Annual Audit Agenda

Summary of Information & Communications:
Annual Financial & Compliance Audit
As of and For the Year Ended June 30, 2015

Georgia Department of Community Health

Audited and Reported by a Joint Venture of
Certified Public Accounting Firms

Metcalf Davis
CPAs | ADVISORS

Mauldin & Jenkins
Certified Public Accountants, LLC

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

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PURPOSE OF AGENDA

- ✓ ***Engagement team information.***
- ✓ ***Audit process and deliverables timeline.***
- ✓ ***Overview of the independent auditors' report.***
- ✓ ***Overview of the financial statements and footnotes.***
- ✓ ***Sharing of required communications.***
- ✓ ***Summary of findings and management letter comments.***
- ✓ ***Looking at future prouncements.***
- ✓ ***Looking backwards (over the past 15 years) and looking forward.***
- ✓ ***Closing thoughts.***

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AUDIT ORGANIZATION – MAULDIN & JENKINS / METCALF-DAVIS

- Large regional joint venture audit organization serving the Southeastern United States.
- Seven (7) offices located in six (6) communities in four (4) states:

Georgia	Alabama	Tennessee	Florida
Atlanta (2)	Birmingham	Chattanooga	Bradenton
Macon			
Albany			

- Over 300 individuals employed, and provider of over 375,000 hours of service annually.
- Serve more governmental entities in the Southeast USA than any other certified public accounting firm requiring over 70,000 hours of service on an annual basis.
- Auditors of over 300 total governmental entities, and also serve over 250 not-for-profit entities.
- **Auditors of more State of Georgia agencies and authorities than any other party.** We work closely with the State of Georgia's State Accounting Office (SAO) and Department of Audits & Accounts (DOAA). We audit approximately 40 of the State of Georgia's component units.
- Auditors of:
    - Twenty-three (23) governmental units whose assets exceed $1 billion and several whose revenues exceed $1 billion annually.
    - Five (5) entities with assets as much as $5 billion.
    - Four (4) governmental units whose debt obligations exceed $1 billion, and twenty-seven (27) governmental units whose debt exceeds $100 million.
    - Five (5) local governments who are in the top 25 metropolitan Atlanta's largest employers (public and private) per the Atlanta Business Chronicle.

Seventy-eight (78) governments awarded the GFOA's Certificate of Achievement for Excellence in Financial Reporting.

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SPECIFIC ENGAGEMENT TEAM MEMBERS

Engagement Team Leaders on the Audit Engagement Include:

- **Miller Edwards**, Engagement Partner - 30 years experience serving governments with 16 years' experience auditing the Department of Community Health (the Department).

- **Greg Davis**, Quality Assurance Partner - 40 years' experience serving governments with 16 years' experience auditing the Department.

- **Matt Hill**, Partner (Compliance / Single Audit) - 17 years' experience serving governments with 16 years' experience auditing the Department.

- **Marci Thomas**, Quality Assurance Partner (Compliance and Financial Audits) - 29 years' experience serving governments with six (6) years' experience auditing the Department.

- **Joel Black**, Quality Assurance Partner - 22 years' experience serving governments with five (5) years' experience providing the quality assurance reviews of the audits of the Department.

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OVERVIEW OF AUDIT PROCESS & DELIVERABLES TIMELINE

The following information presents a timeline of events in the conduct of the annual audit:

- **March 2015** Tested transition from MEMS to ADP for the State Health Benefit Plan.
- **April 2015** Met with Audit Committee on April 9, 2015.
- **May 2015** Single Audit (federal compliance audit) planning commenced on Medicaid and the Children's Health Insurance Plan (CHIP) programs.
- **May 2015** First audit status meeting, and initial audit plan was theorized and discussed with management. We began the annual audit process focusing on the compliance and planning elements of the audit.
- **May 2015** Received draft of the preliminary Schedule of Expenditures of Federal Awards (the preliminary SEFA).
- **June – August 2015** Periodic meetings with management to discuss various status updates from management and the auditors points of view.
- **June – August 2015** Substantial conduct and performance of the Single Audit.
- **September 2015** Received from management the actuarial report for the incurred-but-not-reported (IBNR) liability for the State Health Benefit Plan (enterprise and fiduciary funds) and for the Medicaid program.
- **October 2015** Management provided adjusted general ledgers and draft financial statements for the governmental funds and the enterprise and fiduciary funds as well as the financial statement notes.
- **October 2015** Management provided a final SEFA.
- **November 2015** Oral affirmations provided to the State Accounting Office relative to Department's ending balances was on November 6, 2015.
- **November 2015** Concluded financial and compliance audits and final finding responses provided by Department management. All of our reports are dated November 18, 2015 which was our last day of fieldwork as well as the completion of our extensive quality assurance and review process.
- **November 2015** Hand-delivery of the all the respective audit reports.

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INDEPENDENT AUDITORS' REPORT

Significant excerpts from the Independent Auditors' Report include the following:

A. **Scope:** "**We have audited** the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2015, which collectively comprise the Department's basic financial statements as listed in the table of contents."

