AUDIT COMMITTEE MEETING AGENDA	April 11, 2013 12:00 P.M. 125 Worth Street, Rm. 532 5th Floor Board Room

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<u>CALL TO ORDER</u>	Ms. Emily A. Youssouf
• Adoption of Minutes February 14, 2013	Ms. Emily A. Youssouf
<u>INFORMATION ITEMS</u>	
• Assessment of OP 100-5	Mr. Chris A. Telano
• Audits Update	Mr. Chris A. Telano
• Compliance Update	Mr. Wayne McNulty

<u>OLD BUSINESS</u>

<u>NEW BUSINESS</u>

<u>ADJOURNMENT</u>

MINUTES

AUDIT COMMITTEE

MEETING DATE: February 14th, 2013
TIME: 9:00 AM

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

OTHER MEMBERS OF THE BOARD
Michael A. Stocker, MD

STAFF ATTENDEES
Alan Aviles, President
Antonio Martin, Executive Vice President/COO
Salvatore J. Russo, Senior Vice President & General Counsel, Legal Affairs
Deborah Cates, Chief of Staff, Chairman's Office
Tamiru Mammo, Chief of Staff, President's Office
Patricia Lockhart, Secretary to the Corporation, Chairman's Office
Christopher A. Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Wayne McNulty, Corporate Compliance Officer
Jay Weinman, Corporate Comptroller
Gassenia Guilford, Assistant Vice President, Finance, Central Office
Manasses Williams, Assistant Vice President, EEO, Central Office
George Proctor, Senior Vice President, North Central Brooklyn Health Network
Lynda Curties, Senior Vice President, South Manhattan Health Network
Robert Boyd, Senior Associate Director, Bellevue Hospital Center
Kathleen McGrath, Senior Director, Central Office
Chris Provenzano, Associate Executive Director, Generations+Northern Manhattan Health Network
Victor Bekker, Chief Financial Officer, Generations+Northern Manhattan Health Network
Milton Nunez, Chief Financial Officer, North Brooklyn Health Network
Paula Mandel, Associate Executive Director, Lincoln Medical & Mental Health Center
Anthony Saul, Sr. Associate Director, Dr. Susan Smith McKinney Nursing & Rehabilitation Center
Anthony Manwaring, Controller, Central Brooklyn Family Health Network
Kiho Park, Associate Executive Director, Queens Healthcare Network
David Guzman, Director, Metropolitan Hospital Center
Kim Wilcott, Assistant Director, Coney Island Hospital
Devon Wilson, Senior Director, Office of Internal Audits
Roger Mayer, Director, Office of Internal Audits
Chalice Diakhate, Director, Office of Internal Audits
Carol Parjohn, Audit Manager, Office of Internal Audits
Frank Zanghi, Audit Manager, Office of Internal Audits
Sonja Aborisade, Associate Confidential Examiner, Office of Internal Audits
George Asadoorian, Supervising Confidential Examiner, Office of Internal Audits
Cynthia McIntosh, Supervising Confidential Examiner, Office of Internal Audits
Delores Rahman, Supervising Confidential Examiner, Office of Internal Audits

OTHER ATTENDEES
KPMG: James Martell, Camille Fremont
OMB: Melissa Dubowski, Megan Meagher

FEBRUARY 14, 2013
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
NYC HEALTH & HOSPITALS CORPORATION

An Audit Committee meeting was held on Thursday, February 14, 2013. The meeting was called to order at 9:12 A.M. by Ms. Emily Youssouf, Committee Chair. Ms. Youssouf asked for a motion to adopt the minutes of the Audit Committee meeting held on December 06, 2012. A motion was made and seconded with all in favor to adopt the minutes.

Ms. Youssouf stated that the first action item is the KPMG 2012 Management Letter. She asked them to introduce themselves--Jim Martell, Engagement Partner and Camille Fremont, Senior Manager. Mr. Martell stated that he welcomes the opportunity to present their management letter, with the Corporation's Corporate Comptroller, Jay Weinman sharing his comments on the organization and the responses. He stated that Ms. Fremont will walk through the bulk of the management letter and he will interject when necessary but he will spend some time on the industry issues in terms of what he sees is going on in the industry in the last five to six months.

Ms. Fremont began her presentation by stating that she wanted to note that there are no significant deficiencies or material weaknesses included within the management letter. All of their provisions are just informational opportunities for improvement.

Ms. Fremont stated that on page two, they laid out what they called the matrix of observations. It indicates which facilities they performed test work for the 2012 audit and whether or not there were findings in the different categories they tested. As indicated for the facilities that they went to, there were minimal comments. She stated that she will highlight some of the corporate comments. In terms of the accounts receivable evaluation process, the process that management goes through is that they look at the evaluation on a net basis, so they do not take credit balances into account. KPMG is suggesting that management look at debits and credits separately when they do their evaluation and analyze that on a quarterly basis.

Mr. Martell stated that one of the things he wants to highlight is that when management looks at the number and it says $74 million of credit balances, when you take a step back and you think about the size of the Corporation, close to $7 billion in revenue, yes, $74 million is a significant amount of money and so forth, but when you are dealing with a $7 billion revenue stream and compared to other organizations on a percentage basis, it is relatively small. The goal is to always improve the process, and this is a process issue more than anything else.

Ms. Youssouf asked if management is comfortable doing it. To which Mr. Weinman responded yes, that currently we net the credits with the debits, but our methodology includes ratios that include that—it should represent a cleaner way of doing it.

