Noridian agrees with the OARS recommendation to remove the three purged checks, the “07” status – void reissue, and the “09” status – stop pay awaiting reissue checks. Noridian has identified the three purged checks on the outstanding check register and will record the checks as void as of July 2002. Noridian will remove the “07” status checks identified in the audit and will develop procedures in the future to remove checks identified in this type of check status from the outstanding check register. Upon review of checks listed in a “09” status - stop pay awaiting reissue, it was determined that only nine checks in a “09” status were incorrectly included in the check registers. Eight of the nine checks were a conversion issue, and the remaining was a beneficiary check that had a held address preventing the check from finalizing. All checks have been moved to a correct status location and the claims have been readjusted to pay out again. Noridian has complied with the recommendation to remove the purged checks and checks in a “07” and “09” status from the current month’s outstanding check register.



After additional review, a solution has been discovered for handling the "Do Not Forward" checks that are currently pending in an "05" status within the system. Cash receipts that are currently pending for DNF reasons will be identified. A transaction called DC will be done to delete the cash receipts from the on-line file. This transaction automatically updates the check status from an "05" back to an "02" outstanding status. When the monthly cycle runs, the jobs will automatically apply the staledating criteria to them and move them to a "12" staledate status. These checks are then communicated to the bank and private side as those to be removed from the outstanding list. Noridian will be able to void the checks in an "05" status prior to the end of August 2002.

Noridian appreciates the opportunity to provide additional information prior to the issuance of the final OIG audit report. If you have any questions or concerns, please feel free to contact me at (701) 277-5223.

Sincerely,

A handwritten signature in cursive script that reads "Martha Rust".

Martha Rust

Cc: Linda Tran
Lori Borelli
Steven Smetak
David Breuer
Teresa English
Kathy Ellingson