Reports of Independent Certified Public Accountants in Accordance with *Government Auditing Standards* and OMB Circular A-133

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2015

Metcalf Davis
CPAs | ADVISORS

A JOINT VENTURE OF
CERTIFIED PUBLIC ACCOUNTING FIRMS
AND MEMBERS OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MAULDIN & JENKINS
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REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND OMB CIRCULAR A-133

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Clyde L. Reese III, Commissioner
State of Georgia's Department of Community Health

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **State of Georgia's Department of Community Health** (hereinafter referred to as the "Department of Community Health"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department of Community Health's basic financial statements, and have issued our report thereon dated November 20, 2015. Our report includes a reference to the change in accounting principles resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Community Health's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Community Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Community Health's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item FS 2015-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Community Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Community Health's Response to Finding

The Department of Community Health's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department of Community Health's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Metcalf Davis Mauldin & Jenkins

Atlanta, Georgia
November 20, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule Of Expenditures of Federal Awards Required by OMB Circular A-133

The Honorable Clyde L. Reese III, Commissioner
State of Georgia's Department of Community Health

Report on Compliance for Each Major Federal Program

We have audited **State of Georgia's Department of Community Health's** (hereinafter referred to as the "Department of Community Health") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department of Community Health's major federal programs for the year ended June 30, 2015. The Department of Community Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department of Community Health's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Community Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department of Community Health's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department of Community Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 2015-001 and SA 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

The Department of Community Health's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department of Community Health's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Department of Community Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department of Community Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department of Community Health's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items SA 2015-001 and SA 2015-002 that we consider to be significant deficiencies.

The Department of Community Health's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department of Community Health's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Community Health, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department of Community Health's basic financial statements. We issued our report thereon dated November 20, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Atlanta, Georgia
November 20, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Section I
Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	____yes	X no
Significant deficiencies identified not considered to be material weaknesses?	X yes	____none reported
Noncompliance material to financial statements noted?	____yes	X no

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	____yes	X no
Significant deficiencies identified not considered to be material weaknesses?	X yes	____none reported
Type of auditor's report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	X yes	____no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.767	Children's Healthcare Insurance Program (CHIP)
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 21,688,980	
Auditee qualified as low-risk auditee?	____yes	X no

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

Section II
Financial Statement Findings and Responses

FS 2015-001 Accounts Receivable
(Substantial Repeat of Prior Year Finding FS 2014-002)

Criteria: The Department of Community Health's management is responsible for ensuring that accounts receivable are reported accurately in the financial statements and properly reconciled to supporting documentation.

Condition: 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 of Community Health 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 of Community Health 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 of Community Health at year end.

Context: See effect as noted below.

Effect: An adjustment of approximately $53 million was required to properly increase drug rebate receivables and decrease the Department of Community Health'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") testwork, 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 of Community Health's financial statements; however, the Medicaid Administration funding source had a variance of approximately $15 million.

Cause: Historically, drug rebates are collected by Goold Health Systems ("GHS") and remitted to the Department of Community Health in the quarter following the quarter which the rebates relate to. Based on historical collections, GHS provides management of the Department of Community Health at each quarter-end with an estimate of the rebates expected to be received in the subsequent quarter. Historically, the Department of Community Health 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 of Community Health 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 of Community Health 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.

Recommendation: 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 of Community Health 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 of Community Health 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.

Auditee's Response: The Department of Community Health concurs with this finding. DCH acknowledges that there were deficiencies in the process of reconciling the receivables from the federal government, training staff on budgetary versus full accrual accounting and following up material account variances.

The following actions have been taken to improve the reconciliation process for the federal receivable account:

- During State Fiscal Year (SFY) 2015, we implemented a process to reconcile the authorizations, draws, and finalizations from the federal Payment Management System (PMS) on a weekly, monthly, and quarterly basis to the general ledger. Implementation of this process ensured that the federal receivable accounts were balanced to PMS. The federal draws for Medicaid Benefits and Admin are reconciled to the general ledger on a quarterly basis. Any discrepancies between the expenditures from the general ledger and the amounts drawn by funding sources are addressed with the reconciliations and resolved. Beginning with SFY2015, receivables from the federal government are reconciled on a monthly basis.

- During SFY2015, monthly meetings were held for management to review the federal receivables reconciliations. Adjustments and errors were discussed with management during the monthly meetings. Beginning with SFY2016 the federal receivable reconciliation will be scanned in Laser fiche on a monthly basis.

- The Department of Community Health formalized the policies and procedures for the federal reconciliations during SFY 2015. The policies and procedures will be revised as necessary with any updates communicated to financial staff members. Training will be provided to ensure that financial staff members understand the transaction flow for the federal receivable general ledger accounts

The year-end process for UPL and pharmacy rebates will be documented and include a checklist that will be signed off by the preparer of the accruals. For UPL it will be noted on the checklist which accruals are budgetary versus GAAP.

