AUDIT COMMITTEE
MEETING AGENDA

September 25th, 2012

3:00 P.M.

125 Worth Street,
Rm. 532
5th Floor Board Room

CALL TO ORDER — Ms. Emily A. Youssouf

- Adoption of Minutes September 13, 2012 — Ms. Emily A. Youssouf

INFORMATION ITEMS

- Audits Update — Mr. Chris A. Telano
- Compliance Update — Mr. Wayne McNulty

OLD BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES

AUDIT COMMITTEE

MEETING DATE: September 13th, 2012
TIME: 3:00PM

COMMITTEE MEMBERS
Emily A. Youssouf, Chair
Josephine Bolus, RN

OTHER MEMBERS OF THE BOARD
Michael A. Stocker, MD

STAFF ATTENDEES
Antonio Martin, Executive Vice President/CCOO
Salvatore Russo, General Counsel, Legal Affairs
Louis Capponi, Chief Medical Information Officer
Marlene Zurack, Senior Vice President, CFO
Jay Weinman, Corporate Comptroller
James Linhart, Deputy Corporate Comptroller
Patricia Lockhart, Secretary to the Corporation, Chairman's Office
Tamiru Mammo, Deputy Chief of Staff, Central Office
Christopher A. Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Wayne McNulty, Corporate Compliance Officer
Richard Olah, Senior Director, Central Office, Material Management
Marshall Bondy, Senior Director, Central Office
Kathleen McGrath, Senior Director, Central Office
Christopher Byrne, Controller, Bellevue Hospital Center
Kathleen McGrath, Senior Director, Central Office Communications & Marketing
Julian John, Chief Financial Officer, Central Brooklyn Family Health Network
Chris Provenzano, Associate Executive Director, Generations + Northern Manhattan
Zaheer Baig, Controller, Woodhull Medical & Mental Health Center
Devon Wilson, Senior Director, Office of Internal Audits
Roger Mayer, Director, Office of Internal Audits
Steven Van Schultz, Director, Office of Internal Audits
Chalice Diakhate, Director, Office of Internal Audits
Zhanna Kelley, Assistant. Director of Internal Audit, Office of Internal Audits
Frank Zanghi, Supervising Confidential Examiner, Office of Internal Audits
Jozef Dubroja, Associate Confidential Examiner, Office of Internal Audits
Sonja Aborisade, Associate Confidential Examiner, Office of Internal Audits

OTHER ATTENDEES
KPMG: James Martell, Camille Fremont
TCBA Watson Rice LLP: Bennie Hannott

RECORDING SECRETARY
Carlotta Duran, Sr. Executive Secretary

An Audit Committee meeting was held on Thursday, September 13, 2012. The meeting was called to order at 3:00 P.M. by Ms. Emily Youssouf, Committee Chair. Ms. Youssouf asked for a motion to adopt the minutes of the Audit Committee meeting held on June 7, 2012. A motion was made and seconded with all in favor to adopt the minutes.

Ms. Youssouf introduced the next action item:

Resolution - Granting approval by the HHC Audit Committee of the retention of KPMG, LLP, HHC's certified independent public accounting firm, to provide HHC with expert services for ICD-10 readiness preparation unrelated to the HHC audit.

Mr. Salvatore Russo, Senior Vice President & General Counsel introduced Dr. Louis Capponi, Chief Informatics Officer, both presenters of the resolution. Mr. Russo stated that the Public Authority Accountability Act (PAAA) requires that any time there is retention of the independent accounting firm for the agency or a public authority, there has to be approval of the Audit Committee. The underlying concern is that there is no undue influence, and the Audit Committee is aware of the fact that this is going on.

Dr. Capponi stated that the nation is moving from the current coding system, ICD9, which is the clinical coding system used in billing as well as other leads in care, to ICD10. This is a major change that affects all of HHC's operations from a financial as well as clinical perspective, particularly around the billing process. HHC has retained KPMG to assist with an assessment of what are the necessary steps for HHC to move from the current state to the future state. This requirement goes into effect and is mandatory as of October 2014. During the time of procuring this engagement, they had to change their initial rollout period because of the challenges that providers are facing in preparing for ICD10. That was the scope and intent of the solicitation, and there is no auditing in the scope.

Ms. Youssouf asked if an RFP went out. Dr. Capponi responded that consistent with HHC's operating procedure, HHC issued a request for proposals from companies that were on contracts that HHC had procured through HHC's approved purchasing organizations. HHC had procured KPMG's services through the state.

Ms. Youssouf asked if anyone had anything else.

Dr. Michael Stocker, Board Chairman, asked how long they have been working on the coding system upgrade. To which Dr. Capponi responded six months, but Ms. Youssouf asked how long had they been talking about it. Mr. Capponi said that ICD11 is coming out shortly, but it has been 20 years that ICD10 has been in the making and used in many countries. The United States is the last to move forward.

Ms. Youssouf asked if there were any other questions and asked for a motion to approve. Motion was approved by the Committee members.

Ms. Youssouf thanked them and directed the meeting to Mr. Jay Weinman, Corporate Comptroller, to present the draft financial statements.