Ms. Fremont continued by stating that the next area is the affiliation contracts. Some observations they had are that there are certain contracts that were executed after the commencement date of the contract period. This year Internal Audit is doing the compliance audit - there are certain affiliations that could not have their compliance audits done for the current year because their audited financial statements were not given to Internal Audit. The last compliance audit they had was based on their last audited financial statements, which were prior to 2011. Similar comments to last year – compliance audits did identify certain time keeping issues with time sheets or lack of controls in place to monitor the time sheets. There was also an affiliate who entered into a subcontract with a vendor without a signed contract. KPMG recommends that prior to the affiliation contracts coming to you, you have signed contracts. All reconciliations should be performed timely and in accordance with the contracts. Management should continue to work with the affiliates and enforce the terms of the contracts so all information is given timely.

Ms. Youssouf asked who oversees the affiliate contracts. To which Mr. Martin responded that he does.

Ms. Fremont continued and stated that they also observed that there are several construction projects that have been ongoing at the Corporation and they have gone into cost overruns from the original established budget. KPMG's recommendation would be that management analyze all aspects of the construction management process and determine ways to help meet or reduce those costs overruns which she understands that currently management is going through the process.

Ms. Youssouf agreed that it is under control in the Capital Committee.

Ms. Fremont stated that they also looked at the Corporate Compliance Program and stressed that they continue to see improvement needed surrounding the Corporate Compliance Program. There are updates provided to various committees that are very detailed and provide significant amount of information for the committee to understand how you are addressing that. KPMG did note that there was certain open status of risk assessments from the work plan that relates to prior years. This is not a criticism, it is a factual observation. That just because you close something quickly does not mean that you have addressed it. Corporate Compliance is going through the process and making sure that when they close them, they are appropriately closed. KPMG also noted that compliance utilizes outside legal counsel to make sure that they fulfilling their responsibilities, and that they are implementing an effective compliance program – so their recommendation would be to continue to strive to be the best in class, realizing that Corporate Compliance is a living, breathing document that is never stagnant, and that you continue to utilize external counsel's help.

Mr. Martell stated that at least as far as he is been involved over the last three years, the Compliance Program has clearly made a major step forward in terms of process, controls, reviews, etc. and taken the appropriate steps to have appropriate level of detail, the appropriate level of reviews associated with the program. Mr. Martell added that he thinks there has been significant change over the last year and a half.

Senior Vice President & General Counsel, Mr. Salvatore Russo asked why it is a requirement to have outside counsel review the Compliance Program. To which Mr. Martell responded that it is not a requirement, he just thinks that external review is left to the process, that another set of eyes that looks at the program will validate you as management and the Board. Mr. Russo asked that this is not a reflection on in-house counsel's ability to do that. Mr. Martell responded absolutely not. Ms. Youssouf added that that this is just best practice.

Board Chairman, Dr. Michael Stocker asked KPMG if the Compliance Program is a good one. Mr. Martell answered that it is a good program and it has gotten a lot better. The cross section has really improved, and the documentation, the association he thinks comes from the Board, the Committee all the way down to the people on the allied committees. This does not mean next year they won't say they need to be more, because being a CPA or an external; they always want to see the best.

Dr. Stocker stated that Mr. Alan Aviles was the driving force.

There was a round of applause directed at Mr. Wayne McNulty, Corporate Compliance Officer.

Ms. Fremont continued with her presentation and stated that in terms of the facilities visited, on page eight are the various observations they had. They included a time sheet that had no evidence of supervisor approval, a purchase order dated subsequent to the invoice date and on the open visit reports, there are visits greater than one year. These are all relatively minor comments – just opportunities to strengthen the process and the controls already in place. Ms. Fremont then turned the presentation over to Mr. Jim Martell who will discuss some of the industry comments.

Mr. Martell stated that as it relates to site visits and so forth, these observations would typically be put in a letter to the Chief Financial Officer saying that these are not significant, by no means is this saying that the process and the use of controls are not working effectively – they are. Page ten talks about the industry comments, which are some of the things the committees are dealing with and perhaps have already put some these things behind on a normal basis. We see many organizations having the challenge of the health care world in general. As an FYI in terms of documenting, KPMG recognizes that there is always going to be liquidity issues and concerns as it relates to the mission which the Corporation is embodied to do.

Mr. Martell stated that the next item is very interesting as it relates to the SEC (the Securities and Exchange Commission) – the SEC is getting involved more and more in the not-for-profit world. KPMG is currently working with management on the new offering debt which is an SEC requirement. It is an exchange issue and he believes that you will see under the new SEC administration more focus in the not-for-profit world, mainly because of the municipal debt, which is our form of issuing equity or offerings to the public and your bonds are traded. The public world is scrutinizing your results, your MD&A (Management Discussion & Analysis), etc.

Ms. Youssouf stated that she thought there was a requirement already that we have to update disclosures. Mr. Martell said that this is above that. Ms. Youssouf added that the letter states that it requires them to prepare and disseminate an official statement, which KPMG has to do and disclose during the onset of internal securities which we also have to do. Mr. Martell added that is on a quarterly basis, you issue certain disclosures on restrictive covenants – it is going to get more detailed. Moody's just sent out a requirement identifying an additional disclosure that is going to be required by not-for-profit organizations, statistical information, payer category and things of that nature. This is going to become a very detailed quarterly process.

Mr. Martell continued with the presentation with the next item – social media. His concern is how the Corporation will deal with certain commentaries made on Twitter and so forth that could be negative to the Corporation.

Ms. Youssouf stated that she heard that this may become a requirement, because most municipal entities do not do that. Mr. Martell responded that he had not heard that, but he would not be surprised. He added that after this meeting, he is going to another audit committee meeting where they will have a presentation by a firm who went in and did an entire risk profile of the organization. So it is already being done in the not-for-profit space. He does not see why it would not naturally gravitate towards municipalities and so forth. He offered to follow-up with some of his governmental colleagues to see what they see.

