

[BEGIN AUDIO]

COMMISSIONER JANKOWSKI: So that this will be here then.

We might as well get started then. Thank you, everybody, for coming and making a long day even longer.

But figured it was easier to hold the meeting now than to haul everybody to Main Street on another free altogether.

So here we are.

So we have the Agenda and turn it over to Mr. Frye to start walking us through.

BOB FRYE: Thank you, Mr. Chairman.

Our Agenda today is primarily a presentation of various audit reports presented by Kristen Clark from Bonadio & Company.

We have three audit reports dealing with the pension funds that are sponsored by the Authority. There are four pension funds sponsored by the Authority.

Three of the audits have been conducted by Bonadio.

The fourth will be conducted soon because that fourth pension fund has a plan here that ended on October 31st.

We couldn't really do it until now.

Second, a report on the single audits.

We are required to submit single audits for both federal grants and for state grants as well.

Thirdly, a report on Agreed Upon Procedures.

Then finally a Report on Medicaid Compliance, kind of a follow-up report to this committee from the item that we discussed first in July regarding the Authority's efforts to assess where it stands with respect to Medicaid Compliance Requirements.

And to establish a plan to become in compliance.

With that, I will turn it over to Kristen.

KRISTEN CLARK: Thank you. I think I know everybody, but I'm Kristen Clark just as a reminder of part of my engagement with Bonadio.

As you saw on the Agenda, we have just a lot of reports to go through.

I will go through them relatively quickly.

As Bob said, we are just about completed with the three pension audits.

Two of them have March 31, 2011 year ends, and the other has an April 30th year end, and I will go through the details on those.

But, we in the past had waited until all the plan information was ready for all four plans to do the audits.

But by that time, the three earlier ones were actually over a year old by the time we got to them.

So we worked with management and staff and got these three done earlier.

So we thought that was better for everybody so we can report on those.

That slide is a little different.

BOB FRYE: That is relative to the fund.

KRISTEN CLARK: Oh, okay.

All right, that's better thank you.

Am I losing my mind?

Okay.

First, I just wanted to go through what we call our Required Communications.

And everybody did get a packet.

I think everybody got a packet with drafts of all these three statements, and what we call our Required Communications document.

This is the first tab in the packet.

And I'm just going to through the PowerPoint rather than through the details, but if anybody has questions on the financial success, we can definitely go through those.

But we've got some summarized information to go through more efficiently.

So these are the items that were required by our profession to go through with the Audit Committee first of all to just remind you of our responsibilities on the U.S. Generally Accepted Auditing Standards.

And that is to say that as you know we don't audit every number in the financial statements.

We are giving an opinion on the Financial Statements, and their fair presentation in accordance with Generally Accepted Accounting Standards and Generally Accepted Accounting Principles based on the material and the concept.

So we don't look at every single transaction just as a reminder, and we all know that.

We plan our audits.

Planning is a significant part of the audit process, and we are required to let you know whether or not we had any deviations from our planning.

And we did not.

We knew that there were changes in terms of custodians, and we planned for that.

Everything went according to plan.

The plans didn't have any more accounting pronouncements that were adopted this year for the three that we've audited, and we don't expect that for the fourth one either.

As you know, with any financial statement there are certain estimates that are inherent in the financial statements.

And with pension plans the biggest estimates are related to actuarial exceptions.

So, the actuarial accrued liability, which is disclosed in the financial statements, is based on actuarial data, data provided to the actuary that they do their computations upon, and also that drives the funded status of the plan as well.

That says what are the assets relative to what we expect the liability to be?

As you would expect with pension numbers, those are the biggest estimates that are in there.

When you go through the Authority's financial statements and all the subs, there are different types of estimates, and I won't talk about those at this time.

But for pension plans, those are really the biggest.

A couple of the big transactions and events that happened during March 2011.

Right at the end of the plan year, the RTS Non-Union Plan and the Lift Line Non-Union Plan transferred \$17 million of assets for the RTS Non-Union Plan, and a million in assets for the Lift Line Non-Union Plan from Genesee United Trust to Exeter Trust.

So whenever you have a transfer like that there are a couple of sort of hiccups I guess I'd say to go through especially when it happens not exactly coinciding with the end of the year.

So we knew that was coming.

We planned for it.

We audited the transfer to make sure that everything that came out of Genesee United Trust went into the Exeter in the appropriate amounts.

