

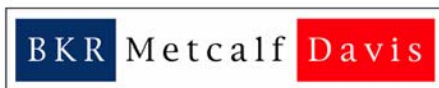
# *Annual Audit Agenda*

*June 30, 2007*



Georgia Department of  
Community Health

*Audited and Reported by a Joint Venture of Firms*



*Certified Public Accountants*

**MAULDIN  
& JENKINS**  
CERTIFIED PUBLIC ACCOUNTANTS, LLC

# GEORGIA DEPARTMENT OF COMMUNITY HEALTH

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## PURPOSE OF AGENDA

To address the overall *independent auditors' report* relative to fiscal year 2007.

To address certain *required communications* related to the fiscal year 2007 engagement.

To provide summarizations of *findings and management letter comments* related to the fiscal year 2007 engagement.

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## INDEPENDENT AUDITORS' REPORT

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

- A. **"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 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, 2007, which collectively comprise the Department of Community Health's basic financial statements as listed in the table of contents."
  
- B. **"These financial statements are the responsibility of the Department of Community Health's management."**
  
- C. **"Our responsibility is to express opinions** on these financial statements based on our audit."
  
- D. "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. **"We believe that our audit provides a reasonable basis for our opinions."**
  
- F. **"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 of Community Health, as of June 30, 2007, 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."

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## REQUIRED COMMUNICATIONS

### *The Auditors Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards*

As previously stated in our agreement with the State of Georgia's Department of Community Health (hereinafter referred to as the "Department of Community Health") and as stated above, we would like the Department of Community Health to understand our responsibility in connection with your audit.

Our audit of the financial statements of the Department of Community Health for the year ended June 30, 2007, 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, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplishes that objective

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 an opinion on the Department of Community Health's internal control or compliance with laws and regulations.

### *Accounting Policies*

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Department of Community Health. During the current year the Department of Community Health implemented Governmental Accounting Standards Board (GASB) pronouncement number 43 regarding *other post employment benefits* (OPEB). As a result, the Department of Community Health created a fiduciary fund for OPEB as well as included all required information in a note disclosure and required supplementary information. There are also new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

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In considering the quantitative aspects of the Department of Community Health'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 of Community Health's policies relative to the timing of and recording of transactions are consistent with generally accepted accounting principles (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 of Community Health'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*

We encountered no difficulties in dealing with management relating to the performance of the audit. We believe we received full cooperation of the Department of Community Health personnel, and believe we were given direct and unrestricted access to the Department of Community Health's officials and the respective books and records.

### *Adjustments*

As part of the Department of Community Health's post-closing exercises, the Department of Community Health made a significant amount of general ledger and financial statement adjustments. Several audit adjustments were necessary to properly reflect the Department of

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Community Health's financial statements as of and for the fiscal year ended June 30, 2007, both on a budgetary basis and in accordance with generally accepted accounting principles GAAP. We had no passed adjustments worthy of evaluation.

**Recorded Adjustments:** The following is a summary of the June 30, 2007 audit adjustments proposed and recorded:

	Debits	Credits
<i>Summary Adjustment No. (1) - State Health Benefit Plan</i>		
Benefits Payable - Enterprise Fund	\$ 47,574,000	
Operating Revenue - Enterprise Fund	422,082,955	
Cash - OPEB	47,574,000	
General and Administrative Expenses - OPEB	25,842,514	
Benefits Expense - OPEB	396,240,441	
General and Administrative Expenses - Enterprise Fund		\$ 25,842,514
Benefits Expense - Enterprise Fund		396,240,441
Cash - Enterprise Fund		47,574,000
Benefits Payable - OPEB		47,574,000
Operating Revenue - OPEB		422,082,955
<i>To remove other post employment benefits (OPEB) from the enterprise fund.</i>		
<i>Summary Adjustment No. (2) - State Health Benefit Plan</i>		
Benefit Expense	\$ 8,437,000	
Benefits Payable		\$ 8,437,000
<i>To record the change in the Incurred-But-Not-Reported (IBNR) liability as provided by the Department's actuaries.</i>		
<i>Summary Adjustment No. (3) - General Fund</i>		
Federal Receivables	\$ 8,421,484	
Benefit Expense	13,288,931	
Benefits Payable		\$ 13,288,931
Federal Revenue		8,421,484
<i>To record the Care Management Organization (CMO) rate change per the Department's actuary and to adjust the IBNR relative to the revised report the Department received from it's actuaries.</i>		

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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 without a problem.

