

AUDIT COMMITTEE  
MEETING AGENDA

June 7, 2012

3:00 P.M.

125 Worth Street,  
Rm. 532  
5<sup>th</sup> Floor Board Room

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CALL TO ORDER

Ms. Emily A. Youssouf

- Adoption of Minutes April 5th, 2012

Ms. Emily A. Youssouf

INFORMATION ITEMS

- KPMG 2012 Audit Plan
- Audits Update
- Compliance Update

Mr. Jim Martell

Mr. Chris A. Telano

Mr. Wayne McNulty

EXECUTIVE SESSION

OLD BUSINESS

NEW BUSINESS

ADJOURNMENT

# MINUTES

## AUDIT COMMITTEE

MEETING DATE: April 5<sup>th</sup>, 2012

TIME: 12:00PM

### 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, Senior Vice President & General Counsel, Legal Affairs

Marlene Zurack, Senior Vice President, CFO

Patricia Lockhart, Secretary to the Corporation, Chairman's Office

Deborah Cates, Chief of Staff, Chairman's Office

Tamiru Mammo, Chief of Staff, Presidents office

Martin Genee, Dep. Corp. Controller, Central Office

Christopher A. Telano, Chief Internal Auditor/AVP, Office of Internal Audits

Wayne McNulty, Corporate Compliance Officer

Devon Wilson, Senior Director, Office of Internal Audits

Gassenia Guilford, Senior Director, Corporate Finance

Christopher Byrne, Controller, Bellevue Hospital Center

Kiho Park, Associate Executive Director, Queens Health Network

Zaheer Baig, Controller, Woodhull Medical and Mental Health Center

Michael Lettera, Senior Director, Central Office

Jeffrey Rogoff, Associate Executive Director, Material Management, Central Office

Zhanna Kelley, Asst. Director of Internal Audit, Office of Internal Audits

Frank Zanghi, Supervising Confidential Examiner, Office of Internal Audits

Jackie Gelly, Director of Purchasing, North Bronx Health Care Network

Martin Novzen Sr. Associate Director, Woodhull Medical & Mental Health Center

Josianne Deratus, Chief Contracting, North Brooklyn Health Care Network

Cynthia McIntosh, Supervising Confidential Examiner, Office of Internal Audits

Gayle Lewis, Associate Executive Director, Gen+Health Care Network

Edie Coleman, Associate Director, Metropolitan Hospital Center

Violeto Palmere, Associate Director, Gen+Health Care Network

Ronald Townes, Associate Director, Finance, Kings County Hospital Center

Melencio Tinio, Asst. Controller Gouvernuer Health Care Service

Mercia Franklin, Assoc. Director, Coler-Goldwater, Special Hospital Network

Kim Walcott, Assoc. Director, Finances Coney Island Hospital

Chris Provenzano, Associate Executive Director, Gen+Health Care Network

### RECORDING SECRETARY

Carlotta Duran, Sr. Executive Secretary, Office of Internal Audits

**APRIL 5, 2012**  
**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**  
**NYC HEALTH & HOSPITALS CORPORATION**  
**MINUTES**

An Audit Committee meeting was held on Thursday, April 5, 2012. The meeting was called to order at 12:12 PM by Ms. Emily Youssouf, Committee Chair. Ms. Youssouf asked for a motion to adopt the minutes of the Audit Committee meeting held on February 9, 2012. A motion was made and seconded with all in favor to adopt the minutes.

Ms. Youssouf moved on to the information items on the agenda stating that Mr. Telano will give an update on audits.

Mr. Telano addressed the Committee by saluting them and stated that he only had three reports for this meeting. The first one is regarding Medical Surgical Inventory Controls at Harlem Hospital Center. He asked the Harlem representatives to approach the table.

Ms. Youssouf asked them to introduce themselves. They did as follows: Chris Provenzano, Associate Director of Audit and Contracts; Mark Sollazzo, Associate Director of Material Management and Gayle Lewis, Director of Purchasing.

Mr. Telano stated that we did a surprise physical count of the inventory at the storeroom and found that 80 percent of the items counted were incorrect and some of the items were not labeled properly on the shelves. There were some items kept outside the storeroom due to space limitations. Management was very proactive in their response to these issues. They did a full inventory count in February to insure that everything was accurate and then implemented regular weekly counts of items to insure that the on-hand amounts were accurate going forward. They will also conduct a space assessment of the storeroom to insure that going forward there would be no items left in the hall. A couple of the other items found were that when items are distributed to the units there was a lack of controls. The items being delivered were not being verified by the nurses and personnel on the floors. The storeroom was kept unlocked and people were using it as a cut-through from one unit to another. Also, items being delivered into the storeroom were kept outside unsecured. We believe controls were implemented and policy and procedures were put in place to correct those deficiencies.

Mr. Telano continued by stating that the last issue noted was about the borrowing and lending of supplies. At Harlem they transfer goods to Lincoln and Metropolitan frequently. If there is shortage, they decide to borrow and lend and we found that there was a lack of documentation on the Harlem end. We went to Lincoln and Metropolitan to obtain documentation, but Harlem did not have them. In most instances, the transactions were not input into the Harlem inventory system. If something was left out, it was not reflected in the inventory which probably resulted in some of the miscounts we found. Once again proper procedures were implemented to insure that it doesn't happen going forward.

Ms. Youssouf asked the Harlem representatives to be more specific as to the procedures in place.

Mr. Provenzano thanked Mr. Telano and his team and added that as someone who comes from audit we always look for audits as an opportunity to make corrective action plan. On the Harlem side there are a couple of unique situations that resulted in this audit. One is that Harlem has a unique setup in that there are four different storerooms. Lincoln only has one room that is gated where all the supplies are kept. At Harlem since there are four, it's more spread out and more difficult to keep track and until recently, inventory from Renaissance was also kept at Harlem. Another issue that Harlem has is with the construction going on, it blocks the street; therefore, the storeroom is being used as an access to get through to the main building.

