

Board of Community Health  
**Audit Committee Meeting**  
January 10, 2008

The Board of Community Health Audit Committee met January 10, 2008, at the Department of Community Health, 2 Peachtree Street, N.W., Room 5-470, Atlanta, Georgia 30303.

Committee members present were Frank Jones, Chairman, and Richard Robinson.

DCH Staff available were: Carie Summers, Debbie Hall, John Hankins, Sonny Munter, Nancy Goldstein, Julie Biel, Brian Dowd, Perry Sims, George Panos, John Cole, Barry Head, and Cynthia Goodwine.

Mr. Jones called the meeting to order at 9:05 a.m.

Carie Summers, CFO, introduced the independent auditors, Dave Decker, Miller Edwards and Donarene 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, each major fund, and the aggregate remaining fund information of the Department of Community Health as of June 30, 2007 and issued a clean opinion.

**Significant Deficiencies and Material Weaknesses**

The Joint Venture noted in supplemental reports on internal controls and compliance, several Significant Deficiencies and Material Weaknesses.

**1. Vendor Management and Contracts Payable (This is a modification and partial repeat of Finding 06-03 from the year ended June 30, 2006).**

The 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. During the current year the JV noted significant progress in implementing policies in this area; however there were certain areas within the Contract process, specifically vendor management and contracts payable which still needed improvement. Mr. Decker and Ms. Steele discussed the results.

- a. Only one-third of existing contracts had been transferred to the new risk-based vendor management system;
- b. Some contracts did not have a purchase order or encumbrance and the JV could not determine how DCH monitored the contracts to ensure the specified amount was not exceeded;

- c. A contract was encumbered but the contract payments were not applied to the encumbrance.

Debbie Hall, Chief Operating Officer, outlined the new risk-based vendor management system:

- Revised policy to include risk-based monitoring that requires reviews for 100% of contracts with more stringent reviews for the riskier contracts;
- Developed an automated imaging system whereby all contract monitoring is captured eliminating the manual processes;
- Conducted agency-wide training sessions to educate business owners on their responsibilities for monitoring contractor compliance;
- Developed a vendor guide to be submitted to all vendors to acquaint them with the revised policy and responsibilities in the vendor management process;
- Developed procedures to make certain internal vendor management staff are aware what is required to remain in compliance with policy;
- Conducted training sessions with internal vendor management staff to ensure consistent communication regarding the requirements under the revised policy;
- Implemented a governance structure that meets twice monthly;
- Commissioner requested and received OPB approval to add additional staffing resources.

Mr. Robinson expressed his views about the importance of closely monitoring contracts. Ms. Hall assured the Audit Committee that improvements in this area were of utmost importance to the Department and enumerated again the steps the Department has taken. Mr. Jones asked Ms. Hall for a review of the overall contract process, policies and procedures at a subsequent meeting. He said he read the prior year points, and even though it is a carry over from the prior year, there appears to be substantial improvements over the prior year. Mr. Edwards said the JV commended the Department for developing policies and procedures that strengthened internal controls and recommended that DCH continue to implement changes in the contract process to address the conditions noted.

## **2. Financial Statement Preparation and Review**

Mr. Edwards said in his opinion there are no other state agencies that have as many components to its Financial Statement and Audit Reporting. However, there were adjustments to the Financial Statement, and the JV suggested that DCH improve and enhance its controls over financial reporting. Mr. Robinson asked about item (d) *a management review of the reconciliation between the supporting detail and certain financial statement amounts was not readily available*. He asked if this should be reviewed and reconciled monthly. Mr. Edwards said he did not think there was an issue with reconciling monthly payables and receivables. The audit finding addresses the annual financial statement preparation.