Mr. Martell continued with the last item community needs assessments. It has gotten a lot more detailed, a lot more drastic in terms of what needs to be done and so forth. The organization is involved in it and the federal laws are a lot more stringent in terms of the requirements we have been accustomed to in the past. Each organization needs to deal with it and again is a continual oversight and there will be more as we move forward into the new world of health care transformation.

Mr. Russo stated that HHC is sort of different because it is a quasi-public entity and in a certain way, the difference between free speech and all of that filters into it, which a Memorial Sloan Kettering does not have restraint in terms of responding – that is the difference. Then Mr. Russo asked when the IRS provision relating to community needs takes effect. Mr. Martell responded that the law he believes is for calendar year December 31, 2012. It was effective July 1, 2010 – you may do the community needs over a period of years, now it is becoming more restrictive. Mr. Russo added that now it has to go to the Board which he never realized that. Ms. Fremont added that became effective for HHC's taxable year beginning July 1, 2012. Mr. Russo stated that we must see when we do this to have it authorized by the appropriate committee of the Board.

Mr. Martell stated that these are some of the highlights. KPMG tries to take things that they're dealing with and what other organizations are dealing with that you are dealing with on an operational basis. There is issue of ICD10; management is handling that, the whole clinical information screen. There have been a lot of things over the past several years that the Corporation is dealing with that are ongoing in nature. It is a turbulent time right now and he thinks as we go forward and deal with this on ongoing basis, you are going to have more and more issues and he thinks you will have more and more oversight. He thinks it is going to become a lot more restrictive.

Ms. Youssouf stated that she agrees with him and thanked him for a good management letter and appreciated his time going through it in detail.

Ms. Youssouf then moved on to the next information item – a presentation on the procurement process.

Mr. Antonio Martin, Executive Vice President/COO stated that he wanted to give the Board a sense of where they are with their compliance with 100-5. Clearly, he thinks that they have made a lot of great strides in terms of compliance. He believes that they still have some areas for improvement, and what the Assistant Vice President for Contract Administration & Control, Mr. Joe Quinones is going to do is annotate that and also to tell the committee where they want to go in terms of procurement for the Corporation.

Mr. Quinones started his presentation by stating that first he wanted to show when the operating procedure was executed – it was executed in January 2012. These operating procedures reformed Board of Directors contracts authorization process so that the Board had greater transparency of consequential contracts. It restructured and reorganized procurement activity reports. A report was submitted to Dr. Stocker, it is a comprehensive report of all the applications reviewed by the Contract Review Committee (CRC), and it also shows expenditures of the Office of Facilities Development (OFD) and expenditures related to IT.

The next slide is Board of Directors contracts and expenditures that were previously below the threshold that are being seen by the CRC; anything above $100,000. Anything above $3 million is now going to the Board. It also integrated 14 procedures that were previously decentralized; now it is only one expanded procedure. The CRC membership was expanded and that has been an enormous success to have Senior Vice Presidents and Executive Directors. They have added enormous value to how to proceed, especially with solicitations. The procedure clearly identifies the procurement methods for staff in terms of construction, equipment, goods, non-professional services and professional services. The Supply Chain Council was created through the procedure and now have standardized all of our laboratory equipment and supplies. A contract will be submitted to the Board related to the scope instruments and procedures of surgical solutions. The new process has also increased awareness of the need to leverage Corporation size and use fewer contracts to reduce costs.

Mr. Quinones continued by stating that one of the things that they are finding is that currently under the decentralized process, compliance with 100-5 is at the local level; product decisions are at the local level as well as solicitations. Receipt of goods is at the local level and payment is at the local level. One of the things needs to be done is try to incorporate a corporate oversight. That oversight is simply to bring all those local decisions into a room so that we can begin doing a couple of things that are on the slide: (1) Identifying and planning for procurement as a Corporation rather than 11 acute care facilities and long term care facilities doing it. (2) Identify recurring purchases at each one of the facilities as a Corporation. We need to help the requisitioners right now because one of the things is new products that are coming into the facilities, changes in the products that are recurring. We need to make sure that the requisitioner has an "Amazon.com" experience by making sure that we have 80 percent of their purchases in what is called a favorites list so that all they have to do is simply say I need two of these, five of these, six of these and make the process really seamless and efficient. Especially for the OR, Cath Lab and Interventional radiology, these are the super users, and those are the people that we really need to make the process easy. There is also a need for an item master that is maintained and the only way do that is if we know what those product decisions are at the local level. Again, it requires corporate oversight so that we know what those products are and those can be included in the item master.

Mr. Quinones continued and said that in the Compliance Program, we have special requests that are substantial, and we need to see who those buyers and requisitioners are that are doing special procurement requests, that actually go around the system, retrain them, make sure that they understand the need for them to follow and use the tool as appropriate. A task force is being created to be the oversight and implement the program that he just identified and all the facilities will be represented there. He wants to bring nursing and clinicians into the process because that is really the way they are going to have compliance with Operating Procedure 100-5. They are reviewing centralization of the process and are looking at models at North Shore; they will do a walk-through with the Senior Vice Presidents and also having discussions with various other organizations. They are finding out that centralization does bring efficiencies, product standardization and better control of product value analysis. Currently all the acute cares perform value analysis, but they do it separately and there is much variation across the Corporation. Mr. Quinones continued by stating that they also need to change the way they look at products, the life cycle of a product from beginning to end – is it going to be thrown away or will it be reused and how is it going to be used and how should it be sourced. Should it be leased, should it not be a leased, should it be a purchase, etc.