Any significant variances between the estimated rebates accrued and actual amounts received will be investigated and documented. The documentation will be reviewed and signed off on by the Deputy CFO.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SECTION III
Federal Awards Findings and Questioned Costs

SA 2015-001 Federal Receivables and Cash Management
(Substantial Repeat of Prior Year Finding SA 2014-002)

Federal Program Information:

CFDA Nos. 93.777 and 93.778
Medicaid Cluster:
State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare; and,
Medical Assistance Program (Medicaid; Title XIX)

U.S. Department of Health and Human Services
Grant Award Nos. 05-1405GA5MAP, 05-1405GA5ADM, 05-1505GA5MAP, 05-1505GA5ADM, 05-1405GABIPP, 05-1505GABIPP, 05-1405GAINCT, 05-1505GAINCT, 05-1405GAIMPL, 05-1505GAIMPL, 05-1405-GA-5001, 05-1505-GA-5001, 05-1405-GA-5002, 05-1505-GA-5002

Fiscal Year 2015

Criteria: See Financial Audit Finding FS 2015-001.

Condition: See Financial Audit Finding FS 2015-001.

Questioned Cost: None

Context: See Financial Audit Finding FS 2015-001.

Effect: See Financial Audit Finding FS 2015-001.

Cause: See Financial Audit Finding FS 2015-001.

Recommendation: See Financial Audit Finding FS 2015-001.

Auditee's Response: See Financial Audit Finding FS 2015-001.

SA 2015-002 Verification and Documentation of Medicaid Eligibility
(Substantial Repeat of Prior Year Finding SA 2014-004)

Federal Program Information:

CFDA Nos. 93.777 and 93.778
Medicaid Cluster:
State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare; and,
Medical Assistance Program (Medicaid; Title XIX)

U.S. Department of Health and Human Services
Grant Award Nos. 05-1405GA5MAP, 05-1405GA5ADM, 05-1505GA5MAP, 05-1505GA5ADM, 05-1405GABIPP, 05-1505GABIPP, 05-1405GAINCT, 05-1505GAINCT, 05-1405GAIMPL, 05-1505GAIMPL, 05-1405-GA-5001, 05-1505-GA-5001, 05-1405-GA-5002, 05-1505-GA-5002

Fiscal Year 2015

Criteria: The Department of Community Health 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 of Community Health is responsible for determining that all recipients meet prescribed eligibility requirements and ensuring those requirements are appropriately documented.

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

The Department of Community Health 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.

Questioned Cost: None

Context: Without adherence to the Department of Community Health'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.

Effect: 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.

Cause: The Department of Community Health 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.

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

Auditee's Response: The Department of Community Health concurs with this finding and acknowledges the importance of ensuring all State and Federal requirements for member renewals are followed properly.

DCH implemented a Program Improvement Plan (PIP) on March 12, 2010. The PIP requires DFCS to remedy areas of deficiencies such as untimely renewals. DCH and DFCS management staff meet quarterly to discuss and review progress towards improving the deficiencies.

The DCH Medicaid Eligibility Quality Control (MEQC) staff read cases in accordance to CMS required guidelines through the 2014-2016 CMS MEQC-PERM Pilots. The results are reported to DFCS management and CMS. Any deficiencies or errors cited, require a Corrective Action Plan (CAP). The CAP is tracked as part of the PIP process and continues until the issue is resolved. These findings will be included in their next CAP review.

DCH and DFCS are in the process of implementing a new Integrated Eligibility System for public assistance programs called Georgia Gateway. This system will make renewals more efficient and provide DCH more direct oversight of the Medicaid eligibility process.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Department of Community Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

U. S. Department of Health and Human Services		
Direct		
Medicaid Cluster:		
State Survey and Certification of Health Care Providers	**93.777**	**$ 8,470,383**
Medical Assistance Program	**93.778**	**6,842,682,446**
ARRA - Medical Assistance Program	**93.778**	**45,757,265**
		6,896,910,094
Adult Medicaid Quality Grant	**93.609**	**752,259**
Testing Experience and Functional Assessment Tools	**93.627**	**416,942**
Loan Repayment	**93.165**	**50,000**
HLTH CTR/Migrant Health	**93.224**	**3,197,122**
National and State Background Checks for Direct Patient Access	**93.506**	**218,563**
Primary Care Services - Resource Coordination and Development	**93.130**	**191,923**
State Rural Hospital Flexibility Program	**93.241**	**466,840**
State Children's Healthcare Insurance Program	**93.767**	**312,240,369**
Grants to States for Operation of Offices of Rural Health	**93.913**	**145,584**
Small Rural Hospital Improvements	**93.301**	**379,701**
Money Follows the Person Rebalancing Demonstration	**93.791**	**11,346,874**
Total Direct U.S. Department of Health and Human Services		**7,226,316,271**
Passed through Georgia Department of Human Services		
Refugee and Entrant Assistance - State Administered Programs	**93.566**	**3,195,893**
Total U.S. Department of Health and Human Services		**7,229,512,164**
U.S. Department of Justice		
Prescription Drug Monitoring	**16.754**	**147,716**
Total U.S. Department of Justice		**147,716**
Total Expenditures of Federal Awards		**$ 7,229,659,880**

The accompanying notes are an integral part of this schedule.