Ms. Youssouf asked if that's the only way to get through. Mr. Provenzano responded that people have to walk all the way around the hospital so they walked through the receiving area to get to the elevators.

Ms. Youssouf asked if there is a way to consolidate the four rooms. Mr. Sollazzo responded that they are trying to get one space in the basement allocated to them to keep everything in one area.

Dr. Stocker asked if the new building affects any of this to which Mr. Provenzano responded that it probably does because there's going to be some space freed up and he hopes Administration designates some of the space to them.

Ms. Youssouf asked what did he mean by designates? Mr. Sollazzo added that he has not received anything in writing from administration. Then Ms. Youssouf asked if there was anyone here from administration?

Dr. Steven Lawrence introduced himself as Chief Operating Officer at Harlem Hospital and said that the modernization project has many aspects to it. One of the opportunities that we will be afforded with the opening of the New Patients Pavilion (NPP) is an opportunity to consolidate of all the radiological series on the fifth floor, which is currently where the ORs are and where part of radiology is now. Currently the one corner of the basement is where nuclear medicine is housed. Nuclear medicine will be relocated on the fifth floor, thus allowing us to vacate a significant part of the area where they currently reside. In addition to some adjacent and vacant locker room space to it, that would then impose for us an opportunity to be able to consolidate materials management. It has architectural challenges in terms of layout with C-100. A full blown study has not been done as to what it's going to require readying that space for this purpose; it's something that's actively been discussed.

Ms. Youssouf stated that she would like to have a follow-up so they'll know what the study says but it's very concerning that there was no security or control mechanisms in place for an inventory. She added that they would like to see how that's going to be fixed and how quickly that can be achieved. Mr. Provenzano added that the Central Office Breakthrough Project is being utilized. They're looking at the inventory and how things flow and par levels on the unit and how things get stocked. Mr. Sollazzo added that Kings County was the pilot and Harlem is the first.

Mr. Stocker asked if they had ever run out of items and had not known Mr. Provenzano said that it has happened and that he hopes with the new Director in place, things will get better.

Mrs. Lewis stated that the shortcut is saving about five blocks of walking. Once we move, we can put a secure system in place and the shortcut will not be used.

Mrs. Bolus asked what they are doing in the meantime. To which Ms. Lewis responded that they are working with hospital police to have key access so it will not be readily accessible to staff other than material management staff.

Ms. Youssouf stated that since there are four storerooms, would it be possible to swap what's in the walkway to the other one that's vacant. Mr. Provenzano stated that that storeroom was always kept locked, but due to the construction, people go through it all the time. Sometimes the door is left open when a delivery is going on. The staff sees the door open and they go through it that's what Audits observed.

Mrs. Bolus asked when the shortcut is taken away, what will the staff do? Dr. Lawrence responded that the alternative is using the tunnels. The 136<sup>th</sup> Street location is currently blocked off, it used to be a through street from Lenox Avenue to 5<sup>th</sup> Avenue. There is a police gate at the entrance to 136<sup>th</sup> Street, however, staff working in Kuntz or in the old nurses residence, rather than go through the tunnels they just find it easier to go out to 136<sup>th</sup> Street, cross the street and go through the receiving dock. Dr. Lawrence continued by stating that the condition still exists but we are getting a proposal now to put the card ID access on the back door.

Dr. Stocker asked if the new building will open in the summer. Mr. Lawrence answered yes, however due to some funding challenges, delays in demolishing the old nurse's residence, it will still house staff. There will always be a temptation rather than go through the tunnel.

Dr. Stocker added that a permanent solution is needed.

Ms. Youssouf asked that since one storeroom is not being used, why not move what's in the walkway now to that room?

Mr. Sollazzo responded that the walkway area is a receiving dock, not inventory. It's a loading dock where all the merchandise comes in. Some may be for inventory some of it might be direct purchases that go to other departments throughout the facility.

Ms. Youssouf asked if once the inventory is delivered, it usually sits there for a while. Mr. Sollazzo answered that when the vendor drops it off, we try to get it downstairs as soon as possible.

Mrs. Bolus asked how soon is "as soon as possible?" Mr. Sollazzo responded that usually about an hour.

Ms. Youssouf added that lack of inventory control can be a big money loser for any institution.

Mr. Provenzano stated that they have addressed all the issues in the report. We developed forms when they issue products to lend or borrow. The documentation is accurate so we know what came in and out. We don't have the same people signing off and have removed all staff that did not have access to E-Com.

Dr. Stocker stated that that sounds good, but if you don't have good inventory control, you are going to have surpluses of some things and run out of other stuff and not know it.

Mr. Sollazzo added that the borrowing is not an everyday event. It happens with a manufacturer back-order.

Ms. Youssouf stated that it seems that the people borrowing keep good records according to Mr. Telano and you would think that the lender would keep good records as well.

Mr. Sollazzo said that since the audit and while the auditors were there we developed a form that I and my assistant sign off. Ms. Youssouf responded that she would like Mr. Telano to go back sooner than six months for another visit and she would much appreciate the plan as soon as possible as to how this will be fixed.

Dr. Stocker asked if they distribute the surpluses around the system. Mr. Sollazzo stated that if there is a large surplus, they do one of two things. They relinquish it or put it out to see if anyone else needs it.

Mr. Provenzano stated that the goal is to set the right new max level so that they know exactly when a certain low is hit and automatically order new product. Ms. Lewis added that they need to know the right par levels so that they know exactly what they're using and monitor it.

Mr. Antonio Martin addressed the Committee on a request they had made at the last meeting which was to look at some of the best practices. Aside from bar coding there is a unit called Pixus which is a sort of automated machine where you go out and take out the material that you need and it sort of registers so it knows who takes it out. It's proved to be cost effective but it is expensive. There are vendors that will do the pars for you. You need to pay them more money but they will manage your inventory for you. He said that he has not looked at it completely but there are other options out there that he is going to look at.

