

Board of Community Health
Audit Committee Meeting
January 8, 2009

The Board of Community Health Audit Committee met January 8, 2009, at the Department of Community Health, 2 Peachtree Street, N.W., Fifth Floor Overflow Room, Atlanta, Georgia 30303.

DCH staff attending the meeting were: Carie Summers, John Hankins, Sonny Munter, Debbie Hall, Brian Dowd, Shawn Walker, Kim Hinton, Barry Head, Cynthia Goodwine, Rob Finlayson, and George Panos.

Chairman Richard Robinson called the meeting to order at 9:12 a.m.

Carie Summers, Chief Financial Officer, discussed the FY 2008 Audit process and outcome. The independent auditors, Metcalf Davis/Mauldin & Jenkins, a joint venture of certified public accounting firms, completed its audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department of Community as of June 30, 2008 and issued a clean opinion.

Ms. Summers asked Sonny Munter, Chief Information Officer, to update the Committee on the SAS 70 Report of the MMIS. In the September meeting the Department reported to the Committee some issues and problems they were having in getting completion of the report. Mr. Munter said the audit was completed. The Department engaged Myers and Stauffer and Mayer Hoffman McCann to do follow up work on some of the findings:

- Policy Studies Inc. (PSI) eligibility file was not processed for about three weeks.
It was determined that there were no (material) findings. Since that time ACS and PSI are working together to change PSI's format.
- IT security – the Intrusion Detection System device was unplugged for approximately three weeks without anyone at ACS noting it. Solutionary, ACS's security outsource group that monitors IDS devices, noticed and communicated this to ACS, but ACS did not respond.
No issues appeared to have occurred while the IDS was down during those weeks. Currently the Department receives a daily IDS report that is monitored by the Chief Administrative Officer.
- Client server web portal production software was not controlled based on IT standards. ACS could not guarantee that all changes to production code were in fact reviewed and approved by the ACS/DCH Change Control Committee.
It was reviewed and determined that there did not appear to be any issues and an employee was hired by ACS to act as a liaison between the programmers and the introduction back into the source code library.
- ACS would not allow DCH to review the Vulnerability Assessment Report.
ACS allowed Mayer Hoffman McCann to review the report and Mayer Hoffman McCann found no significant problems associated with the report.

Ms. Summers said since 2004, the Department has engaged Myers and Stauffer to do an agreed upon procedures engagement to evaluate the amount of payment errors in the Medicaid claims system. She introduced Shelley Llamas, Jared Duzan, and Ryan Ferrell of Myers and Stauffer to give an overview of the FY 2008 Benefits Testing Outcomes. Ms. Llamas said this year Myers and Stauffer used the same approach as in the past: apply analytical procedures to claims payments, identify mispayments and work with DCH subject matter experts to confirm that these were true mispayments. The amounts are then used to estimate the annual mispayments as receivables, liabilities and net mispayment amounts. Myers and Stauffer looked at eight focus areas:

- Fee-for-service claims – stratified a random sample of 30,313 paid claims that included both Medicaid and PeachCare during July 1, 2007-May 31, 2008. Annualized liabilities were \$0.7 million and annualized receivables were \$19.4 million.
- Georgia Families capitation claims – annualized liabilities were \$1.2 million and annualized receivables were \$17.6 million. One hundred percent of the claims were reviewed.
- FFS claims paid for Georgia Families members –one hundred percent of the claims were reviewed. Annualized receivables were \$1.2 million.
- Newborns with CMO coverage – reviewed claims from the implementation of Georgia Families. In 2006 the liabilities were \$0.9 million; \$18.8 million in 2007; and \$22.1 million in 2008. In 2006 the receivables were \$0.9 million; \$22.1 million in 2007; and \$19.5 million in 2008.
- Administrative claims payments – these included Non-emergency Transportation, Georgia Better Health Care, Georgia Enhanced Care and Pre-Admission Screening Annual Resident Review (PASARR). The receivables were \$127,000 for NET; under \$5,000 for GEC; \$83 for GBHC; and \$17,000 for PASARR.
- PeachCare eligibility vendor files (SAS 70 Follow up) – for three weeks beginning February 26 member eligibility files received by the fiscal agent contractor were not processed. The fiscal agent experienced file conversion and staffing related issues. Myers and Stauffer tested claims to determine whether paid claims that denied for members that appeared eligible that were actually ineligible and also for claims that denied for members appearing ineligible that were actually eligible. From that analysis Myers and Stauffer found estimated receivables to be \$29,600.
- Federally Qualified Health Center wraparound payments – the Department requested Myers and Stauffer to analyze the reasonableness of its outstanding liabilities for the wraparound payments that were calculated by the Department. The liability was based on wraparound payments beginning with the implementation of Georgia Families in June 2006 through June 30, 2008. The Department estimated a liability of \$3.18 million and that included \$1.18 million from May and June, and \$2 million underpayment due to the potential miscalculation of wraparound payments from June 2006 to June 2008. Myers and Stauffer used a different approach than the Department and estimated the liability to be \$2.5 million.
- The impact of reprocessing 2004-2007 benefits testing initiatives – this initiative included an analysis of benefits testing claims from SFY 2004-2007 to determine whether each claim identified as a mispayment from prior year testing if it was reprocessed incorrectly. For each of those claims reprocessed, Myers and Stauffer analyzed the reprocessed paid amount for the claim and compared it to the estimated payment amount determined under benefits testing. Myers and Stauffer's statisticians determined the financial liabilities and receivables based on that analysis.