B. **Your Responsibility:** "**These financial statements are the responsibility of the Department's management**."

C. **Our Responsibility:** "**Our responsibility is to express opinions** on these financial statements based on our audit."

D. **Audit Standards:** "We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States."

E. **Unmodified "Clean" Audit Opinion:** "**In our opinion**, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America."

OVERVIEW OF FINANCIAL STATEMENTS AND FOOTNOTES

Statement of Net Position – This statement is similar to a balance sheet, and presents the governmental and business-type activities of the Department as of June = 30, 2015. The statement is prepared under the full-accrual method of accounting and includes components for capital assets and long-term debt. The governmental activities are primarily the Medicaid activities of the Department, and the business-type activities surround the State Health Benefit Plan (SHBP).

Significant elements to consider as of June 30, 2015 include:

- Cash and cash equivalents and investments (funds held at the Office of the State Treasury) amount to approximately $920 million as of June 30, 2015 as compared to $718 million as of June 30, 2014. Consequently, cash and cash equivalents and investments increased by approximately $202 million during 2015. Such amounts also increased by $414 million during 2014 resulting in a two (2) year growth of approximately $616 million.

- Total receivables amount to approximately $1.388 billion as compared to $1.407 billion as of the close of the prior fiscal year. This results in a decrease in receivables during 2015 in the approximate amount of $19 million.

- Total assets (and deferred outflows of resources) amount to approximately $2.398 billion versus the prior year approximation of $2.133 billion. Therefore, total assets have decreased by approximately $265 million.

- Liabilities (and deferred inflows of resources) include the usual items such as accounts payable, accrued liabilities and benefits payable. Total liabilities as of June 30, 2015 amounted to approximately $1.866 billion as compared to $2.084 billion as of June 30, 2014. This represents a decrease of approximately $218 million.

- Benefits payable approximated $1.088 billion as of June 30, 2015 as compared to $1.052 billion as of June 30, 2014. The benefits payable consists primarily of actuarially calculated amounts for the respective IBNR liabilities for the payment of claims.

- Unearned revenue primarily consists of amounts received by the Department but not earned until the month of July representing a prepayment of premiums.

- Due to other funds amounted to approximately $37 million and such amounts were primarily owed to the fiduciary funds by the enterprise fund.

- In the end, a quick look at the Department's balance sheet is as follows and represents a very positive shift in the balance sheet in the right direction:

	6-30-15	**6-30-14**	**Net Change**
▪ Current Assets	$2.308 billion	$2.125 billion	$183 million increase
▪ Current Liabilities	$1.790 billion	$2.081 billion	$291 million decrease
▪ Net Current Assets			**$474 million improvement**
▪ Total Assets, etc.	$2.398 billion	$2.133 billion	$265 million increase
▪ Total Liabilities, etc.	$1.866 billion	$2.084 billion	$218 million decrease
▪ Net Position			**$483 million improvement**

The goal of any operation is to reflect a positive Net Position which the Department accomplished in the current year and the prior year.

Statement of Activities – This statement is intended to report the operations of the Department based on its primary functions and programs. It is reported on the full-accrual basis of accounting and is certainly a unique presentation as required by governmental financial reporting standards.

Significant elements to consider for the year ended June 30, 2015 include:

- The governmental activities primarily surround the Medicaid Program and CHIP programs, but other smaller Federal subsidized programs are also captured and reported. The business-type activities represent activities of the SHBP.

- **Expenses.** Total expenses (first column) amounted to approximately $13.189 billion as compared to $12.796 billion in the prior year. This represents an increase of approximately $393 million or 3%. A further breakdown and comparison is as follows:

	FY 2015	FY 2014	Change
Education	$ 49,000,000	$ 43,000,000	14.0%
Health & Welfare - Public	10,622,000,000	10,126,000,000	4.9%
Contribution to State	492,000,000	594,000,000	(17.2%)
Health & Welfare – State Health Benefit Plan	2,026,000,000	2,033,000,000	.3%
Total Expenses	**$13,189,000,000**	**$12,796,000,000**	**3.1%**

- **Revenues.** Program revenues are directly related to the respective expenses and act as direct offsets to the respective costs. Federally funded revenues are included. Total program revenues amounted to approximately $9.720 billion and $9.356 billion for fiscal years 2015 and 2014, respectively. The end result of program revenues against expenses represents the net costs which the State of Georgia must fund from a variety of General

Revenues. The net costs of all programs amounted to $3.469 billion and $3.440 billion for fiscal years 2015 and 2014, respectively.

- General Revenues primarily include the State Appropriations, other revenue collections, and intergovernmental transfers, and such amounts totaled approximately $4.007 billion for the fiscal year ended 2015 as compared to approximately $3,754 for fiscal year 2014.

- **Change in Net Position.** In the end, the change in Net Position represents the current fiscal year 2015 revenues over expenses in the approximate amount of $539 million as compared to $313 million for fiscal year 2014.

Governmental Fund Financial Statements – Such statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance. These statements follow accounting standards, and use the modified accrual method of accounting. Reconciliations from the modified accrual to full-accrual basis of accounting are reported.