Ms. Youssouf asked when they can come back with a plan. Dr. Lawrence replied to allow him two months.

Mrs. Bolus added that they do a lot of good work and the Committee appreciates it.

Mr. Telano continued with the next audit which was the Purchasing Audit at Coler-Goldwater. This turned out to be a very good review and there is only one issue to discuss. He asked the Coler-Goldwater representatives to come to the table.

Mr. Jeff Rogoff, introduced himself as AED of Materials Management and stated that the scope of the audit also pertained to Gouveneur purchasing; therefore, he has limited responsibility in terms of who is processing inventory. Mr. Telano stated that the only issue found was regarding for-payment-only purchases (FPOs) which we find at all of the sites. Ms. Youssouf asked him to explain what does that mean? Mr. Telano stated that its invoices being paid before a purchase order is developed and generated.

Ms. Youssouf asked if we are paying bills before we order something. To which Mr. Telano responded no.

Ms. Zurack added that there are certain items that don't flow through the normal procurement process. It's supposed to be used in only certain circumstances for example when we pay the City for a water bill.

Mr. Rogoff stated that a more likely example would be certain lease payments or service repairs. For reasons of encumbering funds, we issue requisition and purchase orders. What happens is, the department initiating the requisition forgets, it falls off the radar screen, a whole quarter goes by, there is no purchase order in place for that quarter. The invoice comes in after the fact and in order to pay the invoice, there must be a valid purchase order so accounts payable then has the mechanism against which to pay it.

Ms. Youssouf asked if there some kind of tickler that can be set up for those situations? To Mr. Rogoff responded that yes, there can be and looking back over a couple of years we issued memoranda to all department heads.

Mrs. Bolus asked how often does it happen? Mr. Rogoff answered that it happens too often and we go out and reinforce it with the department heads.

Ms. Youssouf asked if there could be tickler put in place. Mr. Rogoff said that it is a good point and that's what they'll do. Ms. Youssouf addressed Mr. Telano and asked him to check up on that and to let them know when that happens.

Dr. Stocker asked if this audit was done before the new purchasing procedure. Mr. Rogoff responded that in his response he takes the finding in the spirit it was given. He thanked Mr. Telano in terms of best practice. It used to be a requirement on OP 10-24 which no longer exists and has been superseded by the revised OP 100-5 which came in January. The Committee should know that there is no requirement on the books that requires the signing off on this. We reviewed the recommendation and accepted it.

Dr. Stocker stated that other people have pointed that out and asked him his thoughts about the new procurement operating procedure. Mr. Rogoff thanked him for the opportunity and said that it needs to be said that there has been a tremendous amount of work done on supply chain transformation in HHC which is an incredibly good thing. There has been so much change that the revised OP 100-5 is a welcome change. We've had OPs on the books that were anachronisms and a throwback to days of manual systems and had no basis in current operation.

Dr. Stocker added that when they read them they couldn't figure them out either. Mr. Rogoff stated that there has been an incredible amount of work, not only work quality but quantity work to turn the train around. It's a work in progress and we have to work with it and have been given the tools we didn't have before. If this audit was done today, it would come out as best practice and that's why we did not rebutt it.

Dr. Stocker asked him how he would change 100-5. Mr. Rogoff responded that he would need time to work with it. He said that in a constructive way he thinks we all have to very careful about what we think appears as if we have control is semblance of control which does not give controls and hinders. To encumber ourselves needlessly by saying it's too low so people have to get involved with levels that they should not have to. Let the systems do the work for you. The nature of the

business is to delegate, not to control but to empower, delegate and let the systems, particularly the current systems, do exactly what they are designed to do and do it very well.

Dr. Stocker said that they would appreciate any suggestions he may have and that he is not the first person to bring up the issue of control of FPOs.

Ms. Youssouf stated that she would love to hear his suggestions as well as the concept, not hinder but also to try to have controls just in case there is an outlier of nefarious behavior somewhere. Mr. Rogoff responded absolutely.

Dr. Stocker asked that what level of supervision he would use for FPOs. Mr. Rogoff said that they delegate, currently he is the one signing off, but his time could be used better. Since the finding was given in good faith, we take it seriously and we want to keep it at that level for now. The Corporation has a lot of best practices going on and we should adopt it at a corporate level and set a standard.

Ms. Zurack added that a requirement was put in OP 40-5 that executive directors sign FPOs because the principle was that it should be a very, very rare occurrence. She thinks that what this audit and this conversation are saying is that they should be a very, very rare occurrence. If authority is given at a much lower level in the organization the temptation to simply use FPOs where they were not meant to be used would increase.

Mrs. Bolus asked if it's going to be a rare occasion, should numbers be assigned for each facility. To which Ms. Zurack responded that this strategy should be corporate-wide, except where those circumstances FPOs are meant for zero. Probably through Breakthrough efforts, the hospital might be able to figure out how this never happens.

Mr. Rogoff stated that he thinks there are circumstances where they may not be able to avoid an FPO. Mrs. Bolus added that they have to be rare.

Ms. Zurack stated that both OP 100-5 and OP 30-5 allow a level of flexibility and reasonableness for those rare occurrences. If they become common occurrences they become a problem.

Mr. Martin added that he thinks everybody is right in a sense. He does not think the executive director needs to be saddled with the FPO and that's his personal feeling having been there beforehand. He also said that Ms. Zurack is right, that if it's done right they should be rare occurrence. In a number of different facilities they have an encumbrance committee where all of the different purchase orders go through. At least it gives you a sense of the transit. It's another idea of what you may be able to do to help resolve the issue.

Mr. Telano continued by stating that the last report was a purchasing audit at Woodhull. He asked the representatives to step up to the table. In the interim Mr. Martin congratulated Mr. Rogoff on having only one outlier.

The Woodhull representatives introduced themselves as follows: Jackie Gelly, Network Director of Purchasing and Zaheer Baig, Controller.

