

Date: April 12, 2006

To: William Gradison, Acting Chairman
Public Company Accounting Oversight Board

From: Victor Forman, President and CEO, DQ^{max}, Inc., Pikesville, Maryland

Subject: Internal Controls Roundtable

Background:

In my career at Blue Cross and Blue Shield of Maryland, I served as Vice President of Legislative and Provider Affairs. One of my major responsibilities there was utilization review; i.e., a review of the proper billing and pricing for the item(s) that made up the billing. I was a principal in the development and implementation of the first Medicare Part A fixed-price contract.

I was awarded the degree of Juris Doctor in 1971, and my legal knowledge has been a monumental benefit throughout my careers. It served me well when I was a non-physician member of The Medical Chirurgical Faculty (Med-Chi) of Maryland.

For the past 4 years, I have served as President and CEO of DQ^{max}, a data quality management firm. Our firm assists publicly traded corporations with assuring the quality and efficacy of their data for a multitude of purposes. Prior to that, I was Vice President of Data Quality and Postal Affairs for Group 1 Software, a publicly traded corporation that was bought by Pitney-Bowes about 2 years ago. In that capacity, I was a pioneer in the area of enterprise data quality. I have lectured in this area, on an international basis, for many years.

Comments:

In the past two years, corporations have invested millions of dollars in Sarbanes-Oxley compliance. Unfortunately, many SOX consultants and CPAs have focused on the process, rather than the outcome. Few Audit Committees have actually considered the following question: "In what expense line item might we expect to find the greatest number of accounting irregularities?"

The current accounting system for self-funded employee benefit accounting is broken. Every day, corporations pay for overpriced healthcare and for healthcare that has not even been provided. Health plans make payments on behalf of individuals who are not members of the plan and, in some cases, not associated with the corporation.

To date, Sarbanes-Oxley has done nothing to eliminate healthcare fraud in self-funded employee benefit health plans. There have been no serious SEC enforcement actions against CEO or CFOs who have grossly misrepresented the adequacy of internal controls.

Similarly, the SEC has not enforced Sarbanes-Oxley requirements pertaining to Audit Committee members. As a result, employees have lost millions of dollars in excessive co-payments and investors have lost billions of dollars in shareholder value.

In many cases, Third Party Administrators (TPAs) refuse to disclose the prices that publicly-traded firms and their employees pay for healthcare. A 20% discount is meaningless, if it's applied to an undisclosed price.

Many publicly traded corporations enter into TPA agreements that prohibit independent audits of the TPA's payments. In such cases, subcontracted vendors are dictating Sarbanes-Oxley policy for publicly traded firms.

Studies have confirmed that over 90% of hospital bills contain errors (mostly overcharges). As such, how can a corporate officer certify the adequacy of internal controls without (a) knowing what the corporation has agreed to pay for healthcare and (b) establishing systems to verify the accuracy and validity of healthcare billing?

For example, the system may not recognize that Gonzales with an "s" and Gonzalez with a "z" refer to the same patient and constitute a duplicate record. This results in double billing.

Additionally, the inability to determine that data input by a clerk, does not match chargemaster data, can result in gross overbillings. Poor data plagues the healthcare industry and virtually all *other* industries.

Recommendations:

Obviously, I don't expect the SEC to bring charges against 1,000 corporate executives who have misrepresented the adequacy of internal controls. The system needs to be repaired.

I suggest the following:

1. Require all corporations with self-funded health plans to disclose their internal control inadequacies in their next 10Q or 10K. The disclosure should include a plan to correct such deficiencies.
2. Have the PCAOB prepare a ruling, stating it is a violation of SOX 404 and 904 for a corporation to certify the adequacy of internal controls if the firm does not have a copy of its healthcare pricing.
3. Have the PCAOB prepare a ruling, stating it is a violation of SOX 404 and 904 for a corporation to certify the adequacy of internal controls, if the firm does not have a system to verify the eligibility of every person who submits a healthcare invoice to the health plan.
4. Have the PCAOB prepare a ruling, stating it is a violation of SOX 404 and 904 for a corporation to certify the adequacy of internal controls, if the firm does not have an

independent system to verify the accuracy and validity of all healthcare benefit payments in excess of \$5,000.

5. Provide a six-month exemption from prosecution under Sections 404 and 904 for all executives who disclose healthcare benefits internal control inadequacies within 90 days.
6. Vigorously investigate and prosecute CEOs, CFOs, and Audit Committee members who fail to disclose and correct healthcare benefits internal control deficiencies.
7. Hold Audit Committees accountable. File charges against Audit Committee members who “fail to act.”

I hope to hear from you, soon. For the American worker, and the country as a whole, this is a matter of great urgency. I can be reached at 301-960-4989.

Regards,

Victor Forman