



AUDIT AND COMPLIANCE COMMITTEE MEETING
TUESDAY, April 14, 2015

Conference Center Located at Highland Care Pavilion
1411 East 31st Street Oakland, CA 94602
Marla Cox, Clerk of the Board
(510) 535-7515

LOCATION:
Open Session: HCP Conference Center

MINUTES

THE MEETING WAS CALLED TO ORDER AT 4:00pm

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT

Patricia Scates and James Lugannani.

Excused: Kirk E. Miller and Valerie D. Lewis.

TAB #1 ACTION: Consent Agenda

A quorum was not present and no action was taken.

END OF CONSENT AGENDA

TAB #2 REPORT: External Audit Reporting

A. REPORT: External Financial Audit Update

Linda Hurley, MGO Partner was asked to provide an update on the status of the annual audit. Ms. Hurley reported she had provided a list of information needs and had a pre-planning meeting with management. MGO has been asked to do an interim review of the Accounts Receivable valuation model. They have drafted procedures to be performed and are meeting with management on Wednesday, 4/15/15. A draft schedule will be provided to management at that time.

Interim test-work is scheduled to begin on 5/18/15 and MGO will be providing their understanding of the internal control environment at that time. MGO will evaluate any deficiencies in controls and will be reporting them to the Audit Committee.

A number of items in the AHS audit are tied to the audit of the county. Ms. Hurley has asked to be part of the entrance conference for the county audit to ensure she is aware of timing and deliverables.

Committee discussion ensued and Ms. Hurley was asked if AHS was different from other organizations audited by MGO. Ms. Hurley responded the primary difference was the acquisition of the 2 hospitals last year. Management was asked to identify the critical functions and the status of centralization. MGO is still evaluating this information.

MGO was asked how they determine the different areas of focus for the audit each year and she responded they look for pervasive problems that will require formal review. As part of their audit, MGO will be talking to key management as well as members of the Audit Committee regarding their knowledge of risk. Regarding how MGO efforts overlap with Compliance, they would look at significant compliance areas that impact the financial statements, especially if there was a possibility of contingent liabilities. They would also engage the Compliance Officer to determine how they oversee risk.

The committee felt the Toyon report may be helpful to MGO and management was asked to provide a copy to them. Since many employees did not understand the purpose of an audit, it would also be helpful if MGO would prepare an audit primer to address what an audit does or doesn't do.

MGO was asked if there were any conferences that would be useful to the committee members and Ms. Hurley responded that the AICPA published an audit toolkit and she would provide the committee with a copy. She would also look for some information on Compliance.

TAB #3 Report: Internal Audit Reporting

A. REPORT: Status on External Financial Audit Management Letter

Mr. Kibler reported that MGO had identified two issues during the FY2014 financial audit and two issues as part of the Single Audit. One of the issues in both of these audits relates to the acquisition of Alameda and San Leandro hospitals and the processes required prior to bringing them on to the Soarian Financial system. Corrective action is in process. The outstanding check issue is also in process as Accounting has researched the escheat laws, is attempting to re-issue checks to appropriate payees and will forward the remaining checks to the state in November 2015. Action regarding the eligibility requirements for the HIV program was completed during the audit.

There were (3) issues identified during the FY2013 audit. Corrective action was completed for two items (Contract Management and Pharmacy Inventory). The remaining item regarding the Entity-wide Security Program is still in process with recruitment of a Security Program Manager.

There was one (1) outstanding issue from the FY2010 audit that has been partially completed. Discussion ensued about the length of time this item has been outstanding. It was explained that work had been done to address the finding and that MGO then identified additional components requiring completion before they would close the finding. There was discussion about the requirement to test the Disaster Recovery Plan and if it should be an annual requirement. Mr. Kibler would look into this.

B. REPORT: Update on FY2015 Internal Audit Plan

The FY2015 Internal Audit Plan is considered on time.

Final reports have been issued for the IT System Access, Workers Compensation, Encounters with Missing Charges, Plant Operations and Charge Capture Implants audits. Audits are currently in progress for Charge Capture Surgery, ACERA and DSRIP DY9.

