

**Federal Health Insurance Portability and Accountability Act FY2004 Request: \$1,656,300**  
**Compliance – Phase 2 Reference No: 35721**

**AP/AL:** Appropriation **Project Type:** Transitional  
**Category:** Health/Human Services **Contact:** Larry Streuber  
**Location:** Statewide **Contact Phone:** (907)465-1870  
**House District:** Statewide (HD 1-40)  
**Estimated Project Dates:** 07/01/2003 - 06/30/2008

**Brief Summary and Statement of Need:**

The Health Insurance Portability and Accountability Act (HIPAA) was enacted by the Federal government in 1996. Deadlines for compliance with regulations concerning electronic transmission, privacy and security of patient and health care information will be set over the next five years. Substantial monetary and civil penalties can be imposed as a result of non-compliance. The Department is compelled to implement in-depth impact analysis and requirements assessments for its health care programs, operations, computer systems and policies and procedures. It is anticipated that both small and large-scale modifications to systems, operations, policies and procedures will be required.

<b>Funding:</b>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>Total</u>
Fed Rcpts	\$828,150	\$151,050					\$979,200
G/F Match	\$828,150	\$151,050					\$979,200
<b>Total:</b>	<b>\$1,656,300</b>	<b>\$302,100</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,958,400</b>

<input checked="" type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input checked="" type="checkbox"/> Phased - underway	<input type="checkbox"/> On-Going
50% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

**Operating & Maintenance Costs:**

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
<u>One-Time Startup:</u>	<u>0</u>	<u>0</u>
Totals:	0	0

**Additional Information / Prior Funding History:**

CH1/SSSLA02/P40/L22 \$438.8 GF & \$438.8 Federal

**Project Description/Justification:**

The scope and needs of the Health Insurance Portability and Accountability Act (HIPAA) project have changed to some degree from FY2003 due to reduced funding. The issues of timing and funding for transactional solutions have become more critical with the completion of the department's high-level HIPAA assessment and transaction and privacy gap analysis in July, 2002. These issues will likely impact the distribution of funds in the FY2003 and FY2004 project budget.

Nine significant DHSS program areas have been recently identified to have medical claims processing requirements that do not fall within the scope of the new Medicaid Management Information System (MMIS) reprocurement and implementation project. Because the new MMIS will not provide a HIPAA compliant solution, these programs now have an obligation to develop (or purchase), test and implement electronic medical transactions processing system(s) prior to October 16, 2003 to comply with federal regulation and avoid the substantial monetary penalties for non-compliance. Business operations for these program areas will also be impacted if compliant systems are not in place by the specified deadlines, as it is anticipated that most, if not all, of the large providers that these programs interact with will be ready to conduct compliant electronic transactions by the deadline.

FY2004 funding is necessary to complete the transactional requirements and to implement and complete the required tasks to ensure that the department is ready to meet the HIPAA security regulation and standardized identifier deadlines.

### **HIPAA Compliance Project Phase 2**

#### **Summary:**

The Federal government enacted HIPAA in 1996. Deadlines for compliance with regulations concerning the electronic transmission and the privacy and security of patient and health care information will be set over the next two to five years. Substantial monetary and civil penalties can be imposed as a result of non-compliance or wrongful disclosure of information after deadline dates.

In FY2003, the Department of Health and Social Services began implementation of in-depth transactional and privacy impact analysis and requirements assessments for its health care programs, operations, computer systems, and policies and procedures. The assessment efforts for privacy and transactions are nearly complete and analysis of privacy impact is complete. The development of requisite privacy policy and procedure, modification of contracts, and procurement and implementation of staff training are well on the way.

The Department must still purchase or develop and implement HIPAA compliant systems for a number of program areas which process health care claims. We also anticipate the need for data conversion to compliant systems. Additionally, the Department will transition from privacy assessments to the necessary assessment and analysis needed to determine impact of the HIPAA security regulations.

This project will procure the services of one or more consulting firms to assist with in-depth security impact and needs assessments. This project may purchase or fund the development and implementation of one or more HIPAA compliant claims management systems.

#### **Detail:**

HIPAA was enacted in 1996 as part of a broad Congressional attempt at incremental healthcare reform.

Some portions of the law took effect immediately, providing access to health care coverage and guaranteeing patient rights under employer plans. Other regulations, pertaining to administrative simplification, privacy and security of patient and health information are just now being finalized and will be enforced over the 2003-2005 time frame.

