

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



**GEORGIA DEPARTMENT OF
COMMUNITY HEALTH**

June 30, 2007



A JOINT VENTURE OF
CERTIFIED PUBLIC ACCOUNTING FIRMS



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

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2007

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**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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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 Dr. Rhonda M. Medows, Commissioner
State of Georgia's Department of Community Health

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 **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 and have issued our report thereon dated November 16, 2007. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Community Health's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department of Community Health's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department of Community Health's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department of Community Health's financial statements that is more than inconsequential will not be prevented or detected by the Department of Community Health's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, numbers FS 07-01 and FS 07-02, to be significant deficiencies in internal control over financial reporting

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department of Community Health's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items FS 07-01 and FS 07-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Community Health's financial statements are free of 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*.

We noted certain matters that we reported to management of the Department of Community Health in a separate letter dated November 16, 2007.

The Department of Community Health's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department of Community Health's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of 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.



Atlanta, Georgia
November 16, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

The Honorable Dr. Rhonda M. Medows, Commissioner
State of Georgia's Department of Community Health

Compliance

We have audited the compliance of the **State of Georgia's Department of Community Health** (hereinafter referred to as the "Department of Community Health"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department of Community Health's management. Our responsibility is to express an opinion on the Department of Community Health's compliance based on our audit.

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 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 that we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department of Community Health's compliance with those requirements.

In our opinion, the Department of Community Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed certain instances of noncompliance with those requirements, which is 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 07-02, SA 07-03 and SA 07-04.

Internal Control Over Compliance

The management of the Department of Community Health is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Community Health's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 07-01 to be a material weakness.

Schedule of Expenditures of Federal Awards

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, 2007, and have issued our report thereon dated November 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Department of Community Health's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Department of Community Health's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department of Community Health's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of 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.

BKR Metcalf Davis

Maudlin & Tealman

Atlanta, Georgia
November 16, 2007

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 Unqualified

Internal control over financial reporting:

Material weaknesses identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weaknesses identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs Unqualified

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	State Children's Healthcare Insurance Program (SCHIP)
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 14,162,024

Auditee qualified as low-risk auditee? yes X no

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

Section II

Financial Statement Findings and Responses

FS 07-01 Vendor Management and Contracts Payable

Criteria: 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.

Condition: This is a modification and partial repeat of finding 06-03 from the year ended June 30, 2006. 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 fiscal services), which still need improvement. As a result of our tests of twenty-four 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.

Effect: The partial lack of well organized and functioning policies, procedures and controls consistently applied over the contract process exposes the Department of Community Health to undo legal and financial risk.

Cause: 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.

Recommendation: 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.

Auditee's Response: We concur with this finding. Vendor management implemented the new risk based system in March 2007, three months prior to the end of the fiscal year. As vendor monitoring is conducted on a fiscal year basis, it would have been impractical if not impossible to attempt to monitor over 300 contracts by June 30, 2007 while resolving the inevitable issues that occur with the implementation of a new system, including periodic system problems and acclimating our business owners to utilizing the new system. Given these factors, vendor management determined it would be best practice to begin system implementation with a randomly selected sample (approximately 100 contracts) of the contract population.

Additionally, as communicated to audit staff, the imaging system was not available to vendor management staff until fiscal year 2008. As such, we did not have access to the imaging system to obtain imaged contracts, but instead we obtained hard copy contracts from contract administration staff for the contracts monitored in fiscal year 2007. This manual processing contributed to the limited base number for examination.

In regards to the one contract found to have been paid outside the encumbrance, it was incorrectly submitted for payment. The contractor submitted travel and per diem forms directly to the program manager who upon granting approval then forwarded the forms to accounts payable for payment.

The Department of Community Health has implemented several procedures which should help prevent this from happening in the future:

- a. All new contracts are to have invoices submitted to a central post office box that comes directly to contracts payable.
- b. Before renewals for contracts are given final approval, any outstanding balance on prior year encumbrances is brought to the attention of the program manager, who must justify maintaining that encumbrance.

- c. At the beginning of the calendar year, contracts payable will review all encumbrances to see if they are being utilized. Any unutilized encumbrances are researched to determine if they should be deleted or corrected.

During the latter half of fiscal year 2007 contracts payable personnel began to control the above procedures. Further, these procedures were being developed throughout fiscal year 2007, and were not in effect for a sufficient length of time to detect this particular situation.