Mr. Quinones continued with product planning and leveraging – He thinks that many times they don't do that but they need to do that and the only way to do that is if they plan the purchases. By increasing productivity and efficiency they'll be able to reduce labor costs. He showed the committee a visual of how the centralized supply chains process works. He put GHX as a tool and stated that GHX is programmed and requires planning – he broke it down as follows:

- Centralized Product Review Committee – to really identify what are the products that we are going to use and plan for those purchases.
- Centralized Product Sourcing – in many organizations centralized product sourcing is really called business intelligence. That is where you go out and find what is the best way of buying something, what the best way of contracting for it is. Currently we have decentralized contracting; every one of

our facilities contracts their own at the local level. We find that there are efficiencies in centralizing and contracting process.

- Centralized Product Procurement – centralizing the item master so that there is only one entity that allows items to be brought into the system, and they identified in the item master.
- Centralized monitoring and centralized charge, master updating, centralized reimbursement monitoring, centralized budget expenditure and payment, outpatient.

Dr. Stocker commented that there has been at least a couple of years work, working on how to procure. It is clear that multiple hospital chains meet deficiencies if they procure, unlike construction meet deficiencies if they centralize. But it is clear that it is pretty hard to do, you have to be responsive to the needs of the local facility. He also said that he is a bit worried – this is a positive report, and that is good, but for example, by using GHX does it fulfill our needs and is it compatible with our other systems and do we have further work to do in terms of how we systematically do that. He believes that the ability to organize this appropriately in the system should allow us to respond very quickly to a hospital with efficiency as we purchase centrally. He asked Mr. Quinones on that.

Mr. Quinones responded sure – he sees this in two parts. The transactional part, the contracting and requisitioning, receipt and payment are the administrative part. Those things are the easiest things to do; he believes that they can put a plan in place that would seamlessly implement that portion of it. What no organization can do seamlessly is what you just alluded, Dr. Stocker, and that is to fulfill the doctor preference items of a large organization like this one. That is the difficult part, but it has been done, it takes time to do it and what is needed is a plan of how to make sure that the patients are best served by the products that the organization decides on. Mr. Quinones thinks that the only way to do that is to do it in a corporate way so that we are making corporate decisions, and not necessarily have eleven different value analysis processes going on.

Mr. Quinones continued by stating that they are going to go to a walk-through of North Shore. As indicated, they are trying to develop a long term strategy around the supply chain and where HHC should go and what that vision should be. There are three different systems that they work with: (1) GHX is on the left, they also have to work within the platform of ORACLE, which is the legacy platform that they have and then they have the 30 year old OTPS system.. They worked through that, and it is not easy, it is not an integrated system. For instance they found out that ORACLE does not talk back to PS Blue, GHX – this means that buyers actually make contract alignments that occur in ORACLE that are not shown.

Dr. Stocker commented that that is good – that they have identified the problem and will be getting into a really complex discussion. Ms. Youssouf added that this is not what they are trying to get to and asked Mr. Quinones if that was correct. Mr. Quinones responded that that is correct. Then Ms. Youssouf added that this is the bad thing that they are doing now. Mr. Quinones added that he has people that work very hard to make it work. Ms. Youssouf commented that this not what we want correct? To which Mr. Quinones responded correct.

Ms. Youssouf also stated that this is very impressive that this is something they have talked about for a very long time and she knows that this had been on Mr. Martin's to-do list and she hopes that they can actually get there with all of this. Then she asked when the walk-through to North Shore is. Mr. Martin answered March 5th. Then she stated that maybe by the March meeting Mr. Martin will be able to say how it went and share something they learned. Then Ms. Youssouf added that she thinks that would be important because this shows a lot of progress and that she is sure that the Committee as whole and the Board as a whole really want to commend you on doing this and she thanked them.

Ms. Youssouf directed Mr. Christopher Telano, Chief Internal Auditor to begin his presentation.

Mr. Telano saluted everyone and stated that he has three quick reports to go over. The first one is of patient property and valuables at Woodhull Medical Center. He asked the representatives to approach the table and identify themselves. They identified themselves as follows: George Proctor, Senior Vice President of the North Central Brooklyn Health Network; Milton Nunez, Chief Financial Officer for the North Brooklyn Network. Mr. Telano continued by stating that the intention of this audit was to ensure adherence with relevant HHC operating procedures, New York City Administrative Code and Guidelines and department procedures. We also evaluated the processes for adequate internal controls. Overall, we found that the controls and record keeping of the patient property and valuables were lacking. Management was asked to take the necessary action to resolve the issues found and requested that Mr. Nunez comment on that.

Mr. Nunez thanked Mr. Telano and his staff for a very collaborative audit. He thinks that as a result of the audit, they have increased collaboration, and increased communication from the departments. They also believe that at this point 90 to 95 percent of the recommendations have been fully implemented.

Ms. Youssouf stated that that is great, really good that this is something that is their best practices that should be disseminated to other facilities.

Mr. Martin added that this is best practice and he wants to be able to share the results of this audit with the other Senior Vice Presidents and see if there are some things that they can do make sure that is part of HHC behavior. Ms. Youssouf thanked them.

Mr. Telano continued by stating that the next audit he will be discussing is of the purchasing practices and procedures at Kings County. This audit was done at the request of Dr. Stocker and the Audit Committee; it is the first of a corporate-wide initiative, so he will be discussing other purchasing audits at subsequent meetings. He then asked the representatives to approach the table and introduce themselves. They introduced themselves as follows: George Proctor, Senior Vice President of the North Central Brooklyn Health Network, Ernest Baptiste, Executive Director of Kings County and Anthony Gavasci, Director of Procurement.

