

# HMS HOLDINGS CORP.

## AUDIT COMMITTEE CHARTER

April 23, 2004

### A. PURPOSE

The purpose of the Audit Committee is to assist the Board of Directors' oversight of:

- the integrity of the Company's financial statements;
- the integrity of the Company's systems of internal controls regarding finance, accounting and legal compliance;
- the independent auditors' qualifications and independence; and
- the performance of the Company's independent auditors.

### B. STRUCTURE AND MEMBERSHIP

1. **Number.** The Audit Committee shall consist of at least three members of the Board of Directors.
2. **Independence.** Except as otherwise permitted by the applicable rules of The Nasdaq Stock Market and Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder), each member of the Audit Committee shall be "independent" as defined by such rules and Act.
3. **Financial Literacy.** Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. In addition, at least one member must have past employment experience in finance or accounting, professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Unless otherwise determined by the Board of Directors (in which case disclosure of such determination shall be made in the Company's annual report filed with the Securities and Exchange Commission ("SEC")), at least one member of the Audit Committee shall be an "audit committee financial expert" (as defined by applicable SEC rules).
4. **Chair.** Unless the Board of Directors elects a Chair of the Audit Committee, the members of the Audit Committee shall elect a Chair by majority vote.
5. **Compensation.** The compensation of Audit Committee members shall be as determined by the Board of Directors. No member of the Audit Committee may receive any compensation from the Company other than director's fees.
6. **Selection and Removal.** Members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove members of the Audit Committee from such committee, with or without cause.

## C. **AUTHORITY AND RESPONSIBILITIES**

### 1. **General.**

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the independent auditors, in accordance with the business judgment of its members. The Audit Committee's oversight responsibility recognizes that the Company's management is responsible for preparing the Company's financial statements in accordance with generally accepted accounting principles and that the independent auditors are responsible for auditing those financial statements. Additionally, the Audit Committee recognizes that the Company's management, as well as its independent auditors, have more time, knowledge and more detailed information on the Company and its financial reports than do Audit Committee members; consequently, in carrying out its duties and responsibilities, the Audit Committee is not providing any expert or special assurance as to the Company's financial statements and is not conducting an audit or investigation of the financial statements or determining that the Company's financial statements are true and complete or are in accordance with generally accepted accounting principles.

### 2. **Oversight of Independent Auditors.**

- (a) The Audit Committee shall be solely and directly responsible for appointing, evaluating and, when necessary, terminating the independent auditors. The Audit Committee may, in its discretion, seek shareholder ratification of the independent auditors its appoints.
- (b) The Audit Committee shall establish with the independent auditors, the scope and plan of the work to be performed by the independent auditors as part of the audit for the current fiscal year.
- (c) The Audit Committee shall establish clear hiring policies for employees or former employees of the independent auditors proposed to be hired by the Company, as required by applicable law, rules and regulations.
- (d) The Audit Committee shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the independent auditors. In connection with this responsibility, the Audit Committee shall obtain and review a formal written statement from the independent auditors describing all relationships between the independent auditors and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit Committee shall actively engage in dialogue with the independent auditors concerning any disclosed relationships or services that might impact the objectivity and independence of the auditors.
- (e) The Audit Committee shall have sole and direct responsibility for setting the compensation of the independent auditors. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditors established by the Audit Committee.
- (f) The Audit Committee shall preapprove all audit services, which may entail providing comfort letters in connection with securities underwritings, and non-audit services (other than de minimus non-audit services as defined by the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder)) to be provided to the Company by the independent auditors.

- (g) The independent auditors shall report directly to the Audit Committee and the Audit Committee shall have sole and direct responsibility for overseeing the independent auditors, including resolution of disagreements between Company management and the independent auditors regarding financial reporting. In connection with its oversight role, the Audit Committee shall, from time to time as appropriate, obtain and review the reports required to be made by the independent auditors regarding:
  - (i) critical accounting policies and practices;
  - (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative treatments, and the treatment preferred by the independent auditors; and
  - (iii) other material written communications between the independent auditors and Company management.