### *Management's Consultation with Other Accountants*

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

- ❑ The Department of Community Health utilized the services of the Georgia Department of Audits and Accounts for internal auditing functions throughout the year,
- ❑ The Department of Community Health utilized actuarial services of outside consultants for assistance in calculating the Medicaid and Employee Health Benefits claims incurred but not reported,
- ❑ The Department of Community Health 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 (MMIS),
- ❑ 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, 2007,
- ❑ The Department of Community Health utilized the services of other certified public accounting firms for purposes of obtaining Statement on Auditing Standards (SAS) No. 70, *Reports on Internal Controls in a Services Organization* and reports for various aspects of the Department of Community Health's operations. We reviewed those reports, and considered their effects on the financial audit,
- ❑ We, likewise, retained an independent CPA consultant, as provided in our contract, for ongoing assistance in planning and reviewing our audits as we deemed prudent.

### *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. Other than those noted in the previous paragraph, 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.

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## *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.

## *Other Information in Documents Containing Audited Financial Statements*

If you intend to publish or otherwise reproduce the Department of Community Health's June 30, 2007 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 of Community Health.

## *Independence*

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



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## ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

### *New Audit Standards*

The American Institute of Certified Public Accountants (AICPA) has been very busy over the past year with the issuance of several new auditing standards, which should be of interest to the Department of Community Health.

- A. The first standard to mention is the **Statement of Auditing Standards (SAS) No. 103, “Audit Documentation,” which was issued in October 2007.** This new audit standard establishes standards and provides guidance, to auditors of non-SEC entities, relative to audit documentation. Of particular interest to the Department of Community Health is requiring that the auditor’s report not be dated earlier than the date on which the auditor obtained sufficient appropriate audit evidence to support the opinion on the financial statements. Historically, the audit report date had been the last date of fieldwork. This standard was implemented during the audit of the current year for the Department of Community Health.
  
- B. A series of eight new audit standards commonly known as **SAS’s 104 – 111, “Risk Assessment Standards” were issued by the AICPA in March 2006** relating to risk assessment involved in the planning and performance of a financial statement audit. One of the major changes resulting from these new standards is that auditors will be required to gain a more in-depth understanding of the client and its operating environment, including its internal controls. In the past, auditors were only required to gain an understanding of internal controls; whereas, auditors will now be required to evaluate the design of internal controls and determine whether these controls have been placed into operation. To make this determination, auditors will be required to test controls even when they plan to place no reliance on them during the performance of the audit.

These new audit standards also require more detailed documentation than previously issued standards. The additional testing requirements, along with the more extensive documentation demands, are expected to result in a significant increase in the total hours required to perform an audit. Even though the verdict is still out there, many industry experts believe the cost of performing an audit under these new standards will increase audit costs by approximately 20 percent. We are currently in the process of modifying our audit approach in order to implement these new standards in an effective and efficient manner.

These new audit standards will be required for the audit of the Department of Community Health for the year ended **June 30, 2008.**

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- C. The final standard to mention is **SAS No. 112, “Communicating Internal Control Related Matters Identified” in and Audit which was issued in May 2006**. This new audit standard requires the auditor to report significant deficiencies in internal control if the Department of Community Health does not take greater responsibility for accounting records and preparation of the financial statements. This new standard identifies specified control deficiencies that ordinarily will be considered at least *significant deficiencies*, and identifies specified circumstances that should be regarded as at least a significant deficiency and a strong indicator of a *material weakness*. This new standard was implemented during the audit of the current year for the Department of Community Health.

### **Recommendations for Improvement**

During our audit of the financial statements as of and for the year ended June 30, 2007, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as significant deficiencies and material weaknesses 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 management points) are presented in the following paragraphs. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations. Further, we noted other matters (not management letter comments) which we wish to communicate to you in an effort to keep the Department of Community Health abreast of accounting matters that could present challenges in financial reporting in future periods.

### **Significant Deficiencies and Material Weaknesses**

As noted in our supplemental reports on internal controls and compliance, we reported the following significant deficiencies and material weaknesses:

1. **Vendor Management and Contracts Payable (This is a modification and partial repeat of finding 06-03 from the year ended June 30, 2006)**

The Department of Community Health’s management is responsible for designing and maintaining internal controls relating to the overall contract process and ensuring these controls are followed on a consistent basis. This includes vendor management and contracts payable.