Mr. Telano stated that he will quickly go through the findings. We noted seven vendors with sales of at least $100,000 did not have contracts approved by the Contract Review Committee (CRC). We found 19 vendors which had purchase orders processed cumulatively for more than $5,000, but they were not using the bidding procedure as required by 100-5. Lastly, we found that there was inappropriate access to systems for employees who no longer worked for HHC or no longer worked for purchasing. The Purchasing Director had responded immediately to all our issues and took the necessary action to resolve everything either during the course of the audit or immediately after.

Ms. Youssouf commented that there are some discrepancies, but it is part of the process of trying to figure out the procurement operation. The process here is accountability access and the Board is supposed to review purchasing, which is relatively easy for the Board. The Board talked about it and we had 13 months ago this relatively elaborate operating procedure 100-5 that replaced 14 operating procedures.

Dr. Stocker added that 14 other operating procedures is a lot of work just for management. As we learn about this, we are going to have to change again. We knew so little about the volume that we could easily overwhelm ourselves. The operating procedure calls for contracts over $100,000, under $3 million which do not go to the Board because there is no time to review it that well, but go to the CRC. The vast majority of the contracts that are going to the CRC now are pretty much from Central Office. Dr. Stocker read part of the language of the 100-5 which says "additionally, the CRC shall be responsible for reviewing and approving all procurements, except for goods, when the contract amount will be over $100,000, even if the transaction will not require Board approval. No such contract shall proceed without CRC approval". There are parts of the document that are a little ambiguous, and we will need you to work on, but that is not what he was asking. Dr. Stocker is curious about how certain contracts did not go through this process.

Mr. Galvasci stated that the vendors he is mentioning were not new vendors and that he is relatively new to the corporation, so he did not go back to the vendors to see what their cumulative dollar amounts were. Going forward, he will be doing that process, evaluate the vendors, and once it reaches that dollar mark, it will be sent out to the CRC for review.

Mr. Telano added that these vendors that did not have contracts at all, but they had activity exceeding $100,000 within our audit scope period.

Ms. Youssouf asked if these were sole source vendors. To which Mr. Telano responded no, none of them were. The system is lacking, and it makes it difficult for the purchasing area to monitor the activity. Mr. Martin added because it doesn't aggregate.

Ms. Youssouf asked if this is something that can be changed. Mr. Galvasci responded that it is actually a manual process. That he is now keeping a manual log with every purchase order that comes through his desk. He has a manual log which he writes each vendor down and the amount of the purchase order and he reviews that monthly to see where the dollar amount is going. Ms. Youssouf stated that she has no idea of the cost, but is it feasible to make that so it is not manual. Mr. Galvasci added that in conjunction with him doing this manually, he prints out OTPS vendor by vendor to see where that dollar amount is coming. Yes, it is a manual process, but they can look it up through OTPS but they have to go to a specific vendor. The vendors are not listed together; you have to put in each individual vendor.

Ms. Youssouf asked Mr. Bert Robles, Chief Information Officer to approach the table. Mr. Robles stated that he does not know all the particulars, but that he knows with the eCommerce system, they are able to query the individual vendors, and then they manipulate the data and consolidate it; but it is a routine outside of the current system because it is not well integrated. Not understanding the details clearly, he thinks to a great degree they can generate reports to show specs. There are some complexities with that and our purchasing habits make it more difficult for the way we do it with purchase orders, but ultimately he thinks it can be done certainly, because we have been able to do it within IT. It is a substantial effort beyond just a query generating report; ultimately we can generate a report.

Ms. Youssouf asked that they don't have to go through all the agonizing details now, but if it is possible to see if there is a way to fix that, because it would be great if we could.

Mr. Martin added that yes, as you have heard, our system is rather clumsy. One of the things that he would like to say is that he actually met with a group of purchasing directors. You hear about a number of the things that they have to go through to really maintain compliance with management and there a number of issues that they are really struggling with. They are really trying their best to adhere to 100-5, but a lot of the manual things that they have to do make it very difficult. He said he also brought them to the meeting of the Senior Vice Presidents, and the SVPs were able to hear from their own purchasing directors about the troubles they have in complying.

Ms. Youssouf stated that what might be helpful if there are certain things that everybody kept citing that is causing the difficulty, putting that together to distribute to the Committee. That they should think about if there is a way, as Dr. Stocker said, to modify this, to make it more user-friendly or appropriate. She thinks that might be a good idea.

President Aviles added that he thinks unfortunately, some of the core issues here is, we are just going to have to require for the interim, for the local purchase officers to actually go through this manual process that is quite labor intensive. Perhaps that can be aided somewhat with some automated reporting capability so that it can be somewhat easier. But the long term solution is for full automation of this process, so that when things are ordered, you automatically get a literal readout of what the cumulative purchasing has been for that vendor over a relative period of time.

Ms. Youssouf stated that she agrees with President Aviles. She was talking more generally if there are additional items that need to be addressed, but she agrees with him on that.

Dr. Stocker said that they are trying to do this jointly and cooperatively and he asked Mr. Galvasci to comment on the 100-5 and its utility.

Mr. Galvasci said that to be quite honest, the purchasing directors got together and we talked about 100-5. It is ambiguous to us. There are times where each purchasing director calls each other to get what they feel what 100-5 says. Then we go with a consensus. To which Ms. Youssouf commented that that speaks volume. Mr. Galvasci added that he was being honest. Ms. Youssouf responded that she hears him, but that she is happy he is. Ms. Galvasci stated that it is ambiguous to them and at the meeting Mr. Martin, we did some training for the purchasing directors and the buyers now.

Mrs. Bolus asked what the biggest reason why you can't implement it is. To which Mr. Martin responded that it is multi factorial. When he sat with purchasing directors, they came up with at least six different items that impede them from adhering to this policy. They know that this is their responsibility; they are really sort of committed to working through it. So this is one of the ongoing things that we have.