C. REPORT: Plant Operations Audit

Plant Operations manages approximately \$16M in non-labor operating expenses. Internal Audit reviewed the vendor management process to ensure;

- An adequate process to manage vendor relationships
- An adequate process to review vendor invoices
- An adequate PO and contract process

Plant Operations came under new management shortly before the start of the audit and a number of process improvements were being made as we performed our work. As a result of our work, Internal Audit recommended

1. A more formal written process for monitoring vendor performance and hours worked
2. A more formal review of vendor invoices
3. Improved documentation of invoice approval process

Management has agreed with our recommendations and corrective action is in process.

D. REPORT: Charge Capture Implants Audit

AHS surgery department performs a variety of surgical procedures and uses a significant number of high cost implantable devices. For the period of 7/1/13 to 12/31/14, gross charges for implant supplies totaled approximately \$21M. Internal Audit reviewed the charge capture process for these devices to ensure:

- Charge codes are available
- Charges are consistently captured and billed

As a result of our review, we found the following:

1. Pacemaker invoices required for Medi-Cal billing and reimbursement were not available for \$1.2M in charges
2. Approximately 2800 implant supplies did not have a corresponding CDM code for billing purposes.
3. Due to the incomplete CDM numbers, approximately \$9M of implant supplies were billed with a misc code and \$460K had not been billed at all.

Management has agreed with our findings and corrective action is in process.

E. REPORT: Follow-Up to Past Audit Reports

Internal Audit periodically performs follow-up on past report issues to ensure that corrective action plans proposed by management have been executed and that corrective action was sufficient to resolve identified issues. Attached is a summary of the audit issues identified and the current status of each issue. Internal Audit will continue to perform follow-up testing as needed to ensure all identified issues have been resolved.

This report is similar to the follow-up report for the annual audit and will be provided at future meetings as follow-up on corrective action is finished for reported issues.

The committee asked for report issue dates to be included on the follow-ups so they could determine how long items were outstanding. The committee also requested that the respective manager responsible for each Audit attend the committee meetings going forward to respond to all outstanding past & future audit findings.

TAB #4 REPORT: Compliance Program

A. Report: Compliance Update

Mr. Moye provided an update on the Compliance Program. The update provided an overview on what has been completed and what needs to be done regarding the implementation of the Compliance Program.

Mr. Moye identified the following items as being complete:

- A Tracking tool for incident monitoring and reporting
- Draft update of the committee charter to provide additional focus on compliance
- Posting of compliance information/resources
- Reviewed relevant compliance policies and identified some that require updating
- Re-aligned the Compliance Steering Committee
- Re-aligned the risk management function.

Items that are still in progress include:

- A draft of the reporting protocol to identify items that would require reporting to the Board
- Draft update of the committee charter to provide additional focus on compliance
- Compliance department staffing structure
- Review of OIG work plan for areas of focus
- Establishing the Compliance Hotline
- Revising Internal Compliance website

Items that still need to be done

- Hiring a Compliance Officer
- Employee education and training on general compliance issues
- Monitoring, auditing and identification of compliance risks
- Establish Hotline
- Disciplinary guidelines (specific to compliance) established and communicated
- Effective and timely follow-up process for reported issues.

Mr. Moye presented a status update for the issues identified from the SOA Projects review. The update identified that the physical security issues will not be resolved until a security officer is hired; that recruitment is ongoing. Internal audits identified in the assessment have been added to the internal audit plan and were scheduled to be completed near the end of the fiscal year.

Discussion ensued and the committee requested to be notified when surveys such as Joint Commission or external regulatory reviews are taking place. The committee

expressed concern that a Compliance Officer was not in place and asked this to be a high priority. There were also questions about the Compliance Steering Committee and if the issues they were working were ever reported to the Audit and Compliance Committee. Management was asked to report on the Compliance Steering Committee at the next meeting.

TAB #5 INFORMATION: Annual Audit and Compliance Committee Agenda Calendar and Follow-Up

A. Audit and Compliance Committee Master Calendar and Follow-up Worksheet

The Audit calendar has been updated to reflect the meetings in FY2015. The committee confirmed the need for a May meeting.

A new Follow-up worksheet for Internal Audit and Compliance has been added to reflect action items by management on behalf of the A&C committee. This will be updated for each meeting.

Public Comment: No public comments

Board of Trustees Remarks: No additional comments.

ADJOURNMENT: 5:30 pm

Respectfully submitted by:


Maria D. Cox
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: _____


Mike Moyer
Interim General Counsel