

Board of Community Health  
Audit Committee Meeting  
August 10, 2006

The Board of Community Health Audit Committee met August 10, 2006, Twin Towers West, Floyd Room, 200 Piedmont Avenue, Atlanta, Georgia.

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

DCH Staff available were: Carie Summers, CFO; John Hankins, Director, Internal Audit and Program Evaluation; Kim Hinton, Director of Accounting and Financial Services and Doug Colburn, Inspector General.

Mr. Oshnock called the meeting to order. The June 8, 2006 minutes were UNANIMOUSLY APPROVED and ADOPTED.

Mr. Oshnock called on Carie Summers to discuss the FY 06 Financial Audits. Ms. Summers reported that the PeopleSoft upgrade has occurred and the system came back up on July 17, and to date it appears that data converted from one version to the other. Ms. Summers said the major problem has been getting reports out of the new version that accurately reflect the data that is in the system. She said particular issues are getting accurate budget comparison reports, expenditure reports, trial balances with combined detail agreeing with subsidiary ledgers, and expenditures reported for budget comparison. Problems have been isolated to prior year expenditures and encumbrances—all necessary for the Department to verify and reconcile the information to prepare the financial statement. The State Accounting Office (SAO) is aware of these issues and is dealing with these issues in different ways: daily calls with all agencies to share information about problems and a timeline to address the issues, tackle problems that are impacting all agencies first, and problems that are agency specific are being handled offline or one-on-one with the agency.

Ms. Summers said what these issues are doing to state agencies are moving back the close date. The schedule was to close June at the end of July and two weeks later close the year. That deadline was extended to close June on August 11 and the year the following week. The SAO has extended the June close to next week and the year end around September 1. The Office of Planning and Budget is extending the cutoff period for the last amendment to the budget to coincide with the accounting extensions.

Ms. Summers stated that the Department is reevaluating its timeline on statement completion; consequently, this will push back the Joint Venture's (JV) schedule. The JV was scheduled to complete its work in mid November. Ms. Summers estimates that the Department may not receive the audited financial statements with a final opinion until early December. She said it is likely that the JV will want to expand the scope of testing because of the PeopleSoft issues.

Ms. Summers said that if the timeline is modified to close before the PeopleSoft issues are fixed, the Department still has an opportunity on the expenditure side to make adjustments before it prepares financial statements. On the budget side the problem is that once OPB closes its system there is no going back to doing any subsequent amendments to the budget. That puts the Department at risk of having some expenditures for federal and other funds over what was budgeted for revenue.

Mr. Oshnock asked if the auditors could begin the core testing of claims. She said the auditors have had some involvement or at least listened in on the work the Department is doing on the estimation project which is validating claims accuracy (a process that is outside of the PeopleSoft system). She said in the past the auditors have indicated that they prefer to have management's representation and they will audit from there. Mr. Hankins agreed. He said the Department had had a good exchange with the independent auditors' consultants for actuary and statistical purposes on the estimation project. The auditors cannot offer an opinion on the estimation work until the whole financial statement audit is done. The auditors have shown active interest in the Department's planning to combine samples and planning the extrapolations.

Ms. Summers said that part of the process is going well and is on schedule to be completed by the end of August. She said there are four subsets of claims being tested and payments errors calculated primarily because of the CMO implementation: validating capitation claims paid in June were correct, checking for duplicate capitation claims payments, making sure fee-for-service claims were not submitted for GHF members, and validating fee-for-service claims separately for both the payments preceding Georgia Healthy Families activation and the month of June following Georgia Healthy Families activation.

Ms. Summers said the SAS 70 Report is complete and one of the control objectives was an issue. Control Objective # 3 states that controls provide reasonable assurance that access to computer resources is secure from unauthorized access and that access to the productions systems and data files are restricted to authorized employees with no incompatible duties. Ms. Summers said this is security of the MMIS and has been an issue in the last several SAS 70 Reports, however, not enough to cause the Department a finding. She asked Mr. Hankins to discuss the Intrusion Detection System (IDS) related issue. Mr. Hankins said in the past there had been exceptions noted in previous years on badge controls and access IDs. Mayer Hoffman McCann emphasized that everything taken together caused the opinion wording to change for this non-achievement of Control Objective # 3. For the first time in FY 06, MHM reported significant exceptions indicating that control weaknesses were present in the operation and monitoring of the Intrusion Detection System (IDS) for the MMIS. The Department contracted Mayer Hoffman McCann to revisit and the work is going on now to look for evidence as to whether anyone actually exploited an opportunity for unauthorized access. The follow up SAS 70 work is expected to be completed in late September.