Mr. Weinman stated that he will be comparing June 30, 2012 to June 30, 2011 and that he will be referring to two pages, primarily pages 13 and 14 which are the balance sheet and income statements. Overall, the Corporation's net deficit for 2012 increased by $259 million compared to $321 million for 2011. KPMG has issued an unqualified opinion, which means that the statements are fairly stated in all material respects. Included in the financial statements is the Management Discussion and Analysis, which will be referred to as MD and A. Pages 3 through 12 present supplemental information and variances. Mr. Weinman continued by stating that rather than go through the entire financial statement line by line, he is going to highlight the six areas that have significant variances. He will be referring to pages 13 and 14 and also to some of the notes to the financial statements, which give supplemental information. The first issue is residents FICA refunds. HHC recorded a receivable from the IRS for medical residents that should have been exempted from FICA between 1997 and the first quarter of 2005. HHC recorded $30 million of FICA refunds and $27 million in interest for residents employed during that time, HHC also recoded $19 million for residents and $17 million in interest. On page 13, *Other Current Assets*, Mr. Weinman said that he is referring to basically the variances between 2012 and 2011. The other current assets received in 2012 are $135 million compared to $20 million from 2011. The major variance is $94 million in FICA refunds that HHC is entitled to, as well as the medical residents, including interest. Further down the page into *other current liabilities* listed is $36 million of FICA refunds due the residents which will be returned back to them as, HHC is not entitled to it.

Ms. Youssouf asked if out of $94 million, $36 million gets paid out as refunds to the residents. To which Mr. Weinman responded yes, they will be paid to the residents.

Dr. Stocker asked if the net comes back to HHC. Mr. Weinman responded - $57 million, $30 million for the FICA and another $27 million in interest.

Dr. Stocker asked how much the share is for the residents if they trained during those years. To which Mr. Weinman responded that some of them will be getting over $10,000 in refunds. Mrs. Bolus added plus interest. Mr. Weinman stated that some of them may walk away with $15,000 to $20,000. In addition on page 14 the income related to this transaction, under *fringe benefits*, you will see that as $1.122 billion. In *other revenue* under the *operating revenue*, $71.271 million includes last year of $47.519 million and $27 million of interest.

Mr. Weinman continued by stating that the Corporation entered into a capital lease with North General Hospital campus which will be used to relocate the Goldwater operation. For explanation of that, see note 7J on page 37. The actual transaction is within the financial statement on page 13 on the balance sheet. He said that the balance sheet merely reports the assets and the liabilities; the income statement reports the expenses and the revenues, that that is why he goes back and forth between the two. On page 13, *capital assets net* of $3.009 billion, has gone up from last year's to $2.874 billion. Part of that has to do with the reporting of the capital lease which was reported as capital, so it will increase by $28 million. Also recorded on page 13 is the long term debt at $1.025 billion compared to the $1.039 billion which includes the $48 million in capital debt that HHC has now for the lease. There are no income or expense implications at this time until HHC starts paying the lease.

Mr. Weinman continued with the next item collective bargaining. The Corporation revised its estimate of unpaid collective bargaining consistent with the City, resulting in a decrease of $47 million. It is included in the salaries of $732 million compared to the $751 million of last year. On page 14 *personal services* is at $2.435 billion compared to $2.583 billion, it has gone down related to the $47 million in collective bargaining reduction. Other decreases related to this difference between 2011 and 2012 are FTEs. They have gone down by 1.3% or 471 FTEs.

Ms. Youssouf asked if the FTEs are included in the reduction. To which Mr. Weinman responded that that is included in the difference as well. Mr. Weinman continued with OPEB. He apologized for going back and forth between pages, but it gives a perspective of the balance sheet and income statement. Ms. Youssouf stated that that was very helpful.

Mr. Weinman stated that on OPEB (Post Employment Benefits other than pension) the liability is at $4.422 billion. It was adjusted this year for the additional OPEB liability that the New York City Actuary's office had calculated. The net was a $209 million increase from $4.218 billion. On page 14 the OPEB is at $303 million down from $620 million, that's a decrease of $317 million. The decrease in expense has to do with the assumptions that have been changed, the demographic, and the salary scale data. On the notes on page 39 the calculation indicates that is actually done actuarially and it shows the negative $78 million. This is the adjustment this year for the changes in assumptions. In 2011, the change in assumption was $202 million. So it was a swing of $280 million between the two years. This is the biggest change between last year's expense and this year's expense. According to the Actuary's office, next year there should not be as much of a swing, but it is somewhat unpredictable unless they change further assumptions. As mentioned before on page 14, under *net patient service revenue*, there is a decrease from $5.315 billion to $4.909 billion is due to four big items that have to do with third party payer settlements. This decrease occurred in four areas: DSH maximization of $138 million; supplemental Medicaid managed care of $85 million outpatient UPL of $85 million and the Corporation reserved additional funds for HMO casements, which is a rate adjustment of $38 million.

Mr. Weinman continued with the final item – MetroPlus pharmacy benefits. It was stated that the pharmacy benefit to MetroPlus, which under the recommendation of the Medicaid Redesign team added to Medicaid Managed Care plans, resulted in $340 million additional premium revenue. But it also resulted in $340 million of additional expense as shown on page 14 under *premium revenue other than personal services; an i*ncrease in 2012 from $1.279 billion to $1.891 billion. The $340 million difference is the pharmacy revenue. The other difference has to do with 5% membership increase and 9% rate increase. Likewise on the expense, *other than personal services*, in 2011 is $1.964 billion compared to $2.450 billion. That's total increase of $490 million of which $340 million of it is pharmacy plus the remainder is a difference in membership increases and rate increases for MetroPlus.

Mr. Weinman stated that this is HHC as a whole. Before MetroPlus, the Other Than Personal Services increase is less than one and half percent. These are the major variances. He asked if anybody had any questions.

Ms. Marlene Zurack Chief Financial Officer stated that they will need the Committee to vote to accept the audited financials at some time in the meeting.

Ms. Youssouf directed the meeting to Mr. Martell. Mr. Martell introduced himself and his team as follows: Jim Martell, Partner, KPMG to his left Camille Fremont, Senior Manager from KPMG and to his right Bennie Hadnott from Watson Rice LLP.