Mr. Telano stated that two primary issues were noted in this review. Once again FPOs and the other issue were the credits related to goods that were returned. The credits were not being taken because accounts payable was not being notified about those items. Management took the necessary steps and instituted policy to insure that it doesn't occur anymore. He believes the credits were processed. Ms. Gelly said that there were not processed, that they are working on that because they only received the POs on Monday, but immediate action was taken.

Ms. Youssouf asked what kind of change they had to make. Ms. Gelly responded by saying that she took over the responsibility of the Returned Goods Advices. It was under the leadership of materials management, but it's now under the leadership of purchasing. They have developed internal policies which hold four departments accountable, Purchasing,

Materials Management, RNs and Receiving. A meeting is scheduled for April 20th with all departments and requesters to inform them of the new policy.

Dr. Stocker asked if she had anything to add to the conversation in particular about PO 100-5. Ms. Gelly said that she totally agrees with her colleague Mr. Rogoff. She personally believes it's preventable and it should be special circumstances. The new operating procedure will allow them to do more and although they are not going back to traditionally blanket orders, she believes that if they have a blanket order that is itemized and have the description of when and how much, it will solve that problem.

Dr. Stocker addressed Mr. Telano and stated that it might be worth just auditing and wonders how much variation there is between facilities in number of FPOs, the total number and what they're about. Mr. Telano responded that he will look into that.

Mr. Telano continued with the audits in progress – some of these reports have been issued but due to timing he was not able to present them at this meeting. The Outpatient Revenue final report was issued and the follow-up audit at Sea View regarding the Representative Payee Accounts Social Security Income was also issued last week. The other audits listed are in various stages of review.

Dr. Stocker stated that GHX, the system and its implementation will be going to the Medical & Professional Affairs/IT Committee towards the end of the year and it would be useful to combine it with whatever the results of the audit are. Mr. Telano stated yes.

Mr. Telano continued by stating that on page 7 is the external audit, regarding the State Comptroller's audit of Overtime. After being silent for almost 20 months, they issued the final draft report in February 2012. The audit originally took place in the first quarter of 2010 and we had another exit conference with them just to re-familiarize ourselves with the issues and where they stood on things and also present our point of view. We sent out the responses to them on March 23<sup>rd</sup> and are waiting for the final report.

Mr. Telano stated that was the end of his report. Ms. Youssouf thanked him and turned it over to Mr. Wayne McNulty for a compliance update.

Mr. McNulty saluted the Committee and HHC staff. He began his presentation with a staffing update. Mr. McNulty informed the Committee that the Office of Corporate Compliance ("OCC") was required, on an annual basis, to submit a staffing plan to the President for review and approval. He continued by pointing out that the OCC table of organization/staffing plan attached to the Corporate Compliance Report ("Report") was approved by Mr. Aviles earlier in the week. He informed the Committee that the vacant Associate Compliance Officer ("ACO") position in the North Bronx Healthcare Network was filled, noting that the selected candidate will start on April 16<sup>th</sup>. Mr. McNulty stated that there was one vacant position in the Southern Brooklyn/Staten Island Network; he commented that the recruitment process for this position had begun. Mr. McNulty further commented that he anticipated filling this position in mid-May.

Mr. McNulty then continued with item number two on the Report agenda -- the OCC Workplan. He reminded the Committee that at they were previously informed that the OCC was performing risk assessments on all of the calendar year ("CY") 2011 Workplan items. He stated that the OCC developed risk assessment and audit tools regarding these Workplan items. He further stated that the risk assessment and audit tools would be implemented by sending out question sets to the process owners and the expert owners of the corresponding business operations. Mr. McNulty anticipated that that by mid- April or towards the end of April his office would start to get responses back to the aforementioned tools. He provided that the level of risk associated with each item would be determined and plans for remediation would be initiated. Mr. McNulty informed the Committee that the Workplan items remained unchanged since the last Report to the Committee.



Dr. Stocker stated that in the survey of the Board it was asked if anybody wanted different input. He asked if we got any different input about questions. Mr. McNulty responded "no."

Mr. McNulty continued by moving to item number three (3) on the Report agenda - - the Public Authorities Accountability Act ("PAAA"). He stated that the OCC, the Office of Legal Affairs, and the Office of the Chairman had begun assessing HHC's compliance with PAAA. Mr. McNulty provided that PAAA governs the roles and responsibilities of board members and the board members' acknowledgment of their fiduciary duties and board member training. He added that PAAA also covers board committees and the creation of the Audit Committee, Finance Committee, and Governance Committee as well as the membership of those committees. He continued by stating that PAAA also requires that public authorities, such as HHC, to submit to the State Authorities Budget Office ("ABO") an annual report. He further continued by stating that, pursuant to the PAAA, HHC is required to place certain information on its public website for transparency purposes. He informed the Committee that attachment three (3) of the Report was an example of a risk assessment audit tool. He noted that this audit tool was crafted for compliance with PAAA. He concluded by stating that the risk assessment concerning PAAA compliance was coming to an end, highlighting that the findings at this juncture were favorable. He stated that a corresponding plan of correction would be implemented if the subject risk assessment revealed deficiencies.

Ms. Youssouf asked if he has to file this or something with the public authorities and when is it due? Mr. McNulty responded by explaining that there were certain items required to be filed by March 31<sup>st</sup>. With regard to these items, he stated that he discussed these items with the Department of Finance and such items have been filed. Mr. McNulty noted that other items required filing in September. Mr. McNulty explained that depending on the information item, there are different points in the year that filing is required. When required, Mr. McNulty told the Committee that the filing occurs through a web-based system called PARIS. Mr. McNulty further explained that basically every item requested on the list in PARIS must be filed in order to be in compliance. Mr. McNulty stated that he was informed that all information that was due on March 31<sup>st</sup> was filed (through PARIS).

