

# **Magellan Health Services, Inc.**

## ***Audit Committee Charter***

(Adopted March 26, 2004)

### **ARTICLE I. PURPOSE**

The Audit Committee of Magellan Health Services, Inc. (the “Company”) is a committee of the Company’s Board of Directors. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the Company’s financial statements, the other financial information that is proposed to be provided to the shareholders, the periodic financial reports filed with the Securities and Exchange Commission, the systems of internal controls which management and the Board of Directors have established, and the audit process. In doing so, it is the responsibility and duty of the Audit Committee to provide an open avenue of communication between the Board of Directors on the one hand, and management, the internal auditors, and the independent auditors on the other.

The Committee’s role is one of oversight. The Company’s management is responsible for preparing the Company’s financial statements and the independent auditors are responsible for auditing those financial statements. The Committee recognizes that Company management including the internal audit staff and the independent auditors have more time, knowledge and detailed information about the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the independent auditor’s work.

### **ARTICLE II. ORGANIZATION**

**Section 2.01 Composition.** The Board of Directors shall appoint annually the Audit Committee members. The Audit Committee shall be composed at least three, but not more than five, directors. The Board of Directors shall appoint one of the members of the Audit Committee as Chairperson. It is the responsibility of the Chairperson to schedule all meetings of the Audit Committee and provide the Audit Committee with a written agenda for all meetings.

**Section 2.02 Qualifications.** Only directors who are independent in accordance with the listing standards of the Nasdaq Stock Market applicable to audit committee membership may be members of the Audit Committee. At least one member of the Audit Committee shall have a background in financial reporting, accounting or auditing.

### ARTICLE III. GENERAL RESPONSIBILITIES

**Section 3.01 Authority and Powers.** The Audit Committee shall have the power to conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee shall have unrestricted access to members of management, the Company's internal audit staff and to the Company's current and former independent auditors and attorneys, and all information relevant to its responsibilities. The Audit Committee is empowered and authorized to retain independent counsel, accountants, or others to assist it in the conduct of any investigation, with the fees and related costs being paid for by the Company. The Audit Committee shall perform such other functions as are assigned to it by law, the Company's charter or bylaws or the Board of Directors.

**Section 3.02 Meetings.** The Audit Committee shall meet at least 5 times per year (which shall include meeting on a quarterly basis) or more frequently as circumstances require. The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.

**Section 3.03 Reports.** The actions of the Audit Committee shall be reported to the Board of Directors with such recommendations as the Audit Committee may deem appropriate.

**Section 3.04 Charter.** The Audit Committee shall review and update the Audit Committee's charter and recommend to the Board of Directors any amendment to the Charter.

**Section 3.05 Executive Sessions.** The Audit Committee shall meet with the head of the Company's internal audit function, the independent auditors, and management in separate executive sessions to discuss any matters that the Audit Committee or any such requesting person believes should be discussed privately with the Audit Committee.

### ARTICLE IV. INTERNAL CONTROLS AND RISK ASSESSMENT

**Section 4.01 Processes.** The Audit Committee shall review the effectiveness of the Company's process for assessing significant risks or exposures and the steps management has taken to minimize such risks to the Company. The Audit Committee shall discuss with management, the Company's independent public auditors, and the head of the Company's internal audit function, the status and adequacy of management information systems and other information technology, including the significant risks related thereto and major controls over such activities.

**Section 4.02 Internal Controls.** The Audit Committee shall consider and review with management, the independent auditors and the head of the Company's internal audit function:

(1) The effectiveness of or weaknesses in the Company's internal controls, including computerized information system controls and security, the overall control environment and accounting and financial controls (including those required by the accounting and control provisions of the Foreign Corrupt Practice Act).

(2) Any related significant findings and recommendations of the independent auditors and/or internal auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls.

**Section 4.03 Review of Controls in Audits.** The Audit Committee shall review with the head of the Company's internal audit function (independent of other members of senior management) and the independent auditors the coordination of their audit efforts to assure completeness of coverage of key business controls and risk areas, reduction of redundant efforts, and the effective use of audit resources.

## ARTICLE V. FINANCIAL REPORTING

**Section 5.01 Filings and Reports.** The Audit Committee shall review prior to filing, filings with the SEC and other agencies and other published documents containing the Company's financial statements, including annual and interim reports, press releases and statutory filings, and consider whether the information contained in these documents is consistent with the information contained in the financial statements.

**Section 5.02 Annual Review.** The Audit Committee shall review with management and, separately, with the independent auditors at the completion of the annual audit:

- (1) The Company's annual financial statements and related footnotes.
- (2) The independent auditors' audit of the financial statements and related report thereon.
- (3) Any significant changes required in the independent auditors' audit plan.
- (4) Any significant difficulties or disputes with management encountered during the course of the audit.
- (5) The critical accounting policies and practices used by the Company and the existence of significant estimates and judgments underlying the financial statements, including the rationale behind those estimates as well as the details on material accruals and reserves, and the Company's accounting principles and policies including alternative treatments of financial information

permitted by generally accepted accounting principles that have been discussed with management.