Mr. Martell continued by stating that their role is to present their required communication to the Committee. As they go through it, they will perhaps refer back to some of the financial statements that Mr. Weinman has talked about. Mr. Martell stated that before he starts and turns it over to Ms. Fremont, he would like to say that typically they're sitting at this table September 29th or 30th, getting the information to the City two or three days later; October 1st or 2nd. After the planning meeting when they presented to this Committee back in June, they were informed that the City requested an earlier submission. After meeting with Ms. Zurack and Mr. Weinman he acted like he was not concerned, but he was. Because an acceleration of two weeks for an organization this size, and the detail costing, and some of the transactions that Mr. Weinman talked about relating to the North General transaction, they needed to get their specialists involved. The actuarial report which comes from the City, which at time has not been the timeliest in terms of receipt, he was concerned. All in all, in all sincerity, the Corporation and their staff did a great job in getting KPMG the information well in advance. He stated that he was very impressed in the way they were able to turn it around, provide it for KPMG to be able to get through this.

Ms. Youssouf thanked him for sharing that with the Committee because she knows how difficult it is to put one of these together. She and the Committee think incredibly highly of the Corporation's CFO and KPMG's team.

Mr. Martell stated that both the financial statements and the glossy were handed out in advance. Since then KPMG went through their second partner review, they did some minor changes throughout the footnotes and so forth from what you had originally seen, but nothing substantial.

Mr. Martell directed the Committee to the glossy in front of them to page 3 it talks about the required communications. It's nothing new and the Committee has seen it over the past several years. It talks about KPMG responsibilities, management's responsibilities and Audit Committee's responsibilities. The most important item that he wants to highlight is what Mr. Weinman mentioned, the unqualified opinion. An unqualified opinion is the highest form of assurance that the numbers are fairly stated. KMPG does not audit every number nor look at every check. KPMG utilizes sampling and most importantly KPMG relies on the management at the top, their internal control over financial reporting. KPMG does not do detail testing, they do analysis, but also spend a lot of time on the estimates. For an organization such as HHC, similar to any other health care organization, the estimates are similar in nature, third party liabilities, patient receivables and pool receivables which fall into the third party. As Mr. Weinman mentioned, the OPEB which is $4.5 billion is an ungodly large number. KPMG had one of their specialists look at the actuary assumption, and challenged the assumptions. After going through, all that one could argue that the balance sheet is probably 75, 80% estimates and that is a big number. KPMG has to rely that management has a process in place and to give an indication of how good management has done. HHC recorded $1 billion last year as estimated third party and pool receivables. This year the net difference to the estimate is $2 million. That's an indication that the Corporation has a pretty good process in place. To say that there is a change of $2 million out of $1 billion, that is extremely comfortable in terms of the process.

Mr. Martell continued by stating that they also issued two other reports, a statutory report for MetroPlus which is as of December 31st.

Ms. Youssouf asked what he means when he says statutory. To which Mr. Martell responded that it is required under the Department of Insurance for New York State and HHC insurance is similar to that. The second engagement team performs those audits on the six month period for MetroPlus through December 31st. They perform all audit procedures, issue analytic review, and additional testing for December through June.

Mr. Martell turned the presentation to Ms. Fremont.

Ms. Fremont began by stating that slide five laid out the different judgments and accounting estimates imbedded within the financial statements. The first area where there are estimations is the valuation of given accounts receivable. In order to gain comfort over the process, we update our understanding of both the patient revenue and cash receipt cycle and perform certain tests of controls. In order to validate and be comfortable over management's process of evaluation, we selected three facilities for both their inpatient and outpatient accounts receivable. We utilized our computer assisted auditing tool in order to ensure that management's process is still operating appropriately, and could be relied upon. Additionally, we do certain ratio analysis to understand the changes year over year, we will look at your aging components, will look at the financial data and ultimately we were able to conclude that the patient accounts receivable practice was reasonable as of June 30th.

Ms. Youssouf asked if that is reasonable based on peers. To which Ms. Fremont responded that it is reasonable based on how your accounts settled out. Management needs to estimate how much of your receivable would you collect, this is the net accounts receivable. They also figure out what percentage of your gross charges will be contractual allowances versus bad debts or write-offs. That's where KPMG come up with reasonableness.

Mr. Martell added that the issue as compared to peers is what management supplies us with what we think they are going to collect, roughly $450 million, $470 million, subsequent to June 30, 2012. That is the number we audit. When you start comparing write-off to peers, we do it in terms of day's receivable. Mr. Martell thinks this year is roughly 54 or 56, that number of what is compared to the peers. Some organizations are in the forties which do not mean that they are collecting receivables any faster, it means they are valuing lower. When you compare yourself to peers and look at the industry data, you sometimes need to take a step back and understand how each organization does it. In his view 55 or 56 days is not as bad, it is actually pretty good for an organization the size of HHC with over $5 billion in revenue.

Ms. Zurack added that the state is average 65 and she thinks that the term reasonableness is to get a pure answer to the question. Basically, it is saying that it is accurate within reasonable corridors. They can't certify it to the 13th digit because it is an estimate.

Ms. Fremont continued on to the next area and said that she will briefly touch on in slide five is the Corporation's estimated third party payor settlements. She said that they did review all significant reimbursement professional tests discussed in this review. Then as Mr. Martell pointed our previously, there was a change in the prior year estimate for $2.5 million. As a result of the review they are comfortable with the appropriateness of the receivables that are booked within the balance sheet.

Ms. Fremont stated that the next area that both Mr. Martell and Mr. Weinman have spoken about is HHC's OPEB liability. As previously mentioned, we do utilize an actuary to look at the actuarial assumptions within the report and determine their reasonableness. KPMG's internal actuary did find that the assumptions were reasonable. We also performed an actual test tract over the census data, which is the participant data that goes into the calculations from the actuary. We did find some small discrepancies for date of birth and membership participation between the information that is provided and what the Corporation's internal records show. Based on discussions with KPMG's actuaries, we were able to conclude that those discrepancies would result in a minimal impact to the financial statements. Again KPMG is comfortable with the liability as presented within the financials.