Proprietary Fund Financial Statements – Such statements include a statement of net position and a statement of revenues, expenses and changes in net assets. These statements follow accounting standards, and use the full-accrual method of accounting. A statement of cash flows is included, and it reflects the sources and uses of cash and cash equivalents.

Fiduciary Fund Financial Statements – Such statements include a statement of net position and a statement of changes in fiduciary net position relative to post employment health benefits. These statements follow accounting standards, and use the full-accrual method of accounting.

Footnotes – The more significant footnotes are discussed below:

Note 1 – Summary of Significant Accounting Policies. This footnote discusses the overall Department and the nature of its operations, and the significant accounting principles utilized in the preparation of the financial statements.

Note 2 – Deposits and Investments. This footnote discloses common deposit and investment risks related to credit risk, concentration of credit risk, and interest rate risk. The footnote also addresses collateralization of bank deposits.

Note 3 – Accounts Receivable. Information regarding receivables and allowances for bad debts are discussed in this footnote.

Note 8 – Fund Balance and Net Position. This footnote provides details a further breakdown of fund balance and net position as well as the restatement required under GASB No. 68.

Note 9 – Risk Management. This footnote provides details on how the Department manages risks for which it is exposed including actuarial estimates for claims that have been IBNR.

Note 11 – Other Post-employment Benefits (OPEB). Substantial information is disclosed in this footnote about the Department's administration of the defined benefit post-employment healthcare plan.

Note 12 – Retirement Systems. Disclosure is provided about the Department's participation in the various retirement plans administered by the State.

Required Supplementary Information – GASB pronouncements require certain supplemental information regarding benefit plans and budget comparisons.

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OVERVIEW OF COMPLIANCE REPORTS

Federal Funds – As part of the annual audit process, we have performed a substantial compliance audit and Single Audit of the programs which are federally funded. For the year ended June 30, 2015, total expenditures of federal awards amounted to approximately $6.753 billion. Similar to fiscal year 2014, federally funded expenditures approximated 53% of total Department expenditures in fiscal year 2015.

Reports – We have issued two (2) reports (under separate cover from the financial audit reports) which are required by:

- *Government Auditing Standards*
- *OMB Circular A-133*

We reported two (2) findings: one (1) of which is classified as a financial audit significant deficiency surrounding accounts receivable; and one (1) which is a compliance audit significant deficiency relative to the Department's lack of internal controls and noncompliance with certain Federal programs' rules and regulations surrounding documenting eligibility.

The Single Audit compliance testing covered two (2) major programs as follows:

1)	$6.897 billion	-	Medicaid Cluster
2)	$312 million	-	Children's Healthcare Insurance Program
	$7.209 billion	-	**Total Federal Expenditures Tested Under the Provisions of Single Audit Act (= 99.7% of all Federal Expenditures)**

Management Letter – We have also issued a management letter with further recommendations for improvement in the areas of internal control, compliance and general operations. We reported six (6) additional recommendations to the Department in the management letter.

REQUIRED COMMUNICATIONS

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As previously stated in our agreement with the Department and as stated above, we would like everyone to understand our responsibility in connection with your audit.

Our audit of the financial statements of the Department for the year ended June 30, 2015, was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contributed to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Department's internal control or compliance with laws and regulations.

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Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Department. There were no significant new accounting policies or standards implemented this year. There are new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

In considering the qualitative aspects of the Department's accounting policies, we did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The Department's policies relative to the timing of recording of transactions are consistent with GAAP and typical government organizations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our engagement. We considered this information along with the qualitative aspects of management's calculations in evaluating the Department's significant accounting estimates. Estimates significant to the financial statements include such items as the estimate for the valuation of benefit claims incurred but not reported, federal accounts receivable, over/under payment of claims, and allowance for doubtful accounts receivable.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

Difficulties encountered in performing the audits are to include any serious difficulties that we encountered in dealing with management related to the performance of the audits. *Statements of Auditing Standards* issued by the AICPA defines "difficulties encountered" to include, but not limited to: unreasonable delays by management in providing needed information; unreasonable timetables set by management; and unavailability or lack of cooperation of client personnel in responding to appropriate audit inquiries.

We believe we received full cooperation of Department personnel, and believe we were given direct and unrestricted access to the Department's officials and the respective books and records. However, we did experience delays by management in providing certain information considered to be significant to the audit process. This information related to the IBNR estimate and the matters affecting the budget of the Department. No other significant difficulties (as defined in the above paragraph) were noted in the performance of the fiscal year 2015 audit.

Audit Adjustments

The Department continues to make substantial post-closing Hyperion adjusting journal entries. Included in the adjusting journal entries were a series of audit adjustments which were necessary to properly state the Department's financial statements as of and for the fiscal year ended June 30, 2015. Such adjustments surrounded amounts computed and recorded relative to:

- Reclassifications for financial statement purposes;
- Accounts payable and other accruals; and,
- Federal receivables.