Ms. Youssouf asked what he meant by informed. Mr. McNulty answered that he spoke to Danielle Koster in the Finance Department and that he and Ms. Koster went over every single item. He stated that Ms. Koster informed him that all information required to be submitted by (March) 31<sup>st</sup> would in fact be submitted. He stated that the ABO would be performing audits related to PAAA compliance. To prepare for these audits, he informed the Committee that he is preparing a binder of all the different PAAA requirements to ensure that HHC has evidence of compliance with every single PAAA provision.

Ms. Youssouf asked if he gets copies of everything from Finance. Mr. McNulty responded absolutely, everything on the PARIS website and HHC's website would be put into the aforementioned binder.

Ms. Youssouf asked if he gets both electronically and hard copies? Mr. McNulty said yes and continued by adding that he would collect evidence of: (1) board member and board member designee training; and (2) completion of board evaluations.

Mr. McNulty said that he will report back to the board and the Audit Committee at the next meeting as to the final outcome of the assessment.

Mr. McNulty moved to the next item on the Report agenda which was updating written policies and procedures. At the last meeting he informed the Committee that they were working on developing HHC's Principles of Professional Conduct

("POPC"). He provided that employees sign a pledge card when they are first hired. He commented that he planned to expand that practice by requiring employees to certify that they are aware of the POPC during annual compliance training. He elaborated that the POPC would be in the form of a policy and procedure that would outline HHC's commitment to ethical conduct and complying with all rules, laws and regulations, not only in the area of fraud and abuse, but also equal employment, record management, patient confidentiality, employee confidentiality, employee safety, and conflicts of interest. He pointed out that Attachment six (6) of the Report was an interim draft POPC. Mr. McNulty anticipated that the POPC would be reviewed and finalized by the next Committee meeting.

Mrs. Bolus asked a question pertaining to item three on the Report -- PAAA compliance. Mrs. Bolus requested that when HHC posts the salary of the Board Members and members of the executive staff making more than \$100,000 annually, such posting should reflect that she is not compensated for her Board Member services. Ms. Youssef and Mr. McNulty acknowledged Mrs. Bolus's point on the matter. Mr. McNulty reminded the Committee that the subject disclosure requirement was language contained in the State's guidance but indicated that he would highlight those individuals on the list who do not earn an HHC salary.

Ms. Youssef, turning back to the POPC, asked if HHC had a POPC before. Mr. McNulty responded that although a POPC existed in a pledge card form, supplementation of the same was necessary. He continued by stating that HHC has a Code of Ethics that applies to HHC affiliates and members of the community advisory board and auxiliaries. He further continued by stating that HHC is governed by Chapter 68 of the New York City Charter, which applies to board members, officers, and HHC employees. Notwithstanding the aforementioned, he advised the Committee that HHC does not have a code of conduct or professional code of ethics as required under the 1998 OIG (Department of Health and Human Services Office of the Inspector General) guidelines.

Ms. Youssef asked if it has to be distributed to everybody or is it accessed via the internet. Mr. McNulty responded that the POPC has to be on the Compliance intranet at the minimum, and, pursuant to PAAA, possibly HHC's public website.

Mr. McNulty, moving to the next item on the report, informed the Committee that the Executive Compliance Workgroup formed a Subcommittee on Compliance and Quality. He informed the Committee that the subject Subcommittee was scheduled to meet for the first time later that day. Mr. McNulty went on by describing the member constitution of the Subcommittee: the Corporate Compliance Officer; the Chief Medical Officer; the Deputy Chief Medical Officer; the Chief Nursing Officer, the Corporate Risk Manager, the General Counsel; and the Senior Assistant Vice President for Quality Management. He explained that the Subcommittee would examine compliance issues that touch the areas of quality, medical necessity and credentialing, and patient documentation. He added that compliance in these areas were required under New York State Mandatory compliance program regulations and were also recommended in the OIG guidelines.

Mr. McNulty continued by discussing the CY 2012 OIG Workplan. He informed the Committee that the OCC would be performing a risk assessment and mitigation plan with regard to new items present on the OIG plan. He stated that his office was targeting May for completion of identifying the actual items that would be looked at in 2012. He anticipated that approximately 15 to 20 items would undergo the risk assessment process for determination for inclusion on the HHC CY 2012 Workplan.

Mr. McNulty turned to item number seven (7) on the Report agenda. He told the Committee that compliance training of HHC staff and personnel was switched to the PeopleSoft System; thus, use of an outside vendor for the same was no

longer required.. Mr. McNulty continued by providing that the first module created was the physicians' module, which he stated should be ready for use in mid-April. He stated that other training modules would probably be created including modules for the staff who are involved with billing and a module for the Board of Directors.

Mr. McNulty moved along by discussing item number eight (8) on the Report agenda -- the implementation of nursing facilities compliance programs. He asked the Committee to take a look at Attachment "7" of the report, which highlighted that the OIG put in its work plan that it would be looking at whether or not nursing homes are complying with OIG 2000 and 2008 compliance guidance documents. Mr. McNulty told the Committee that the OCC was doing an assessment of HHC's nursing facility compliance with those specific guidance documents. He reminded the Committee that individual nursing facility compliance committees have convened. He stated that the OCC met with Coler-Goldwater and it went very well. He stated that the OCC would meet with all the other nursing facilities throughout the Corporation and the focus will be on not only risk assessments on the work plan but with the OIG 2000 and 2008 guidance documents.

Ms. Youssouf asked if he finds that this policy is very different than what is already being done. Mr. McNulty answered that there was some overlap with the written policies and procedures that already being worked on. But he added that the nursing facility guidance documents are very particular in nature and its scope was much broader than the hospital guidance documents from 1998 and 2005.

Mr. McNulty continued by discussing the next item on the agenda - - HHC's Code of Ethics and HHC's Bylaws with the regard to conflicts of interests. He pointed out that the Code of Ethics was inconsistent with the Bylaws. He explained that the Bylaws provide that Chapter 68 of the New York City Charter covers all employees of HHC and that the Code of Ethics only covers the affiliates and members of the community advisory boards and the auxiliaries. As a result, Mr. McNulty stated the Code of Ethics would be amended to reflect the same consistent with HHC's Bylaws.