A discussion ensued about the benefits of this analysis to the Department. Mr. Duzan stated that Myers and Stauffer reviewed the claims that had been reprocessed and how that changed the estimates provided previously. That information is provided to the Department management and the Department determines the materiality and the appropriate accounting procedures. Ms. Summers said of the eight focus groups tested, some estimates were immaterial; other group estimates were booked as a liability or receivable, many of which have been satisfied and in some cases utilized the GASB Concept Statement 4 guidelines which requires if a payable or receivable is recorded, that those be measurable, specific, material, and evaluate the likelihood that the Department would be able to satisfy those particular entries.

Next Ms. Summers introduced Dave Decker, Donarene Steele and Matt Hill of Metcalf Davis Mauldin and Jenkins, a joint venture of independent auditors, to review the Independent Auditor's Report on the FY 2008 Financial and Single Audits, particularly the Audit Agenda. Mr. Decker said the JV evaluated what management did with the processes. He said overall the JV was satisfied with how the processes were handled. The Audit Agenda is a summarization in an agenda format a communication to the Audit Committee. Mr. Robinson said he read the audit and the comment letter, submitted 13 questions and observations to the JV, and he was satisfied with the responses.

Mr. Robinson said his view is that the Department improves each year. He asked Ms. Summers if the Department had considered hiring staff to perform monthly reconciliation. Mr. Robinson said he thinks it is important to follow through on getting reconciliations done regularly and any other specialized tasks that are beyond the normal training of the employee. Ms. Summers said in response to this finding, she has a proposal from a reputable CPA firm to assess the Department's current processes. This could include a feasibility study of outsourcing some functions, best practices, and reorganizing and/or cross training financial management employees. Ms. Summers said there is a significant amount of federal funding on the line and the Department will do whatever it takes to address this finding.

Mr. Robinson thanked the JV for their work and for getting the audit done on time. He asked the JV to come to the committee meeting in April to discuss any issues that may hinder the completion of the audit on time.

Ms. Summers said the Department has begun its preplanning activities for next year's audit including getting a new letter of engagement with the JV for FY 2009. She said the Department's intention was to do a procurement for audit services for FY 2009-2011. However, part of the challenge of a new procurement is given the pending Health and Human Services Reorganization legislation where the Department could assume the responsibility of the Division of Public Health beginning in July 1, 2009. The Department did not have enough information to include in a Request for Proposal that would fully inform potential bidders of the scope of work. The decision was made to engage the JV one more year for FY 2009. The kickoff meeting for FY 2009 will be held in late March or early April to begin work on the Single Audit, with the goal of completing the audit late October or early November. Ms. Summers said the Department is finalizing an amendment with ACS to conduct the SAS 70 Report for the MMIS for FY 2009. In the past the Department contracted with Mayer Hoffman McCann to do the SAS 70 Report. This amendment would allow ACS to have the SAS 70 Report conducted at their expense and furnish a copy to the Department.

Ms. Summers stated that the Department had engaged Myers and Stauffer to do benefits testing for FY 2009. Myers and Stauffer will use a new approach of sampling and reviewing claims each month which accomplishes two things: the Department does not have to wait until

the end of the fiscal year to wrap up benefits testing, and as payment errors are found, the Department has the ability to quickly resolve the errors. This will help move up the completion of the single and financial audit.

Mr. Robinson said he spoke with Mr. Decker before the Committee meeting. He said he confirmed with Mr. Decker the year end fund balance was \$352 million in which \$101 million will be returned to the Treasury; of that, \$338 million occurred in this most recent year; and expenditures were less than revenues by \$338 million. Mr. Robinson also confirmed with Mr. Decker that the unfunded liability was \$16.5 billion for the retiree health plan (OPEB), and for the year 2007 the state contribution to OPEB was about \$422 million or about 20 percent of the required contributions. Mr. Decker stated that there is no requirement under GASB to fund that liability. A discussion ensued about the unfunded liability, investment portfolios and consideration of the current market place.

Lastly, Ms. Summers and Mr. Robinson discussed the agenda for the next meeting. Mr. Robinson asked Ms. Summers to conduct the next meeting in April. Ms. Summers suggested that the Committee and staff review the Charter to determine if there are items that need to be covered in the April meeting. She also suggested that the Department update the Committee on the federal Payment Error Rate Measurement (PERM) program.

There being no further business, the meeting was adjourned at 10:03 a.m.

ARCHER ROSE, CHAIRMAN
Audit Committee