As for audit adjusting journal entries, the following summations / approximations of adjustments were required to be recorded in the General Fund of the Department as of and for the year ended June 30, 2015:

Adjusting Entry #1

Other accounts receivable	$53,400,000	
Benefits expenditures		$53,400,000
Federal accounts receivable	$35,800,000	
Federal revenues		$35,800,000

To adjust for drug rebates received subsequent to year end which were excluded from the balances of other receivables coupled with the effect on the Federal accounts receivable / revenues (see significant deficiency in reports).

Adjusting Entry #2

Accounts payable	$2,400,000	
Prepaid expenses		$2,400,000

To adjust the respective accounts payable and prepaid expenses for the new eligibility system (see management letter recommendation).

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Uncorrected Misstatements

Two (2) passed adjusting journal entries was noted which should be reported.

Proposed / Passed Adjusting Entry #1

Federal accounts receivable	$7,500,000	
Other receivable	$3,700,000	
Benefits expenditures	$11,200,000	
Federal revenues		$7,500,000
Other revenues		$3,700,000
Upper payment limit (UPL) payable		$11,200,000

To adjust for upper payment limit payable not recorded as of year end (see significant deficiency in reports).

Proposed / Passed Adjusting Entry #2

Contracts expense	$2,400,000	
Federal accounts receivable	$2,200,000	
Accounts payable		$2,400,000
Federal revenues		$2,200,000

To adjust the accounts payable for various operating and capital expenditures noted during the audit.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on significant matters, or significant disclosures to be included in the financial statements.

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Representation from Management

We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations.

Management's Consultation with Other Accountants

We know of no outside consultation by the Department or us in connection with our engagement, except as follows:

- The Department utilized the services of the DOAA for internal auditing functions and audits of nursing home cost reports throughout the year as well as certain other procedures related to budgetary compliance;
- The Department utilized actuarial services of outside consultants for assistance in calculating the Medicaid (governmental activities) and Employee Health Benefits (business-type activities) claims IBNR;
- We, likewise, utilized the services of an outside consultant for purposes of evaluating the Medicaid and Employee Health Benefits claims payable and the over/under payment of claims amounts as of June 30, 2015;
- The Department utilized the attestation services of other certified public accounting firms for purposes of providing attestation reports relative to the over/under payment of claims associated with payment accuracy of the Medicaid Management Information System;
- The Department utilized the services of other certified public accounting firms for purposes of obtaining Statement on Standards for Attestation Engagements (SSAE) No. 16, *"Reports on Internal Controls at a Service Organization"* and reports for various aspects of the Department's operations. We reviewed those reports, and considered their effects on the financial audit.

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Significant Issues Discussed with Management

There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements. We are not aware of any consultations management had with us or other accountants about accounting or auditing matters. No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Other Information in Documents Containing Audited Financial Statements

If you intend to publish or otherwise reproduce the Department's June 30, 2015 financial statements and make reference to either of our firms, we must be provided with printers' proofs or masters for our review and approval before printing. You must also provide us with a copy of the final reproduced material for our approval before it is distributed. We are not aware of any other documents that contain the basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the statements of the Department.

Independence

We are independent of the Department, and all related organizations, in accordance with auditing standards promulgated by the AICPA and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audit Firm Retention

We know of no issues which would prevent us from performing any future year financial & compliance or internal audits.

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ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2015, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as significant deficiencies in our supplemental reports on internal controls and compliance. Additionally, we noted certain items management should consider as part of its decision making process. Our recommendations (also commonly referred to as findings and management points) are presented in the following paragraphs. Further, during our audit of the financial statements as of and for the year ended June 30, 2015, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Significant Deficiencies

1. Federal Receivables and Cash Management – Significant Deficiency (Substantial Repeat)

The Department's management is responsible for ensuring that accounts receivable are reported accurately in the financial statements and properly reconciled to supporting documentation. This significant deficiency is a modification and a substantial repeat of finding FS 2014-002 from the year ended June 30, 2014.

Management of the Department provided us with a reconciliation of federal receivables as initially reported in the June 30, 2015 financial statements. As a result of our audit procedures, we identified certain adjustments which needed to be made to the reconciliation. Additionally, we identified certain FY 2015 drug rebates received subsequent to year end which were excluded from the reported balances of the Department at year end. Furthermore, during our testing of UPL calculations, we identified certain FY 2015 hospital UPL obligations and related receivables which were excluded from the reported balances of the Department at year end.

An adjustment of approximately $53 million was required to properly increase drug rebate receivables and decrease the Department's expenses. This was offset by a decrease of approximately $36 million to federal receivables and federal revenue for a net increase of approximately $17 million to receivables and a net decrease of $17 million to expenses.

Additionally, as a result of the Upper Payment Limit ("UPL") tests, it was determined that revenue and receivables (federal and other) were understated by approximately $11 million.

Management was able to reconcile, within a difference of $10.5 million, the federal receivable balance reported in the Department's financial statements; however, the Medicaid Administration funding source had a variance of approximately $15 million.