Mr. McNulty continued with the last item on the Report agenda, which was the monitoring of excluded providers. Mr. McNulty informed the Committee that he had no self-disclosures to report to the Committee. He did, however, inform the Committee that the OCC learned in February that a nurse employee at Woodhull was on the Office of the Medicaid Inspector (OMIG) list of excluded individuals. He explained that the nurse was placed on the list on 2/8/2012 and was discovered on 2/28/12. He noted that the nurse was separated from services on the 29<sup>th</sup> of February. He informed the Committee that the OCC was currently examining the extent of effective claims to determine whether self-disclosure and repayment to the appropriate government authorities were necessary. Mr. McNulty provided that the OCC had a 60-day window to make any necessary reports and repayments to government authorities.

Mr. McNulty stated his report was concluded.

Ms. Youssouf asked if there were any questions.

Mrs. Bolus asked if our new way of vacancy control board examining all history of people coming to apply for work would have picked up that nurse beforehand. Mr. McNulty responded no. Mr. McNulty stated that HHC's employment application requires applicant's to certify whether they are on the excluded provider list. He provided that each month the Information Technology department reviews the list of all employees and matches this list with the excluded provider lists of OIG, OMIG, and the General Service Administration ("GSA") found on their respective websites. Mr. McNulty stated that once an initial

match is found, the OCC proceeds by verifying the match by reviewing the social security number pertaining to the match to make sure an exact match is present.

Mrs. Bolus asked that if according to the date, is it picked up within five days? Mr. McNulty responded that it took two (2) weeks.

Mrs. Bolus asked why he thinks we will be penalized. Mr. McNulty responded that sometimes, if only a short period of time has lapsed, government authorities don't ask for any money back. He stated that for a two-week period the government authorities would probably ask HHC to return some money back if the subject nurse was providing services that HHC billed for.

Mrs. Bolus asked how often the list is reviewed. Mr. McNulty answered that IT looks at the OIG and OMIG list every 20<sup>th</sup> of the month.

Mrs. Bolus stated that that's why two weeks got in there. Mr. McNulty said yes and added that the list provided by IT is a comparison. He expanded by stating that if there were twenty (20) individuals who matched the names on the government excluded provider lists all of these individuals would have to be matched by entering their respective social security numbers because OIG will not give IT the social security numbers of individuals on the excluded providers list. Mr. McNulty commented that in the future the OCC would look to utilize a vendor that is experienced in providing this type of service; he further expanded by stating that the utilization of such a vendor would undoubtedly allow OCC to know about excluded providers at an earlier date.

Ms. Youssouf asked if the vendor would be doing this on an ongoing basis. Mr. McNulty responded yes.

Ms. Youssouf thanked them for the report.

Then she asked if there was any old or new business. Hearing none, she asked for a motion to adjourn.

The Board seconded. The meeting adjourned at 1:18 pm.

Mrs. Bolus stated that today was a day they had so much information that it was fantastic, she thanked everyone for a marvelous job and she appreciates it.

Submitted by,  
Emily A. Youssouf  
Audit Committee Chair



HEALTH CARE

**New York City Health and Hospitals Corporation**

Presentation of the 2012 Audit Plan to the Audit Committee

June 7, 2012

AUDIT

# Overview of 2012 Audit Plan

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# Client Service Team



The following is a list of the key personnel on the audit engagement team:

## **KPMG Core Audit Team:**

- | Maria Tiso– Client Care Partner \*
- | Jim Martell– Lead Audit Engagement Partner \*
- | Paul Merrill – Concurring Review Partner \*
- | Camille Fremont – Engagement Senior Manager \*
- | Erin Murray – Engagement Manager \*
- | Ryan Santonacita – Lead Engagement Senior \*

## **KPMG Supporting Personnel:**

- | Kirk Kamien – Reimbursement Senior Manager \*
- | John Boucher – Information Risk Management Partner \*
- | Anthony La Rocca– Information Risk Management Manager \*
- | Rob Robinson – Exempt Organizations Tax Senior Manager \*
- | Robert Mishler – Actuary Postemployment Benefit Obligation \*
- | Various staff members

## **Watson Rice LLP \***

## **Bronner Group LLC \***

## **Other Professionals:**

- | Staff member from the Corporation’s Internal Audit Department

\* Represents continuity from the prior year 2011 client service team.

# Deliverables



In addition to the audit of the Corporation's financial statements, KPMG will issue the following:

- | Attestation reports on RHCF-4's, AHCF's and LTHHC cost reports
- | Debt covenant compliance letters, as required
- | Auditors' reports on the Corporation's compliance with subdivisions (9) and (12) of section 2807-k of the New York State Public Health Law relating to bad debt/collection efforts in compliance with regulations re: participation in the State Bad Debt and Charity Care Pools
- | Statutory audited financial statements of the HHC Insurance Company, Inc (12/31/12)
- | Statutory audited financial statements of the MetroPlus Health Plan (12/31/12)
- | Management letter on control deficiencies and operational matters noted during our financial statement audit



# Objective of an Audit



- | The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with Generally Accepted Accounting Principles (GAAP)
- | An audit of financial statements is designed to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement
- | Reasonable assurance relates to the accumulation of sufficient appropriate audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole

# Audit Responsibilities



## Responsibilities Under Auditing Standards Generally Accepted in the United States of America

### Management's Responsibility

- | Adopting sound accounting policies
- | Establishing and maintaining internal control
- | Fairly presenting the financial statements in conformity with generally accepted accounting principles

### KPMG's Responsibility

- | Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- | Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants
- | Complying with the ethical standards of the New York State CPA society and state board of accountancy
- | Planning and performing an audit with an attitude of professional skepticism
- | Communicating all required information to management and the Audit Committee