FS 07-02 Financial Statement Preparation and Review

Criteria: 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 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.

Condition: 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.

Context: The above conditions were adjusted in the financial statements.

Effect: The design and operation of the Department of Community Health's controls over financial reporting did not prevent or detect financial statement misstatements or the lack of adequate disclosures in a timely manner.

Cause: 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 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.

Recommendation: 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.

Auditee's Response: We concur with this finding. Several unavoidable factors encountered during fiscal year 2007 led to a less organized and controlled environment for year end financial statement preparation. These factors included: 1) a significant time constraint; 2) a personnel shortage in the financial statement preparation area; 3) a new format for budgetary reporting; 4) the addition of fiduciary fund financial statements and footnotes under Governmental Accounting Standards Board (GASB) pronouncement numbers 43 and 45 regarding other post-employment benefits; and, 5) a statewide object class consolidation initiated by the State Accounting Office (SAO).

Cross training of the financial statement preparation was implemented in fiscal year 2007, but due to the time constraints limited training was provided during the preparation phase. A review process was in place during the fiscal year 2007 financial statement preparation phase. Three employees were involved in the preparation and review. Imported financial data, budgetary and adjusting journal entries in accordance with generally accepted accounting principles (GAAP) were reviewed. The review included tracing and agreeing financial data across various financial statements, required supplemental information (RSI), and note disclosures. The Department of Community Health will produce interim financial statements beginning in fiscal year 2008 to facilitate cross training opportunities and to improve the preparation process at year-end. A formalized and written review process will also be developed.

The Department of Community Health will have two full time positions in the financial statement section for ongoing cross-training, quality assurance, and review of financial statement supporting documentation. An additional position has been created to review general ledger activity on a monthly basis to ensure accuracy and integrity of the financial data.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SECTION III
Federal Awards Findings and Questioned Costs

SA 07-01 Payment Errors

*Federal Program
Information:*

CFDA Nos. 93.767, 93.777 and 93.778
State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster
(State Survey and Certification of Healthcare Providers and Medical
Assistance Program)
U.S. Department of Health and Human Services
Grant Award Nos. 5-0705GA5028, 5-0705GA5048, 5-0705GA5021,
5-0705GAUTRA, 5-0705GANIRA, 5-0705GA5R21, 5-0605GAKCTY,
5-0605GA5021, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM,
5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC
Fiscal Year 2007

Criteria:

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.

Condition:

This is a modification and partial repeat of finding 06-01 from the year ended June 30, 2006. 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.

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:

- Incorrect application of maximum unit limits on procedure codes.
- Incorrect application and/or exemption of co-payments.
- Incorrect posting of claim exception codes.

- Lack of adjustments for retroactive system changes, including rate updates and Medicare member eligibility.
- Capitation payments for members with no corresponding member eligibility record or lock-in span.
- Capitation payments for members with a CMO lock-in span that had no corresponding member eligibility record.
- 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.
- Capitation payments to a CMO that was different from the CMO assigned to the member's lock-in span.
- 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.

Questioned Cost: Undetermined

Context: Prior to the work performed that identified the errors found in our sample, the Department of Community Health contracted with a pharmacy benefit manager (PBM) to process certain pharmacy claims. Each month the PBM receives a list of members who are included in one of the CMO's. The PBM is then aware not to pay any pharmacy claims for members on that list. The list provided for October 2006 was delayed and the PBM erroneously paid fee-for-service claims for some CMO members.

Effect: An estimated overpayment of federal funds has been made. The Department of Community Health has made arrangements to recoup the overpayments from the CMO's.

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

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

Auditee's Response: We concur with this finding. The Department of Community Health has implemented corrective action procedures addressing the cause of the two errors noted in the "Condition" section of this finding. These two errors resulted from an imperfect transmittal of a Medicaid/SCHIP member database update from the Medicaid Management Information System (MMIS) to the PBM. The new procedures include the following actions:

- The MMIS vendor will change the timing of the daily pharmacy processing to allow for the completion of required managed care processing.

- The Department of Community Health, the MMIS vendor, and the PBM will jointly monitor this process to ensure proper file transmission and receipt.
- End of Month (EOM) processing will be monitored to help determine if any additional file requirements exist before moving forward regarding CMO EOM terminations and voids.

