

Board of Community Health
Audit Committee Meeting
June 11, 2009

The Board of Community Health Audit Committee met June 11, 2009, at the Department of Community Health, 2 Peachtree Street, N.W., Fifth Floor Overflow Room, Atlanta, Georgia 30303.

Committee members present were Archer Rose, Chairman, Raymond Riddle and Ross Mason.

DCH staff attending the meeting was Carie Summers, John Hankins, Sonny Munter, Rob Finlayson and George Panos.

Mr. Rose called the meeting to order at 9:00 a.m. The January 8, 2009 Minutes were UNANIMOUSLY APPROVED.

The Committee reviewed the Audit Charter and proposed a change to the charter for the Board's consideration to reflect that *the Audit Committee shall meet as often as it determines necessary, but not less frequently than four times per calendar year* (instead of but not less frequently than quarterly). The proposed change to the Audit Committee Charter was UNANIMOUSLY APPROVED. Mr. Rose stated that he would ask the full board to approve the amendment to the charter to indicate that the committee would meet four times a calendar year rather than once per quarter.

Mr. Rose asked Carie Summers, Chief Financial Officer, to begin discussion on the FY 2009 Independent and Single Audit. Ms. Summers said it is routine for the independent auditors to address the Audit Committee before beginning the majority of the Financial Audit work for the fiscal year. She introduced the independent auditors Dave Decker of Metcalf Davis, and Miller Edwards and Matt Hill of Mauldin & Jenkins, a joint venture of certified public accounting firms, to present their perception of how the audit will transpire and any concerns they may have.

Mr. Riddle asked how the independent auditors are selected. Ms. Summers said the Joint Venture (JV) has been the auditors since the Department was created in FY 2000. About 2005 the JV was selected through a competitive procurement for a three-year engagement. Because of the transition to a new Department of Community Health in FY 2010, the Department extended the contract for one more year to audit FY 2009. Another competitive procurement will be put out to bid for FY 2010, 2011 and 2012. The Department brings to the Audit Committee recommendations for selection of the independent auditors; it is the responsibility of the Committee to confirm the selection of the independent auditor(s).

Mr. Dave Decker of Metcalf Davis reported that the JV commenced work on the Single Audit about a month ago to allow them to do field work in advance of the year end. Mr. Matt Hill of Mauldin & Jenkins and the manager of the Single Audit said the work is

progressing on schedule at this time. He said they have discovered no real conditions that would require any notations.

Mr. Rose asked the JV to describe their timeline. Mr. Decker said the timeline is somewhat open this year because of the reorganization taking place July 1. He said the JV's objective every year is to finish and issue the report before Thanksgiving. Mr. Decker said this year the JV has to deal with dual responsibilities of DCH's people resources since some of these staff members will be assisting with the reorganization. This possibly could impact the timeline.

Mr. Riddle asked if the JV audited processes. Mr. Decker said under the Standards they must assess the internal control each year at several levels. The JV will start the process for the audit of the Financial Statements on Monday, June 15. That process will take from one to six weeks depending on what they see different from the previous year. The assessment is for the JV to decide how extensive their tests will be.

Mr. Riddle asked about the size of the auditing team. Mr. Decker said the team is composed of two partners, three managers and five staff. Some of them perform crossover work concurrently on the Single Audit and Financial audit. One manager oversees the Financial Statement; one for Single Audit; and a third manager for the State Health Benefit Plan (SHBP). Mr. Decker said sometimes the JV employs specialists for certain parts of the work they perform. The JV employed actuaries from Milliman company to review IBNR (Incurred But Not Reported) for both the SHBP and Medicaid. Milliman's work will start next week. A preplanning meeting will be held with Milliman and Aon--the Department's actuaries.

Mr. Riddle inquired about the Department's internal audit section. Ms. Summers said the Department has an internal audit section under the Office of Inspector General/Program Integrity. Rob Finlayson, Inspector General, stated that the internal audit section presently consists of the director and two auditors; several more will be added due to the reorganization.