Ms. Fremont continued by stating that the next area they spent time looking at is MetroPlus. They have what is called incurred but not reported liability. Management does have an actuary review of this liability. It goes back to December 31st for the statutory statements and then at June 30th. At December 31st, KPMG actuary reviews those actuarial assumptions and determine their reasonableness. Then for June 30th KPMG performed control procedures of all the controls for the period from December 31st to June 30th, 2012. Again they were to conclude that KPMG is comfortable with the balances in the IBNR liability.

Mr. Martell said that the IBNR estimate as of June 30th was roughly $86 million, now it is up to $112 million. As Mr. Weinman mentioned you would expect that increase in terms of an increase in membership and also payments. The membership has reached roughly 405,000 members for the 2011 year, for the 2012 year, it averaged about 425,000 members per month. That is a 20,000 member per month increase which is 5%, because of these numbers we would expect revenue and also would expect medical services throughout the organization to up as well.

Ms. Fremont continued to slide seven where they laid out various other areas that they spent time throughout the audit. The first one is the Physician Affiliate Group of New York (PAGNY). In the current year, the Corporation did engage PAGNY at various facilities. As a result of the growing business of PAGNY, we were told to analyze whether or not PAGNY should be consolidated within the financial statements of HHC. Based on our review of the Articles of Incorporation and the by-laws of PAGNY, as well as the agreement between HHC and PAGNY, we concluded that management was correct, and that PAGNY should not be consolidated inside HHC's financial statements. Mr. Weinman briefly touched upon the reporting of the North General lease, once again, that resulted in a capital lease on the balance sheet of the Corporation approximately $48 million, which is the present value of the minimum lease payments. Mr. Weinman also spoke about the FICA receivables, which we will not go into detail.

Ms. Fremont stated that they do review information technologies. They go over such general controls as well as application controls around access to program and data, HHC's program changes, computer operations and concluded that the general controls surrounding information technology were operating effectively.

Ms. Fremont continued with slide eight where there are various other required communications. HHC's accounting policies have been consistently applied. We have not been made aware of any consultations with other accountants regarding the application of accounting policies. KPMG did not encounter any significant difficulties during the course of the audit and is not aware of any material errors, fraud or illegal acts that would result in significant misstatement of the financial statements. There was an audit adjustment that had to do with the $94 million FICA receivable which Mr. Weinman spoke about that was booked within the financial statements. KPMG received the full cooperation of management and did not have disagreements with them.

Ms. Fremont moved on to slide nine by stating that as they released their audit for 2012, they are independent with respect to the Corporation's various rules and regulations. Also on slide nine are the Corporation's non–GAAP policies, these are the same non-GAAP policies that from previous years. There are no new non-GAAP policies, and these are all inconsequential to the financial statement as a whole.

Ms. Fremont continued to slide ten - she stated that as required they consider fraud throughout the audit. As a result of identifying potential fraud, they then respond to the identified fraud by testing certain controls. KPMG again utilized their computer assisted tool to perform journal entry routines, to make sure that the manual journal entries are being recorded properly. They will scan for certain items such as ending 999, or various other items that the literature would say are potential areas of concern. Mr. Martell added that these are things where there is no support, obviously nothing was found. Ms. Fremont stated that then they also conduct interviews of various members of the Corporation listed on slide 10.

On slide 11 Ms. Fremont continued on the various reports that are issued as part of the fiscal year 2012 contracts. KPMG reports on the basic financial statement of the Corporation. As previously mentioned, there are stand-alone financial statements done for the Corporation's two insurance companies; the insurance company and the health plan and they will issue a management letter. Mr. Martell added that a copy of the letter will be supplied to Dr. Stocker and Ms. Youssouf next week. Typically, the last two or three years KPMG has tried to bring a draft to this meeting, but because of the acceleration, he feels it was more important to get the financials to the City tomorrow. Ms. Fremont stated that then they will also issue certain agreed upon procedures as they pertain to beds and charity care, as well as cost reports. The last page of their glossy presentation are just resources available to members of the Audit Committee.

Mr. Martell stated that that concludes their presentation as it relates to the required communications. If there any questions related to the presentation or the financial statements, he'll be happy to answer them.

Ms. Youssouf asked if there were any questions and asked for a motion to accept the financial statements, it was seconded and approved the Committee members present. She thanked KPMG and directed the meeting to Mr. Telano for an internal audit update.

Mr. Telano saluted everyone and stated that the only report he is going to discuss today is the audit of the Accounts Payable at Central Office. The objectives of the audit were to ensure that corporate policies and procedures are adhered to and that adequate internal controls existed. In order to evaluate the internal controls, we looked over the process related to accounts payable and the vendor setup. We ascertained if there were any weaknesses, then we asked why the weaknesses occur. We then determine what the risk is and what should be done to correct it. As I go through each section, I am going to point out what the risk is and what was done to correct it. As I mentioned, it is a two pronged audit; material management and accounts payable, Corporate Accounts Payable at Central Office.

Mr. Telano stated that he will talk about Material Management first. I want to point out that Material Management is a clerical function, it is not a control. Although it is centralized, it is clerical in nature. The first comment that we have has to do with employees being set up as vendors, sometimes it occurs because of reimbursement of expenses. The way that they are supposed to set them up is through the payroll system using their social security number, and then it interfaces over to the vendor listing. However, we found quite a few instances in which vendors were being set up through the vendor module and not through payroll. As a result, these employees can be issued a 1099 form. Also, their social security number is available to individuals. The Corporate Comptroller and Material Management have been taking the necessary steps to address this. Material Management was developing a check box on their forms when new vendors are set up asking if this is an employee. If they say yes, they are supposed to go through payroll. Then the Corporate Comptroller will remind the facilities, the accounts payable personnel and other relevant personnel to ensure that these employees are set up through the payroll module.