We didn't have what we would consider any difficulties encountered with the [SOUNDS LIKE] performing our audit or in dealing with management.

We didn't identify any material misstatements.

Typically, with pension funds there are some reclassifications, but those things don't impact the bottom line of the plan.

So we did have a couple of those, but no disagreements with management during the course of our audit.

And we are also required to let you know whether or not it came to our attention that management consulted with other accountants during the course of our audit.

This is what would typically be known as opinion shopping.

So we if haven't taken a position on the financial statements that management disagreed with, they may go to another auditing firm and say, "How would you treat this" with anything like that that happened where nothing controversial in these financial statements [SOUNDS LIKE] to begin with really.

This is the third audit for the firm of these plans, but I believe that it's the fourth audit that you've had with the plans.

And I think it's important to remind the Committee that you are not required to have an audit of these plans.

These plans are not subject to ERISA so you are not required to do that.

You choose to do that voluntarily, which I think is noteworthy in terms of your fiduciary responsibility and taking that very seriously.

It's unusual that government plans are audited by choice.

And then lastly, just to let you know, we didn't identify any deficiencies in internal controls that we consider to be internal weaknesses.

So nothing in terms of controls that we are concerned about.

With respect to the numbers, I am just going to go through and kind of summarize a page for each one of the plans.

I get one union plan to start with.

The top part of the schedule is the Statement of Plan Assets, or really the Balance Sheet of the plan, and we are preparing March 31, 2010 to March 31, 2011.

The total net assets of the plan run from \$16,287 million up to \$17,380 million.

So an increase of over a million dollars there, and that is really the return on the investments.

For this plan, you don't have any contributions to make.

All the increases are related to appreciation, interest and dividends.

And then, you can see down below that you had about a \$1.8 of investment income for the plan year.

And then, you had deductions, rather the benefits paid of \$750,000.

And that is really dependent on the number of participants and who is taking benefits, etc., who retires.

So the million ninety-four, the third line up from the bottom, is the increase in value of the plan assets under that basis from year-to-year.

So, you can see there that you ended the year with over \$17 million in the plan.

Looking at the next one, there is a fund union plan a value increase in the financial position of the plan.

It went from \$1.6 million--and this is much larger--up to \$1.897 million at the end of the plan year.

Primarily, again an increase due to investment income, but also in this plan you do make a contribution that is actuarially determined.

You can see \$156,000 of contributions running this year, \$205,000 of investment income, and then offset by \$90,000 of benefit payments to participants to end the year at \$1.897 million.

BOB FRYE: Kristen, I just also want to note that the contributions for this plan are also pursuant to later contract that covers the members, the participants in this plan.

Those are required contributions by the employer, and the employees as well who are participants.

KRISTEN CLARK: Right.

The next one is the Lift Line Non-Union Plan.

This is the last one that we have audited so far for this year.

It ended the year with \$1,064 million in net assets up from \$905,000 the prior year.

Again, contributions that are recorded for this plan of \$800,000.

They have an investment income of \$33,000 to increase the plan in full by - - offset by then payments of \$55,000.

So you have \$159,000 net increase in the position of the plan.

BOB FRYE: If I could make a comment, too.

On this particular plan the contribution is really a function of the required contribution that is determined by the plan actuary.

We get the valuation report and the employer makes a contribution based upon the recommendations that are contained within the actuarial report.

COMMISSIONER BATTAGLIA: So we can make it after the plan year?

BOB FRYE: Yes.

COMMISSIONER BATTAGLIA: As far as we see here?

BOB FRYE: Yes.

Okay.

KRISTEN CLARK: And just overall, I have one more slide.

I'm not sure if it's ...

BOB FRYE: It's back at the beginning.

KRISTEN CLARK: Oh, okay.

Excellent.

Okay, so this one summarizes all four plans, and you see an asterisk at the RTS Union Plan because that has not been audited yet.

But, the last time it was audited it was 10/31/2010 year end.

So we'll be doing that in January.

So we will report back to you on that one.

I would expect when we report on the final financial statements once you had a separate reading in there.

Anyway, we'll be done with that plan.

It should be that January/February time frame.

And that is the largest plan.

Right in the middle of the screen you can see over 700 participants in that plan, both active and retirees.

Then you can see the other plans going down from there are RTS Non-Union with 169.