Mr. Rose asked during internal audits have there been any significant issues. Mr. Finlayson said the Department's internal auditors assist the JV with information requests; however, the internal auditors' principal functions do not involve financial audits.

Mr. Mason asked Ms. Summers if the Department was employing auditors to evaluate Medicaid Management Information Systems (MMIS) spending, controls and changeovers. Ms. Summers said every year the Department has consistently dealt with ramifications of the systems crossover since 2003. She said the Department has taken lessons learned and applied them during the MMIS development process. Ms. Summers asked Sonny Munter, Chief Information Officer, to talk more about user acceptance and other independent testing.

Mr. Munter said a SAS 70 Audit (Statement of Auditing Standard No. 70) is done each year on ACS. This year ACS hired KPMG to perform the SAS 70 Audit. There are eight control objectives. The audit is to be completed by June 30. Looking forward, the Department is doing several things: utilizing John Hankins, the Director of the Internal Audit and Program Evaluation unit, to review controls; user acceptance testing; and systems testing. The Centers for Medicare and Medicaid Services certifies the completion of the system. Once EDS takes over the MMIS, they, too, will perform a SAS 70 Audit. Part of the (user acceptance) testing this year will be performed by Myers and Stauffer who will use claims history to assess the new EDS MMIS to ensure that claims are paying properly.

Mr. Decker added that there are approximately 15 service organizations under contract with DCH. The Department receives SAS 70 reports on about 13 of those organizations. SAS 70 reports are two-fold: 1. a Type 2 SAS 70 report indicates that a CPA firm has looked at the controls of the service organization; and 2. those controls are operational and functioning as designed. The JV reviews the SAS 70 reports with DCH management at all levels and designs the audit around those known weaknesses.

Mr. Riddle expressed concern about the small size of the audit team. Mr. Decker stated that in this situation ACS is the primary service organization for those payments, and that is why the JV spends so much time with management evaluating the SAS 70 reports to make sure internal controls are in place. Also, ACS is a publicly traded company and is bound by Sarbanes-Oxley (Sarbanes-Oxley Act of 2002) and must issue reports on internal controls. The JV studies these reports and over time has established weaknesses. DCH management hired Myers and Stauffer to look specifically at weaknesses that have been identified by Myers and Stauffer and the JV. Mr. Decker added that the Single Audit looks at specific items within those payments. Mr. Finlayson pointed out that the Program Integrity Unit is dedicated to reviewing claims submitted by the providers to ensure that what the provider submitted to DCH is accurate. Mr. Riddle stated he was very concerned about fraud and the loss of taxpayer dollars. Mr. Decker said there is a federal grant that is shared between the Department of Audits and Accounts and the Department of Justice—constantly looking for fraud in Medicaid and SCHIP. The Department of Audits and Accounts does special audits both for the Legislative Branch and DCH.

Mr. Mason asked who manages the state's dollars. Ms. Summers said from a cash management perspective, the state Office of Treasury and Fiscal Services is responsible for short-term investments. Mr. Mason asked if the Department had input on those investments. Ms. Summers said over the years the JV has made management points about various cash management practices which in some cases were beyond the Department's control and she expects a management point regarding cash management this year.

Mr. Rose thanked the Joint Venture for reporting to the Audit Committee today. Mr. Decker said if the JV encountered any difficulties during the audit process, they would

ask for a meeting with the Audit Committee in September or October. Otherwise the JV will want to meet with the Audit Committee in December.

Ms. Summers said DCH management had a kickoff meeting with the JV this week. A part of that meeting gives the Department a chance to review a list of topics the JV has expressed interest in and/or the Department's issues or concerns that may impact the JV's work going forward—particularly the reorganization, new MMIS implementation, and ARRA (stimulus) funding. Ms. Summers said future discussion topics could include PERM (the federal Payment Error Rate Measurement program) and review of other audits.

There being no further business, the meeting was adjourned at 9:51a.m.

ARCHER ROSE, CHAIRMAN
Audit Committee