

Board of Community Health
Audit Committee Meeting
July 14, 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 Chief Financial Officer Carie Summers, Acting Chief Information Officer Barbara Prosser, Julie Kerlin and Deborah Bevelle.

Mr. Oshnock called the meeting to order and welcomed everyone to the Audit Committee Meeting. The June 9 Audit Committee minutes were UNANIMOUSLY APPROVED.

Mr. Oshnock said last month the Committee reviewed the Audit Committee Charter and made some changes. He said the draft before the Committee was in line with the changes discussed. Mr. Mason MADE THE MOTION to approve the changes. Ms. Covington SECONDED THE MOTION. Mr. Oshnock called for votes; votes were taken. The changes to the Audit Committee Charter were UNANIMOUSLY APPROVED. Mr. Oshnock asked that a copy of the Audit Committee charter be placed in the board members' packets for their review and consideration for full board approval.

Mr. Oshnock called on Carie Summers to provide an update on the FY 2004 Audit. Ms. Summers said the Fiscal Year 04 financial audit is close to being done. The Department has draft findings from the Joint Venture, the independent financial auditors, for FY 04. The Department is reacting to the eight findings; five findings are the same as in the FY 03 Audit and were expected given the timing of when the FY 03 audit was completed after FY 04 ended. The very things they identified relating to internal controls were present in FY 04 as well. The Department has asked the Joint Venture to include in the single audit management's response to be included in the findings because the JV does not acknowledge the timing issues or the fact that FY 04 was completed well before the Department had the FY 03 audit. The Department asked and the JV agreed to put in the Department's response to address the timing and what has been done to address other findings.

Ms. Summers says there are three new findings. One relates to the State Health Benefit 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. That was a violation of law. In the 2005 Legislative Session the Department had legislation sponsored and passed to allow the Department to manage the funds jointly.

Ms. Summers said the other two findings dealt with IBNR and using data from the claims processing system to calculate IBNR and the process the Department uses to do that. The Department had a different procedure this year that had some control holes in them but there were some procedures to assure the accuracy of the data. The way the JV wrote the finding is not the way Department sees it and since these are draft findings the Department is in a debate as to how this should have been written. The Department still anticipates it will still be a finding but hopefully it will be worded a little differently and will have its response as to how this will be fixed going forward.

Ms. Summers said she anticipates at the August meeting she will be able to hand the Committee the reports, go over the findings, have the corrective action plan ready and review with the Committee at that time. Once the findings are resolved the Department is committed to responding by the close of business tomorrow. The JV will be able to draft the management representation letter for use and then several of the senior managers in the Department will sign that management representation letter. This will be the last piece the JV needs to issue a report formally. As far as the outcome of the audit, all indications are it is pretty much the best case for the Department as far as financial statements. The Department expects an unqualified opinion on ending balances. The beginning balance of the fund balance has to be qualified given the disclaimer the Department had in FY 03. Ms. Summers gave a brief description of the five findings that were both in the FY 03 and 04 and addressed questions from the Committee.

Ms. Summers moved on to the FY 05 Financial Audit. She reported that the fiscal year ended June 30 and the Department has until July 29 to close the books through the PeopleSoft system. Once that it is done, the Department will take about two weeks to prepare the financial statements. The Department will be using new software to complete the FY 05 statements. (In the FY 03 management letter, one of the JV's suggestions was to try automating the preparation of the financial statement).

Ms. Summers said the Department will continue to do estimation of claim payment errors in FY 05 and have been in the process of doing that. The Department had to take a sizable number of claims to sample to determine if they had been paid correctly. About 43,000-44,000 claims are being manually priced by Meyers and Stauffer. They are scheduled to be done with the estimates by the end of July. DCH should have a preliminary report from them on July 29 that gives the estimated over and under payments and the margin of error. That was very important to the Department to fairly present financial statements in FY 04 and particularly important in FY 05 because DCH knew that in the first part of FY 05 there were defects in the claims processing system that had not been corrected but since have been corrected hence the need to do estimations again. DCH expects the payment error in FY 05 to be lower than FY 04 and

hopefully it will be a non-material number such that in FY 06 there will not be a need to do estimations anymore. As soon as the estimation project is done the Department will share it with its actuaries. Our claims triangle to calculate IBNR will go to Mercer the first of August. They need the estimation results to understand how they may have to adjust liability within the IBNR. Once those numbers are out it will allow DCH to complete financial statements.

Financial statements are schedule to be sent to the JV on August 12. The JV will need almost to Thanksgiving (about November 18) to issue its report. The goal is to have the State CAFR done by December 30. After addressing questions from the Committee, Ms. Summers concluded her report.

Mr. Oshnock began discussion on annual planning for the Audit Committee. He said Ms. Summers had a good suggestion: Carie and her team will help draft a calendar based on the Audit Committee's Charter and define the best meetings to execute the Committee's responsibilities.

Mr. Oshnock outlined new business: review the financials and discuss with the Auditors about the execution of their reporting, and Carie's staff will draft a calendar based on the Committee's charter.

There being no further business, the meeting was adjourned.

MARK OSHNOCK, CHAIRMAN
AUDIT COMMITTEE