Participants at the end of the plan year that we just audited, people who were [SOUNDS LIKE] enrolled with one with one union had 60 and then with the non-union plan it was 84 participants.

So you have over 1,000 participants across all the plans right now.

Total assets if you look at it on a combined basis, again remembering that this is last year's numbers, so we the RTS Union Plan, and that's over \$60 million in total plan assets among the retirement plans.

And if you look at the bottom, this compares the actuarial approved liability for the plans to the value of the assets, the actuarial value of the assets.

So it's slightly different.

They use some different assumptions in terms of earnings, but overall I think the thing to focus on here is you have \$61 million in asset value across the plans compared to \$56 million of liability.

So you are overfunded on the plans, which is important.

The first three columns you can see that those plans consistently are overfunded with non-union plans slightly underfunded at this point, but it's not an issue, and it's actually a more common situation to be underfunded.

As Bob mentioned on the union plan, that the contracts would require contributions.

Actuarially, you probably would be required to make a contribution into those plans.

So you ended up in an overfunded situation.

But overall, the funds are extremely strong, and even the one that is slightly underfunded at this point in time should not have any real concern.

CHAIRMAN REDMOND: If we wanted to get the one that's underfunded to break even, where the value of the assets of the assets matched the liability, how would we go about doing that?

BOB FRYE: The solution to that problem is that they are employee contributions, which I believe the participants paid 3% in that fund, and the employee contribution is based upon the annual required contribution that's determined the actuaries.

Essentially, you have to step up each one of those.

So either the employer would decide that we are going to put in an amount in excess of the annual required contribution, or we are going to raise more from the participants in terms of their contribution towards it.

CHAIRMAN REDMOND: So that would be a contractual matter?

BOB FRYE: These are all administrative employees who are covered by it.

CHAIRMAN REDMOND: Okay.

BOB FRYE: Covered by that plan.

Yeah, it would be a change in the plan, and the Board would be the body that would determine whether there should be a change in the plan, a change in the contribution by the employees or by management really.

CHAIRMAN REDMOND: So if we wanted to split the difference, if the employees contributed half and the Authority contributed half, then that would be doable?

BOB FRYE: Yes.

CHAIRMAN REDMOND: Yes?

BOB FRYE: You could even step it up over a couple of years so it wouldn't be a significant hit in just one year.

CHAIRMAN REDMOND: You start it at 3% and then maybe 3.1% or 3.2%.

COMMISSIONER JANKOWSKI: Yeah, until you get up to the point of working room.

CHAIRMAN REDMOND: Yeah, and then the contribution from the Authority would go up as well?

BOB FRYE: Because this plan is really so small relative, that is really just all it is.

We never really made any recommendations to that extent.

COMMISSIONER BATTAGLIA: And as Kristen said, it's probably more typical to be under-funded.

KRISTEN CLARK: Definitely.

COMMISSIONER BATTAGLIA: Three out of four is definitely against the averages.

KRISTEN CLARK: Right.

In this one, for example, 12 people are receiving benefits under this plan.

So when you think about the amount that is paid out, we paid benefits for the year of \$54,000.

So you put in \$67,000, the participants put in \$63,000, and we paid out \$54,000.

So you are more than making up for what's going out each year.

It is such a small amount that's going on right now.

The number of people that are accessing benefits right now is so small.

CHAIRMAN REDMOND: Twelve people are splitting \$54,000?

BOB FRYE: In addition, this plan is a relatively young plan, so to speak.

KRISTEN CLARK: On leg one.

BOB FRYE: Yeah and there are many more participants who are active and who are paying into the plan, and who are recipients of pension payments.

From what I have learned over the years in overseeing these and working with the actuaries is that as a plan matures, for example the RTS Union Plan where you now have basically one-third of the participants are retired and so it's more active.

That is a much more mature plan.

The average age of the folks in that plan.

That's a plan where you have to be really much more concerned about what's the level of funding in that and we're very strong on that.

So, based upon the relative use of this plan, the small number of participants affect it.

Even though it's not 100% funded, it is very strongly funded, and it's my opinion that plan is in pretty good shape right now.

KRISTEN CLARK: Yes, and the actuaries when they calculate the amount that you have to contribute it's based on all those factors.

So they tell you to put in what's necessary to get it to be able to keep payment on it.

So I think all of that kind of comes into play with it.

CHAIRMAN REDMOND: Right now the dependence in exceeds dependence on it?