Mr. Oshnock asked how the auditors are going to use this information to adjust or not adjust any of the work for the financial audit. Mr. Hankins said the response has been the auditors are very interested to see how the Department reacts and how Mayer Hoffman McCann reacts. Ms. Summers added that the primary use of the report is for the Department's benefit in that if Mayer Hoffman McCann identified there was a breach and can demonstrate that by looking at data, it would be that information that would leave the Department to make a decision on its own financial statement to set up receivables for those amounts as it goes after those committing fraud against the Department. The auditors could then use that information to hopefully concur with whatever adjustments the Department has made.

Ms. Summers asked Mr. Hankins to update the Committee on the Single Audit. She said the Single Audit has been going on and the Department has received some preliminary identification of exceptions. Mr. Hankins said the Single Audit is a federally required audit. The compliance test for Medicaid eligibility is to select samples and visit DFCS offices where people are enrolled in Medicaid and check the files to see if the documentation is there.

Ms. Summers said the Department had to follow up on the FY 2005 Findings to the State Accounting Office for the Single Audit from last year. She reminded the Committee that staff reported to the Committee the findings, responses and corrective actions. The SAO recently followed up to validate that what the Department had originally reported, and in almost all cases the Department said its response is still the same—the Department believes the corrective action is going to address the issue with the exception of Accounts Payable. The Department implemented the corrective actions and feel the actions will go a long way in addressing the findings. The Department also reported to the SAO that there were still potential issues in this area and other corrective actions were being implemented in addition to what had already been reported to them.

Ms. Summers said the goal is to provide a final audited report to the SAO in time for the State Accounting Officer to complete the State's CAFR by the end of December.

Mr. Oshnock and Mr. Hankins briefly discussed the Policy for the Retention of an Independent Audit Organization for any Non-Audit Service. Mr. Oshnock said last meeting the Committee discussed this policy and suggested that it simplify the policy to say that the Department's financial auditors should not engage in non-audit services unless prior approval of the Audit Committee is obtained. Mr. Oshnock called for votes; votes were taken. The policy was UNANIMOUSLY APPROVED.

Mr. Oshnock moved on to the next item on the agenda – auditor's independence. Mr. Hankins said this item pertains to the independent auditors documenting that they are indeed independent to perform the audit. He said he found a letter dated November 2005 from BKR Metcalf Davis to the State Auditor confirming the independence to do this audit. He also referred to a copy of an e-mail exchange between Mr. Hankins and the Joint Venture documenting their independence. Mr. Hankins said the agenda includes this item because the Audit Committee charter lists this responsibility as one of its subjects.

Mr. Oshnock began discussion on reimbursable expenses. Mr. Hankins brought to the Committee's attention a memo dated February 28, 2005 concerning compensation of board members. Ms. Summers said the charter language had been formatted from another agency and she wonders if this is something the Committee needed to keep in the charter. She said when she read it, she was concerned that this Committee may not have authority over some of those items because they are already set in statute or statewide travel regulations. Ms. Summers asked if this is something that needs to be reevaluated. Mr. Hankins said he recalled the Audit Committee decided to keep this in the charter. He said this function came from the Teachers' Retirement System charter. Ms. Summers asked if this was something the Committee wanted the General Counsel to review further to determine if there are any other reimbursable expenses that the Committee would have authority over. Mr. Oshnock said it would be good to get the General Counsel's opinion as to whether this function of the Committee is appropriate to be in the charter. He asked staff to provide at the next Committee meeting a copy of the charter and legal interpretation of what is needed by this Committee to make a conclusion on the Committee's direction.

There being no further business, the meeting was adjourned.

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MARK OSHNOCK, CHAIRMAN  
Audit Committee