Ms. Youssouf said that they should consider 100-5 as kind of a living document at this point, but this is exactly the kind of feedback they need. Dr. Stocker added that he understood that they are kind of all in this together and are all kind of learning as they go along.

Mr. Galvasci added that he was not part of when 100-5 was being compiled, but if he could suggest that if you do have some type of committee to go over it again, to include some of the purchasing directors in that meeting, because we are the ones who are on the battlefield dealing with that on a daily basis.

Ms. Youssouf stated that that would be a good idea.

Dr. Stocker said that his guess is when we get done with this, it will disrupt some relationships with local vendors and that is going to be hard to work through. Ms. Youssouf added that she thinks every facility has certain things that they order, and even though the orders are small, cumulatively, they know that these vendors add up to well over $100,000 so this is not a surprise. Those are things that people who have been at the facility for a while should not be surprised as far as going forward with this. It might be a good idea for them to look at that and say yes, every year we end up putting in a million dollar order from these companies; then just do it up front for the CRC.

Ms. Youssouf thanked them and stated that there was one more guest.

Mr. Telano continued by stating that the last audit report is of the accounts receivable area at Lincoln Medical Center and asked the representatives to approach the table. He wanted to point out that since he came here three years ago, he has always stated that he has no problem issuing an audit report with no findings and this is the first.

Dr. Stocker said that they just wanted them to come so that they could say thanks to you. Ms. Youssouf added yes, that is true that the Committee was incredibly impressed and wanted to thank you for all your hard work on making sure this works, and this would be a good best practice, right Mr. Martin.

Mr. Martin said yes, yes absolutely.

Mr. Telano asked them identify to themselves. They did as follows: Victor Bekker, Chief of Finance; Paula Mandell, Associate Director for Finance, Patient Accounts; Mr. Chris Provenzano, Associate Director, Contracts and Finance.

Ms. Youssouf stated that once again, thank you very much, we are very happy.

Ms. Youssouf added that given the time constraints, in that room is filled up with people that are anxious to start the next meeting, she would suggest if it is okay, that the Compliance update be postponed for this meeting. She asked Mr. Wayne McNulty if there is anything critical that he needs to let the Committee know.

Mr. McNulty responded no, we can do it next time.

She asked if there were any old business or new business.

There being no further business, the meeting was adjourned at 10:21 A.M.

Submitted by,

Emily Youssouf
Audit Committee Chair

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INTERNAL AUDIT MEMORANDUM

TO: Audit Committee

FROM: Christopher Telano, Chief Internal Auditor/ AVP
Office of Internal Audits

DATE: April 1, 2013

SUBJECT: Internal Audit Memorandum – Assessment of Operating Procedure 100-5

cc: A. Aviles; A. Martin; S. Russo

Introduction

At the request of the HHC Audit Committee, the Office of Internal Audits (OIA) performed an assessment of Operating Procedure (OP) 100-5 to determine the areas not discussed and those to be improved upon.

To conduct our assessment, we visited and interviewed the Purchasing Directors at the following Networks: North Brooklyn; Northern and Central Brooklyn; Generations Plus and Queens Health Care. We also collaborated with OIA staff members who performed the review at these networks.

Operating Procedure 100-5 was rolled out to the Facilities in the fall of 2011 and became effective January 3, 2012. The networks interpretation of and compliance with the OP varies from network to network. It is our opinion that the reasons for this was the lack of training relating to the policy and not including and incorporating input from the Purchasing Directors prior to the policy being rolled out. In addition, we noted typographical errors; inconsistencies; and some key Standard Operating Procedures (SOP) that were developed by Central Office Materials Management that should be incorporated into Operating Procedure 100-5.

This memorandum will outline some of the key components that the Operating Procedure did not address and areas that are not clear and are open to different interpretations. In addition, we will look on other observations and concerns that are currently facing the networks in carrying out their daily activities.

The policy does not address the following:

1. The policy does not prohibit or limit the use of For Payment Only (FPO) transactions (purchases in which the invoice is received before the purchase order).
2. Type of contracts that need to be loaded into GHX (Local, Concession, GSAs etc.).
3. The type of contracts that Corporate Materials Management is responsible for in terms of activation, maintenance and renewals.
4. The use of Desktop Delivery Systems, e.g. Office Max and Vanguard (forms).
5. The use of blanket Purchase Orders (POs that are issued for a specific period of time against which the material listed may be released on an as-needed basis) – when permissible and for what type of goods or services.
6. The use of vendor cumulative activity for contracting and bidding - should it be by vendor or item and/or fiscal year?
7. Standard Operating Procedures (SOP) that were developed and not included within the policy. The SOPs are step-by-step procedures issued to the facility purchasing departments by the Central Office Materials Management Department. These procedures are listed on the employee intranet website under the Electronic Commerce section. The key SOP's are as follows:
    - SOP-110-0220 (Rental/Lease/Service SPR Procedure)
    - SOP-110-0240 (Open Market Incomplete Purchase Order Procedure)
    - SOP-110-0250 (Procurement Suite User Add Procedure)
    - SOP-110-0260 (HHC Contract Management)
    - SOP-110-0270 (Sequestered Lots Procedure)
    - SOP-110-0290 (OTPS Access Procedure)
    - SOP-110-0180 (Approval Overrides)
    - SOP-110-0190 (Biomedical Notification of Incoming Equipment Procedure)
    - SOP-110-0020 (Item Purchasing Expediting)
    - SOP-110-0030 (Special Purchase Requisition) – SPR
    - SOP-110-0050 (Consignment)
    - SOP-110-0060 (Requisition Approval – SPR/Fixed Assets)
    - SOP-110-0070 (Vendor Certification)
    - SOP-110-0080 (Item File Maintenance)
    - SOP-110-0090 (New Item Add Removal)
    - SOP-110-0100 (Requisition Approval – SPR/Materials)
    - SOP-110-0110 (Requisition Approval – Formulary)
    - SOP-110-0120 (PC Confirmation and Discrepancy Reconciliation)'
    - SOP-110-0130 (Non-Contract Compliant Purchase Requests)
    - SOP-110-0140 (Freight Operational Procedure)
    - SOP-110-0140a (Freight Payment Procedure)
    - SOP-11-0150 (HHC Receiving Operational Procedure)
    - SOP-11-0160 (Fill or Kill – Processing Internal Requisitions)
    - SOP-110-0200 (IT Equipment Procurement)
    - SOP-110-0210 (Procurement Suite Downtime Process)
8. The processing of Returned Goods Advices (RGA).
9. The involvement of the Capital Committee in terms of equipment purchases and CRC approval.