KRISTEN CLARK: Right, significantly.

BOB FRYE: It significantly offsets ...

KRISTEN CLARK: - - if you have a bad eye for that.

BOB FRYE: And that could change over time with the investments and stuff in the portfolio.

CHAIRMAN REDMOND: Yes, the portfolio pension does that.

BOB FRYE: Our portfolio could have been better, but you couldn't avoid the market trends that came back as most funds did.

But they have improved in the last six months.

So obviously there's been some - -

COMMISSIONER JANKOWSKI: Bob, what kind of assets is that portfolio comprised there?

BOB FRYE: That portfolio is in about a 50/50 split.

COMMISSIONER JANKOWSKI: As in a double \$61 million?

BOB FRYE: Well, it varies somewhat.

The RTS Non-Union and the Lift Line and Regional Non-Union [SOUNDS LIKE] and may not lead the Life Line Union as well.

Those portfolios are pretty much split 50/50 between equities and fixed income.

There is a higher split towards equities in the RTS Union Pension Plan.

The equity proportion has been coming down.

It was as high as like 67% a couple of years ago.

And on the company's behalf, I have been making the position with the Pension Committee because that particular plan is managed jointly between the union and the company.

So the allocation of assets for the Investment Portfolio has to be agreed upon between the parties.

But we have brought it down from 67% down to--I think the last report it might have been about 58% or 59% equities, which in a more mature plan like that it's more prudent in my opinion to lean a little bit more toward the fixed income side of it.

Otherwise, they are fairly conservative in their investment allocations with a 50/50 split.

COMMISSIONER BATTAGLIA: So it might be that having it in fixed income might not be all that conservative.

It would be an interest rate risk with everything that is going on.

So it's hard to tell where really the best place to be is.

CHAIRMAN REDMOND: Under the mattress looking at the RPM.

BOB FRYE: It's a very challenging time for these to just say split it right in the middle.

CHAIRMAN REDMOND: In a jar in the back yard and the rest under the mattress.

BOB FRYE: I mean, the traditional things or the traditional approaches and the thought processes are I think challenged by what's happening today.

COMMISSIONER BATTAGLIA: To say the least.

BOB FRYE: Any other questions.

CHAIRMAN REDMOND: No, I'm good.

BOB FRYE: Thank you. Okay.

KRISTEN CLARK: The next I'm just going to talk about single reports that we issued and - - out the door since we last met.

As you know, because of the significant amount of federal funding that you receive ...

You had done copies of these previously, so I don't have those but I'm just going to talk in general about it.

You received about \$22 million of federal grants for the fiscal year ending March 31, 2011.

So, the government requires us to do some additional audit procedures to make sure that the internal controls over the reporting for those funds is appropriate as well as that you are complying with all the laws and regulations associated with those.

So, what that entails is picking a sample of those grants.

I want to count up your grant line.

All right, somewhere between 10 and 15 separate grants that you get that make up that \$22 million.

And those are federal grants and within those they are disbursed through many different state contracts.

There is a lot of pass-through funding there.

What we do is based on some audit requirement formulas, as well as some judgment on our part; we picked some of the grants to test in both internal controls and controls over compliance as well as the compliance itself.

We are saying if you are supposed to spend a certain amount of money on buses or salaries or whatever it is, we test that that is what happened.

Anyway, what we do then is issue two separate reports.

One is called the Report on Internal Control over Financial Reporting and Compliance, and the other is An Opinion on Compliance.

We are not giving an opinion on internal controls, we are just saying we are reporting on them and kind of telling you what we saw.

There was an issue with one of the grants that it was new federal funding last year, and it passed through the state.

It was part of the Recovery Act Funds so it kind of missed.

It sort of slipped through the cracks in terms of whether or not it was a federal grant or not.

We talked about this when we met in June.

BOB FRYE: Yeah, it was in the Management Letter.

KRISTEN CLARK: Yes.

BOB FRYE: Right, it was.

KRISTEN CLARK: Yes, exactly.

So that gets reported on in these reports as well.

But that I guess I characterized it as I did before as sort of one of those things.

So there are procedures in place now just to make sure that for every grant that gets passed through the State process whereby you determine whether it is federal and or is not federal so you know where that would be.

Anyway, that is reported on in these Single Audit Reports.

These were issued right around September 1st to the State and Federal.