During the current year we noted the Department of Community Health made significant progress in implementing policies and procedures relating to contract procurement, administration, vendor management and fiscal services. However, we noted certain areas within the contract process, specifically vendor management and contracts payable (formally

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fiscal services), which still need improvement. As a result of our tests of 24 contracts, we noted the following items we consider indications of deficiencies in internal control or a lack of consistently applying policies and procedures:

- a. During fiscal year 2007, the Department of Community Health implemented a new risk-based vendor management system as part of their response and remedy to prior year finding 06-03. We commend the Department of Community Health for moving to this risk based approach. However, at the time of our fieldwork, only about one-third of existing contracts had been transferred to the new system. Vendor management used a small randomly selected sample of approximately 100 contracts to test the database. Of the contracts in our sample, only four were being monitored under the new system.
- b. During our testing of contract invoicing, we identified three contracts that did not have a purchase order (PO) or encumbrance despite the fact that each contract specified a maximum amount not to be exceeded. Through discussions with the Department of Community Health's management we noted not all contracts are required to have a PO or encumbrance; however, we were unable to determine how the Department of Community Health was monitoring the contracts to ensure the specified maximum amount was not exceeded.
- c. We noted one contract in which funds were encumbered but the contract payments were not applied to the encumbrance. As a result, encumbered funds relating to this contract were still outstanding at year end even though contract payments had been made. These same issues were also noted during our prior year procedures related to this contract.

As of June 30, 2007, the Department of Community Health's management had not fully implemented its updated internal controls related to vendor management and all contracts payable.

We commend the Department of Community Health for developing policies and procedures that strengthened internal controls related to the overall contract process. We recommend the Department of Community Health continue to implement changes in the contract process to address all the conditions noted above.

## **2. Financial Statement Preparation and Review**

The Department of Community Health's management is responsible for maintaining controls over the financial reporting and review process. The design and operation of the Department of Community Health's controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect financial statement

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misstatements in a timely manner. The Department of Community Health's information and communication component of internal control should facilitate the preparation of timely, complete and accurately prepared financial statements.

During our audit of the Department of Community Health's financial statements we noted the following items which were adjusted based on the results of audit procedures performed:

- a. Reclassification of various amounts between financial statement captions were needed in order to accurately report various Department of Community Health programs and to report amounts consistent with the prior year.
  - \$4.4 million was adjusted between financial statement captions on the governmental statement of revenues, expenditures and changes in fund balance as well as the governmental statement of activities.
  - \$5.8 million was adjusted on the detail supporting the budget comparison schedule.
  - \$21.8 million was adjusted on the proprietary fund and business-type activities statement of net assets.
- b. \$422 million in revenues and expenditures as well as \$47 million in assets and liabilities were incorrectly included in the proprietary fund and business-type activities. Such amounts were required to be unrecorded in the proprietary fund and recorded and reflected in the fiduciary fund.
- c. The financial statement reconciliation between the budget comparison schedule and the governmental fund statement of revenues, expenditures and changes in fund balance had not been updated from the prior year financial statements and therefore did not accurately reconcile inflows and outflows.
- d. A management review of the reconciliation between the supporting detail and certain financial statement amounts was not readily available.
- e. Information related to changes within the Department of Community Health's chart of accounts and budgetary programs was not communicated timely to those preparing the financial statements.
- f. Certain required note disclosures were not added with the addition of the Department of Community Health's fiduciary fund.

The design and operation of the controls over the financial statement review process were not adequate to identify certain errors and omissions. The information and communication

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among the Department of Community Health's personnel did not operate in a timely and sufficient manner to facilitate accurate preparation of the Department of Community Health's financial statements.

We understand the Department of Community Health has begun redesigning the controls over financial reporting. We further understand the Department of Community Health is planning to provide training to employees who will be responsible for the preparation of the Department of Community Health's financial statements in the future. We encourage the Department of Community Health to continue its efforts toward improving both the design and operation of its controls to ensure the preparation of timely, complete and accurately prepared financial statements.

We recommend those controls include training necessary to maintain the skills and knowledge essential to prepare the Department of Community Health's financial statements in conformity with generally accepted accounting principles. We further recommend the Department of Community Health establish controls which will facilitate the review of the Department of Community Health's financial statements by members of management. Finally, we recommend strong channels of communication between those who enter transactions into the general ledger, those responsible for the financial statement preparation, and members of management.

**3. Payment Errors (This is a modification and partial repeat of finding 06-01 from the year ended June 30, 2006)**

The Department of Community Health is tasked with the responsibility of 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 Services (CMS). All amounts paid to providers and care management organizations (CMO) should be properly calculated and paid.

