

Board of Community Health
Audit Committee Meeting
April 14, 2005

The Board of Community Health Audit Committee held its meeting in Room 1816A, 18th Floor, West Tower, 200 Piedmont Avenue, Atlanta, Georgia.

Committee members present were: Kip Plowman (Chairman), Mary Covington and Ross Mason.

Department of Community Health staff present were Chief Financial Officer Carie Summers, Acting Chief Information Officer Barbara Prosser, John Hankins, Kim Hinton, Julie Kerlin and Deborah Bevelle.

Mr. Plowman called the meeting to order and welcomed everyone to the Audit Committee Meeting. Mr. Plowman began discussion on the Audit Committee Charter

Audit Committee Charter

- The Audit Committee has taken a model from the Teachers Retirement System that was developed in conjunction with the State Auditors to outline the strategy, agenda goals and responsibilities of the Audit Committee. Mr. Plowman said he sent his comments to the board chair and will defer decisions to the ongoing Committee to review and decide how they want to proceed.

Mr. Plowman then turned the meeting over to Carie Summers and she discussed the following:

FY 2003 Financial Audit

- Management Letter from Independent Auditors;
The independent auditors issued to the Department a management letter, which is typical at the end of an audit, to share with the agency their observations. These are areas that the Joint Venture (JV) had some concerns but were not such that they felt they were considered findings, but were observations and suggestions to management about things they concede that the Department could address and potentially improve the quality and outcome of procedures as well as future audits. Kim Hinton, Director, Financial Services, gave the Committee highlights of each of the nine suggestions noted in the Management Letter. She stated that she had assigned each suggestion to a particular staff member. Staff is meeting every 30 days to make sure staff is on target with their plans to address each suggestion.

1. Routine Reconciliations of Claims and Financial Transactions

JV's Suggestion: The JV noted that the Department did not make reconciliations of claims and financial transactions to the general ledger. The Department should consider performing monthly or quarterly reconciliations of the claims and financial transactions to the general ledger to ensure any discrepancies are investigated in a timely manner.

DCH Response: The Department performs reconciliations of claims and financial transactions to the general ledger on a weekly basis because the accounting interface has to be balanced to the check write.

2. Financial Statement Preparation

JV's Suggestion: The Department's management should buy a system that will help the Department prepare financial statements.

DCH Response: The Accounting staff has reviewed financial reporting system software from four different vendors. The Department is in the process of making a decision on the software package.

3. Cash Cut-off Procedures

JV's Suggestion: The Department should consider strengthening its policies and procedures related to reporting cash. The JV noted the Department held open certain cash accounts after year-end.

DCH Response: At the end of the fiscal year, the system is left open for a certain period of time to get everything closed. The JV wants the Department to make sure if a check went into the system during that period of time, that the Department make an adjustment to back it out. The Department has procedures in place.

4. Timely Receipt of SAS 70 Reports

JV's Suggestion: The Department does not appear to have a system in place to assure SAS 70 reports are received in a timely manner on all significant service providers. The Department's management should consider developing a system to ensure applicable SAS 70 reports are obtained on all significant service providers.

DCH Response: The Department has put together a tracking document to monitor all SAS 70 reports.

5. Deferred Revenues

JV's Suggestion: The Department did not defer revenue recorded for the federal share of the prospective payments. The Department recorded receivables for the entire interim payments due from providers, but did not defer approximately \$250 million of revenue. The Department's management should develop procedures to ensure revenues are not recorded and recognized until they are earned, measurable and available for general fund activities.

DCH Response: This entry was required when the Department issued advanced payments which was a unique situation. Staff has implemented the suggestion that revenues not be recorded until they are earned, measurable and available for general funds activities.

6. Routine Analysis of Expenditures and Revenues

JV's Suggestion: The Department was asked to explain any unusual variances between fiscal years.

DCH Response: This is a normal part of the audit process. The Department reviews expenditure reports on a monthly basis, will expand on the process and interact more with Budget staff.

7. Override of Controls

JV's Suggestion: The Department's management should develop procedures to ensure that in the event of a system override, controls are in place to document the process of the override.

DCH Response: The ACS system would not allow DCH to deduct items from the claims payments such as Nursing Home Provider Fees, IRS levies, or garnishments without ruining the 1099 form for that particular provider. The Department had to develop a work around. The Department is working with ACS to develop procedures to ensure that, in the event of a system override, controls are in place and pertinent documentation is maintained in files and communicated to auditors.