NOTE 1. PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a schedule of expenditures of federal awards reflecting total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying schedule of expenditures of federal awards includes all federal financial assistance programs administered by the Department of Community Health for the fiscal year ended June 30, 2015.

B. Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented in accordance with OMB Circular A-133.

C. Federal Financial Assistance

Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursements for services rendered to individuals for Medicare and Medicaid.

D. Basis of Accounting

The schedule of expenditures of federal awards is prepared using the full accrual basis of accounting. Under this basis, expenses are recognized when incurred.

E. Expenses

When a state organization receives federal monies and redistributes such monies to another State organization, the federal assistance is reported in both the primary recipient's and the sub-recipient's accounts. This method of reporting expenses is utilized in the accompanying schedule of expenditures of federal awards.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Summary Schedule of Prior Year Findings and Questioned Costs

SA 2014-001 Accounts Payable and Other Accruals

Criteria: The Department of Community Health's management is responsible for ensuring costs associated with payment obligations are recorded promptly when incurred, and reported accurately in the financial statements as well as in the schedule of expenditures of federal awards. An account payable exists when the Department of Community Health has benefited from the delivery of goods or services and the related obligation remains unsatisfied.

Condition: Management of the Department of Community Health provided us with a detail listing of liabilities supporting the accounts payable and other accruals reported by the Department of Community Health at June 30, 2014. As a result of our audit procedures, we identified certain obligations which were not included within the detail and therefore excluded from the reported balances of the Department of Community Health at year end.

Auditee Response/ Status: Resolved

SA 2014-002 Federal Receivables and Cash Management

Criteria: The Department of Community Health's management is responsible for ensuring that receivables from the federal government and unearned federal awards amounts are reported accurately in the financial statements and properly reconciled to supporting documentation.

Condition: Management of the Department of Community Health provided us with a reconciliation of federal receivables as initially reported in the June 30, 2014 financial statements. As a result of our audit procedures, we identified adjustments which needed to be made to the reconciliation, as well as adjustments necessary to properly state the June 30, 2014 reported balances.

Auditee Response/ Status: Unresolved: See current year finding SA 2015-001 for status of the accounts receivable.

SA 2014-003 Surveys to Monitor Facility Compliance with Provider Health and Safety Standards (Substantial Repeat of Prior Year Finding SA 13-04)

Criteria: The Department of Community Health 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 CMS. The Department of Community Health's Healthcare Facility Regulation Division (HFRD) functions as the State Survey Agency (SSA) for the State of Georgia to perform surveys (i.e. inspections) on behalf of CMS to determine whether

providers meet the conditions of participation. The Social Security Act mandates the establishment of minimum health and safety standards that must be met by providers and suppliers participating in the Medicare and Medicaid programs.

The Department of Community Health is responsible for ensuring that providers meet prescribed health and safety standards for hospital, nursing facilities and Intermediate Care Facilities for individuals with Mental Retardation (ICFMR). In accordance with 42 CFR 488.308, the survey agency must conduct a standard survey of each skilled nursing facility and nursing facility, not later than 15 months after the last day of the previous standard survey and the statewide average interval between standard surveys must be 12 months or less.

Condition: This is a modification and substantial repeat of finding SA 13-04 from the year ended June 30, 2013.

During our review, we noted 28 nursing facilities out of a sample of 40 facilities for which more than 15 months had elapsed since the last standard inspection.

Auditee Response/ Status: Resolved

SA 2014-004 Verification and Documentation of Medicaid Eligibility (Substantial Repeat of Prior Year Finding SA 13-01)

Criteria: The Department of Community Health 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 CMS. The Department of Community Health is responsible for determining that all recipients meet prescribed eligibility requirements and ensuring those requirements are appropriately documented.

Condition: This is a modification and a substantial repeat of finding SA 13-01 from the year ended June 30, 2013.

The Department of Community Health has contracted with the Department of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted six recipient files in a sample of 60 Medicaid recipients whose eligibility was not properly documented. Those six files included the following documentation deficiencies:

a) One case file did not contain an expected form.

b) Two case files did not contain acceptable documentation verifying income.

c) Two case files did not contain acceptable documentation of verification of citizenship and/or proof of identity.

d) One case file did not contain acceptable documentation of social security number validation.

Auditee Response/ Status: Unresolved: See current year finding SA 2015-002 for status of the verification and documentation of Medicaid eligibility.

SA 2014-005 Documentation of Medicaid Provider Eligibility

Criteria: The Department of Community Health 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 CMS. The Department of Community Health is responsible for determining that all providers meet prescribed eligibility requirements for participation in the Medicaid program including required provider disclosures and appropriate licensure. The Department of Community Health is also responsible for ensuring those requirements are appropriately documented.

Condition: During fieldwork we noted four provider files in a sample of 60 Medicaid providers whose eligibility was not properly documented as they did not contain a statement of participation.

Auditee Response/ Status: Resolved