During our fieldwork we noted two instances in a sample of 40 capitation payments that both a fee-for-service payment and a capitation payment were paid for the same services. Before we performed procedures that identified the errors in our sample, the Department of Community Health, in an effort to proactively estimate any potential payment errors for claims, contracted with a company to perform agreed upon procedures as determined by the Department of Community Health. The errors identified in that report included, but were not limited to, duplicate payments similar to the ones identified in our sample.

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Other Information - The agreed upon procedures report issued in conjunction with the procedures performed identified net estimated total overpayments to providers and CMO's in the amount of approximately \$52.7 million, consisting of both federal and state funds. Some of the issues included the following:

- a) Incorrect application of maximum unit limits on procedure codes.
- b) Incorrect application and/or exemption of co-payments.
- c) Incorrect posting of claim exception codes.
- d) Lack of adjustments for retroactive system changes, including rate updates and Medicare member eligibility.
- e) Capitation payments for members with no corresponding member eligibility record or lock-in span.
- f) Capitation payments for members with a CMO lock-in span that had no corresponding member eligibility record.
- g) Capitation payments for member records that were later merged with another member record and where the capitation payment for the merged record had not yet been recouped.
- h) Capitation payments to a CMO that was different from the CMO assigned to the member's lock-in span.
- i) Instances in which a fee-for-service payment was allowed during a period in which a capitation payment claim was paid on behalf of the same member.

The Department of Community Health did not have effective controls over the claims payment process to prevent payment errors.

The Department of Community Health should continue to review its policies and procedures related to controls over the payment of claims.

### **Single Audit Compliance Findings**

#### **1. Verification and Documentation of Citizenship (This is a modification and partial repeat of finding 06-04 from the year ended June 30, 2006)**

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 Services (CMS). Effective January 1, 2006, for all new applicants and re-applicants, the CMS policy required verification of a potential Medicaid member's or a returning Medicaid member's citizenship status.

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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 instances in a sample of 60 of Medicaid recipients whose citizenship was not properly documented under the new CMS guidelines.

The Department of Community Health does not have an adequately effective monitoring process in place over DFCS to ensure that all CMS guidelines in regards to the documentation of a member's eligibility are properly followed.

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

## **2. State Children's Health Insurance Program Eligibility**

The Department of Community Health is responsible for administering the State of Georgia's State Children's Health Insurance Program (SCHIP). The SCHIP program is overseen by the U.S. Department of Health and Human Services through the Centers for Medicare and Medicaid Services (CMS). All claims should only be paid on behalf of recipients who meet the eligibility requirements.

The Department of Community Health has contracted with Policy Studies, Inc. (PSI) to provide enrollment services for SCHIP members. During fieldwork we noted one instance in a sample of 60 SCHIP members for which a claim was paid on behalf of a member who was too old to qualify as a member in the SCHIP program.

The Department of Community Health does not have an effective monitoring process in place over PSI to ensure that all CMS guidelines in regards to a member's eligibility are properly followed.

The Department of Community Health should review its current procedures for verifying eligibility for members prior to claims being paid on their behalf.

## **3. Provider Licensing**

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 Services (CMS). A copy of the business license is required, if applicable, to be maintained for each eligible provider.

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During our fieldwork we noted two providers in a sample of 40 for which the Department of Community Health could not provide a copy of the provider's business license.

The Department of Community Health does not have adequately effective controls over the documentation of provider eligibility to ensure that all CMS guidelines in regards to the documentation of a provider's eligibility are properly followed.

The Department of Community Health should establish a provider eligibility documentation policy for Medicaid members.

### **Recommendations for Improvement (Management Points)**

#### **1. Internal Auditor**

We noted the State Health Benefit Plan was allocated two full time internal audit positions as part of the Department of Community Health's fiscal year 2008 budget. We further noted that the Department of Community Health's management has met with the Human Resources Department to begin the process of filling these two positions. We encourage the Department of Community Health to fill these positions with qualified personnel as soon as possible. We feel this is an important part of the State Health Benefit Plan's operations.

#### **2. Cross-Training of Employees**

During our fieldwork we noted key processes for which the Department of Community Health did not have backup personnel. During periods of unexpected absences of key personnel, the Department of Community Health's ability to report reliable financial data in a timely manner may be adversely affected. We recommend the Department of Community Health examine opportunities to cross-train employees in all essential areas of the accounting and reporting process. Cross-training of personnel allows for uninterrupted performance of critical functions during transition periods, emergency situations or periods of employee vacation or illness. Additionally, cross-training personnel on key processes could provide an opportunity to incorporate additional review controls which might not be currently available to management.

