

Board of Community Health
Audit Committee Meeting
March 10, 2005

The Board of Community Health Audit Committee held its meeting in the Floyd Room, 20th Floor, West Tower, Twin Towers Building, 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 and Julie Kerlin.

Mr. Plowman called the meeting to order and welcomed everyone to the Audit Committee Meeting. Mr. Plowman then turned the meeting over to Carie Summers and she discussed the following:

FY 2003 Financial Audit

- Provided to DCH in February
As expected, the opinion on the financial statement for the government fund (Medicaid and PeachCare) was a disclaimer; the proprietary fund (SHBP) received a good opinion.
- Corrective Action Plan for Financial Statement Findings;
The Report of the Independent Certified Public Accountants indicated five financial statement findings. The Department has put together a corrective plan that was required for the state single audit and was submitted to the Department of Audits last week.

Finding Number 1 – Conversion from EDS MMIS to ACS MHN System.

Concerns related to internal controls necessary to make sure that the systems conversion was successful and that as a result of the successful conversion, the Department was able to fairly state the Department's financial statements. The Department concurs with the finding and has identified several control reviews to provide additional assurances that the Department is able to utilize the system to properly account for expenditures. The following four efforts are ways the department plans to **further validate the system**.

1. SAS 70 reports are done during the applicable reporting period and reflective of 15 months of operation;
2. **Reprocessing controls – reprocessing controls exist and are adequate.**
3. Implementing a payment integrity project which determines how well is the system paying--what is the error rate; and
4. Participating in the U. S. Department of Health and Human Services Payment Error Rate Measurement (PERM) pilot program.

Finding Number 2 – Upper Payment Limit (UPL) Calculation

Some UPL payments were made in error due to incorrect calculations of which the payments were based, primarily due to human error and suggested the Department put into place better internal controls. The Department agrees with the finding but also noted that the Department had some existing external controls to try to ensure that calculations were accurate such as sending providers the layout of their calculations and the data that was used to make the calculation and ask them for corrections or concerns. The CMS also reviews UPL calculations. The Department has added additional staff

and implemented additional internal procedures for testing and verifying UPL calculations.

Finding Number 3 – Doubtful Accounts Calculation and Tracking Accounts Receivable

With the advent of prospective payments to providers, the department was unable to **authenticate** receivables and doubtful account calculations. The Department has reorganized the Benefits Recovery staff, hired a new director and added additional staff. In addition, DCH amended the formula for doubtful accounts calculation.

Finding Number 4 - Accounts Payable, Accrued Liabilities and Contracts Payable

DCH did not have a system in place to support that accounts payable, accrued liabilities and contracts payable reported were complete and accurate. The Department concurs with this finding and has implemented additional policies and procedures and immediately set up an encumbrance or accounts payable for the contract amount to ensure there is a fixed contract amount.

Finding Number 5 - Segregation of Duties

The Department has staff who has the ability to access and perform functions that are considered incompatible and have no internal controls in place to provide adequate segregation of duties. The Department concurs with the findings and has contracted with the Department of Audits to find compensating controls. The review will include an evaluation of the duties of all Financial Services staff and an internal controls review of the entire accounting functions and will make changes based on the report.

- Management Letter from Independent Auditors;
The independent auditors issued to the Department a management letter with comments and suggestions that came to their attention during the FY 03 Audit. These findings were intended for DCH management use and were not material weaknesses of the type that were reported in the Single Audit Report.

FY 2004 Financial Audit Work Plan

- Reprocessing Stopped
Under the FY 2004 Financial Audit Work Plan, the Department began reprocessing claims adjudicated in FY 04. For 12 categories of service, testing was performed, determined adequate and the Department moved forward with reprocessing the entire FY 04 claims. Some claims were adjudicated in FY 04 and some edits that had not worked properly may have been turned off and the claims paid. Now that those edits are working, the claims are denying. The Department stopped reprocessing claims for _____ categories of service. Claims reprocessed in FY 2003 for the 12 categories of service have undergone an extensive review of every reasonably denied claim, determined which of those were appropriate denials versus which are those DCH thought problematic. For those claims that were denied because of an edit that we think is problematic, we will reprocess those claims, turn off the edit until it is fixed to reverse the processing so providers can get payment for those claims. It will require the Department to reprocess claims again in the future. Of the 12 categories of service and the 1.3 million claims that were reprocessed in FY 03, about 5 million (of 25 million) claims have been reprocessed; of those 5 million reprocessed, about 500,000 claims had a change; of that 500,000 with a change, about 170,000 were denied; and it is those 170,000 are the target to be reprocessed to get providers' payments back to those whose claims inappropriately denied.

- Financial estimates of Overpayments for Statements;
There are ACS 170 tickets (problems or issues the Department wants to change) related to claims adjudication. Fifty-one tickets are related to the top 10 categories of service. The Department will now have to rely on an estimation methodology based on an estimated payment error rate. By pulling an entire population claims adjudicated in FY 04 and claims and dates of service through February 2005, adjustments can be made, over and underpayments, on a cash basis as well adjustments that would have to be made to IBNR.

Audit Committee Charter

- Proposed Charter for consideration;
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. The Committee will review the redlined copy, extend review for one more month, and bring a final version to the board for consideration in April.

There being no further business, the meeting was adjourned.

KIP PLOWMAN
Chairman, Audit Committee