### Audit Committee

- | Role is one of oversight and monitoring
- | Must rely on senior management, internal auditors and external auditors
- | Appoint, approve and review external audit function

# Financial Statement Audit Timetable

| January – February 2012  | April – June 2012  | June – July 2012   | August – September 2012   | October 2012   | November 2012  |
|--|--|--|---|--|--|
| <ul style="list-style-type: none"> <li>• Hold meeting with management to discuss interim site visit approach</li> <li>• Interim site visits</li> </ul> | <ul style="list-style-type: none"> <li>• Hold planning meeting with internal audit</li> <li>• Hold planning meetings with management</li> <li>• Determine the audit strategy</li> <li>• Perform analysis of business issues and identification of audit focus areas</li> <li>• Hold audit team planning meeting</li> <li>• Review of December 31, 2011 internal financial statements</li> <li>• Communicate with management regarding IT related procedures</li> <li>• Present 2012 Audit Plan to Audit Committee</li> <li>• Test IT General Controls</li> </ul> | <ul style="list-style-type: none"> <li>• Identify financial statement and assertion level fraud risks</li> <li>• Perform test of operating effectiveness of controls</li> <li>• Perform substantive audit procedures relative to interim account balances, including review of third parties as of 3/31/2012 and patient accounts receivable valuation utilizing computer assisted audit tool</li> <li>• Review of non-routine transactions through July</li> <li>• Perform preliminary SAS 99 fraud meetings</li> <li>• Complete interim testwork at various Corporate facilities and Central Office</li> </ul> | <ul style="list-style-type: none"> <li>• Final phase of year-end audit to begin 7/30/2012 through 9/14/2012</li> <li>• Perform substantive audit procedures</li> <li>• Perform analytical procedures to roll forward interim account balances to year end</li> <li>• Update SAS 99 fraud meetings</li> <li>• Financial statement audit closing meetings with management</li> <li>• Form audit conclusions</li> <li>• Discuss key issues and deficiencies identified with management (provide draft management letter)</li> <li>• Attend Audit Committee meeting and review draft financial statements and management letter and perform required communications</li> <li>• Finalize and issue final financial statements and audit opinion</li> </ul> | <ul style="list-style-type: none"> <li>• Issue debt covenant compliance letters</li> </ul> | <ul style="list-style-type: none"> <li>• Present final management letter to Audit Committee</li> </ul> |

# Audit Matters



We identify audit matters that could have a material impact on the Corporation’s financial statements. We then consider these matters when developing our audit approach and tailor our procedures to address these risks.

| Critical Audit Areas   | Significant Areas  | Non-Routine Transactions  | Information Technology Matters  |
|--|--|---|---|
| <ul style="list-style-type: none"> <li>  Revenue recognition (fraud risk)</li> <li>  Valuation of patient accounts receivable</li> <li>  Valuation of third-party and pools receivables/liabilities</li> <li>  Debt compliance/Indebtedness classification</li> <li>  Going concern/Liquidity</li> </ul> | <ul style="list-style-type: none"> <li>  Patient accounts receivable (completeness, existence and accuracy)</li> <li>  Accounts payable, accrued expenses and OTPS expenses</li> <li>  Capital assets</li> <li>  Personal service related costs and accruals</li> <li>  Commitments and contingencies</li> <li>  Fraud or legal consideration</li> <li>  Related parties</li> <li>  Post employment benefit obligation, other than pension (OPEB)</li> </ul> | <ul style="list-style-type: none"> <li>  Implementation of new accounting pronouncements, if applicable (see slide 15)</li> <li>  North General transaction</li> <li>  Physician Affiliate Group of New York (PAGNY) consolidation</li> </ul> | <ul style="list-style-type: none"> <li>  General information technology environment</li> <li>  Review and test IT access controls</li> <li>  Review and test the controls over changes to the IT system</li> <li>  Verify that the Corporation’s detection controls are functioning as intended</li> <li>  Inform management of any performance improvement observations</li> </ul> |

# Heat Map by Audit Area



|   | Corporate Wide    |
|---|-------------------|
| Third-party receivables / reserves  | M, K <sup>^</sup> |
| Timing / cutoff   | K                 |
| Significant transactions / or changes in operations effecting financial reporting | M, K              |
| Bad debt reserves   | M, K <sup>^</sup> |
| Contingencies and other accruals  | M, K              |
| Affiliations  | K, I              |
| Revenue cycle   | M, K, I           |
| Materials management cycle  | M, K, I           |
| Financial reporting cycle   | M, K              |
| Information processing through and integration between IT systems                 | M, K, I           |
| Grants (Service & Research)   | M, I              |
| Facilities (Construction Management)  | M, I              |
| Cash and investments  | M, K, I           |
| Property, plant and equipment   | M, K, I           |
| Debt  | M, K              |
| Human resources cycle   | M, K, I           |

|                  |                            |
|------------------|----------------------------|
| M=Management     | <u>Level of Audit Risk</u> |
| K=KPMG           | High-Red                   |
| I=Internal Audit | Moderate-Blue              |
|                  | Low-Green                  |

<sup>^</sup> Represents a review of monitoring and oversight at the Corporate Office

# Planned Use of Minority Business Enterprise (MBE) / Women's Business Enterprise (WBE) / Internal Audit

KPMG plans to utilize the MBE, WBE and internal audit in the following areas:

|                                   | MBE | WBE | Internal Audit |
|-----------------------------------|-----|-----|----------------|
| Site visits                       | X   |     | X              |
| Grants receivable / grant revenue | X   |     |                |
| Capital assets                    | X   |     |                |
| Investments                       |     | X   |                |
| Cash                              |     |     | X              |
| Payroll                           |     | X   |                |
| Debt / deferred financing         |     |     | X              |
| Accounts payable / OTPS           |     |     | X              |



## KPMG's Responsibilities Related to Fraud

- | Our responsibility is to conduct the audit in accordance with generally accepted auditing standards and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error
- | Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements are detected

# General Considerations – Fraud Approach (How Risks are Addressed)

A stethoscope is visible in the background of the slide, with its chest piece and tubing extending across the top right area.