#### **3. Testing of Service Providers' Relevant Internal Controls**

We noted the Department of Community Health relies frequently on outside entities to provide services which are critical to the Department of Community Health's objectives. As a matter of policy, the Department of Community Health requires assurance from independent sources that relevant internal controls at its service providers are in place and functioning. We noted two service providers for which the Department of



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Community Health has not recently received such assurance. The State Accounting Office and the Georgia Technology Authority both provide services which are critical to the Department of Community Health's objectives to provide timely, accurate and reliable financial information. We recommend the Department of Community Health consider requesting similar assurance from these service providers.

#### 4. **Member Enrollment Management System (MEMS) Controls**

Within the Department of Community Health's MEMS, there is a data screen where changes to multiple eligibility records can be made. Access to this screen is limited to specific users within the Department of Community Health. Although access is limited to specific users, we recommend the Department of Community Health develop policies and procedures to ensure employees with access do not make unauthorized modifications. These policies and procedures may include examining specific user eligibility files on a regular basis to ensure MEMS agrees with the user's eligibility file. Formal documentation of these procedures should be maintained for a reasonable period of time to support the control.

#### 5. **Review of State Health Benefit Plan (SHBP) Eligibility Files**

During our tests of SHBP eligibility files, we noted the Department of Community Health's management relied on a control which is not being formally documented. We understand, a supervisor within the SHBP operations division randomly selects a sample of eligibility files for testing and the documentation in the files is compared to the eligibility information in the MEMS system. We commend the Department of Community Health for performing this review; however, we recommend the Department of Community Health formally document this control activity to support the performance of the procedure.

#### 6. **Cash Receipts**

As a result of certain inquiries we noted, despite the best efforts of the Department of Community Health, various payments are periodically received by the mailroom personnel rather than through the appropriate channels. When the envelope for the mailings does not indicate a designated recipient or division, mailroom personnel open the mailing in order to facilitate delivery. When the contents of the mailing identify a recipient, the check is delivered to that individual or division. When the contents of the mailing do not identify a recipient, the check is delivered to an administrative assistant in the financial services division. In an effort to improve internal control, we recommend the Department of Community Health's mailroom personnel maintain a detailed listing of the cash receipts and routinely provide the list to the Chief Financial Officer, or designated representative.

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### 7. **Reconciliation of Pharmacy Claims**

Near the end of our fieldwork, we noted that the July 2007 pharmacy claims paid did not reconcile to the general ledger. The Department of Community Health changed Pharmacy Benefit Manager's (PBM) during the current year. As a result, the Department of Community Health had trouble reconciling the data provided from the new PBM for the month of July to the general ledger in a timely manner. We recommend the Department of Community Health develop policies and procedures that identify possible issues that may arise when changing PBM's to ensure pharmacy claims are reconciled in a timely manner.

### 8. **Other Postemployment Benefits (OPEB) - Actuarial Valuations**

Based on our actuaries' review of June 30, 2005 OPEB valuation and Summary of Results as of June 30, 2006, we provide the following key recommendations:

- a) We recommend a methodology for annually determining the appropriate discount rate should be established in writing. Such a methodology should address the impact of partial funding, and should provide how expected long term rates of return are developed and incorporated in the establishing of the discount rate.
- b) We recommend the valuation census data be reviewed by management. Management should verify all groups who benefit under the State's OPEB arrangements are included in the valuation.

### **Other Matters (for Management and Board Consideration)**

As has been the case for the past ten 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:

1. Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which provides new guidance for transactions like the selling of receivables and revenue streams. This is effective for the Department of Community Health with fiscal year ending June 30, 2008.
2. Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses liabilities for existing pollution remediation projects as they are discovered and acted upon. This is effective for the Department of Community Health with fiscal year ending June 30, 2009.

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3. Statement No. 50, *Pension Disclosures*, amends existing footnote disclosure requirements to conform to OPEB requirements being implemented. This is effective for the Department of Community Health with fiscal year ending June 30, 2008.
4. Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting for assets such as easements, water rights, trademarks, and internally generated computer software. This is effective for the Department of Community Health with fiscal year ending June 30, 2010.

### **SUMMARY**

This report is intended solely for the information and use of the Board, the audit committee, management of the Department of Community Health, federal awarding agencies and pass-through entities 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 and look forward to serving the Department of Community Health in the future. If we could be of further assistance, please feel free to call upon us.