Mr. Telano continued by stating the other issue related to Material Management, is that their staff had access to systems options not related to their function. They are able to enter and modify requisitions and purchase orders, validate vendors and other receiving entries. They could possibly set up a requisition, make a purchase order and then set up the vendor. In many instances, the reason these employees have this access was because they had previous positions and their access levels were not changed. Also, the access was given because it was soup to nuts when they came on board.

Mrs. Bolus asked how many people were involved. To which Mr. Telano responded that he believes it was four or five. This is just dealing with vendors corporate-wide. Material Management quickly resolved it and has changed everyone’s access.

Ms. Youssouf stated good. Mr. Telano asked if there were any questions regarding these two areas. He then continued with Accounts Payable. The first issue has to do with the payees again, going back to third party payees which are employees. The Accounts Payable Director and staff had the ability to modify the payee data and make payments to these payees. The AP Director has the ability to create a requisition and purchase order in that system, but that is a separate thing. Going back to the payee, the problem now is that they have the ability to enter and modify payee data, but after they modify it defaults back to the original name. For example, if there’s a check made out to my name Chris Telano, someone from Accounts Payable could change that check to their name. The check would be cut in their name. However, in the interface, it would default back to my name. If you look at all the historical data, you would see that check was made out to me, but when it was printed, it was made out to whatever name you could fill in. We think that the people in Accounts Payable should not have the ability to modify the payee information.

Dr. Stocker asked why it set up that way. Mr. Telano answered that he did not know.

Ms. Youssouf asked if he knew how long has been set up this way. Mr. Telano responded that he did not know.

Ms. Youssouf asked Mr. Weinman. Mr. Weinman stated that although sometimes the name will revert back to the original name, they do check every payee on each check to make sure that who we pay is actually who the check was cut to. They call that payee verification and they do that on every check.

Ms. Youssouf asked how they do that. To which Mr. Weinman responded that they do that electronically, files are sent to the bank and the bank compares the file that comes out of accounts payable to what was actually paid. If there is a fraudulent name on there, we would catch it. The problem is that while we can make changes to the payees, and we typically do it for a third party payor, or there is an IRS tax levy we will add a third party. The IRS would get paid, and the vendor may only get paid a penny, that is one of the limitations of the system. There is no way of actually detecting how many of these third party payers were paid. We have to work with our programmers to write a report so we can identify them separately. Currently it is a function that accounts payable needs in order to pay vendors, especially when there are tax levies, but there is no method within the system to detect that in the current forms.

Mrs. Bolus asked if they are aware that they are doing this. Mr. Weinman responded yes and the vendors who have tax levies or whatever it is as well.

Ms. Youssouf asked if Accounts Payable is in the process of trying to get this fixed. To which Mr. Weinman responded that he did not know if it is a system fix or just a report that they could monitor on a weekly basis. He said he was checking on it.

Ms. Youssouf stated to please let them know.

Mrs. Bolus asked if there a possibility that a check could be paid out on Monday and you won't find out about it until Friday. Mr. Weinman replied that they do monitor checks on a weekly basis. They could run weekly reports unfortunately there were checks that are cut at the facilities that could be done independently. This audit was done at Central Office, the checks are run weekly.

Mr. Telano continued by stating that the other internal control issue they found is that the Accounts Payable Director has basically unfettered access to the entire payable process. She processes the vouchers, she prints out the checks, and she retains custody of the checks until they are either picked up or until they are mailed. We found that that is a lack of segregation of duty, which basically has been a red flag in all auditing realms. We suggested that someone else be part of that process and to take a step away from her. This way what she can do right now is write out a check to herself and then take it out of the pile or mail it. Mr. Telano stated that he is not implying anything because we did not find anything nor was our audit geared towards fraud. However, there are two elements of fraud; opportunity and motive. We would like to take the opportunity away and we would also like to deal with preventive controls over the detective controls. The control that Mr. Weinman was mentioning before is after the fact, which is detective. However, we would like to encourage preventive controls. This way, things are resolved up front, and we are always looking to resolve the risk. In this particular case, Mr. Weinman can speak on that, they have a staffing issues, and they are not able to delegate some of these functions to other individuals in Accounts Payable.

Ms. Youssouf asked if it's because the AP Director and does the entire AP staff have the same access. Mr. Weinman replied that they have the Director and two other full time staff. They have two temporary staff in there, but at this point, one is out on sick leave almost a year. They basically run the department with three full time staff. It is problematic because all three staff has to assume all the duties within Accounts Payable. There isn't an individual that we can segregate and say that you can only do distribution or you just cut checks, we use the people interchangeably within the functions. Mr. Weinman stated that they have already implemented a periodic check, every week, we check through about five vouchers to make sure they are valid and Mr. Linhart, one of the deputy controllers does that himself.

Ms. Youssouf asked if this is done at random. To which Mr. Weinman responded he chooses high amounts at random and the others are at random as well to ensure that the packages are complete and appropriate.

Ms. Youssouf asked if they were able to hire another person would help, it does seem like it is kind of an Audit 101. Mr. Weinman responded by stating that he did not believe that they need to hire somebody. He thinks that they minimize the risk currently by doing the random check. The amount of work that has to get done is getting done with the current staff and it is supplemented by temporary help because there is one on sick leave.

Ms. Youssouf asked if the temporary help have access. Mr. Weinman said no, and we want to keep control of the process within our own staff. We are getting temporary help for the actual distribution process. There is a log book and we keep control and account of every check that goes out the door. This is controlled by the Director and if she is not around, one of our full time employees.

Ms. Youssouf stated that that her concern is that people leave, or something changes. Ms. Zurack replied that she thinks that they are trying to look at putting in terms of downsizing the finance staff from 129 to 118 people, they lose some major functions. They are trying to look for creative ways, even Accounting 101, which was written in 1952. Ms. Youssouf stated that there is nothing wrong with things that came from 1952.