Historically, drug rebates are collected by Goold Health Systems ("GHS") and remitted to the Department in the quarter following the quarter which the rebates relate to. Based on historical collections, GHS provides management of the Department at each quarter-end with an estimate of the rebates expected to be received in the subsequent quarter. Historically, the Department records this estimate at the end of each quarter as a receivable and adjusts the estimate to actual as amounts are collected through the end of the subsequent quarter.

In the current year, the Department received approximately $94 million of drug rebates through September 30, 2015, which was approximately $53 million less than the $147 million of drug rebates projected by GHS for the 4th quarter of FY 2015. Per our request, the Department contacted GHS and learned that there was a slowdown in remittances to DCH in the first quarter of FY 2016 and that, as a result, the remaining projected amounts for the 4th quarter of FY 2015 were received subsequent to September 30, 2015, but prior to the issuance of the financial statements.

Regarding the UPL payments which were not recorded as of June 30, 2015, we understand that on a budget basis, these UPL payments would not be recorded until amounts are collected from the hospitals in FY 2016. However, the Department's financial statements are presented on the accrual basis of accounting. Therefore, liabilities are recognized when they become measurable, which means the amount of the transaction can be determined, and revenues are recognized when they are earned and measurable.

We recommend management implement procedures whereby any variances between amounts expected to be received and amounts actually received are promptly and thoroughly investigated. With regards to GHS, we recommend that the Department continue to follow up in subsequent quarters to ensure that collections for amounts relating to the previous quarter are collected before the subsequent quarter-end, and that accounts receivable are adjusted accordingly.

With regards to the continuing variance in reconciliations of federal receivables, we understand that for FY 2016, management has created new receivable accounts which will be matched dollar-for-dollar with the PMS system on a daily basis. Additionally, during FY 2015, management implemented procedures which base the drawdown request on federal funds directly to expenditures incurred. In addition to these measures, we recommend management:

- Regularly reconcile federal draws and the related general ledger balances throughout the year and timely investigate and resolve any variances between funding source draws and the supporting expenditures (Medicaid Program Services and Medicaid Administration) identified during these reconciliations;

- Implement a process which includes a careful review by an individual outside of the reconciliation process. The reviewer should carefully consider each component of the reconciliation to determine its reasonableness; and,

- Establish written procedures documenting the reconciliation process and provide training to new employees performing this reconciliation. Such training should include an explanation of not only the procedures to be performed in the reconciliation, but the rationale for the inclusion or exclusion of certain items in the reconciliation.

Additionally, we recommend the Department establish written closing processes and provide training to employees that reinforce the accrual basis of accounting to ensure that liabilities are properly identified and recorded at the point of incurring the obligation and related revenues are recorded when earned and measurable.

2. Verification and Documentation of Medicaid Provider Eligibility – Significant Deficiency (Substantial Repeat)

The Department is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through the Centers for Medicare and Medicaid (CMS). The Department is responsible for determining that all recipients meet prescribed eligibility requirements and ensuring those requirements are appropriately documented.

This significant deficiency is a modification and a substantial repeat of finding SA 2014-004 from the year ended June 30, 2014.

The Department has contracted with the Department of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted three recipient files in a sample of 60 Medicaid recipients whose eligibility was not properly documented. Those three files did not contain adequate documentation of timely recertification.

Without adherence to the Department's policies and procedures to determine and document Medicaid eligibility, members in the Medicaid program may not be eligible to receive benefits if documentation of their eligibility status is incomplete or inadequate.

An indeterminate number of participants are inadequately documented as to eligibility for Medicaid. The monetary effect is that federal Medicaid funds may be used to provide benefits for members who are not eligible for the program.

The Department does not have effective monitoring controls in place to detect deficiencies in documentation of a member's eligibility and does not have effective controls in place to enforce corrective actions of findings once noted.

The Department should improve their verification and documentation enforcement policy for Medicaid members and create more stringent controls over the eligibility process.

Management Points

We have discussed various matters with management pertaining to operations, controls and compliance including, but not limited to:

1. Provider Receivables

During our testing of provider receivables, we noted that approximately $925,000 has been recorded as prior year uncollectable receivables under benefit recovery for the past five years. This amount has been fully allowed for in each of the past five years but no action has been taken by the Department to write off this receivable in accordance with Georgia statutes.

Further, during discussions with management we became aware that there is a general lack of communication and formal reconciliation of provider receivables between the Office of Inspector General (OIG) and financial management personnel. Accordingly, collections have been made under certain payment plans during the year which are still shown as outstanding by the OIG.

We recommend that procedures be implemented which result in a reconciliation on a monthly or at least quarterly basis between financial management and the OIG on all outstanding payment plans from providers. Further, we recommend the Department consider turning these receivables over to the Attorney General of the State of Georgia if management has determined that they are uncollectable.

2. Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards

The Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the "Uniform Guidance") replaces and consolidates the Federal Office of Management & Budget (OMB) Circular requirements for Federal awards. The Uniform Guidance was effective for all new Federal awards or funding increments after December 26, 2014. We noted that as the Department received new awards or funding increments for the Medicaid program and Children's Health Insurance Program (CHIP) after December 26, 2014, federal expenditures during the year were subject to requirements under the prior OMB Circulars for awards issued through December 26, 2014 and to requirements under the new Uniform Guidance for awards or funding increments issued after December 26, 2014. Although the Department's expenditure coding identifies the fund source and federal award year for expenditures, the coding does not have sufficient information to identify whether a federal fiscal year 2015 expenditure was funded with a federal award or incremental funding issued through December 26, 2014 or whether it was funded with a federal award or incremental funding issued after December 26, 2014. The Department should consider expanding their expenditure coding to identify and differentiate between those expenditures subject to the prior OMB Circulars and those expenditures subject to the Uniform Guidance. However, the Uniform Guidance may be applied to the entire Federal award that is uncommitted or unobligated as of the Federal award date of the first increment received on or after December 26, 2014.

3. Supporting Documentation

As part of the Georgia Gateway Project, the Department contracts with Deloitte Consulting, LLP (Deloitte) and Georgia Technology Authority (GTA) to provide certain software licenses and services, among other services. As of year-end, the Department initially booked approximately $2.5 million of prepaid expenses and accounts payable for amounts paid by GTA and Deloitte for future years of software licenses for the Georgia Integrated Eligibility System. These amounts were booked before year-end because it was believed that GTA and Deloitte had paid these amounts on behalf of the Department prior to June 30, 2015, although the Department was not invoiced until after year-end. However, upon our request, management further investigated these amounts and learned that payments were not made by Deloitte and GTA for these services until after June 30, 2015. As a result, an adjustment was needed to decrease prepaid expenses and accounts payable by approximately $2.5 million.

We recommend that management request and review supporting documentation for all amounts booked to the general ledger. This will help ensure that amounts are recorded in the general ledger in the proper accounting period.

4. Violations of Purchase Card Policy (Substantial Repeat)

The laws of the State of Georgia state that business purchases paid with State of Georgia (State) funds are exempt from State sales and use tax, and according to the Purchasing Card Policy and Procedures (P-Card Policy), the Department's approving officials and Purchasing Card (P-Card) holders are responsible to ensure merchants do not charge State sales and use tax. If tax is charged, the P-Card cardholder should contact the appropriate merchant to obtain a credit for any sales and use tax paid. Further, the P-Card cardholder is required to document attempts to obtain credit for any State sales and use tax charged in error. During our fieldwork we noted one transaction in which State sales and use tax was improperly charged.

According to the Department's policy, P-Card statements are to be closed within ten days after the closing date of each monthly statement. As P-Card statements are closed, the amounts are applied to the appropriate general ledger accounts and the encumbrance reduced. If statements are not closed in a timely manner, these amounts are not allocated to the general ledger. As a result, encumbrances and reductions in budgeted amounts are not reflected in the appropriate accounts. This could lead to problems such as errors, misstatements or budget overruns at the end of the fiscal year. During our tests, we noted one P-Cardholder statement which was not closed in a timely manner.

We recommend the Department clearly communicate to all P-Card users the importance of ensuring merchants do not charge State sales and use tax. We additionally recommend the approver perform a detailed review of the monthly transactions to make certain State sales and use tax was not charged, as well as maintain an audit trail which documents the attempts to obtain credit for the tax charged in error. Finally, we recommend additional training for the appropriate employees to ensure the importance of complying with P-Card Policies including those related to approvals and timely closing of transactions.

5. Service Auditor's Reports (Substantial Repeat)

User organizations that obtain a service auditor's report from their service organizations receive valuable information regarding the service organization's controls (SOC) and the effectiveness of those controls. We noted significant improvement by management in obtaining and reviewing service auditor reports. However, management was unable to provide a Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy (a "SOC 2 report") for the Georgia Technology Authority (GTA), a service organization relevant to the Department's controls.

We understand management at the Georgia Technology Authority is currently documenting controls and reviewing a readiness report in an effort to offer a SOC 2 report to the Department at a future date. We encourage management to continue monitoring the progress made by the GTA toward completing a SOC 2 report over the GTA's controls relevant to the services provided the Department.

We recommend management obtain a SOC 2 report which includes an understanding of controls in place as well as testing the operational effectiveness of those controls. In addition, we further encourage management to ensure the requirement to provide the appropriate level of SOC report as well as the appropriate subdivided report (either Type 1 or Type 2) is included in the written agreement with any service organization.

6. Voided Checks

During fieldwork, we noted one (1) stale dated check in a sample of twenty-six (26) voided checks was voided more than six months after the date of issuance. We recommend that Department improve review of stale dated checks to ensure that they are voided and refunded to the appropriate program in a timely manner.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2014, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods.

1. New Governmental Accounting Standards Board (GASB) Pronouncements

As has been the case for the past 10 years, GASB has issued several other new pronouncements which will be effective in future years. The following is a brief summary of the new standards:

a) **Statement No. 72, *Fair Value Measurement and Application*** was issued in February of 2015, and is effective for financial statements for periods beginning after June 15, 2015 resulting in the Department's fiscal year ending June 30, 2016.