## Identification of fraud risks

Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level

Discuss among the audit team the susceptibility to fraud

Inquire of management, audit committee and others

Evaluate broad programs/controls that prevent, deter and detect fraud

## Response to identified fraud risks

Evaluate design of mitigating controls

Test effectiveness of controls

Address revenue recognition and risk of management override of controls

Perform specific substantive audit procedures (incorporate elements of unpredictability)

Evaluate audit evidence

Communicate to management and audit committee





## Planned SAS 99 Fraud Interviews

**The following SAS 99 fraud interviews will be scheduled for the annual audit ending June 30, 2012:**

Emily Youssouf - Audit Committee Chair

Dr. Stocker - Chairman of the Board

Alan Aviles - President and CEO

Marlene Zurack - Senior Vice President, Finance and CFO

Wayne McNulty - Corporate Compliance Officer

Ross Wilson – Senior Vice President, Quality and Corporate Chief Medical Officer

Jay Weinman - Corporate Comptroller

Salvatore Russo - General Counsel

Chris Telano - Chief Internal Auditor and Assistant Vice President

Maxine Katz – Senior AVP, Revenue Management

\* Others may be identified during the course of the audit

# Other Considerations

## Liquidity

The Auditor's Responsibility under Statement on Auditing Standards No.59

- ▮ The auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time....The auditor's evaluation is based on knowledge of relevant conditions and events that exist at or have occurred prior to the completion of fieldwork.
- ▮ The auditor's considerations should be based on knowledge of the entity, its business, and its management, and should include (a) reading of the prospective financial information and the underlying assumptions and (b) comparing prospective financial information in prior periods with actual results and comparing prospective information with the current period results achieved to date.

**The following are indicators of a going concern based on the December 31, 2011 internal financial statements:**

|                                | <u>YES</u> | <u>NO</u> |
|--------------------------------|------------|-----------|
| Working Capital Deficiency     |            | X         |
| Net Asset Deficiency           | X          |           |
| Loss From Operations           | X          |           |
| Operating Cash Flow Deficiency |            | X         |
| Debt Default                   |            | X         |



# Other Considerations (continued)

## Liquidity (Continued)

### As a component of our audit KPMG will obtain information about management's plans

- | 2013 budgets and cash flow projections
- | Written representation from management regarding plans
- | Board and Finance committee meeting minutes
- | Restructuring reports and findings, if applicable

### Additionally, KPMG will review the

- | 2012 budget to actual results (reliability of budgeting process)
- | Working capital, days in accounts payable and cash flows from operations (liquidity)
- | Continued support from the City of New York

# New Accounting Pronouncements



## The following are GASB's related to emerging industry issues:

- I GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
  - Effective for periods beginning after December 15, 2011 – earlier application is encouraged
  - Brings GASB authoritative accounting and financial reporting literature together in one place and eliminates the need to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of guidance
  - Incorporates certain accounting and financial reporting guidance that is included in FASB and GASB pronouncements issued on or after November 30, 1989 into the GASB's authoritative literature
  
- I GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
  - Effective for periods beginning after December 15, 2011
  - Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting financial statement elements, which are distinct from assets and liabilities
  - Improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed



## Current Perspectives – Top Ten Key Industry Risks

Our view is that there is an accelerating transformation of the healthcare industry, particularly on a local market basis in anticipation of a new economic model of paying for healthcare despite the “institutionalized uncertainty” in Washington. The risk and reward revolves around mitigating and managing key risks:

1. An extremely high degree of difficulty in developing five year forecasts and capital plans
2. The timing and impact of the resolution of uncertainties at both Federal and State levels
3. Whether current utilization trends are permanent or just a timing difference
4. The velocity of local market transformation
5. The ability to operationalize new risk-bearing arrangements with tools, technology, talent, and new metrics
6. Insuring the integrity of clinical reporting
7. A focus on inputs versus outputs
8. The complexity of new compliance regimes driven by the American Recovery and Reinvestment Act (ARRA) as well as ongoing enforcement programs and unfunded mandates
9. Readiness for Reform 2.0
10. Reallocating assets for accountability

A blue stethoscope is positioned at the top of the slide, with its chest piece on the left and the earpieces extending towards the right. The background is a light blue gradient.

## Current Perspectives – Top Ten Key Audit Committee Issues

1. Stay focused on the audit committee's top priority: financial reporting and related internal control risk
2. Continue to monitor accounting judgments and estimates, and prepare for accounting changes
3. Consider whether the financial statements and disclosures tell the Corporation's story
4. Focus on the Corporation's plans to grow and innovate
5. Reassess the Corporation's vulnerability to business interruption, and its crisis readiness
6. Understand how technology change and innovation are transforming the business landscape – and impacting the Corporation
7. Focus on asymmetric information risk and seek out dissenting views
8. Consider the impact of the regulatory environment on compliance programs and business plans
9. Understand the company's significant tax risks and how they are being managed and modeled
10. Monitor the Public Company Accounting Oversight Board's (PCAOB) initiatives on auditor independence and transparency, and consider the implications for the audit committee



# Audit Committee Resources

## KPMG's Audit Committee Institute (ACI) - Established in 1999

- KPMG's commitment to communicating with Audit Committee members and other participants in the financial reporting process
- Audit Committee Insights – [www.kpmginstitutes.com/aci](http://www.kpmginstitutes.com/aci)
- Audit Committee Quarterly
- Audit Committee Institute Roundtables

## Healthcare Publications

- Healthcare Business Briefing
- Washington Healthcare Update
- KPMG Flashpoint on Healthcare Reform
- KPMG Insiders: Healthcare – [www.kpmginstitutes.com/healthcare-pharma-institute](http://www.kpmginstitutes.com/healthcare-pharma-institute)