

Tompkins County Municipal Health Insurance Consortium
Audit Committee Meeting
Thursday, February 21, 2013
Old Jail Conference Room

Agenda

1. Call to Order
2. Approve Meeting Notes from January 17, 2013 meeting
3. Review Charter Samples
4. Overview of External Audit Function, Contract, and Selection
5. Update on New York State Department of Financial Services Audit
6. Topics for future discussions:
 - Become Familiar with current audit by NYS Financial Services
 - External Audit function, contract and selection
 - Internal Controls
 - Reports to BOD
 - Oversee development of Code of Ethics and Conflict of Interest Policy
 - Develop RFP for various audit services
7. Other Items
8. Adjournment

Meeting Notes
Greater Tompkins County Municipal Health Insurance Consortium
Audit Committee
January 17, 2013 - 3:00 p.m.

Attendees: Steve Thayer, Judy Drake, Chantalse DeMarco (arrived at 3:05 p.m.) David Squires, Jerry Mickelson, Michelle Pottorff
Excused: Chuck Rankin, Laura Shawley

Call to Order

Mr. Thayer called the meeting to order at 3:00 p.m.

Acceptance of Minutes

The minutes of December 10, 2013 were accepted as presented. In the future they will be formally approved.

Mission Statement

Mr. Thayer asked for comments on the following mission statement that was included in the agenda packet. The mission statement was accepted as written.

“The purpose of the Audit Committee is to oversee the integrity of the Consortium’s financial statements, the compliance with accounting and auditing requirements, and the performance of the internal and external auditors. We shall assist and advise the Consortium’s Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, internal controls, performance of external and internal auditors, and compliance with various laws and regulations. The Audit Committee shall review all contracts for auditor and non-audit services provided by the independent public accountants and recommended action to the Board”.

Mr. Thayer also distributed copies of sample audit committee charters and asked members to review prior to the next meeting.

In response to a question concerning what other bodies have an audit committee it was stated the City has no formalized audit committee structure, the County has an audit committee that meets annually, and the BOCES Consortium meets as a committee of the whole to review the audit. Mr. Little said the Article 47 Plan they work with does not have an audit committee.

Discussion of Internal Audit Function

Mr. Squires distributed a sample document for purposes of explaining the billing process and said all of the payments are handled by the County’s Finance Department. Christine Bednar is the staff person who maintains all of the records; she has access to the bank accounts but does not have authority to issue checks. The County utilizes a remote deposit device; therefore, there are no direct visits to a bank unless she is out. In those cases Mr. Squires would make a deposit. The majority of bills are paid through electronic transactions.

He said there is not a formalized general ledger system, everything is maintained manually on Excel spreadsheets by municipality. He spoke of the difficulty in keeping track of subscribers within the pool and said everything is based on the contract and charge from Blue Cross. It is a problem right now because Excellus is constantly changing groups and it makes it difficult to distinguish which employees are in each of the groups, particularly in the City.

Mr. Squires said another troubling issue is that some municipalities have ancillary benefits – vision, life insurance, disability, and dental and these are billed separately. The exposure with the billing is that it is always using information from the prior period and if there are a lot of changes, the Consortium's credit has the burden of overpayment or underpayment. The municipality must make the adjustment based on the billing.

Ms. Drake asked how Mr. Squires is informed of someone who is added and whether there is an adjustment as a result of this. He said Ms. Bednar sees a change in the count from the previous month and is able to tell whether there is an adjustment or not. He said the County receives a separate bill for every group and it provides the name of the subscriber and it has to be converted separately from an invoice to a premium. Therefore, he said they use the census counts and apply the premiums that have been established for that census. In terms of reconciling, they keep a receipt ledger that is reconciled against the bank account and then is entered into a spreadsheet that tracks income by municipality.

Mr. Little said it is very important to the Plan to make sure that municipalities get billed correctly for the number of subscribers. Ms. Drake said with Medco, the former PBM (Prescription Benefits Manager) municipalities had the ability to go online to see subscribers but that is no longer possible with ProAct, the current PBM. It was stated they are going off the information that Excellus has.