Ms. Zurack stated that there is nothing wrong with improving 60 years later and they are trying to figure out creative ways to solve this. Mr. Weinman said that he is very confident that he does not have the need of this. The 1952 rule book said the second we pull it, detect versus prevent, he is doing the detect, which means he is going to detect it. He has not detected anything, and is much cheaper and more efficient to do it that way. Obviously new technology would be helpful, we are looking at that option as one of the long term solutions, and it is very hard for us to justify any new FTEs at this level.

Ms. Youssouf explained that Mr. Telano pointed this out as something that should be addressed and that she understands where Mr. Weinman is coming from. She also understands that Ms. Zurack is doing the best with the resources she has. However, there should be a discussion between Mr. Telano and Ms. Zurack at some point. If it's deemed that it is not the best fiscal policy, this may be one area where adding someone may make sense. From a financial damage point, it needs to be explored a little more.

Ms. Zurack said to Mr. Telano that he never came to her to say that she's got a big risk and she asked him if she did. To which Mr. Telano replied that it is a risk, if he thought it was a very big risk he would have brought it to her attention. He said that it is a risk in that one person has full control of the process. That is always a risk. He was not asking for additional staff, he was asking that instead of having one person that controls step one through ten, add someone at perhaps, step number seven, for instance. Wherever the step might be, then the other person can break it up a little bit, that is all that is being recommended.

Mr. Martin stated that he thinks there should be a conversation that this can be resolved. That he certainly has a lot of confidence in Ms. Zurack and Mr. Weinman. Ms. Youssouf agreed and Mr. Martin also stated that he also thinks that Mr. Telano does a good job that he thinks a subsequent meeting would help.

Ms. Youssouf stated that she would encourage them to do that.

Mr. Telano continued with a couple of other issues. He stated that although the OTPS system is able to recognize duplicate invoice numbers upon input, it is very sensitive to the data that is input. For example, if an invoice was already in the system as number 123, if the same invoice came in and somebody input 123, and hit the space bar by accident, the system would accept it. He thinks that it needs to be corrected. Number two, there is no consistent manner of the input of invoice numbers, if the invoice number is a date or missing. We would like the Accounts Payable to come up with a system in which it is consistently input by all the Accounts Payable staff. He knows that Mr. Weinman is looking into that and they are going to be writing up a policy establishing unique invoice numbers for when those types of situations occur. The last comment has to do with the voucher caps. Basically the cap is a warning mechanism that is set very high. It alerts key individuals that they should take a look at this. The voucher cap was at $10 million. However, there are very few items for $10 million. We suggested that they reduce that, this way it provides them with more of an opportunity to review high dollar checks. They did implement that, and Mr. Weinman's response was that it resulted in 20 percent of the voucher dollar being reviewed. Mr. Telano asked if there were any questions.

Ms. Youssouf said to Ms. Zurack and Mr. Weinman that she does not want them to believe that she was criticizing what they do, but a little further discussion would be helpful. Then she announced an Executive Session to discuss matters of potential litigation issues to HHC.

Ms. Zurack said that she failed to acknowledge Marshall Bondy who is in the room. Mr. Bondy and Mr. Weinman are the team that got the two weeks off of the time frame for the financial statements. There was a lot of innovation, and she wants Mr. Bondy to get full credit for that because the guys in the background don't always get it.

Ms. Youssouf thanked Mr. Bondy.

Ms. Youssouf then indicated that the Committee was going into Executive Session. (Executive session was then held).

After returning to public session Ms. Youssouf asked if there any old business or new business. If not she asked for a motion to adjourn.

There being no further business, the meeting was adjourned at 4:42 P.M.

Submitted by,

Emily Youssouf
Chairperson
Audit Committee

NEW YORK CITY
HEALTH AND
HOSPITALS
CORPORATION

OFFICE OF CORPORATE COMPLIANCE

AUDIT COMMITTEE OF THE HHC BOARD OF DIRECTORS BRIEFING

Corporate Compliance Report

September 5, 2012

Table of Contents

I. Compliance Training

- At the last Audit Committee of the HHC Board of Directors, it was reported that the Office of Corporate Compliance ("OCC") internally developed a compliance computer based training ("CBT") program for Physicians on the PeopleSoft platform. This module went live on June 27, 2012.

- The content for the Nurses and Health Professionals CBT module has been completed in PowerPoint format and is undergoing review by the OCC's Educational Committee. Once reviewed, a corresponding CBT module will be transferred, supplemented, and reformatted in Articulate, which is a software application used to develop computer based training programs. It is anticipated that this module will go live by the end of September, 2012.

- The content for the HHC Board of Directors CBT module is nearing completion and is expected to go live by the end of September.

II. CY 2011 Corporate Compliance Work Plan Status Update

- The OCC has initiated the Assessment Cycle stage review of each CY 2011 Corporate Compliance Work Plan item. The dissemination of corresponding risk assessment/audit tools has yielded responses from some of the subject/process matter experts.

- Three (3) Work Plan items have been closed.

- It is expected that several more items will move into the mitigation and monitoring cycles within the next several weeks.

III. HHC OCC's draft OIG CY2012 Work Plan Assessment

- The OCC has reviewed the U.S. Department of Health and Human Services Office of the Inspector General's ("OIG") fiscal year ("FY") 2012 Work Plan. Based on this review, there are forty-nine (49) items currently being assessed by the OCC for vulnerability, threat, and (where necessary) risk determinations. Note that, some of these items will be combined for assessment purposes due to their similarity in scope.