It is important to emphasize that before the independent auditors detected these two errors, the Department of Community Health had detected the types of errors described in the “Condition”. Without knowing which errors independent auditors would later observe, the Department of Community Health also detected the other types of errors described in this finding. As claims payment errors are detected, the Department of Community Health continues to identify the cause of the error and creates a corrective action plan to address.

SA 07-02 Verification and Documentation of Citizenship

Federal Program Information:

CFDA Nos. 93.777 and 93.778
 Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program)
 U.S. Department of Health and Human Services
 Grant Award Nos. 5-0705GA5028, 5-0705GA5048, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM, 5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC
 Fiscal Year 2007

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

Condition:

This is a modification and partial repeat of finding 06-04 from the year ended June 30, 2006. 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 sixty of Medicaid recipients whose citizenship was not properly documented under the new CMS guidelines.

Questioned Cost: None

Context: With the advent of the new citizenship verification requirements, members in the Medicaid program may no longer be eligible to receive payments based upon the lack of documentation of their citizenship status.

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

Cause: 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.

Recommendation: 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.

Auditee's Response: We concur with this finding. The Department of Community Health recognizes and acknowledges the need to enhance the monitoring policy for citizenship verification and documentation for Medicaid members and create more stringent controls over the eligibility process. The Department of Community Health has instituted an independent case record review procedure on all points of eligibility. Approximately 850 cases are reviewed monthly. All undetermined and error cases must be specifically addressed and resolved by DFCS as part of the review process. Additionally, monthly meetings are held with DFCS to address identified areas of eligibility concern, corrective action, and process improvement.

SA 07-03 State Children's Health Insurance Program Eligibility

Federal Program Information:

CFDA No. 93.767
State Children's Healthcare Insurance Program (SCHIP)
U.S. Department of Health and Human Services
Grant Award Nos. 5-0705GA5021, 5-0705GAUTRA, 5-0705GANIRA,
5-0705GA5R21, 5-0605GAKCTY and 5-0605GA5021
Fiscal Year 2007

Criteria: 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.

Condition: 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.

Questioned Cost: Undetermined

Context: A member no longer eligible for benefits under the SCHIP program due to age requirements, was not properly identified as ineligible within the MMIS system.

Effect: An indeterminate number of participants who do not meet the program's eligibility requirements are improperly receiving benefits from the program. The monetary effect is that federal funds used to fund the SCHIP program are used to provide benefits for members who are not eligible for the program.

Cause: 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.

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

Auditee's Response: We concur with this finding. The Department of Community Health recognizes and acknowledges the need to review the current procedures for verifying eligibility for PeachCare members active on the PSI eligibility file. Although there is no current data indicating a significant eligibility error rate exists in the program, a comprehensive quality control plan should exist to ensure all eligibility points are properly followed. Currently eligibility records from PSI are spot checked upon member inquiry and are included as part of the federal Payment Error Rate Measurement (PERM) process. The PeachCare for Kids Unit will begin to review quality control and develop a comprehensive plan.

SA 07-04 Provider Licensing

*Federal Program
Information:*

CFDA Nos. 93.777 and 93.778
Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program)
U.S. Department of Health and Human Services
Grant Award Nos. 5-0705GA5028, 5-0705GA5048, 5-0605GA5028,
5-0605GA5048, 5-0605GAKADM, 5-0605GAKAUC, 5-0605GAKBEN
and 5-0605GAKBUC
Fiscal Year 2007

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

Condition: 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.

Questioned Cost: Undetermined

Context: 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.

Effect: An indeterminate number of providers are inadequately documented as to eligibility to receive payments from the Medicaid program. The monetary effect is that federal funds may be used to fund the Medicaid program are used to reimburse expenses for providers who are not eligible for the program.

Cause: 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.