You also had a separate State Single Audit it's called, which is sort of just a nickname for it because a single audit is a federal act.

But the state kind of piggybacked on that with some of their additional state directed funding, the State Transportation Assistance Funding, which totals now \$32 million.

They have a similar process, and in that report there was nothing to report and there were no deficiencies in internal controls or anything like that.

So we issued those two reports.

Then lastly, we do a project for you every year that's called an Agreed Upon Procedures Report in our industry.

And that's where we decide together which procedures we should perform on a certain topic or certain area.

And in this case, it's on your Employee Incentive Comp Program.

So we want to make sure.

You hired us to make sure that the program is functioning as it is intended to in the actual document.

We go through and perform specific procedures, and then we report in there on what we saw.

We don't audit the program specifically, but we do tell you if we find anything that is a problem or an exception or anything like that in what we saw.

We did not see any exceptions to your program.

It is our finding that the Employee Incentive Pay Program is functioning as it is intended to be in accordance with the government.

Those are the other three reports that we have issued since we last met that came out in October.

Any questions on any of those?

You know, I can kind of quickly ...

COMMISSIONER JANKOWSKI: No.

KRISTEN CLARK: And then, the last thing that I wanted to bring you up to speed on, and you're going to hear more about this later today as part of your Board Retreat.

But, as you know, we met with you in July I believe it was.

BOB FRYE: It was.

KRISTEN CLARK: We talked about looking at your Corporate Compliance, and specifically related to your Medicaid Funding that you get.

You are over a threshold that requires you to have a formal compliance plan.

June Crawford from our Compliance Department has spent a significant amount of time with your staff and going through documents, and what you have and need relative to the state requirements for this program.

A couple of messages, and I'm not going to belabor it because she's going to talk about it some more, which is to get the committee just be on where we are with this.

I will remind you that we're identifying it specifically as Medicaid, and that really anticipatory for doing it.

But the regulations really focus on the fact that it is an entity wide compliance program that is necessary.

So that is kind of our approach that you are doing it primarily because of the Medicaid funding that you get, but on the other hand it's just the best business practice to have a culture of compliance, which you do.

But like anything when you compare what you are doing to regulations, it's highly likely that we're going to find something to recommend.

So here is what we did.

We started kind of mid-August I believe, and just is ramping up.

We did an assessment of all of your compliance program activities, and those are things that you may not have considered to be part of a compliance program.

But we have a list of all the different policies and procedures, and billing practices and codes of conduct, etcetera, etcetera, and training.

We take all that and filter through it and read anything, and then compare what we have, this whole stack of documents, I guess I'd say because that is what it ends up being, and kind of wrap that up in terms of here is your existing compliance program.

And then, compare that with what the State says out of the eight reported elements of an effective compliance

program.

And then, develop recommendations as a gap, kind of a gap analysis sort of thing.

We also interviewed key administrative people and a review of all the documents.

You can see a few sites that we went to in conducting additional interviews, specifically with the people that are responsible for doing the billing and the documentation for the billing for these services.

So we've got a document that's got recommendations in it.

Then lastly, we have been going through some training.

Part of an effective compliance program is board training.

So that is going to be the first of probably many more activity for you.

COMMISSIONER BATTAGLIA: The big one.

COMMISSIONER JANKOWSKI: Can I get a DVD on that.

KRISTEN CLARK: So we do have some reports that we will issuing that are very extensive, and they go through in a lot of detail, every single thing that we looked at, every single thing that we saw and what we think the recommendations should be.

So it's going to serve kind of as a road map to improve compliance.

But I will say there wasn't anything that was ...

But there are things in there that you are not to the letter of the law complying with.

But in our experience that is not unusual at all, and in terms of culture of compliance overall, it's very strong.

So that's shouldn't be news to anybody and it wasn't a surprise to me, either, when we concluded that.

But there are certainly things that need to be tightened up and documented differently, things like that just to make sure that to the extent any state agency or even a federal or anything calls someone to come in and look through all this and do this sort of checklist between what you have and what you need, the gaps would be numerous.

COMMISSIONER JANKOWSKI: Kristen, did that study dig in at all on the question of an internal auditor and whether that has an aspect, a roll in this?

Because that's a question we ask year in and year out and whether we should have one or not.

KRISTEN CLARK: Yeah, we talked about this, and we went through in detailed reports with Bob and Chris.

I think it is a natural place for this to be housed.

