

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



**GEORGIA DEPARTMENT OF
COMMUNITY HEALTH**

June 30, 2008



Certified Public Accountants

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, 2008

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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, MD 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, 2008, which collectively comprise the Department of Community Health's basic financial statements and have issued our report thereon dated December 5, 2008. 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.

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 08-01 and FS 08-02, 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 item FS 08-02 to be a material weakness.

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 December 5, 2008.

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 and audit committee 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
December 5, 2008

**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, MD 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, 2008. 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item SA 08-01.

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 Department of Community Health'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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA 08-01 and SA 08-02 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items SA 08-01 and SA 08-02 to be material weaknesses.

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, 2008, and have issued our report thereon dated December 5, 2008. 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 and audit committee 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.

A handwritten signature in blue ink, appearing to read "Metcalf Owens".A handwritten signature in blue ink, appearing to read "Maudlin & Tealman".

Atlanta, Georgia
December 5, 2008

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? X yes 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: \$ 14,970,174

Auditee qualified as low-risk auditee? yes X no

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

Section II
Financial Statement Findings and Responses

FS 08-01 Reserve for Encumbrances

- Criteria:* The Department of Community Health is responsible for accurately reporting reservations of fund balance. A reserve for encumbrances should be reported when a commitment resulting from a contract, purchase order, salary agreement, travel claim, or other such commitments remains unsatisfied and the actual expenditure will be made after year-end. Amounts which represent liabilities as well as amounts for which the commitment no longer exists should not be reflected as a reserve for encumbrances.
- Condition:* We noted management initially encumbered \$102 million of funds which were also reported as payables at June 30, 2008. During our examination of the remaining encumbrances, we noted purchase orders related to contract commitments which no longer existed or were applied to the wrong fiscal year. Four purchase orders totaling \$7 million or roughly 7% should have been unencumbered prior to year-end and two purchase orders totaling \$3.6 million of fiscal year 2009 expenditures were inappropriately applied to fiscal year 2008 encumbrances.
- Context:* The above conditions were adjusted in the financial statements for the year ended June 30, 2008.
- Effect:* The design and operation of the Department of Community Health's controls over reporting encumbrances at year-end did not prevent or detect financial statement misstatements in a timely manner.
- Cause:* The Department of Community Health's controls did not include routine formal documentation from the appropriate contract business owners to the financial services area supporting the need to maintain encumbrances. Additionally, the procedures used to document a contract termination or renewal were not always fully utilized to communicate amounts which should remain encumbered.
- Recommendation:* We understand management's reluctance to release encumbrances when the potential exists that a future invoice may yet be presented for payment. However, we recommend the Department of Community Health enhance and formalize routine communication with contract business owners to ensure encumbrances are released for commitments which no longer exist or have been satisfied.

Auditee's Response: We concur with this finding. Contract Payable policies do not allow funds to be unencumbered without the approval of contract business owners. It was noted that documentation of this review and approval process needs to be improved, and we are currently modifying our procedures to add steps for improvement and control. These modifications will include more stringent requirements for the circumstances under which a contract business owner will be allowed to maintain an encumbrance after fiscal year-end as well as documentation of the review and approval process between the contract business owners and the Contract Payable staff. In addition, a review closer to fiscal year-end will be added to our procedures in order to ensure we are accurately reflecting all encumbrances in the financial statements.

FS 08-02 Federal Accounts Receivable

Criteria: The Department of Community Health is responsible for accurately reporting accounts receivable in the annual financial statements. As part of that responsibility, the Department of Community Health is required to reconcile amounts reported in the financial statements to amounts recorded in the general ledger as well as to other special reports. The very nature of a reconciliation process involves justifying and verifying amounts that are considered to be reconciling items. Reconciliation of the respective amounts should be performed periodically and timely, and the process and results thereof should be reviewed and adequately supervised. The preparer should seek assistance and consultation when warranted.

Condition: As part of the audit process, we requested support for the amount of accounts receivable due from the federal government reflected in the Department of Community Health's financial statements. We received a calculation/reconciliation from Department of Community Health personnel which attempted to support the amounts reported in the respective financial statements.

During our analysis of the reconciliation, we noted certain reconciling descriptions and amounts approximating \$73 million which did not appear to be appropriate. We discussed the matter with the individual responsible for the reconciliation; however, we were not satisfied with the response. Upon further analysis, we were able to determine certain amounts reflected in the reconciliation could not be supported and should not be included in the reconciliation, and other reconciling amounts which were required had been omitted or inaccurately shown in the reconciliation.

Subsequent to our determination of the problems and the respective resolutions, the party responsible for the reconciliation acknowledged the fact that incorrect information was used due to an inability to determine the correct information.

Context: The design and operation of the Department of Community Health's controls over reporting accounts receivable due from the federal government at year-

end were not in place to prevent or detect potential financial statement misstatements in a timely manner.

Effect: The above conditions were considered and analyzed with the finalization of the Department of Community Health's financial statements as of and for the year ended June 30, 2008. Numerous corrections to the items included in the reconciliations were determined to be necessary.

Cause: The Department of Community Health did not properly and timely approach the need for reconciling amounts due from the federal government. We noted the fact that one individual was involved in the preparation of the reconciliations for which we observed no evidence of adequate supervision, consultation or review. Further, the party responsible did not adequately understand the accounting matters affecting the reconciliation process, and the ultimate need to verify and justify all reconciling items.