10. The use of government (Inter-Agency) and regulatory agency contracts e.g. Federal, NYS, NYC (DOH, NYFD, NYPD, MTA, etc.), JACHO, American College of Pathologists, etc.

The policy is not clear when addressing the following:

1. Bidding Process – for goods or services, should it be for individual items or vendor activities?
2. The amount bid – When should a bid be submitted? Should it be based on vendor activities for a 12 month period or the duration of the contract?
3. Policy does not clearly define what a contract is. Should it be an agreement with terms and conditions, a purchase order etc?
4. Contract Review Committee (CRC) – When to submit to CRC. It is not clear about whether the cumulative amount should be based on HHC, facility, or network activity.
5. CRC Approval – should it be vendor specific or project specific with a specified time frame? If it is vendor specific what happens when the contract is renewed and does the renewal goes to CRC?
6. Sole Source – what is the criteria that defines a "sole source" contract?
7. Page 6 of Policy under "Goods" the method (RFB) outlines is incorrect. It should be RFQ for the following buckets: $0-4,999; $5,000-$24,999; $25,000-$99,999.
8. Page 14 of Policy "Article V Small Transaction Formats" section B ii. The information on Calculating Contract Value is not clear – The contract value should be over a 12 month period not over the entire term of the contract.
9. Page 25 of Policy "Article X section iii". The words "social security cards" should be removed.
10. Who to contact, Page 32 (Legal Affairs) should be replaced with Central Office Materials Management.
11. Bid Package – what should be included in a complete bid package? Must also list required forms and inclusions for formal and informal bidding.

Other Observations:

1. Outdated forms included in OP 100-5.
2. Not utilizing technology efficiently. For example, utilizing editable pdf templates for bids would provide a more consistent and effective approach.
3. Telephone bids should be replaced by email bids to have good audit trail.
4. Should we have a general contract for the following: Metro cards; USPS, Homeland Security – Guidance Needed.
5. Use of local contracts bypassing the purchasing leverage the corporation would otherwise receive.
6. Policy index – a typo in the footnote: 200-2 should be replaced with 200-1.

NEW YORK CITY
HEALTH AND
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CORPORATION

AUDIT COMMITTEE OF THE HHC BOARD OF DIRECTORS

Corporate Compliance Report

April 11, 2013

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

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OFFICE OF CORPORATE COMPLIANCE

AUDIT COMMITTEE OF THE HHC BOARD OF DIRECTORS

Corporate Compliance Report
125 Worth Street, New York, NY
5th Floor Boardroom, Room 532
April 11, 2013 @ 12:00 Noon

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I. Compliance Training

- The Health Care Professionals compliance computer-based training ("CBT") module has been completed. To date, over 15,600 HHC employees and affiliate employees have been identified and enrolled into the course.

- The HHC Board of Directors CBT module has been completed. OCC is coordinating enrollment of HHC Board Members with Deborah Cates, Chief of Staff, Office of the HHC Chairman, and Bert Robles, HHC Senior Vice President/Chief Information Officer. Steps are being taken to ensure that Board Members will be able to access the CBT module remotely. Once remote access is fully available, all Board members will be enrolled into the course.

- The content for the General Workforce module (Group 11 employees and designated Group 12 employees) has been completed. Over 3,000 Group 11 employees will be enrolled into this course at this time.

- The HIPAA CBT module has been completed. Over the next several weeks the entire HHC workforce will be enrolled to take this course.

- All the above-listed training modules must be completed by enrollees by June 30, 2013. Thereafter, enrollees and will be required to undergo CBT on an annual basis based on HHC's FY calendar. The next training cycle will run from July 1, 2013 to June 30, 2014.

II. CY 2012-13 HHC Corporate Compliance Work Plan

- The CY 2012-13 HHC Corporate Compliance Work Plan was approved by HHC's President and Chief Executive Alan D. Aviles on December 5, 2012. This Work Plan will remain in effect until June 30, 2013. Moving forward, subsequent HHC Corporate Compliance Work Plans will be released on a fiscal year basis. As such, HHC's next Work Plan - - FY 2014 Corporate Compliance Work Plan - - is scheduled to be released on or before July 1, 2014.

- The following Work Plan items have closed (or are pending closure) since the Audit Committee last convened in February 2013.

  (i) Payments for Services Ordered or Referred by Excluded Providers (closure pending.)
  (ii) Advanced Beneficiary Notices;
  (iii) Brachytherapy Reimbursement; and
  (iv) Edit 760 denials for duplicative services (closure pending)

III. HHC Calendar Year 2013 Corporate-Wide Risk Assessment

- OCC has started preparing HHC's CY2013 Corporate-wide Risk Assessment as required under New York State compliance program regulations and federal agency guidance.

