

Board of Community Health
Audit Committee Meeting
June 9, 2005

The Board of Community Health Audit Committee Meeting met June 9, 2005, Twin Towers West, Floyd Room, 200 Piedmont Avenue, Atlanta, Georgia.

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

DCH Staff present were: Carie Summers, CFO, Barbara Prosser, CIO, John Hankins, Julie Kerlin and Deborah Bevelle.

Mr. Oshnock called the meeting to order. The May 12 minutes were APPROVED and ADOPTED.

Mr. Oshnock began discussion on the Audit Committee charter. John Hankins of the DCH Internal Audits staff lead the discussion and suggested various changes. Mr. Hankins will make changes and forward the changes to Mr. Oshnock for review.

Ms. Summers reported on the 2004 Financial Statements. She said the financial statements have been completed, were finalized on June 6 and submitted to the Joint Venture and State Accounting Officer for completion of the CAFR.

Jarrett Duzan of Myers and Stauffer introduced members of his team and made a presentation about the underpayment and overpayment estimated calculations of the ACS claims processing system. He reported the following:

- Twenty staff from the Myers and Stauffer firm worked on this project,
- The objective was to review claims priced through the Medicaid claims system, review payment computed by that system, and independently compute based on DCH policy.
- Myers and Stauffer reviewed 43,000 claims in two months and stratified into six strata based on Category of Service (COS).
- Prior to reviewing the claims, they examined the system documentation on a COS basis. They also reviewed other documents such as regulations, provider manuals, State Plan, to get a good understanding on a COS basis of what the policies were.
- Once the sample was generated they began to review each claim, repricing independently of what the claims processing system computed.
- Any inconsistencies noted were documented on a form the Department developed called a QAT (Questions, Answers, Tracking) form--a crucial document that was used to identify claims issues, explain the issues, and DCH subject matter experts reviewed each claim and form and made a

final determination as to whether there was an issue with that particular claim. The Department also worked closely with Myers and Stauffer on the false negative process.

- The process had checks and balances. Each potential error identified by Myers and Stauffer was reviewed by the Department. In addition, a sampling of other claims that Myers and Stauffer thought were fine was reviewed by the Department.
- The nature of errors found was generally in three areas: co-payments, inpatient hospital – calculation of short stay payments, and prior authorization.
- Mr. Duzan reported that they are in the beginning stages of the FY 05 estimations and basically will follow the same process used in the FY 04 estimations.

Ms. Summers asked Dan Klapheke of Mayer Hoffman McCann to give a report on the SAS 70 Process. Ms. Summers said Mayer Hoffman McCann has been contracted by the state for the second year to do the SAS 70 review that is required given that the Department has a third-party administrator processing claims payments. Mr. Klapheke reported the following:

- This is the second year of the SAS 70 Review. It covers October 1, 2004 through September 2005.
- He listed the objectives of the SAS 70 Review:
Description of controls;
Controls designed to achieve 10 fiscal objectives;
Controls are actually in place as of June 30;
Testing the operating spectrum of controls;
Site visits in McRae Georgia, Tallahassee Florida, and Ravinia.
- Mayer Hoffman McCann is expected to issue its report on July 15 and expects no potential findings.
- Copies of the SAS 70 will be given to DCH, ACS and the Joint Venture.

David Decker of BKR Metcalf Davis and Mauldin & Jenkins, a Joint Venture (JV), presented on the FY 04 and FY 05 independent audits and gave the following report:

- The JV received financial statements on June 6, 2005. The timeline for review is about eight weeks to issue report.
- The JV received the IBNR on June 7. The JV gave the report to Milliman who will be contacting Mercer and they will be the JV's specialist and will give the JV an opinion on the IBNR.
- As to the estimates worked on jointly by Myers and Stauffer and Mayer Hoffman McCann, the JV received those two reports on June 8.
- Mr. Decker said if everything goes well, the JV expects to complete the fieldwork in three weeks and issue the report eight weeks from June 6; The target for completion is July 31.

- Mr. Decker said issues have been handled by DCH management and up to this point the JV has nothing to report to the Audit Committee. Some items will be followed up with management.
- Mr. Decker reported that the expectations for the FY 05 audit is after the completion of the FY 04 report, begin interim work especially on the single audit compliance side. The timeline is to hopefully receive the financial statement in September, complete the field work by October 31 to issue a report by December 31. (Ms. Summers said the Department hopes to give the JV the financial statement by mid-August).

Jarrett Duzan of Myers and Stauffer reported on the Payment Error Rate Measurement (PERM) pilot.

- PERM is a federal demonstration funded with federal monies from CMS. This project has been existence for four years with about half of the states participating. The model was developed over the last three years. In FY 05 DCH volunteered to be a pilot site for CMS.
- The sample size is modest – 150 claims for Medicaid and 150 claims for SCHIP (PeachCare for Kids).
- There are three components of testing: 1. process review; 2. medical chart examination; and 3. eligibility.
- CMS would like the report at the end of the calendar year.
- CMS is drafting regulations to implement PERM on a permanent basis and would be a requirement for all 50 states on an annual basis. The model would probably be the same, including the three components of testing. The sample size will be considerably different--about 1,200 claims per title.

Mr. Oshnock outlined new business: FY 05 update, finalize charter and put together a twelve-month calendar.

There being no further business, the meeting was adjourned.

MARK OSHNOCK, CHAIRMAN
AUDIT COMMITTEE