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

Auditee's Response: We concur with this finding. The Department of Community Health will consider the recommendation and continue to improve its provider eligibility documentation policy for Medicaid Providers. The Department of Community Health has basic enrollment criteria for all providers. There are "Special Conditions of Participation" outlined in the individual categories of service. A business license may not be required for participation depending on the category of service enrolled. For example, public health departments are not required to obtain business licenses.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Department of Community Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY DIRECT OR PASS-THROUGH ENTITY PROGRAM NAME	CFDA NO.	FEDERAL EXPENDITURES
Health and Human Services, U. S. Department of		
Direct		
Medicaid Cluster:		
State Survey and Certification of Health Care Providers	93.777	\$ 2,795,224.96
Medical Assistance Program	93.778	<u>4,380,827,235.71</u>
		4,383,622,460.67
HLTH CTR/Migrant Health	93.224	<u>4,427,057.06</u>
State and Territorial and Technical Assistance Capacity	93.006	<u>83,446.98</u>
Primary Care Services - Resource Coordination and Development	93.130	<u>172,931.80</u>
Grants for State Loan Repayment	93.165	<u>97,020.00</u>
State Rural Hospital Flexibility Program	93.241	<u>602,965.40</u>
State Children's Healthcare Insurance Program	93.767	<u>329,449,910.57</u>
Grants to States for Operation of Offices of Rural Health	93.913	<u>152,100.00</u>
Small Rural Hospital Improvements	93.301	<u>497,985.30</u>
Total U.S. Department of Health and Human Services		4,719,105,877.78
Human Resources, Department of		
Refugee and Entrant Assistance - State Administered Programs	93.566	<u>1,568,850.04</u>
Total Expenditures of Federal Awards		<u>\$ 4,720,674,727.82</u>

The accompanying notes are an integral part of this schedule.

Department of Community Health

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2007

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).

Significant Accounting Policies

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, 2007.

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

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.

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.

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

06-01 Payment Accuracy of the Medicaid Management Information System

Criteria: The State of Georgia administers the Medicaid health benefit program for its citizens subject to federal laws and regulations. The State of Georgia has charged the Department of Community Health with the responsibility for this program and provides the Department of Community Health with the authority to use Medicaid funds for Medicaid benefit payments (as specified in the State of Georgia plan, federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units. The State of Georgia plan may also provide for case management services, managed care waivers, payment of certain health insurance premiums for Medicare patients, payments to Disproportionate Share Hospitals, and home and community based services which may permit an individual from avoiding institutionalization. The Department of Community Health is also provided with the responsibility for the State Children's Healthcare Insurance Program (SCHIP), which uses federal and state funds for assisting uninsured, low income children.

Condition: This is a modification and partial repeat of finding 05-01 from the year ended June 30, 2005. During fiscal year 2006, the Department of Community Health determined that cumulative evidence gathered from all monitoring functions available to management suggested payment errors existed in fiscal year 2006 in Medicaid and SCHIP benefit expenditure information; however, the Department of Community Health was unable to systematically and specifically quantify the financial impact of such errors or correct such errors prior to June 30, 2006.

*Auditee Response/
Status:* Partially resolved: See current year finding SA 07-01 for status of payment accuracy of the Medicaid Management Information System (MMIS).

06-02 Accounts Payable and Other Accruals

Criteria: The Department of Community Health's management is responsible for ensuring expenditures are recorded when incurred and measurable, and its financial statements and the related information included in the schedule of expenditures of federal awards are accurate. This includes recognizing the expenditures and liabilities for costs associated with the receipt of goods or services in a timely manner.

Condition: This is a modification of finding 05-02 from the year ended June 30, 2005.

*Auditee Response/
Status:*

This finding was not noted in the current year audit.

06-03 Contract Procurement, Administration, Vendor Management and Fiscal Services

Criteria: 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 contract procurement, administration, vendor management and fiscal services.

Condition:

- I. During our fieldwork, we noted a lack of internal controls governing the Department of Community Health's contract process. This included inconsistently applying policies and procedures. Our tests of contracts encompassed the overall contracts process which included: 1) contract procurement; 2) administration; 3) vendor management; and, 4) fiscal services. As a result of our tests of 25 contracts under \$100,000, we noted the following items we consider to be deficiencies in internal control or a lack of consistently applying policies and procedures:
 - a. Two of the three sole source contracts included in the sample did not contain written sole source justification.
 - b. Management was unable to provide us with five of the original, fully executed contracts signed by both parties.
 - c. Management failed to complete the execution of two contracts.
 - d. Eighteen of the contracts within the sample were renewed. Thirteen of the contract renewals did not include adequate renewal documentation.
 - e. Of the 25 contracts tested, only two were fully executed before the effective date. The amount of time elapsed between the effective date and the execution date was generally six months with two in which the execution did not occur until the contract had been in effect for at least a year. Additionally, two "agreement" contracts were never signed by the Department of Community Health; as a result they were never fully executed. In both cases these "agreement" contracts were drafted after the services had already been performed by the contractor.
 - f. The Department of Community Health's policies and procedures stipulate every contract should have an "Annual Contract Monitoring" form each fiscal year if no other monitoring procedures have been performed during the year. Of the 25 contracts in the sample, only four had documentation noting some type of monitoring had been performed during the year.