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of ***fair value*** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

b) **Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*** was issued in June of 2015. The provisions of this standard are two (2) tiered. Amendments to GASB No 68 are required to be reported with the close of June 30, 2016. The elements of this pronouncement dealing with defined benefit pensions that are not within the scope of Statement No. 68 will be have disclosure requirements effective as of June 30, 2016 and financial reporting requirements effective as of June 30, 2017.

The requirements of this statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities.

This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

This statement also clarifies the application of certain provisions of Statements No.'s 67 and 68 with regard to the following issues:

- **Information** that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- **Accounting** and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.

- **Timing** of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

c) **Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2016 resulting in the Department's fiscal year ending June 30, 2017. This statement could easily be described as the GASB No. 67 for postemployment benefit plans due to the fact that it will closely follow the provisions of GASB No. 67 for pension plans.

The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This statement replaces Statements No. 43, *Financial Reporting for Post- employment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures.*

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial re- porting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this statement includes OPEB plans (defined benefit and defined contribution) administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year.

The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability.

The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

d) **Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2017 resulting in the Department's fiscal year ending June 30, 2018. This statement could easily be described as the GASB No. 68 for postemployment benefit plans due to the fact that it will closely follow the provisions of GASB No. 68 for pension plans.

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit

OPEB also are addressed.

In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

e) **Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2015 resulting in the Department's fiscal year ending June 30, 2016. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

The objective of this statement is to identify (in the context of the current governmental financial reporting environment) the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two (2) categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The requirements in this statement improve financial reporting by: (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

f) **Statement No. 77, *Tax Abatement Disclosures*** was issued in August of 2015, and is effective for financial statements for periods beginning after December 15, 2015 resulting in the Department's fiscal year ending June 30, 2017.

Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This statement requires disclosure of tax abatement information about: (1) a reporting government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

g) **Other Pending or Current GASB Projects.** As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

- **External investment pools.** Current standards allow pools that are considered to be 2a7-like to report investments at amortized cost rather than fair value, however, the SEC recently made significant changes to Rule 2a7 making it hard to be 2a7 like.

  An exposure draft created criteria (which are based on old 2a7 criteria) for an external investment pools to continue to be accounted for using amortized cost. Final standard expected in the fall/winter of 2015.

- **Irrevocable split-interest agreements** which are prevalent at colleges and universities whereby split-interest agreements in which an asset is given to government in trust. During stated term of the trust the income generated by the trust goes to the donor and when the trust ends then the assets become the governments. Final standard expected in 2016.

- **Capital leases or operating leases** continues to be a hot topic. Looking into whether all leases should be treated the same way. Final standard expected in 2016.

- **Asset retirement obligations** in which the GASB is considering standards for reporting liabilities related to obligations to perform procedures to close certain capital assets, such as nuclear power plants. This concept would not change existing standards such as GASB 18 (landfills) or GASB 49 (pollution remediation). Final standard expected in 2016.

- **Fiduciary responsibilities** and new definitions for fiduciary funds and use of whether a government has "control" and who benefits to determine accounting as fiduciary. Final standard expected in 2016.

- **Blending requirements for certain business-type activities.** GASB is considering revising the standards regarding how certain component units of business-type activities should be presented. There is diversity in practice, with some component units blended for reasons not included in Statement 14 (such as sole member of an LLC). Final standard expected in 2016.

- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability. GASB anticipates issuing an initial due process document on this project by the end of 2016.

- **Conceptual Framework** is a constant matter being looked at by GASB. Current measurement focus statements (for governmental funds) to change to near-term financial resources measurement. May dictate a period (such as 60 days) for revenue and expenditure recognition. May expense thing such as supplies and prepaid assets at acquisition. Will look into which balances (at all statement levels) are measured at acquisition and which need to be re-measured at year-end. Project placed on hold for now.

- **Economic Condition Reporting** is another long-term matter being looked into by GASB. Includes presentation of information on fiscal sustainability (including projections). Tabled for now pending resolution to issues raised on GASBs scope.

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

Annual Audit Agenda

June 30, 2015

LOOKING BACKWARD AND FORWARD

General. We have audited the Department's past sixteen (16) fiscal years. Many things have changed and not changed. A chronology of significant events in past fifteen (15) years include:

- **June 30, 2000** - Four (4) year engagement awarded to the joint venture of firms. Original audit was performed by joint venture due to perceived independence matters surrounding services provided by DOAA. Single Audit was performed statewide by DOAA with joint venture testing the DOAA work on the Department and joint venture taking ownership.

- Substantial adjustments noted in the areas of cash, receivables, payables and the incurred-but-not-reported (IBNR) liability. First time IBNR was actuarially determined, tested and census data audited. First time cash was reconciled and not simply a "proved".

- Financial audit finding regarding Federal accounts receivable. Several compliance findings, including a finding on eligibility (the first of sixteen (16) year's forward).

- **June 30, 2003** – Disclaimer of opinion due to computer conversion issues noted in April 2003 thru June 2003. Audit began in spring of 2004 and reports issued in February 2005.