(6) The overall quality of the Company's financial reporting.

(7) Other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards.

**Section 5.03 Risk Assessment.** The Audit Committee shall review the Company's internal processes for determining and managing key risks, including those affecting the Company's financial statements.

**Section 5.04 Quarterly Review.** The Audit Committee shall review with management, the internal auditors and the independent auditors the interim financial statements of the Company. The Audit Committee shall review the significant estimates and judgments underlying the financial statements, including the rationale behind those estimates and the details on material accruals and reserves, and determine the appropriateness and consistency of the methodology used to make such estimates and judgments.

**Section 5.05 Disclosure Review.** The Audit Committee shall review with management the Company's processes and controls with respect to disclosures in accordance with securities laws and regulations.

## **ARTICLE VI. EXTERNAL AUDITOR**

**Section 6.01 Engagement.** The Audit Committee shall select, engage, determine the compensation and discharge the independent auditors, subject to any approval that may be required by the Board of Directors. As part of the selection and engagement process, the Audit Committee shall confirm and assure the independence of the independent auditors, including a review of the nature of all services provided by and related fees paid to the independent auditors.

**Section 6.02 Scope of Audit.** The Audit Committee shall review the scope and approach of the annual audit with the independent auditors.

**Section 6.03 Communications.** The independent auditors shall be instructed by the Audit Committee to communicate and report directly to the Audit Committee any serious difficulties or disputes with management. The Audit Committee shall review the external auditors' identification of issues and business and financial risks and exposures.

**Section 6.04 Services.** The Audit Committee shall pre-approve any audit and non-audit services to be performed by the independent auditors; such pre-approval may, where permitted by law, be provided in accordance with specific pre-approval policies as adopted by the Audit Committee (and confirmed at least annually).

## **ARTICLE VII. INTERNAL AUDITOR**

**Section 7.01 Selection.** The Audit Committee shall oversee the supervision of the Company's internal audit function. It shall select, hire, appoint, determine the compensation of, reassign and dismiss the head of the Company's internal audit function or, in the event the internal audit function is outsourced, select, engage, determine the compensation of and discharge any accounting firm retained to perform such function, subject to any approval that may be required by the Board of Directors. In the event the internal audit function is outsourced, the Audit Committee shall meet with the engagement partner (who shall be deemed the "head of the Company's internal audit function" for purposes of this Charter). As part of the hiring or engagement process and from time to time thereafter, the Audit Committee shall confirm and ensure the functional independence of the internal auditors, the independence of the internal auditors from the independent auditors and an open avenue of communication between the internal auditors and the Audit Committee.

**Section 7.02 Scope.** The Audit Committee shall consider, in consultation with the head of the Company's internal audit function, the audit scope and role of the internal auditors, including a review and evaluation of the scope, risk assessment and nature of the internal auditors' plan and any subsequent changes. The Audit Committee shall determine whether or not the internal auditors' plan is sufficiently linked to the Company's overall business objectives and management's success and risk factors inherent to the Company's business.

**Section 7.03 Reviews.** The Audit Committee shall consider and review with management and, separately, with the head of the Company's internal audit function:

- (1) Significant findings during the year and management's responses thereto, including the timetable for implementation of the recommendations to correct weaknesses in internal controls.
- (2) Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
- (3) Any changes required in the planned scope of their audit plan.
- (4) The internal auditing function's budget and staffing.
- (5) The internal auditing function's responsibilities.

## **ARTICLE VIII. COMPLIANCE**

**Section 8.01 Compliance Programs.** The Audit Committee shall ascertain whether the Company has an effective process for ensuring compliance with, and determining risks and exposures that may be attendant on non-compliance with,

applicable laws and regulations and material contracts, including a process for detecting and responding to any noncompliance.

**Section 8.02 Legal Review.** The Audit Committee shall review with the Company's general counsel and other legal counsel as pertinent any legal, tax or regulatory matters that may have a material impact on the Company's results of operations or financial statements, the effectiveness of the Company compliance policies and programs and any material reports received from regulators concerning compliance with laws, regulations or governmental policies..

**Section 8.03 Codes of Ethical Conduct; Review of Related Party Transactions.** The Audit Committee shall review and evaluate the Company's code or codes of ethics and business conduct; including the provisions of promoting accountability for adherence to such codes. The Audit Committee shall review periodically with executive management, the head of the Company's internal audit function and the independent auditor the processes for administering such codes and the results of their review of compliance by Company personnel with such codes. The matters to be so reviewed shall include, without limitation, (i) any related party transactions involving any director, officer or beneficial owner of 10% or more of the Company's stock, (ii) compliance with the questionable payments provisions of the Foreign Corrupt Practices Act and (iii) the Company's policies and procedures with respect to expense accounts and perquisites, including the use of corporate assets for personal purposes.

**Section 8.04 Policies and Procedures for "Whistle-Blowing."** The Audit Committee shall review and approve the Company's policies and procedures for employees to report fraud, accounting irregularities or other wrongdoing, and shall ensure such policies and procedures provide an environment that enables employees to report any such activity freely and without fear of retribution.