### **3. Review of Documents and Reports.**

- (a) The Audit Committee shall review and discuss with the Company's management and independent auditors the Company's annual audited financial statements, the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the selection, application and disclosure of critical accounting policies and practices used in such financial statements. Additionally, based on such review, the Audit Committee shall consider whether to recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K filed with the SEC (the "Form 10-K"). The discussion of financial statements and the related critical accounting policies and practices shall occur prior to the public release of such financial statements or results, and the discussion of the related disclosure, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," shall occur prior to the filing of the Form 10-K.
- (b) The Audit Committee shall review with management and the independent auditors the Company's quarterly financial results and quarterly unaudited financial statements, the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Company's selection, application and disclosure of critical accounting policies and practices used in such financial statements to be included in the Company's Quarterly Report on Form 10-Q filed with the SEC (the "Form 10-Q"). The discussion of financial statements and the related critical accounting policies and practices shall occur prior to the public release of such financial statements or results, and the discussion of the related disclosure, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," shall occur prior to the filing of the Form 10-Q.
- (c) The Audit Committee shall discuss with management and the independent auditors policies with respect to risk assessment and risk management and the quality and adequacy of the Company's processes and controls that could materially affect the Company's financial statements and financial reporting. This review shall include a discussion of significant financial risk exposure and the steps management has taken to monitor, control and report such exposure.
- (d) The Audit Committee shall discuss with the independent auditors any significant changes to the Company's accounting principles and any items required to be communicated by

the independent auditors in accordance with Statement on Auditing Standards No. 61 (Communication with Audit Committees) as the same may be modified or supplemented.

- (e) The Audit Committee shall prepare an annual committee report for inclusion where necessary in a proxy statement of the Company relating to an annual meeting of security holders at which directors are to be elected.

#### **4. Other Matters.**

- (a) The Audit Committee shall coordinate the Board of Director's oversight of the Company's internal accounting controls and the Company's disclosure controls and procedures.
- (b) The Audit Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- (c) The Audit Committee shall monitor, oversee and review compliance with the provisions of the Company's Code of Ethics that relate to accounting disclosures.
- (d) The Audit Committee shall serve as the initial reviewing body for allegations of violations of the Code of Ethics or requests for waivers of the provisions of the Code of Ethics by a director or executive officer of the Company that relate to accounting disclosures.
- (e) The Audit Committee shall review all related party transactions (as defined by applicable SEC rules) on an ongoing basis and all such transactions must be approved by the Audit Committee.
- (f) On at least an annual basis, the Audit Committee shall review with the Company's legal counsel any legal matters that could have a significant impact on the Company's financial statements, or the Company's compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies.
- (g) The Audit Committee shall have such other duties as may be delegated from time to time by the Board of Directors and are not inconsistent with the terms of this Charter, the Company's By-laws and governing law.

### **D. PROCEDURES AND ADMINISTRATION**

- 1. Meetings.** The Audit Committee shall meet at least four times annually, or more frequently as circumstances indicate. The Audit Committee may request that members of management, representatives of the registered public accounting firm and others attend meetings and provide pertinent information, as necessary. In order to foster open communications, the Audit Committee shall meet at such times as it deems appropriate or as otherwise required by applicable law, rules or regulations in separate executive sessions to discuss any matters that the Audit Committee believes should be discussed privately.

Audit Committee meetings will be governed by the quorum and other procedures generally applicable to meetings of the Board under the Company's By-laws, unless otherwise stated by resolution of the Board of Directors.

- 2. Subcommittees.** The Audit Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting.
- 3. Reports to Board.** The Audit Committee shall report regularly to the Board of Directors.
- 4. Charter.** At least annually, the Audit Committee shall review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.
- 5. Independent Advisors.** The Audit Committee shall have the authority to engage and authorize funding for such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit Committee.
- 6. Investigations.** The Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.