- **June 30, 2004** – Qualified opinion for opening balances (for June 30, 2003). Joint venture began doing the entire Single Audit.

- **June 30, 2005** – Unqualified opinion issued.

- **June 30, 2010** – Transition of the Division of Public Health and the Office of Regulatory Services. Lots of management points.

- **June 30, 2012** – Disposition of most of all activities included in the transition of Division of Public Health and the Office of Regulatory Services.

- **June 30, 2015** – Last year of joint venture audit services. Financial audit finding on Federal accounts receivable. Compliance audit finding surrounding eligibility.

GEORGIA DEPARTMENT OF COMMUNITY HEALTH
Annual Audit Agenda
June 30, 2015

Administrative. In the past fifteen (15) years, we have worked with six (6) people who have held the role of Commissioner seven (7) times, and six (6) Chief Financial Officers (CFO's).

Financial. The following gives a quick look of the Department in five (5) year increments:

	As of and For the Year Ended June 30,			
	2000	**2005**	**2010**	**2015**
Revenues				
State Appropriation	$ 1,811,594,699	$ 2,137,382,794	$ 2,132,088,507	$ 3,133,028,452
Federal	2,804,994,532	4,782,057,994	6,741,615,320	7,226,123,767
Contributions	1,240,589,748	1,805,784,105	1,993,469,124	2,363,917,302
Other	90,913,814	1,155,916,389	713,111,883	1,004,551,365
Total Revenues	$ **5,948,092,793**	$ 9,881,141,282	$ 11,580,284,834	$ **13,727,620,886**
Expenditures				
Education	$ 36,895,029	$ 38,576,887	$ 42,729,254	$ 49,493,640
Health and Welfare	5,840,012,661	10,035,345,176	11,559,656,135	12,711,708,718
Total Expenditures	$ 5,876,907,690	$ 10,073,922,063	$ 11,602,385,389	$ 12,761,202,358
Other Financing Sources (Uses)				
Transfers In (Out) *Sometimes to Fiduciary*	$ -	$ -	$ 2,885,178	$ -
Contribution to State General Fund	(47,250,837)	(5,670,259)	(205,080,511)	(491,813,046)
Capital Leases and, or Disposition of Assets	63,148	(14,108,692)	-	-
Total Other Financing Sources (Uses)	$ (47,187,689)	$ (19,778,951)	$ (202,195,333)	$ (491,813,046)
Net Change	$ 23,997,414	$ (212,559,732)	$ (224,295,888)	$ 474,605,482

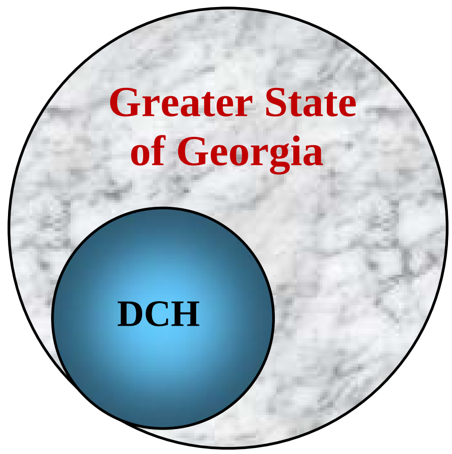
During the past fifteen (15) years, the Department has seen:

- Revenues grow by approximately 131% = ~8.7% per year.
- Expenditures grow by approximately 117% = ~7.8% per year.
- **We have audited over $165,000,000,000 of revenues.**

GEORGIA DEPARTMENT OF COMMUNITY HEALTH
Annual Audit Agenda
June 30, 2015

Going Forward. The audit process is going to be very different going forward.

- **The Department will not prepare stand-alone financial reports, and will not be audited as a separate governmental unit (within the State of Georgia).**
- **No stand-alone Single Audits will be conducted and separately reported upon.**
- **The Department will be audited as part of the greater statewide audit.**



Activities:	**Statewide 2014**	**DCH 2015**
General Fund revenues	$36,500,000,000	$11,300,000,000 = 31%
General Fund expenditures	$32,600,000,000	$10,700,000,000 = 33%
Proprietary Fund(s) revenues	$11,400,000,000	$2,400,000,000 = 21%
Proprietary Fund(s) expenses	$11,400,000,000	$2,000,000,000 = 18%

Materiality:	**Statewide 2015**	**DCH 2015**
General Fund materiality	$1,108,000,000	$51,000,000 = 4.6%
Percentage of expenditures	3.4%	.5%
Proprietary Fund(s) materiality	$423,000,000	$11,000,000 = 2.6%
Percentage of expenditures	3.7%	.6%

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

Annual Audit Agenda

June 30, 2015

<u>CLOSING</u>

This information is intended solely for the use of the Department's management, and others within the Department's organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Department of Community Health for the past fifteen (15) years. Should the Department or the State of Georgia ever need our accounting, auditing or internal auditing assistance, please give us a call.

Thanks to the Many People Who Have Been at the Georgia Department of Community Health for Giving Us the Opportunity to be of Service to the Department for the Past 15 Years.