I mean, there is definitely a need to have a focus of compliance, a compliance officer.

Is that a full-time for somebody?

Probably not.

Are the skills consistent with perhaps an internal auditor or probably?

So I think it is a natural place to bring it together, and it makes sense timing wise if you are going to move on this to roll it out.

BOB FRYE: Mr. Chairman, if I may, we have received the recommendations and we're taking them under consideration really against a broader perspective that we have about other compliance activities that we have throughout the Authority.

So Management really at this point I think has not made a determination about whether this responsibility for Management would be housing an internal auditor function or position or some other position.

I will tell you this that we have learned that the scope of corporate compliance that's required for Medicaid is much larger than we understood initially.

As Kristen has explained, it really is much, much broader than kind of the technical aspects about providing Medicaid revenue to services, and the technical aspects of billing and managing that.

It goes much broader throughout the organization covering a very wide scope of policies and procedures.

So it's a lot to get your arms around for certain.

KRISTEN CLARK: And that's why the report is so detailed, too, is because it's necessary to be able to use it as a work plan really over time, you know, how are we going to get up to speed on all these things?

How are we going to check off all these things that need to be done?

As Bob said, it really covers employee policies and reporting of any mechanisms report, any kind of suspected fraud or errors, anything like that.

When you look at your revenue sources relative to the Medicaid fees in it, there are all sorts of other things that I found that really mattered to them.

It's relatively new material, but it's big enough that you have to this, but it does speak to the form about organizational life the compliance culture that needs to be there, and all the things that you need to produce.

BOB FRYE: Again, is this our - - message?

COMMISSIONER JANKOWSKI: Of course.

BOB FRYE: The special level for corporate compliance requirements is \$500,000 of annual billing.

COMMISSIONER JANKOWSKI: For Medicaid?

BOB FRYE: Yes, for Medicaid it's \$500,000 of annual billing. And our billing none of the subsidiary companies

...

Well, together we have about \$2 million when you spread it across the six companies that are basically providing Medicaid funded service.

So in and of themselves none of them individually would kick it off, but when we look at it in its aggregate, then we are required to get into the Compliance Program.

And so, this is really the first time when we looked at it in its aggregate and said, "We need to take some action to get into compliance."

So we are now in the mode right now from digesting the report that is provided by Bonadio, and determining what's the best way for us to approach it to develop a program.

COMMISSIONER JANKOWSKI: Because I know it requires agency wide training because in Wayne County we're having to deal with it.

And even my folks in the County Clerk's Office that go anywhere near Medicaid because they're part of the overall entity that made the determination that they've got to go through this training as well.

KRISTEN CLARK: I think that your point about the individual entities is a good one.

Because what we have found is, as you would expect, inconsistencies among the affiliates when you go on how it's done here and how it's done here and how it's done here.

And there are always going to be those differences, but in the terms of documented procedures and training for new people, it only makes sense to try to get some more consistency among all the sources.

BOB FRYE: Yeah, you want to get ready for auditors. And we've already taken actions.

COMMISSIONER JANKOWSKI: No, no, I mean I sure.

KRISTEN CLARK: They have taken action.

BOB FRYE: We have already taken actions to have common procedures and protocols.

KRISTEN CLARK: And have gotten the people involved that are really doing it, which makes sense.

I mean, they're the ones that you have all the written documentation in the world, but it's not what they're doing all day with those things.

CHAIRMAN REDMOND: If somebody is not reading it.

KRISTEN CLARK: Exactly.

CHAIRMAN REDMOND: So it's got to be a combination of written protocol as well as ongoing training.

KRISTEN CLARK: Right, exactly.

CHAIRMAN REDMOND: Especially if they have personnel shifts.

BOB FRYE: When you decentralize oversight of it you are going to make sure that the interpretation of the

rights is consistent.

Because each of the subsidiaries they're attempting to follow the regulations, but they didn't all interpret it the exact same way.

COMMISSIONER JANKOWSKI: Jim, you had a question.

CHAIRMAN REDMOND: Going back to your comment about the culture of compliance, in the single audits have you seen any deficiencies that were pointed out and being addressed?

KRISTEN CLARK: From year to year?

CHAIRMAN REDMOND: Yes.

KRISTEN CLARK: Yeah, I have to think back to our earlier meetings.

What we do in terms of every year.

Every year you always have to report on did what we identified the prior year get addressed?