Mr. Squires distributed a sample ledger sheet and said there is not a lot of activity as far as disbursements. His office tracks disbursements by month by entity and allocate by month the administrative fee for medical and prescription drug. The most difficult is the Stop Loss because it is based on covered lives. They (Highmark) just began a new practice where the Consortium goes into their system and enters in covered lives for each month and they issue a bill based on that.

Rebates are distributed throughout the billing and are reflected as credits in the billing. There is a separate bill that comes for the Rx administrative component which is based on the number of drugs prescribed by group. He said that is based on the number of lives and is pretty consistent at about \$7,000 per month. Every two weeks he receives a bill and a summary that breaks out the entire bill.

Claims invoices identify which contract to charge and allocate to. It's the same with the Excellus billing, which Mr. Squires receives weekly. Some of the Excellus bills will have covered lives charges added to particular groups. He said there is a problem there because of all of the platform changes and not every platform charges at the same time. There are some called AEA expenses that were being charged out of one platform and not out of others. Excellus bills are paid in about a week and drug bills are due within the week. Bills range from as high as \$450,000 for one week to as low as \$140,000 per week.

Consortium Audit Committee
January 17, 2013

Lastly he showed how Stop Loss payments are credited. He said Stop Loss is approximately \$35,000 per month and noted it will go up because the Consortium exceeded its amount in 2012. Mr. Little said he will provide the Bonadio Group with information on what Stop Loss payments came in that were attributable to claims paid in 2012.

With regard to staff, Mr. Squires said the Consortium pays half of Ms. Bednar's salary. She spends this time primarily on the billing functions. He noted that other than himself being available to make deposits, there is no back-up staff to perform these responsibilities. Ms. DeMarco asked if there are written procedures for these duties. Mr. Squires said he has an understanding of the duties involved but there is not written documentation. Mr. Little suggested that Ms. Bednar to develop a written outline of the procedures by task. Mr. Thayer suggested cross training would also be good idea.

Ms. Pottorff said one of the items requested by the auditors this week was a listing of all employees covered by the Consortium by municipality as of December 31, 2011. She asked if there is a listing by municipality other than the list provided by Excellus that has been provided to the auditor. Mr. Squires said the administrative billing includes subscribers by municipality and that is the only listing. This is the basis for the billings. There is not a database that currently exists that would provide this information. Ms. Drake said from the discussion, she thinks the creation of some databases would be helpful and others present agreed.

Mr. Thayer said at some point there should be an audit done on the Excellus side to make sure claims are proper and legitimate. Mr. Little said the auditor will be doing this as well.

Update on NYS Audit

Mr. Little reported he met with the auditor and provided electronic copies of information and the auditor was very pleased with the amount of effort and time that was given to her. Mr. Thayer said he also met with her and she has some outstanding information requests of which mostly are being handled by Mr. Locey.

Ms. Drake asked that Mr. Barber be asked what the cost of the audit is expected to be and what that cost covers.

Next Agenda Items (February 21, 2013)

The following items will be included on the next meeting agenda:

- Overview of External Audit Process
- Approval of Minutes
- Review of Charter samples

Adjournment

The meeting adjourned at 4:20 p.m.

Appendix II: Sample audit committee charter

On behalf of the board, the audit committee is charged with receiving reports on:

- the financial condition of the organization,
- the risks faced by the organization in achieving its objectives, and
- the procedures that appropriately mitigate the risks to the organization's financial health and reputation.

The audit committee shall review with the external and internal auditors the financial statements, the financial reporting process, the system of internal controls, the audit process, and the organization's monitoring of compliance with laws and regulations. The audit committee shall report this information to the board.

In addition, the audit committee shall provide its recommendations for action to be taken by the board and management in order to strengthen the organization's controls, compliance procedures and financial reporting process.

The audit committee shall monitor management's progress in responding to the internal and external auditors' findings.

Composition

The audit committee shall be composed of no fewer than three and no more than five board members. No member of the audit committee shall be an officer or employee of, or receive any compensation from, the organization. The board treasurer may not serve on the audit committee. The president, executive director or CEO shall be an ex officio non-voting member of the audit committee but excluded, along with other management officials, when the audit committee is in executive session. At least one member shall serve as the financial expert, defined as an individual professionally knowledgeable in business management and financial reporting. Ideally, the financial expert shall have specific experience with a similar organization.