- g. The Department of Community Health has a policy in place whereby vendor management is required to send a letter to the vendor indicating the results of the desk review within thirty days of receipt of the "Vendor Assessment Survey". Of the four desk reviews performed during fiscal year 2006, three of the letters were not sent to the vendor within the required thirty day period. No letter was noted to have been sent to the fourth vendor.
 - h. The Department of Community Health has a policy in place to send vendors a letter notifying them they have been selected for an on-site review. Further, the Department of Community Health has a policy in place where they are to notify the vendor of the results of the review within thirty days of the on-site review. Of the four that were reviewed during the fiscal year 2006, two of the vendor files did not contain the letter informing the vendor. Three of the four on-site review result letters were not sent within the required thirty day period; for one of the three there was no documentation in the file of a results letter being sent or the results of the review.
 - i. The Department of Community Health's policy is to send a termination letter to the vendor at the expiration of the contract. Of the fourteen expired contracts included in our sample, four did not have a termination letter in the file. Of the termination letters delivered, two of the letters were dated approximately a year after termination and the others had generally a three month gap between the termination and the termination letter. Further, we noted closeout forms had not been fully completed for six of the fourteen terminated contracts.
- II. In addition to the items noted above, we noted an instance in which a former employee was hired as a consultant to perform consulting services for the Department of Community Health. After completion of the consulting services the employee was rehired by the Department of Community Health to serve as a director for the division in which the consulting services were performed. In his capacity as director, he is responsible for reviewing and monitoring contracts performed by outside contractors. During our review of contract termination documents, we noted he completed Section II: "Program Assessment of Contractor" of the "Contract Closeout" form for his own consulting contract. Additionally, it appears this portion of the "Contract Closeout" form was not reviewed or monitored by anyone other than the director.
- III. During fieldwork, we noted discrepancies between written policies and procedures and the understanding of such policies and procedures by various personnel. Therefore, we were provided inconsistent information related to the Department of Community Health's internal controls over contracts.

- IV. During our review of vendor management related to monitoring and termination documents, we noted certain forms utilized by vendor management that do not require the signature or initials of the person completing the form or the person evaluating the form. We recommend the Department of Community Health's management review the various monitoring and termination documents utilized by vendor management to identify those which most appropriately should require a formal signature as to who completed and approved the document. Further, we noted no language in place within the policies which address whether the contract compliance manager's work is reviewed by the director of grants and vendor management.
- V. During our procedures, we noted a general disorganization in the procurement records and a lack of consistency in the procurement documentation maintained in the files of contracts not subject to the competitive bid process.

*Auditee Response/
Status:*

Partially resolved: See current year finding FS 07-01 for status of contract procurement, administration, vendor management and fiscal services.

06-04 Verification and Documentation of Citizenship

Criteria:

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

Condition:

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. Members ineligible for Medicaid are notified in writing of their potential ineligibility for PeachCare. Policy Studies, Inc. (PSI) is the Department of Community Health's third party administrator and is responsible for eligibility determination for PeachCare. Currently PSI is responsible for screening Medicaid eligibility and referring applications electronically to DFCS to complete a determination. Prior to DFCS handling all Medicaid case files, PSI was responsible for maintaining the eligibility case files for children who were enrolled in the Medicaid program after initially applying for enrollment in the PeachCare program. These Medicaid recipients whose case files were maintained by PSI are referred to as being enrolled in Medicaid's PeachCare Plus program. Since PeachCare members are not required to provide verification of citizenship, none of the PeachCare Plus recipients being monitored by PSI have documentation of any verification

of citizenship maintained in their case files. The PeachCare Plus program was altered to the new referral method, but members who were already enrolled in the program were allowed to continue in the program without documentation of citizenship.

*Auditee Response/
Status:*

Partially resolved: See current year finding SA 07-02 for status of verification and documentation of citizenship.