8. Financial Transactions

JV's Suggestion: The Department's management should develop policies to ensure that support for financial transactions is maintained in a secure place and accessible when needed.

DCH Response: There was difficulty finding some of the paper documentation for the previous claims processing vendor EDS. DCH did not have this documentation as well. This accounts receivable and recoupment area has been found to need improvement. The Department has reorganized the staff responsible for maintaining supporting documentation for the non-claims specific financial transactions. Under new leadership, many organizational improvements have been made.

9. Approval of Journal Entries

JV's Suggestion: The Department's management should take steps to ensure current [journal entry] policies and procedures, including the requirement for supervisory approval, are functioning properly in order to maintain a sound internal control system.

DCH Response: The Department has a policy in place and journal vouchers are approved by one person. Journal Voucher entry has been centralized. The policy regarding supporting documentation and management approval of journal vouchers has been reinforced with staff. Quarterly queries are now being run in the PeopleSoft system reporting all journal voucher activity, and each supporting document is pulled and reviewed for accuracy.

FY 2004 Financial Audit Work Plan

Financial Estimates of Overpayments and Underpayments

Ms. Summers stated that at the last Committee meeting upon completion of the FY 2004 Statement, the Department needed to estimate over and underpayments in order to make required representations that statements are fairly presented--basically reflecting knowledge that FY 2004 claims adjudicated in that time period may have not been 100% accurate. There are a series of tickets that remain outstanding or are on the list for correction and implementation. That has caused the Department, in order to complete the FY 2004 Statement, to have to do estimates for both over and underpayments (adjustments to accounts receivables and liabilities) based on these estimates.

Myers and Stauffer, the firm the Department has under contract, is performing this work for the Department. They are sampling about 27,000 claims. There are two samples: Cash and IBNR. Included in the Cash sample is any claim that was adjudicated in FY 2004 and the status of that claim as of June 30, 2004. There are about 20,000 claims in that sample. The second sample is the IBNR that will cover claims that were incurred in 2004 and prior that have been paid in 2005. There are about 7,000 IBNR claims. The sample has been selected. Myers and Stauffer are working all of those claims and are processing those claims based on the Department's policies and procedures to determine what the outcome should have been and that outcome is compared to what the claim adjudicated. In the event there is a difference, that potential exception comes to the Department for validation. For those that the Department confer there is an issue, Myers and Stauffer is determining what the differential is and the way it should have paid versus the way it did, and that will be factored into these estimates. That process has been going on during the last month and the DCH hopes to receive these estimates by April 22.

The Department is also performing duplicate testing--that is making sure that claims have not been paid more than once. The JV was particularly interested in duplicate testing in the FY 2003 audit, and this is certainly important for the Department to test in FY 2004.

Un-dispositioned Refunds is a new issue as far as how the Department will accommodate for this in the estimates. In the event that a provider has given money back to the Department in a form of a refund because they have been overpaid, there has been a backlog at ACS in dispositioning those refunds down to a claim level. The Department, along with Myers and Stauffer, will have to figure out how to account for this in the estimates.

Ms. Summers said the reason the sample size is so large is because the Department is trying to get the margin of error on the estimate that results from that family to be within the tolerable misstatement that is potentially less than \$12 million. It was important for the sample methodology to sample enough claims to get a margin of error for the estimate below that \$12 million. DCH is expecting the cash estimate to be completed by April 22; the IBNR estimate will take a little longer. DCH has had discussions with the JV for them to begin testing the cash sample the week of April 22, which may be before Myers and Stauffer is completely done. The target for the completion of the financial audit is by the end of June.

Work Plan to Complete Financial Statements

Ms. Summers shared with the Committee a FY 2004 Financial Audit Workplan that is a high level outline of steps needed to get the FY 2004 audit done. Some tasks have been completed and many of them are in progress.

Ms. Summers began discussion on the SAS 70 Report. The Department had a SAS 70 that covered April 2004 to October 2004. She said that the Committee may recall that in the Management Letter, the JV recommended that the Department makes sure it is getting all SAS 70s done and corrected. The JV felt it very important for FY 04, 05 and 06, to get a SAS 70 conducted on the MMIS for 12 months of operation. That effort is ongoing.

FY 2005 Audit

The State Accounting Office's revised timeframe for closing is July 29.

There being no further business, the meeting was adjourned.