IV. Compliance Index

- For the first six months of this CY (January through June), there were 256 compliance-based reports of which 12 were classified as Priority "A" reports, 91 as Priority "B" reports, and 153 as Priority "C" reports. These numbers are very similar to those recorded for the same six-month period in CY 2011, during which time 262 compliance reports were received.

Summary:

1) There are three (3) different report categories: (i) Priority "A" reports - matters that require immediate review and/or action due to an allegation of immediate threat to a person, property or environment; (ii) Priority "B" reports – matters of a time-sensitive nature that may require prompt review and/or action; and (iii) Priority "C" reports – matters that do not require immediate action.

V. Privacy Compliance Index

- During the period of January through June of this CY, 38 complaints were entered in the HHC HIPAA Complaint Tracking System, an HHC proprietary database. Of the thirty-eight (38) complaints entered in the tracking system, two (2) were determined not to be HIPAA complaints. Of the remaining 36 reports, twenty (20) were found after investigation to be violations of HHC HIPAA Privacy Operating Procedures; six (6) were determined to be unsubstantiated; four (4) were found not to be a violation of HHC HIPAA Privacy Operating Procedures. The remaining six (6) complaints are classified as pending which means that they are either still under investigation.

- Six (6) of the twenty (20) HIPAA violations were determined by the HHC Offices of Corporate Compliance and Legal Affairs to constitute breaches as defined by the HIPAA Privacy Rule (45 CFR §164.402). These breaches affected a total of 49 HHC patients, who were given the requisite written notice of the incident. Below is a summary of a single breach that affected forty-two (42) patients.

Summary of Reportable Breach of PHI

1) On April 2, 2012, a physician at Queens Hospital Center ("QHC"), reported the theft of three (3) thumb drives containing QHC protected health information ("PHI") to the Facility Privacy Officer at QHC. The incident occurred on Saturday, March 31, 2012, when the physician's rental vehicle was burglarized and a briefcase containing the thumb drives was stolen. The thumb drives were not encrypted. The thumb drives were used to backup information stored on the personal computer assigned to the subject physician at QHC. As result of an interview with the physician, information stored on the thumb drives was replicated by the IT department at QHC. The replication revealed that PHI was present on the stolen thumb drives. Based on this information, the Office of Corporate Compliance and the Office of Legal Affairs determined that a breach affecting forty two (42) patients had occurred. Notices were sent by regular first-class mail advising each patient of the breach.

VI. OCC Staffing Update

- There is one vacant compliance officer position at the North Bronx Health Care Network ("NBHN"). The recruitment process for this position has begun.

VII. The Development of Data Mining Compliance Activities/Siemens Data GPS Training

- With the assistance of HHC's Office of Revenue Management, Siemens Data GPS training of OCC staff commenced on August 29, 2012. Upon completion of training, OCC staff will have access to HHC's data warehouse and will be able to conduct data mining compliance activities.

VIII. Monitoring of Excluded Providers

- No self-disclosures related to the use of excluded providers were made to regulatory bodies since the last time the Audit Committee convened in June, 2012.

IX. Third Party Health Insurance ("TPHI") Recovery Activity

- On July 17, 2012, the New York State Office of Medicaid Inspector General ("OMIG") requested, by way of e-mail, assistance from the Corporate Compliance Officer ("CCO") and the General Counsel/Senior Vice President with OMIG's recovery activities as it relates to overpayments where Medicaid was billed but was not the payer of last resort. Briefly, the subject communication stated that there was a delay by HHC in reconciling and paying refunds totaling $3,226,527.81 to OMIG. OMIG also requested that the CCO and General Counsel provide information regarding the Office of Corporate Compliance's connection with recovery activities as described under 18 N.Y.C.R.R. section 521.3 [c][7].

- On August 22, 2012, the OCC responded to OMIG by: (i) outlining HHC's compliance policies with regard to overpayments; (ii) explaining that the subject delay was attributable in part to HHC's need to ensure that the requested payments to OMIG did not duplicate amounts already paid to Managed Care Organizations ("MCOs") or otherwise fall within the MCOs' time to seek recovery of the TPHI amounts from HHC; (iii) underscoring HHC's commitment to work closely with OMIG to streamline the process of returning TPHI amounts as promptly as possible; and (iv) emphasizing OCC's charge to review and supplement its current policies and practices concerning overpayments, recovery activity, and self-disclosure as it deems necessary based on the outcome and findings in its continuing assessment of the instant matter.

Summary:

1) Although managed care plans are responsible for third party coordination and recovery pursuant to their agreement with the Department of Health ("DOH"), OMIG is ultimately responsible for ensuring that Medicaid is the payer of last resort. Through its agent HMS, OMIG initiated a review of encounter claims reported by managed care plans for the purpose of identifying recipients covered by liable third parties. Providers then bill the liable third parties directly and refund payments collected to the DOH to cover the corresponding Medicaid overpayment.

2) Under Department of Social Services Regulations Mandatory Provider Regulations (18 N.Y.C.R.R. 521.3[c][7]), "[a] required provider's compliance program shall include . . .a system for . . . refunding overpayments."

X. KPMG Management Letter/OCC Interview

- KPMG conducted a joint interview of the CCO and Deputy CCO on August 9, 2012. KPMG also conducted an interview of the First Deputy CCO on August 16, 2012, as well as other OCC staff members in the month of August.

XI. Use of Patient Whiteboards at HHC Facilities

- The OCC is reviewing the use of patient whiteboards throughout HHC to determine compliance with the confidentiality provisions of the Health Insurance Portability and Accountability Act ("HIPAA"), Center for Medicare and Medicaid Services ("CMS") regulations, and New York State Law.

Summary:

1) Patient whiteboards are used throughout the Corporation in the adult and pediatric emergency rooms, as well as in the primary care and urgent care centers at some facilities. For purposes here, patient whiteboards are used in two forms: (1) desk top; and (2) large screen. The whiteboards vary by facility on the types and level of patient information contained thereon.

