

Board of Community Health
Audit Committee Meeting
August 25, 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, Richard Holmes and Ross Mason.

Department of Community Health staff present were: Commissioner Tim Burgess; 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. The July 14 minutes were UNANIMOUSLY APPROVED.

Mr. Oshnock called on Carie Summers, Chief Financial Officer. Ms. Summers began by discussing the FY 04 Financial Audit Report. Staff distributed the financial statement audit and single audit. Staff also distributed an audit agenda prepared by the JV as required by auditing standards. Ms. Summers said the financial statement audit report is a culmination of very hard work by the Department, ACS, Capgemini, Myers and Stauffer and Mayer Hoffman and McCann. Ms. Summers said the Department is very happy with the financial statement audit report outcome.

She brought to the Board's attention a two-page presentation that is an excerpt of a presentation made to the House Appropriations Committee earlier this month to point out that DCH has made marked improvement in the outcome of our audit in FY 04 as compared to FY 03. The very important point is the ending balances for FY 04 for both the governmental fund (which is Medicaid and SCHIP) as well as the Department as a whole have clean opinions for the financial statements. That is the best the Department could hope for and sets DCH up for a completely clean opinion on all parts of the financial statements in FY 05.

Ms. Summers introduced Mr. Lynn Vellinga, State Accounting Officer. She asked Mr. Vellinga to talk about what the clean opinion of the balances means to the State.

Mr. Vellinga said without a clean opinion from the DCH, the state could not receive a clean opinion for the State of Georgia's Comprehensive Annual Financial Report (CAFR) so it does affect the presentation for the State of Georgia. He said it was more important for us to get the financial statements completed than to wait to clean up all the problems we have been addressing for

several years now. He said in FY 03 the Department and the state received disclaimers of opinion, FY 04 was a transition year and in FY 05 we anticipate receiving unqualified opinion as it relates to the issues from DCH. He said that is critical. The state takes very seriously quality financial information for the State of Georgia. He complimented the Department on the effort they made to get these things done. He said DCH was backlogged in 2003, and a lot of pressure was placed on the Department to get the FY 04 financial statements done quickly. He said the state felt it inappropriate to issue bonds until the FY 2004 statement was issued. The State of Georgia had a meeting with the bond rating agencies on July 19, 2005, the state received the opinion from DCH on July 18, and the auditors had the report printed so the State could take copies of the CAFR to the bond rating agencies on the 19th. The Department and the independent auditors worked very hard and the auditors were cooperative in meeting those deadlines. The State's goal and the Governor's directive are to have the FY 05 CAFR done by the end of December 2005. It is critical for DCH to meet its deadlines and so far it is on schedule for FY 2005. The DCH audit is scheduled to be completed by the end of November. Mr. Vellinga concluded his remarks after addressing questions from the committee.

Mr. Oshnock asked if the original timeline for 2005 was intact. Ms. Summers said the Department will get financial statements to the JV on Monday (August 29). The expectations are for the JV to take approximately 12 weeks to do their work and issue an opinion by the end of November. The Department thinks this will meet the State Accounting Office's timeline.

Ms. Summers began discussion on Management's Response to the FY 04 Report. She said there are two sets of responses—one to the actual findings reported in the Single Audit report, and management letter points and responses. Ms. Summers said the JV agreed to include management's responses to the findings in the report. Five of the eight findings are repeat findings from FY 03 and are a function of the timing of the audit. The fact that FY 03 final audit and the initial 03 findings were not received by the Department until FY 04 had closed did not allow the Department to take action that would have impacted FY 04.

Ms. Summers reviewed the new findings. The first new finding relates to IBNR Data Reconciliation and Calculation. The auditors were very unhappy that the Department had not reconciled claims triangle to the general ledger before the actuaries were asked to finalize their IBNR calculations. The JV found that the controls applied were not adequate to ensure that the data was accurate for calculation of the IBNR liability. Ms. Summers said the Department agreed with this finding. She said due to unusual deadlines, DCH did not apply existing processes and procedures to ensure that all claims triangles used for IBNR calculations were accurate. In FY 05 this issue has been corrected.

The second new finding Claims Processing, IBNR Data Maintenance, had to do with quality assurance on claims processing done by ACS, making sure that

claims are adjudicating accurately and what is the Department doing to ensure that. The Department concurred with this finding but had a difference of opinion about what efforts were necessary to satisfy the JV. The Department feels that the estimation process (performed by an independent auditor) is an indication that the Department has a program in place to catch payment errors. As a result of identified payment errors, DCH has a corrective action plan in place to address the errors. Ms. Summers said she thinks the auditors are suggesting an internal and periodic QA process for quality assurance. She said the Department sees the value in this recommendation; however, there are resource issues that have to be considered.

The third new finding concerns administration of State Health Benefit Plan (SHBP). The JV's recommendation was to establish separate health insurance plans for state employees, public school teachers, and public school employees, or request changes to the state law to allow them to continue to operate one plan. This was actually a result of a performance audit that was done by the Department of Audits and Accounts last year related to the plan's financial administration. By Georgia law the Department was required, prior to this legislative session, to segregate the funds for the plans. When the Department took over the plan, funds were co-mingled as far as how the plan has been administered for investment and cash flow purposes; however, DCH had maintained separate accounting for those trusts but not segregated the funds. In the 2005 Legislative Session the Department had legislation sponsored and passed to allow the Department to manage the funds jointly.

Ms. Summers, Ms. Prosser and Commissioner Burgess addressed questions from the Committee. Ms. Summers reiterated Finding 04-07 (Claims Processing, IBNR Data Maintenance). She said she would not be surprised to see a repeat of this finding because of the issue of not having an internal claims validation unit to the extent that that functionality meets the expectations of the JV. Since the Department received this finding at the end of FY 05, any corrective action would probably take place in FY 06.

Ms. Summers moved on to the Department's response to the Management Point letter. Ms. Summers said auditors are required to provide this letter to management. It documents areas of concern or suggests changes to current management practices. These areas of concern are not as serious or egregious as a finding. Ms. Summers said some of these items came as a surprise to the Department and the Department did not learn of some of the concerns until the letter was issued. She said DCH talked with the JV and asked them to bring issues to management's attention as they find them to enable management to address the issues as soon as possible. She said the Department has a more formalized communication process with the JV for the FY 05 audit; they are meeting bi-weekly and the JV is putting in writing issues as they are discovered. Ms. Summers asked John Hankins and Kim Hinton to give an overview of the auditors' 23 suggestions and management's response to each suggestion. Ms.

Summers said the Response to the Independent Auditor's FY 2004 Management Point Letter would be shared with the JV today.

Ms. Summers began discussion on the last agenda item—a proposed schedule of events for the Audit Committee (as set forth in the Committee charter). She said Mr. Hankins prepared a calendar for FY 05 and 06. Mr. Oshnock asked the Committee to review the calendar and all documents discussed at today's committee meeting and be prepared for any follow up questions or concerns.

There being no further business, the meeting was adjourned.

MARK OSHNOCK, CHAIRMAN
Audit Committee