Roles and responsibilities

Internal control

- Assuring that management is setting the appropriate tone in communicating the importance of internal controls and in establishing policies and procedures to mitigate risk
- Determining whether internal control recommendations made by internal and external auditors have been implemented by management
- Making certain that the internal and external auditors keep the audit committee informed about fraud, illegal acts, deficiencies in internal control and other audit-related matters
- Determining which aspects of internal control and compliance procedures are being tested annually by the internal and external auditors
- Understanding the nature of significant deficiencies and material weaknesses reported with the financial statements and reportable findings under *Government Auditing Standards*

General

- Reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understanding their impact on the organization's financial statements
- Reviewing significant risks and exposures and the plans to minimize them

Annual financial statements

- Reviewing the annual financial statements and related footnotes and assessing whether they reflect appropriate accounting principles
- Reviewing the MD&A disclosures and concluding as to their reasonableness based on the audit committee's knowledge of the organization
- Reviewing the management letter and monitoring the organization's compliance with its recommendations
- Ascertaining whether the internal and external auditors have communicated issues and concerns to each other for appropriate follow-up and action
- Verifying that the external auditors communicate all matters to the audit committee as required by their professional standards
- Reviewing the IRS Form 990 and all of its disclosures, especially those regarding executive compensation, fees paid to vendors, activities unrelated to the organization's exempt purpose, and transactions with related entities

Compliance with laws and regulations

- Reviewing the effectiveness of the organization's system for monitoring compliance with laws and regulations
- Satisfying itself that all regulatory compliance matters have been considered in the preparation of the financial statements

- Reviewing the findings of any significant examinations by regulatory agencies
- Reviewing any state funding and cost reports filed

Internal audit

- Ascertaining that the organization has the appropriate structure and staffing to carry out its internal audit responsibilities effectively
- Reviewing and approving the annual internal audit plan as recommended by the director of internal audit based upon a comprehensive risk assessment
- Receiving and acting upon the reports presented by the director of internal audit
- Evaluating the effectiveness of internal audit personnel, including the director of internal audit
- Concurring in the appointment, replacement, reassignment or dismissal of the director of internal audit

External audit

- Selecting and retaining the organization's external auditors
- Approving the external auditors' fees
- Reviewing and approving the external auditors' proposed audit scope and approach
- Reviewing the performance of the external auditors and recommending their retention or discharge

- Reviewing and confirming the external auditors' assertion of their independence in accordance with professional standards
- Reviewing and approving the engagement of the external auditors to perform services — including consulting services — unrelated to the audit

Reporting responsibilities

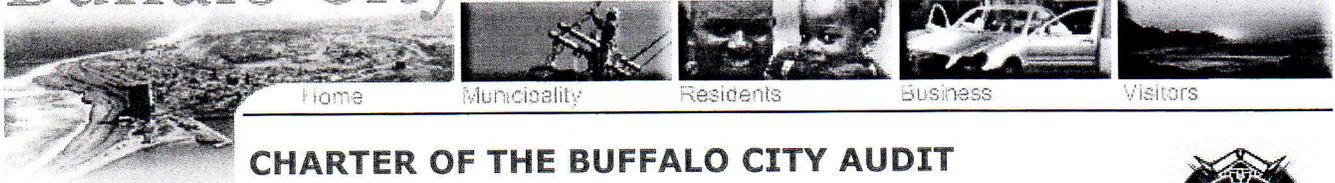
- Reporting to the board at least annually with appropriate recommendations regarding the audit committee's activities and any key external audit issues

Other responsibilities

- Meeting with the external auditors, internal auditors and management in separate executive sessions at least annually
- Confirming that significant findings and recommendations made by the internal and external auditors are received, discussed, and acted upon appropriately and promptly
- Reviewing and updating the audit committee charter
- Reviewing and approving the organization's conflict-of-interest, code-of-ethics and whistleblower policies

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CHARTER OF THE BUFFALO CITY AUDIT COMMITTEE

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1. INTRODUCTION

Management is required to continuously review current trends and best practice in relation to corporate governance.

