

Board of Community Health
Audit Committee Meeting
December 14, 2006

The Board of Community Health Audit Committee met December 14, 2006, Twin Towers West, Floyd Room, 200 Piedmont Avenue, Atlanta, Georgia.

Committee members present were: Mark Oshnock, Chairman, Mary Covington and Ross Mason.

DCH Staff available were: Carie Summers, CFO; John Hankins, Director, Internal Audit and Program Evaluation; Doug Colburn, Inspector General; Charemon Grant, General Counsel; Sonny Munter, CIO; Barbara Prosser, Director, MMIS; and Kim Hinton, Director, Accounting and Financial Services.

Mr. Oshnock called the meeting to order at 9:06 a.m. The November 9, 2006 minutes were UNANIMOUSLY APPROVED AND ADOPTED.

Carie Summers, CFO, introduced the independent auditors, Dave Decker, Miller Edwards and Donnarene Steele of BKR Metcalf Davis Mauldin & Jenkins, a joint venture of certified public accounting firms.

Mr. Edwards briefly discussed the purpose of the agenda--address the overall independent auditor's report, address certain required communications and provide a summary of findings and management letter comments. The Joint Venture audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Department of Community Health as of June 30, 2006 and issued a clean opinion. Mr. Edwards recommended that the Committee review the Financial Statements and Management's Discussion and Analysis. He reviewed the Statement of Activities, the Fund Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance, and Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance to the Governmental Fund. In addition, Mr. Miller reviewed the Proprietary Fund Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows highlighting the \$7.153 billion in expenses in the health and welfare programs, \$2.5 million in expenses in the State Health Benefit Plan, and a \$37 million net loss in the SHBP.

Mr. Edwards continued with a review of the Single Audit, a report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the U. S. Office of Management and Budget (OMB) Circular A-133 that are applicable to each of its major federal funds for the year end June 30, 2006. The Joint Venture issued a clean opinion; however, the results of the auditing procedure disclosed four findings.

- **Finding 06-01 Payment Accuracy of the Medicaid Management Information System (MMIS)** is a modification and repeat of finding 05-01 from the year end June 30, 2005. The Department concurred with the finding and is in the process of implementing 12 corrective actions which will in aggregate, address all report recommendations. The Department also discussed the recommendations and planned corrective actions with the Audit Committee. On the subject of this finding, Mr. Decker remarked that the auditors had given the Department a recommendation, and that the Department is considering that recommendation.
- **Finding 06-02 Accounts Payable and Other Accruals** is a modification of finding 05-02. The Department concurred with the finding and has made significant improvements leading to the proper recording of all fiscal year 2006 liabilities before presenting financial statements for audit. The Department acknowledged that contract payables constitute the majority of administrative liabilities. The Department agrees that all DCH staff involved in contract management should assist the Division of Financial Management in the identification of liabilities.

- **Finding 06-03 Contract Procurement, Administration, Vendor Management and Fiscal Services** is a new finding. DCH management is responsible for designing and maintaining internal controls relating to the overall contract process and ensuring controls are followed on a consistent basis. This includes contract procurement, administration, vendor management and fiscal services. During fieldwork, auditors noted a lack of internal controls governing the contract process or a lack of consistently applying policies and procedures. The Department concurred with the finding. Several changes have been implemented or are in the process of being implemented including:
 1. Areas of responsibility and accountability have been re-evaluated and new assignments have been made to the General Counsel's Office and the Division of Financial Management to handle contract drafting and invoice tracking, respectively.
 2. Related policies and procedures have been re-evaluated and written documentation will exist to formally reflect DCH's contracting process.
 3. The Office of General Counsel is conducting an internal audit of existing contracts and related files to ascertain current contract status and to take appropriate actions if necessary to ensure that current contracts are in compliance with State and DCH policies and procedures.
 4. DCH is documenting its technical needs for a contracts management system and is working with the Georgia Technology Authority and the State Accounting Office to prepare for a new contracts management module of PeopleSoft. In the interim, DCH is evaluating temporary solutions for contract and document management systems.
- **Finding 06-04 Verification and Documentation of Citizenship** – Effective January 1, 2006, DCH policy required verification of a potential Medicaid member's or a returning Medicaid member's citizenship status. Policy Studies Inc. (PSI), the Department's third party administrator is responsible for eligibility determination for PeachCare. PSI sometimes observes that an applicant appears to be eligible for Medicaid. On such occasions, PSI electronically refers applications to the Department of Family and Children Services to complete a determination. Prior to DFCS handling all Medicaid case files, PSI was responsible for maintaining the eligibility case files for children who were enrolled in the Medicaid program after initially applying for enrollment in the PeachCare program. These Medicaid recipients whose case files were maintained by PSI are referred to as being enrolled in PeachCare Plus Program. Since PeachCare members are not required to provide verification of citizenship, none of the PeachCare Plus recipients being monitored by PSI have documentation of any citizenship verification. With the advent of the new citizenship verification requirements, members enrolled in PeachCare Plus may no longer be eligible because citizenship was not verified. The Department concurred with this finding. DCH is requesting PSI to send a communication to all PeachCare Plus eligibles notifying them that they need to apply for Medicaid at their local DFCS office.

Mr. Edwards also reviewed Management Points.

- **State Health Benefit Plan Operations** – the Joint Venture noted the Department has reported reductions in net assets (losses) for the past four fiscal years. As of June 30, 2006, the net assets have been reduced to a balance of \$80 million. He recommended that the Department improve the situation and warned the Committee that the Plan needs a strong cash flow and strong capital position.
- **GASB Statement Numbers 43 and 45 (Other Post Employment Benefits)** – the Joint Venture's recommendation continues to be for the Department to work with the State of Georgia to determine if the Department has any OPEB plans, and then prepare to obtain the actuarial valuation for each OPEB, if appropriate.

Mr. Edwards also mentioned a recent statement on auditing standards that will be applicable to the Department for fiscal year 2007 and subsequent years.

Statement on Auditing Standards (SAS) Number 112, Communicating Internal Control Related Matters Identified in an Audit – this new audit standard will require the auditor to report significant deficiencies in internal control if the Department does not take greater responsibility for accounting records and preparation of financial statements. This new standard identifies specified control deficiencies that ordinarily will be considered at least significant deficiencies, and identifies specified circumstances that should be regarded as at least a significant deficiency and a strong indicator of a material weakness.

In conclusion, Mr. Edwards said the audit speaks for itself. The Joint Venture and Audit Committee had good dialogue today about the findings. He said he thinks Management understands what has been communicated today and is optimistic that Management will proceed with the remedies that need to be taken, particularly in the Contracts Administration area. Mr. Edwards stated that the only finding that brings him concern is Finding 06-02 going forward since a large part of this issue is out of the hands of DCH because of the PeopleSoft issue, knowing it will take major re-engineering of processes outside of the function of the financial and accounting department.

After addressing general questions about detection of nonmaterial but systemic fraud or issues, the Joint Venture concluded its report.

Mr. Oshnock thanked the Joint Venture for making its report. There being no further business, the meeting was adjourned at 10:18 a.m.

MARK D. OSHNOCK, CHAIRMAN
Audit Committee