There were a couple of things that I am going back to the 3-31-10 single audit that we identified and those were addressed during the 11th year.

Now, we have this one finding in the 2011 single audit that needs to be addressed or that has been addressed for this year, too, to make sure that - -

But we always do go back and look at that, and beyond the federal audits, we look at if we have anything in our overall Management Letter that is not a federal reportable item, but that we just want to report to the Committee to the Board.

We have always looked back at those, too.

I mean I have said this before and I think it's important for the Audit Committee to know that I do think there is a very strong culture of ...

I use word "compliance" but I don't mean it in the buzz word sort of way, but culturally, I think that's always been just sort of the mode of operation here.

I mean, you do the right thing because it's the right thing to do, not because it's ...

BOB FRYE: Yes, just a little tightening up.

KRISTEN CLARK: Yes, absolutely, absolutely.

I mean and June will be a better person to be able to give you some comparisons because she's done this with many, many organizations, governments, non-profits.

And I'm sure if she worked to rank the gaps, that you'd be much more positive on those, than we had with our other clients.

It's interesting, too, your Medicaid revenue is sort of unique in nature.

I mean it's transportation funding.

When you think of Medicaid it's helping - -

So this really here, all these regulations are regally geared much more to the healthcare environment.

And so, it's kind of stored by them.

But I think it still fits as to process the requirements, but I think you can tailor it to be a more practical relevant system for yourselves.

COMMISSIONER BATTAGLIA: Are we going to receiving that report of the Audit Committee or is it in just Management?

BOB FRYE: Management has received it.

Right now, it is still in a draft form.

So once it is finalized, we will be sending it out.

KRISTEN CLARK: And we can come back to go through that if you would like on how we run it.

BOB FRYE: Mr. Chairman, if I could make a comment.

You know, we see this basically being generated by the services that are provided by the regional companies, which are largely rural in nature.

And our transportation function in those companies, in each of those companies throughout each of those counties is really working hand-in-hand with many of the social service agencies that are within those counties providing the critical transportation service to help them do their jobs.

I mean that is how we came to be involved in providing transportation for customers who are eligible for Medicaid funding.

We get calls from agencies, "Can you help us?

Can you provide service for these folks?"

We have responded.

So this business has evolved for the Regionals over the years.

And it's a big part of what they do actually.

Where RTS it's de minimis in that whole county.

CHAIRMAN REDMOND: I hadn't thought about that, but it makes sense.

I would have thought it was just the opposite given the population of the city versus who writes the profile of whoever is riding on our business, but it's interesting and makes a lot of sense.

BOB FRYE: And there are many providers within with Monroe County that provide transportation.

CHAIRMAN REDMOND: Yeah.

BOB FRYE: But when you get out onto the rural, we are it to a large extent.

COMMISSIONER JANKOWSKI: I think some of those management decisions to obviously what types of service.

I think you probably have a little bit more of your medical taxicabs, and stuff up in the cities it goes it.

Out here they just as soon use my turf, use Watts, but they use the regional agencies much more.

Because a lot it I think is just management decisions, not our management but social services management.

Bob, do you have a time line of when you guys are going to be finishing that review and when we could?

I know for seven years now we have talked about internal auditors and bringing the question up and then deciding we don't need one.

But with this current round do you have any kind of a time line?

BOB FRYE: If I may, I'll let Bill jump in if he thinks that I'm misspeaking or not accurate.

But I think that considering is part of all of what we're working up and now he's looking toward the comprehensive plan for 2012/2013.

We are now in the process of developing that, looking at personnel decisions that will be related to that.

COMMISSIONER JANKOWSKI: That makes sense.

BOB FRYE: And I think it will all come together at that point.

BILL CARPENTER: And there will be resources committed to compliance and internal audit.

And the level of those resources whether a single person can handle both functions, whether it's part-time work for two different people because internal audit function is different than a compliance function.

But you can find some folks that are able to do both.

But the FTA is looking for a higher level of compliance as they roll out new regulations.

And certainly as we become aware of the Medicaid side there is a risk that we want to manage, and there has been an ongoing level of internal audit that we have managed less formally.

And I think with the Bonadio review, and when you get that report shows that there is some opportunities to improve our compliance in a more formal way with our resources.

COMMISSIONER JANKOWSKI: Okay.

COMMISSIONER BATTAGLIA: I almost suggested that under Best Practices I would say--and Kristen I guess you can say something.