As a part of management's plans to fulfil its obligations to demonstrate greater accountability and ensure a higher quality of service, an **Audit Committee** has been established.

This charter sets out the specific responsibilities delegated by Council to the Committee and details the manner in which the Committee will operate.

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2. RESPONSIBILITIES

2.1 Responsibilities Related to Management

The Committee shall assist management in carrying out its responsibilities in terms of legislation through :

- approving the Internal Audit strategy and operational plans and reviewing performance against them;
- discussing with the Manager: Internal Audit findings contained in reports and the response of management to major recommendations as well as the Manager: Internal Audit's views on the quality of internal control;
- considering the objectives and scope of any additional work undertaken by the Internal Audit Department to ensure there are no conflicts of interest and that independence is not compromised;
- meeting with the Manager : Internal Audit as deemed necessary;
- facilitating a risk management assessment to determine the material risks to which the institution may be exposed and evaluating strategy for managing those risks. (The strategy will be used to direct internal audit effort and priority);



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- reporting on the effectiveness of internal control in the annual report of the institution.
- considering the quarterly institutional performance management reports of the Manager: Internal Audit to the City Manager,
- reviewing the municipality's institutional performance management system based on the principles of economy, effectiveness and impact insofar as the key performance indicators and targets are concerned and making recommendations relating thereto,
- reporting at least twice during a financial year to the Council on all matters related to the performance management system and its operation



2.2 Responsibilities Relating to the Internal Audit Function

The Committee shall ensure that the Internal Audit Department performs their responsibilities effectively and efficiently through :

- reviewing the plans of the Internal Audit Department and ensuring that the plans address the high risk area;
- reviewing the audit results and action plans of management;
- supporting the independence of the Internal Audit Department by supporting communication with management;
- ensuring direct access by the Manager : Internal Audit to the Committee, the Chairperson of the Committee and City Manager.

2.3 Responsibilities Related to the External Audit Function by the Auditor General

The Committee shall :

- ensure that there are no restrictions or limitations placed on the auditors;
- in consultation with the Manager: Internal Audit review audit results and action plans of management;
- consider significant disagreements between external auditors and management;
- consider material unsolved accounting and auditing problems;
- ensure direct access by the external auditors to the City Manager.

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3. STRUCTURE OF THE COMMITTEE

3.1 Membership and Size of Committee

The Committee will comprise of five (5) members, with the majority of the members consisting of non-official members.

The Chairperson of the Committee will be appointed by the Council from one of the non-official members.

The Non-Official Members will be drawn from the following spheres of business :

- one from the accounting profession;
- one from the legal profession;
- one from the business/industrial sector.

The Official Council Members will consist of the following :

- 2 members to be appointed by the Executive Mayor

Ex-Officio Members will include :

- the City Manager;

- the Manager: Internal Audit;
- the Chief Financial Officer.

The following will be invited to all Committee Meetings :

- an invitee from the office of the Auditor General;
- anyone else whom the Committee wishes to invite.

The Director of Corporate Services shall provide secretarial support to the Committee and ensure that reports and minutes are circulated to all members of the Committee.

The members shall serve on the Committee for a period of two years renewable to a maximum of three years reckoned from the date on which the member actually assumes duty on the terms and conditions mentioned in the contract.

3.2 Meetings

A minimum of four ordinary meetings shall be held during a year (one meeting per quarter). Special meetings of the Committee may be convened as required.

The internal or external auditors may request a meeting if they consider that one is necessary.

The proceedings of all meetings will be documented and minuted.

Quorum

The quorum for meetings will be three members, two (2) from the non-official members and one (1) from the official members.

3.3 Reporting Procedure

The Chairperson of the Committee shall report to the City Manager as necessary and shall at least annually summarising the activities, recommendations and decisions of the Committee during the previous financial year.

The Committee may determine its own procedures in consultation with the Executive Mayor.

3.4 Powers

The Committee may, through generally accepted channels, require any official to appear before it to provide comment or answer any questions on any report or matter under consideration.

The Committee may if it deems it necessary report direct to the Executive Mayor or the Council in its own name.

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