The regulations will impact all health plans, health care providers, health care payers, health care business associates, health care clearinghouses, government medical assistance programs and other organizations involved with directly providing health care, the provision of health care, health care financial transactions, or the handling of health care information. The proposed regulations protect health information that 1) identifies an individual, and 2) is maintained or exchanged electronically, in paper, or oral format. The regulations also provide basic rights for individuals with respect to their protected health information.

HIPAA has been compared with Y2K, in that it is seen as an enterprise-wide issue. However, unlike Y2K, HIPAA is not an information technology issue alone. There are legal, regulatory, process, security and technology aspects to each proposed rule that must be carefully evaluated before implementation plans can begin. Additionally, the HIPAA mandates will continue to impose major changes to current business practices and data handling procedures, requiring extensive retraining of personnel and retooling of business environments.

The new HIPAA regulations that DHSS and other impacted State agencies will be required to focus on are these:

1. Electronic Transactions and Code Sets: The new transaction regulations are an effort to reduce paperwork and increase efficiency and accuracy through the use of standardized financial and administrative transactions and data sets. Some common affected transactions include claims, eligibility and enrollment verification, diagnoses and patient services, procedures, and physician services.

It became obvious in early 2002 that, on a national level, health plans and providers were administratively and financially unprepared to meet the October 2002 deadline. Therefore, the compliance date for this regulation has been extended to October 2003.



<b>2004 EDI Standards (Transactional Requirements) &amp; Security Standards</b>	
Administration and Management	196,300
<b>Transactional Requirements</b>	
Hardware	
Purchase Servers, Drives, Backup Devices for claims processing	150,000
Software	
Purchase software system to handle claims processing needs	300,000
<b>Security Standards</b>	
Contractual	
Legal Support for Review of Current and New Security Policies and Policy Development	80,000
Security/Vulnerability/Intrusion Testing & accreditation	30,000
Security Awareness Training and Education	150,000
Software	
Software development tools	90,000
Software modifications to current data systems to support Auditing and Audit Management	200,000
Purchase of encryption software	230,000
Purchase and/or Upgrade of Intrusion and Access Control Detection, Prevention & Management Software	90,000
Hardware	
Physical Site Security Additions/Improvements	100,000
Purchase of Additional Disk Resources (or upgrade) for Audit/File Storage and Maintenance Requirements	40,000
 <b>FY 2004 Totals</b>	 <b>1,656,300</b>
 <b>2005 National Identifiers</b>	
Administration and Management	152,084
Contractual	
Software modifications to current data systems to support National Identifier database modifications	150,000
 <b>FY 2005 Totals</b>	 <b>302,084</b>

The new transactional requirements require specific Department programs to be able to accept health care transactions (such as claims, eligibility inquiries, enrollment verification and pre-authorizations), electronically. Most providers will be in position to provide this data electronically by the mandated dates, and Department programs will have to be able to accept the data electronically. Electronic transactions improve the efficiency, accountability, accuracy and administrative and maintenance costs of claims processing for providers allowing them to improve services and reduce costs.

- Programs impacted by transactional requirements:
- Maternal Child Family Health - Genetics
  - Maternal Child Family Health - Health Care Program (Children with Special Needs)
  - Maternal Child Family Health - Specialty Clinics
  - Maternal Child Family Health - Breast and Cervical Health Check
  - Maternal Child Family Health - Newborn Metabolic Screening
  - Maternal Child Family Health - Family Planning
  - Division of Mental Health and Developmental Disabilities - Alaska Youth Initiative

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Division of Mental Health and Developmental Disabilities - Community Mental Health (Designated Evaluation and Treatment)

The implementation of security measures will provide a higher level of reassurance and accountability to the public regarding the confidentiality and ability to secure sensitive health information.

Preliminary assessments may reveal the need for increased funding to handle additional hardware, software, or contractual needs to assist DHSS and other involved State agencies in meeting ongoing HIPAA compliance requirements.

Substantial monetary and civil penalties can be imposed by the Federal Government as a result of non-compliance or wrongful disclosure of information after deadline dates. Program areas, which rely on Federal funding, may also be adversely impacted as a result of non-compliance. In addition, programs will not be able to pay claims in a timely manner to providers.