Summary

1) The CY 2013 Corporate-wide Risk Assessment (the "Risk Assessment") summarizes the process that OCC will implement to create the FY2014 HHC Corporate Compliance Work Plan. This process will begin on or about April 18, 2013 and should be completed on or about June 22, 2013. This process is required under New York State Social Services Law § 363-d(2)(f) and its implementing regulations found at 18 N.Y.C.R.R. § 521.3(c)(6), which require the establishment of "a system for routine identification of compliance risk areas . . . ."

2) The Risk Assessment: (i) examines why a risk assessment process is necessary; (ii) discusses sources that the OCC reviewed in developing the Risk Assessment process; (iii) and discusses the process that the OCC will use to identify and assess risk areas in creating the FY14 Work Plan.

- Generally, risks will be identified by: (i) conducting surveys of the Executive Compliance Workgroup and Network Compliance Committee members to ascertain the top risks that may affect HHC; and (ii) reviewing predefined lists of potential risks from various internal and external sources.

- Once identified, risks will be scored based on three categories: (i) Impact (is there a *legal, financial,* and/or *reputational impact to HHC?*); (ii) Vulnerability, which is comprised of likelihood and detectability (what is the likelihood of the risk occurring, and if it does occur, is it detectable?); and (iii) Controls, which include, among other things, policies, processes, practices, automated controls, audits, and monitors (what internal controls are present to mitigate the identified risk?).

- All identified risks will be scored and prioritized. Risks receiving the highest scores will be considered for inclusion in the HHC FY 14 Corporate Compliance Work Plan.

3) An update of the Risk Assessment process will be provided the next time the Audit Committee convenes.

IV. Compliance Index

A. Fourth Quarter CY 2012

- During the fourth quarter of CY 2012 (October 1, 2012 through December 31, 2012), there were 69 compliance-based reports of which 2 were classified as Priority "A" reports, 24 as Priority "B" reports, and 43 as Priority "C" reports. For purposes here, the term "reports" means compliance-based inquiries and compliance-based complaints.

- Of the 69 reports received in the fourth quarter of CY 2012, 45 (or 65.2%) were compliance complaints received via the OCC's anonymous toll-free compliance hotline.

Summary:

1) Report Classification

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.

2) Reporting Source Analysis

Of the 69 reports received in the third quarter of CY2012, there were 45 (or 65.2 %) compliance complaints received on the OCC's anonymous toll-free compliance hotline; 10 complaints (or 14.5 %) received via E-mail; 9 complaints (or 13 %) received via Telephone; 2 (or 2.9 %) complaints received via Web site submission; 1 complaint (or 1.4%) received via Face to Face; 1 complaint (or 1.4 %) received via regular Mail; 1 complaint (or 1.4 %) received via Referral from other HHC Offices.

3) Allegation Class Analysis

Of the 69 reports received in the fourth quarter of CY2012, 17 (or 24.6%) complaints pertained to Policy and Process Integrity; 16 (or 23.2%) pertained to Employee Relations; 16 or (or 23.2%) involved the category of Other; 8 (or 11.6%) pertained to the Misuse or Misappropriation of Assets or Information; 6 or (or 8.7%) involved Diversity, Equal Opportunity and Respect in the Workplace; 5 complaints (or 7.2%) involved Environmental, Health and Safety issues; and 1 (or 1.4%) pertained to Financial Concerns.

V. Privacy Compliance Index

- During the period of October through December of CY 2012, 15 complaints were entered in the HHC HIPAA Complaint Tracking System, an HHC proprietary database. Of the fifteen (15) complaints entered in the tracking system ten (10) were found after investigation to be violations of HHC HIPAA Privacy Operating Procedures; two (2) were determined to be unsubstantiated; and three (3) were found not to be a violation of HHC HIPAA Privacy Operating Procedures. Of the 10 confirmed violations, only one (1) resulted in a breach.

VI. Reportable Breaches

In early December, OCC was informed of a data breach concerning records maintained by Coney Island Hospital's ("CIH") Ida G. Israel Community Health Center ("Health Center").

- The incident, which occurred during the aftermath of Hurricane Sandy, took place on December 3, 2012. Because of the hurricane, the Health Center suffered severe damage to its structural components and as a result, CIH terminated its lease with the Health Center's landlord. Subsequently, on December 3, 2012, CIH employees learned that the landlord prematurely granted access to unknown individuals to remove property from the Health Center including computers, as well as files, papers, records, and other documents (collectively "documents"). These computers and documents may have contained the PHI of Health Center patients including name, address, medical record number, patient number, health plan information, date of birth, and possibly social security number, driver's license number, and credit or debit card number if provided. The property was removed without obtaining CIH's permission.

- Breach notification to 9,887 patients began on January 31, 2013 and was completed on 2/13/13.

- The following regulatory bodies were notified: (i) New York State Department of State; (ii) New York State Department of Cyber Security & Critical Infrastructure Coordination; (iii) New York State Attorney General's Office; and (iv) U.S. Department of Health and Human Services Office of Civil Rights.

- The following consumer reporting agencies were notified: (i) Equifax; (ii) Experian; and (iii) Transunion.

- The Department of Health and Human Services Office of Civil Rights, which is the federal office in charge of regulatory oversight and enforcement of HIPAA, has reviewed this matter and concluded that HHC responded to the breach appropriately.

VII. OCC Staffing Update

- OCC has one vacant compliance officer position; the recruitment process for this position has commenced. The subject position is expected to be filled by early May 2013.

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 February 2013.

IX. Compliance Program Certifications

- Department of Social Services/Office of Medicaid Inspector General ("OMIG") Compliance Program Certification was submitted by HHC President and Chief Executive Alan D. Aviles on December 26, 2012.

- Deficit Reduction Act of 2005 Certification (through OMIG) was completed by HHC's Chief Corporate Compliance Officer Wayne A. McNulty on December 28, 2012.