

**AP/AL:** Appropriation **Project Type:** Transitional  
**Category:** Health/Human Services  
**Location:** Statewide **Contact:** Larry Streuber  
**House District:** Statewide (HD 1-40) **Contact Phone:** (907)465-1870  
**Estimated Project Dates:** 07/01/2002 - 06/30/2007

**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 to 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 of Health and Social Services 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>	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>Total</b>
Fed Rcpts	\$438,750	\$375,000	\$375,000				\$1,188,750
G/F Match	\$438,750	\$375,000	\$375,000				\$1,188,750
Gen Fund		\$1,627,500	\$750,000				\$2,377,500
<b>Total:</b>	<b>\$877,500</b>	<b>\$2,377,500</b>	<b>\$1,500,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,755,000</b>

<input checked="" type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input checked="" type="checkbox"/> Phased Project	<input type="checkbox"/> On-Going
75% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill

<b>Operating &amp; Maintenance Costs:</b>	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	0
<b>Totals:</b>	<b>0</b>	<b>0</b>

**Additional Information / Prior Funding History:**

This is the first year of the project.

**Project Description/Justification:**

Proposed Telecommunications Capital Project Review Form FY2003  
 Telecommunications Information Council Policy Committee  
 Technical Advisory Committee

1. Has this project been previously approved by TIC/TAC? Yes \_\_\_ No X If yes, and there are no significant changes to funding amounts or technologies there is no need to continue with this form. Please copy last year's final capital budget back-up here as your submission for FY2003.

2. What is the purpose of the project?

**HIPAA Compliance Project Phase I**

**Summary:**

The Health Insurance Portability and Accountability Act (HIPAA) was enacted by the Federal government 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.

The Department of Health and Social Services is compelled to implement in-depth impact analysis and requirements assessments for its health care programs, operations, computer systems, and policies and procedures. The Department will act as the lead agency supporting the implementation of analysis and requirements assessment for all other State agencies that may also be impacted by HIPAA mandates. Statewide evaluation and documentation of the handling, transmittal, receipt, storage, security and disclosure of all agency program areas which handle protected health information must be performed.

It is anticipated that both small- and large-scale modifications and improvements to systems, operations, policies and procedures will need to be made to bring about compliance by the expected Federal deadlines. This project will procure the services of one or more consulting firms. Preliminary assessments conducted across all State agencies in FY2003 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 HIPAA compliance requirements.

**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 2002-2005 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 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: Currently there is no standard for the transfer of information between healthcare providers and payers. As a result, providers have been required by payers to meet many different requirements. Programming computer systems to meet these different requirements has been difficult and expensive.

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.

The expected compliance date for electronic transactions is October, 2002.

2. Privacy: This regulation specifies how health care entities and business partners of health care entities transfer, receive, handle, protect and disclose protected health information (PHI). The regulation applies to all forms of PHI, whether paper or electronic.

Health care entities are required to create privacy-conscious business practices and data systems, including the requirement that the minimum amount of health information necessary to conduct business is used or disclosed. Health care entities must:

- ? Ensure the internal protection of individual health information and implement physical and administrative safeguards.
- ? Implement procedures that limit the use and disclosure of PHI to meet the “minimum necessary” standards.
- ? Develop mechanisms for the accounting and auditing of all disclosures made for purposes other than treatment, payment or operations.
- ? Establish policies and procedures to allow individuals to inspect, copy or correct their health information.
- ? Establish contracts and agreements with business associates that ensure the protection of PHI that is shared or traded.
- ? Provide privacy training to members of its work force who have access to PHI.
- ? Establish policies and procedures to allow individuals to log complaints about the entity's information practices.
- ? Designate a privacy official.
- ? Create and make available documentation regarding compliance with all requirements of the regulation.

The expected compliance date for the Privacy Regulation is April 2003.