**3. Payment Errors (This is a modification and partial repeat of Finding 06-01 from the year ended June 30, 2006).**

Mr. Decker said Management, for the last several years, has engaged a specialist, Myers and Stauffer, for payment error analysis. As a result, the Financial Statement adjustments were properly made. For the Single Audit, errors must be reported to the federal government – the Centers for Medicare and Medicaid Services (CMS). The JV found that DCH did not have effective controls over the claims payment process to prevent payment errors. Sonny Munter, CIO, and Brian Dowd, Director of Medicaid Member Services and Policy, shared with the Committee and JV changes that the Department is implementing: 1. systematic MMIS automatic recoupment, after the removal of duplicate member records, of duplicate capitation payments made to Care Management Organizations ; 2. web portal enhancement to detect duplicates before the MMIS accepts a duplicate member record; and 3. ticket in the testing stage to change how providers load information on newborns.

**Single Audit Compliance Findings**

**1. Verification and Documentations of Citizenship (This is a modification and partial repeat of Finding 06-04 from the year ended June 30, 2006)**

Effective January 1, 2006, DCH policy required verification of a potential Medicaid member's or a returning Medicaid member's citizenship status. The JV found that DCH did not have an adequate effective monitoring process in place over DFACS to ensure that CMS guidelines were followed. Mr. Dowd said DCH is doing the following to address this finding:

- Hired a vendor to review DFACS files monthly for correctness;
- DFACS reviews and responds to each error;
- DCH and DFACS conduct monthly meetings to review error trending;
- A corrective action plan is developed to address the error.

**2. State Children's Health Insurance Program Eligibility**

The Department of Community Health contracts with Policy Studies, Inc. (PSI) to provide enrollment services for SCHIP members. The JV determined that DCH did not have an effective monitoring process in place over PSI to ensure that CMS eligibility guidelines were followed properly. Mr. Dowd stated that the Department has instituted an active review process (where as before the process was a passive review process) and a dual entry system. Going forward the Department is implementing a corrective action plan to start a quality control process to look at citizenship verification and income eligibility.

**3. Provider Licensing**

A copy of a provider's business license is required, if applicable, to be maintained for each eligible provider. The Department advised that there are situations where providers do not have to have business licensure. Those exceptions have been communicated to the JV.

## **Recommendations for Improvement (Management Points)**

Ms. Summers said Management Points are the early warning signs of issues that need to be addressed. She said all Management Points have been discussed with the JV. Part of the process is to get draft findings and Management Points prior to the report being released and use this opportunity to provide additional information in case the JV has not received the information during the course of their fieldwork. Ms. Summers said in the prior fiscal year Management Points helped to support the Department's funding request for additional staff and is also used as a management tool. Mr. Jones focused on two Management Points:

### **2. Cross-Training of Employees**

During fieldwork the JV noted that the Department did not have backup personnel for key processes. During unexpected absences of key personnel, DCH's ability to report reliable financial data in a timely manner may be adversely affected. Ms. Summers acknowledged that the Department could improve in this area by reorganizing and cross-training existing staff. However, she said there are limitations to cross-training, especially in the financial unit since giving staff access to certain systems could circumvent the access controls that are in place.

### **7. Reconciliation of Pharmacy Claims**

The JV noted that the July 2007 pharmacy claims paid did not reconcile to the general ledger. As a result, the Department of Community Health had trouble reconciling the data provided from the new Pharmacy Benefit Manager (PBM) for the month of July to the general ledger in a timely manner. Ms. Summers said the Department converted to a new PBM in January 2007 with the expectation that the old vendor would provide data needed for fiscal year 2007 financial reporting. There was a delay in receiving reconciled files and consequently a delay in reconciliation to the General Ledger.

Mr. Jones said in summary, the Department received a clean opinion on the Financial Statement and Single Audit. There were six findings (two Financial Statement findings, four Single Audit findings)—three of these were partial repeats from the prior year (one of the Financial Statement findings, two of the Single Audit findings). Overall, the Department had a \$436 million net increase in assets. Ms. Summers assured the Committee that the Department takes the Findings and Management Points very seriously.

Mr. Jones and Ms. Summers discussed possible agenda items for the next meeting. Possible topics included review of the Audit Committee Charter and Calendar and scope, and the SHBP OPEB Resolution.

There being no further business, the meeting was adjourned at 10:19 a.m.

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FRANK JONES, CHAIRMAN  
Audit Committee