

Board of Community Health
Audit Committee Meeting
May 12, 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: Mark Oshnock (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. Oshnock called the meeting to order and welcomed everyone to the Audit Committee Meeting. The Audit Committee minutes were UNANIMOUSLY APPROVED. Mr. Oshnock asked Carie Summers to provide an update. She began by discussing the FY 2004 Audit.

Ms. Summers said that at the last meeting the Department reported that it was undertaking an effort to estimate those receivables and liabilities (caused by claim overpayments and underpayments) for the FY 04 Statement. Those estimates would temporarily take the place of the outcome of reprocessing actual claims for that time period. Ms. Summers reported that the process is going well. The Department is working with Myers and Stauffer, the firm that is doing the payment error rate measurement project for the state.

She said at the last Committee meeting staff discussed the two different sets of estimates---cash (liability/receivable estimates which would go on the financial statements as of June 30, 2004) and IBNR calculations (the actuaries would need those estimates to make their IBNR calculations).

For the cash estimate the Department needed a very small margin of error. The auditors shared with the Department a tolerable misstatement of \$9-12 million (when estimates are calculated, it is important that margin of error be somewhere be \$9-12 million). The cash sample size was around 20,000 claims and 7,000 claims for IBNR. Myers and Stauffer completed the 20,000 for cash. The samples were broken up into six strata (like kinds of claims). With the 20,000 claims, Myers and Stauffer were able to determine an estimate because they were able to observe some errors in Strata 1-4. They did not observe enough errors in Strata 5 and 6. If there are no errors, one cannot extrapolate to the population from the samples that were reviewed. They have now gone back and pulled more samples for Strata 5 and 6 in an effort to come up with an estimate for cash. For Strata 1-4 the preliminary margin of error was larger than \$9 million—approximately \$20 million.

The Department has asked Myers and Stauffer to finish Strata 5 and 6 for cash so DCH will have an estimate for those strata, see the margin of error, and once that is done, give an estimate for the entire population. Myers and Stauffer will report the outcome of the effort. This information will be reported to the JV late next week, and the JV will share the report with its statistician and actuaries in an effort to give the Department feedback as to whether that estimate will be acceptable. In the event it is not acceptable, Myers and Stauffer will do additional sampling.

IBNR is in a similar situation. This is a much smaller claims sample—7,000 claims. Myers and Stauffer did get preliminary results based on the 7,000 claims. Given that there are six strata and two estimates per stratum (receivable and liability), they were able to calculate four out of twelve because in the other cases they did not observe errors that would have allowed them to extrapolate. The Department has asked them to go back to those strata and pull additional samples, enough such that they can make an estimate. At that point in time, DCH will look at the margin of error and make a call about whether more samples are needed.

Ms. Summers said that although the Department has not officially provided financial statements to the auditors, the JV is auditing everything else--administrative expenditures, State Health Benefit Plan, all of the attached agencies--until the point in time that they get the financial statements and do the testing that they need to do on the claims side. DCH has a work plan that addresses all components that is on track.

Ms. Summers addressed questions from the Committee and reported that the Department hopes to have completed estimates for all strata by May 23. The Department hopes to have in hand the cash report by the end of next week (May 20). The Department expects to have the draft IBNR results by May 23. That will not be the full report that will be given to the actuaries to do IBNR; it will simply be the outcome verbalized with draft documentation, but the actual report would not be ready until approximately May 27.

Mercer Consulting, the actuaries that do IBNR for the Department, are on standby. Once they receive this information, they will be able to finalize their IBNR calculations in a few days. Once the cash estimate and IBNR calculations are done, the Department can plug those figures in statements and release the statements to the auditors as well as the State Accounting Officer. Once the audit is done, the state's goal is to have the CAFR immediately out in late June or early July which may depend on the timeline that DCH can achieve in getting its audit done.

Mr. Oshnock reviewed the timeline and asked Ms. Summers if the JV had an estimate of when the audit would be completed. Ms. Summers stated that typically the JV says they need eight weeks from the point in time that they get statements to complete their audit. It took them about five weeks to issue a written report on the FY 03 Audit. The JV is aware of the State's deadlines.

Ms. Summers stated that one of the positive things about the estimation process is that staff is validating that tickets exist to fix identified problems. The process will allow the Department to target reprocessing instead of processing all claims. Problems found in sample claims would be identified, which tickets address the problem, and those tickets would become a priority for fixing and those claims reprocessed.

Mr. Oshnock asked staff to invite the auditors to the June Audit Committee meeting to get the JV's status report of the FY 04 audit, their expectations of issuing a report and some indications of the FY 05 audit. He asked about the possibility of inviting Myers and Stauffer to attend the Committee meeting. Ms. Summers said she would invite both the JV and Myers and Stauffer to the June Audit Committee meeting.

Finally, Mr. Oshnock began discussion on the Committee charter. Ms. Summers said she would send the Committee an electronic version of the charter, members could redline it, and staff would consolidate the changes and return the charter to the Committee at the June meeting.

There being no further business, the meeting was adjourned.

MARK OSHNOCK, CHAIRMAN
AUDIT COMMITTEE