3. Security: This rule applies to the administrative procedures, technical and physical safeguards to ensure the integrity, confidentiality and availability of protected health information. The proposed security standard is divided into four categories:
- o Administrative procedures: These are documented, formal procedures for selecting and executing information security measures. The procedures also address staff responsibilities for protecting data.
  - o Physical Safeguards: These safeguards protect physical computer systems and related buildings and equipment from fire and other environmental hazards as well as intrusion. It addresses the use of devices and administrative measures to control access to computer systems and facilities.
  - o Technical data security services: These include the processes used to protect, control and monitor information access.
  - o Technical security mechanisms: These include processes used to prevent unauthorized access to data transmitted over a communications network.

As with the Privacy Rule, the Security Rule will require documentation regarding compliance with all the requirements. The Security Rules have not been yet finalized; however, compliance is anticipated to be early-to mid-2004.

4. Unique Identifiers: This rule will mandate the use of unique standard identifiers for providers, health plans, employers and, perhaps, individuals as well. These regulations have not yet been finalized. Compliance is expected sometime between 2003-2005.

Even though some HIPAA standards are still being finalized, DHSS and impacted State agencies must move quickly to develop and implement compliance plans.

<b>Project cost:</b>	<b>Capital:</b>			<b>Annual O&amp;M costs or savings</b>
	<b>Prior Years:</b>	<b>FY 2002:</b>	<b>FY 2003:</b>	

**Federal Health Insurance Portability and Accountability Act FY2003 Request: \$877,500**  
**Compliance Reference No: 35721**

General Funds			\$877.5	
General Fund Match			\$438.75	
General Fund Program Receipts				
I/A Receipts (dept. and fund source)				
Other Funds (name and fund number)				
Federal Funds			\$438.75	
Total			\$1,755.0	

3. Is this a new systems development project? Yes. Upgrade or enhancement to existing department capabilities? No.

4. Specifically, what hardware, software, consulting services, or other items will be purchased with this expenditure? (Include a line item breakdown.)

It is expected that funding will be utilized for contractual services for assessment, planning and implementation of programmatic and operational improvements and modifications required by the new laws.

**2003 EDI Standards, Privacy Regulations**

Administration and Management	120,000
Contractual	
Gap Analysis & Needs Assessment Department Electronic Data Systems for DHSS and impacted State agencies	300,000
Legal Support for Review of Current and New Privacy Policies and Policy Development, Business Partner, and Third Party Agreements	325,000
Privacy Education and Training Development	35,000
Data conversion by clearinghouse to meet EDI standards until current systems can be upgraded or migrated	460,000
Software	
Software modifications to current data systems to support new EDI standards	475,000
Assessment Tools Purchasing and Development	25,000
Educational Tools Purchasing and Development	15,000
<b>FY 2003 Totals</b>	<b>1,755,000</b>

**2004 Security Standards, National Employer, Payer, Provider Identifiers**

Administration and Management	130,000
Contractual	
Security Evaluation and Needs Assessment	100,000
Legal Support for Review of Current and New Security Policies and Policy Development	180,000
Security/Vulnerability/Intrusion Testing & accreditation	30,000
Security Awareness Training and Education	35,000
Data conversion by clearinghouse to meet EDI standards until current systems can be upgraded or migrated	405,000
Disaster Recovery / Emergency Mode Plan Development & Implementation	
Software	
Purchase and/or Development of Assessment & Evaluation Tools	25,000
Software modifications to current data systems to support Auditing and Audit Management	365,000
Purchase and/or Upgrade of Intrusion and Access Control	90,000

Detection, Prevention & Management Software

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>1,500,000</b>
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**2005 Security Standards, National Personal Identifiers**

Administration and Management	140,000
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Contractual

Data conversion by clearinghouse to meet EDI standards until current systems can be upgraded or migrated	405,000
Software modifications to current data systems to support National Personal Identifier database modifications	730,000

Software

Software development tools	225,000
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<b>FY 2005 Totals</b>	<b>1,500,000</b>
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5. How will service to the public measurably improve if this project is funded?

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.

6. Does project affect the way in which other public agencies will conduct their business?

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.

7. What are the potential out-year cost implications if this project is approved? (Bandwidth requirements, etc.)

Preliminary assessments conducted across all State agencies in FY2003 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.

8. What will happen if the project is not approved?

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.