2) Generally, under federal privacy laws, patient whiteboards may be used so long as such use is necessary, the information being used is limited, reasonable safeguards to protect confidentiality have been implemented, and no sensitive information is present on such whiteboards.

3) As of 7/24/12, the OCC has conducted on-site reviews at Jacobi Medical Center, North Central Bronx Hospital, Lincoln Medical and Mental Health Center, Harlem Hospital, Metropolitan Hospital, and Woodhull Medical and Mental Health Center. Within the next week, on-site reviews will be conducted at Kings County Hospital Center, Bellevue Hospital Center,

and Coney Island Hospital. The OCC will report its findings to the Executive Compliance Workgroup Subcommittee on Compliance and Quality (ECW-CQ").

XIII. Environmental Compliance Activities

- Over the past 9 months, five (5) of HHC's hospitals have undergone environmental compliance related surveys by either the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection ("DEP") or the U.S. Environmental Protection Agency ("EPA"). The respective surveys, which focused on either underground storage tanks ("USTs") or waste management programs, were conducted at the following facilities: (1) December 2011 - Lincoln Medical & Mental Health Center – EPA (waste management); (2) May 2012 - Bellevue Hospital Center – DEC (USTs); (3) May 2012 – Elmhurst Hospital - DEP (chemical inventory – no citations issued; (4) June 2012 - Coney Island Hospital - EPA (waste management); (5) July 2012 - Metropolitan - DEC (underground storage tanks or "USTs").

- The EPA surveys focused on the hospitals' waste management programs, and appeared to have a special focus on the hazardous waste handling program, including bulk chemotherapeutic waste handling. The DEC surveys focused on the petroleum bulk storage tanks/USTs. The DEP focused on chemical inventory/material data safety sheets ("MSDS").

<u>Environmental Compliance Background:</u>

HHC's current Activities are shared by three (3) different corporate offices: (i) the Office of Legal Affairs ("OLA"); (ii) The Office of Corporate Compliance ("OCC"); and (iii) the Office of Facilities Development ("OFD"). Additionally, through oversight of third party vendors responsible for numerous Activities corporate-wide, the Office of Operations ("Operations") is also partially involved with HHC's environmental oversight initiatives. At the Network level, there are numerous individuals who are collectively responsible for environmental compliance oversight. Apparently, as of July 2012, none of the Networks have appointed a high-level employee to take charge of addressing all of their environmental compliance matters.

<u>Preliminary Plan of Correction:</u>

On July 25, 2012, Antonio Martin, Executive Vice President/Chief Operating Officer; Wayne A. McNulty, Corporate Compliance Officer; Salvatore Cantatore, Corporate Services; Joseph Quinones, Operations; and Peter Lynch, Facilities Development, met to discuss the further development of HHC's environmental compliance activities ("Activities"). Based on the discussion held, the following is the proposed direction of HHC Activities:

1. Establish an Environmental Compliance Program (the "Program") corporate-wide that is constructed, implemented, and enforced resulting in a generally effective system designed to detect, correct, and prevent environmental compliance deficiencies, vulnerabilities, and risks. The Program shall establish a means to evaluate the Program's effectiveness, as well as a method to assess compliance with its initiatives through monitoring and auditing. Lastly, the Program shall encourage workforce members to report, in a confidential manner, any non-compliance.

2. Designate a corporate office - - either OLA, OFD, or OCC - - to take the lead on all Activities corporate-wide.

3. Request that each Network Senior Vice President designate a high-level employee (at least at the Associate Executive Director level) to ultimately oversee all environmental compliance issues and matters in their Network.

4. Provide the resources to hire a senior employee, preferably an attorney, with great management skills, to spearhead and oversee the Activities. Besides being delegated to address the day-to-day operational responsibilities of the Program, this individual would, as needed, perform additional duties for HHC outside of the Activities. Note, it is envisioned that this individual would spend between 30% and 35% of their time heading up the Program.

5. Establish an Environmental Compliance Workgroup ("Environmental-CW") to meet periodically, but in no event less than semi-annually, to discuss Activities across the Networks such as, but not limited to: (i) inquiries from oversight agencies; (ii) possible vulnerabilities, threats, and risks; (iii) employee training; (iv) development of policies and procedures and best practices; (v) regulatory activities and updates; and (vi) changes in applicable laws. The Environmental-CW will also provide guidance and counsel to the central office employee designated to oversee the Activities, who will serve as a member on the Environmental-CW. The Environmental-CW shall consist of, at the minimum, each Network employee designated by their respective Senior Vice President to address Activities in their Network, as well as several central office representatives who have not been identified as of yet.

6. Provide the senior official chosen to head the program with access to, through and with the collaboration of the OLA, an environmental expert consultant. Likewise, provide the OLA with access to an expert consultant or outside counsel to discuss environmental law issues and compliance matters as they arise to facilitate the rendering of legal advice on such issues and matters.

<u>Interim Steps Taken by the OCC:</u>

The following are some of the immediate steps being taken by the OCC to address Activities:

- To help foster environmental compliance related activities across the corporation the OCC has put together an internal Environmental Compliance Workgroup. The workgroup has been able to add environmental compliance activities to the Network Compliance Committee agendas. The Network Executive Compliance Officers now attend the local facility Environment of Care and/or Life Safety meetings. Additionally, the chairs of those meetings are expected to attend the Network Compliance Committee meetings to ensure the upward flow of environmental compliance related information. The workgroup is also working closely with the Office of Facilities Development and its environmental compliance consultant, Woodward & Curran, to finalize the electronic HHC Environmental Compliance System.

- The internal OCC workgroup is also in the process of developing an environmental compliance risk assessment tool derived from actual survey tools used by the EPA and DEC surveys, and from the EPA's chemotherapeutic waste handling guidance document.