But this Committee really should have the responsibility for determining whether we should have an internal auditor or not.

The person should ultimately be hired and would report directly this Committee and the Chairman.

You have independence if you're going to have an internal auditor function.

It does need to be independent for management.

So I think we probably need to weigh in on what your consideration mode, I guess.

I think that this Committee needs to weigh in probably also in on that.

COMMISSIONER JANKOWSKI: I certainly agree.

I would want to hear the recommendation first.

COMMISSIONER BATTAGLIA: Yes, after that.

COMMISSIONER JANKOWSKI: After they do their analysis, and then as I was saying for every year that I've been here at the Authority, we bring it up do we need an internal auditor?

Then every year before this we have always determined no we're not at that level yet.

The cost of having an additional person isn't justified by the work.

But we'll see and it would make sense that after we get the recommendation then we will make the Board determination from there.

COMMISSIONER BATTAGLIA: The playing field has probably changed over the years.

COMMISSIONER JANKOWSKI: Oh, yeah.

The reporting requirements are quite a bit higher and more intense than they were.

CHAIRMAN REDMOND: So basically, the Board would double the number of employees we've had from one to two.

COMMISSIONER JANKOWSKI: There are a lot of ways that you can still get to the same place whether it is a dedicated person, or whether it's somebody with that particular function or whatever.

I think right now Bob has the internal audit function right now.

BOB FRYE: I'm the Internal Control Officer.

COMMISSIONER JANKOWSKI: Okay.

That's the title.

COMMISSIONER BATTAGLIA: Which is slightly different ...

BOB FRYE: Yes.

COMMISSIONER BATTAGLIA: ... in that Compliance and Internal Control don't necessarily report directly to

the Audit Committee, and an internal auditor would.

Mine might be doubted from a compliance officer to the Audit Committee when he's solid.

COMMISSIONER JANKOWSKI: Yeah, maybe when you guys get everything ready for the Comprehensive Plan, maybe we should have a look at specific discussion with the Audit Committee to just talk about that aspect of it.

Even if it's just before the meeting when we go over the Comp Plan or something like that, and then take a look at it.

And then that way we're highlighting a little bit, because you might not necessarily want to highlight what you're doing when you're presenting the entire Comprehensive Plan to the Board.

So that might be one way we can do it.

BOB FRYE: Noted.

COMMISSIONER JANKOWSKI: Paul, your comments are a great clarification and it's ultimately not our decision on the internal audit function.

It's the person that's getting the Audit Committee comfortable that the resources are there, and if that's a person, that person will report it to the Audit Committee.

Very good.

COMMISSIONER BATTAGLIA: That would be the 4th of January.

BOB FRYE: What?

COMMISSIONER BATTAGLIA: That would be the 4th of January.

BOB FRYE: - -

CHAIRMAN REDMOND: Do we need to vote to approve or vote to receive these reports and recommend to the full Board?

Do they need to be filed?

BOB FRYE: It certainly won't do any harm to tie yourself down.

COMMISSIONER BATTAGLIA: And what are the - -

BOB FRYE: They're still draft.

They finally did the draft.

COMMISSIONER BATTAGLIA: They are not draft after today.

BOB FRYE: They will be final after today, right?

Okay, so we would ...

CHAIRMAN REDMOND: We can recommend them for full Board adoption.

COMMISSIONER BATTAGLIA: I vote for the adoption.

KRISTEN CLARK: Right on.

BOB FRYE: Second.

COMMISSIONER JANKOWSKI: Second.

CHAIRMAN REDMOND: Is everyone agreed?

COMMISSIONER BATTAGLIA: I guess that says that you agree.

CHAIRMAN REDMOND: Yeah.

I think we are unanimous.

Okay.

Thank you.

KRISTEN CLARK: All right, thank you.

CHAIRMAN REDMOND: Do you have any other business that we need to hit?

COMMISSIONER JANKOWSKI: We hit my one question.

CHAIRMAN REDMOND: Okay, I think we are all set then.

Thank you very much.

COMMISSIONER JANKOWSKI: Motion to adjourn.

CHAIRMAN REDMOND: Motion to adjourn.

And I think we will take a break.

The Comp Committee starts in nine minutes.

COMMISSIONER BATTAGLIA: Oh, perfect, perfect.

I forgot that was there.

I thought ...

[END VIDEO]