Recommendation: We recommend the Department of Community Health consider the following:

- Place people in positions commensurate with their experience, knowledge, and ability.
- Train and cross-train those personnel on the responsibilities of their position(s).
- Emphasize the need for responsible personnel to consult with others in the Department of Community Health when the situation dictates.
- Perform a better and more complete reconciliation process of the accounts receivable. This requires a change in certain elements of the conceptual framework currently being performed.
- Require reconciliations of accounts receivable be performed at least quarterly.
- Stress the need for accountability, and the fact that all efforts must be justifiable and verifiable.
- Supervise, manage and review the results and efforts of individuals, and challenge the responsible parties on the propriety of information.

Auditee's Response: We concur with this finding. We were ultimately able to support the amount of the accounts receivable due from the federal government; however, we agree that the original reconciliation contained errors and we were unable to address those errors in a timely manner. As a result, the Department of Community Health plans to engage an independent certified public accounting firm to assess current reconciliation processes and help the department implement best practices to improve those processes. This assessment will also be utilized to determine additional staff training needed to effectively implement best practices and to evaluate the need for reorganization and reassignment of staff within the Accounting Office. The Department of Community Health will provide additional training opportunities for staff and reorganize and reassign staff responsibilities as appropriate to address this deficiency.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SECTION III
Federal Awards Findings and Questioned Costs

SA 08-01 Verification and Documentation of Eligibility

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. 5-0605GA5048, 5-0605GAKBUC, 5-0705GA5028, 5-0705GA5048, 5-0805GA5028 and 5-0805GA5048
Fiscal Year 2008

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

Condition:

This is a modification and partial repeat of finding SA 07-02 from the year ended June 30, 2007. The Department of Community Health has contracted with the Department of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted six instances in a sample of 60 of Medicaid recipients whose eligibility was not properly documented. Those six instances were as follows:

- a. Two case files were not able to be located by the Department of Community Health.
- b. Two case files did not contain evidence that eligibility was recertified in accordance with the policies and procedures in place.
- c. One case file did not contain acceptable proof of identification.
- d. One case file was not signed or dated by the recipient.

Questioned Cost:

None Noted.

Context:

Members within the Medicaid program must have their eligibility information properly determined and documented in accordance with applicable standards set by CMS and the Department of Community Health's internal policies and procedures.

Effect: An indeterminate number of participants are inadequately documented as to proof of 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 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 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. This ongoing eligibility monitoring has led to a significant decrease in cases lacking verification and documentation over the last year.

As part of ongoing corrective action the Department of Community Health's Medicaid Eligibility Quality Control Unit will begin to target individual DFCS counties and workers on a monthly basis needing corrective action. The Department of Community Health will work with DFCS to provide enhanced policy training for counties and members as needed. If enhanced training fails to provide improved results the Department of Community Health will request corrective action plans from DFCS for unresponsive counties or workers. Additionally, problematic eligibility policies and procedures identified by the ASO/QC project will be strengthened or modified in order to clarify operations.

SA 08-02 Federal Accounts Receivable

Federal Program

Information:

CFDA Nos. 93.777 and 93.778
Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program), State Children's Healthcare Insurance Program (SCHIP)
U.S. Department of Health and Human Services
Grant Award Nos. 5-0605GA5048, 5-0605GAKBUC, 5-0705GA5021, 5-0705GA5028, 5-0705GA5048, 5-0805GA5021, 5-0805GA5028, 5-0805GA5048 and 5-0805GAMSEA
Fiscal Year 2008

Criteria:

See Financial Audit Finding FS 08-02.

Condition:

See Financial Audit Finding FS 08-02.

Questioned Cost:

None Noted.

Context:

See Financial Audit Finding FS 08-02.

Effect:

See Financial Audit Finding FS 08-02.

Cause:

See Financial Audit Finding FS 08-02.

Recommendation:

See Financial Audit Finding FS 08-02.

Auditee's Response:

See Financial Audit Finding FS 08-02.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Department of Community Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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	\$ 2,479,710.44
Medical Assistance Program	93.778	<u>4,728,283,271.87</u>
		4,730,762,982.31
 HLTH CTR/Migrant Health	 93.224	 <u>2,427,133.60</u>
 State and Territorial and Technical Assistance Capacity	 93.006	 <u>170,370.15</u>
 Primary Care Services - Resource Coordination and Development	 93.130	 <u>156,648.14</u>
 Medicaid Transformation Grants	 93.793	 <u>19,731.91</u>
 State Rural Hospital Flexibility Program	 93.241	 <u>619,293.76</u>
 State Children's Healthcare Insurance Program	 93.767	 <u>253,568,742.69</u>
 Grants to States for Operation of Offices of Rural Health	 93.913	 <u>178,196.77</u>
 CMS Research Demonstrations and Evaluations	 93.779	 <u>41,856.78</u>
 Small Rural Hospital Improvements	 93.301	 <u>608,715.41</u>
 Total U.S. Department of Health and Human Services		 4,988,553,671.52
 Human Resources, Department of		
Refugee and Entrant Assistance - State Administered Programs	93.566	<u>1,504,373.42</u>
 Total Expenditures of Federal Awards		 <u>\$ 4,990,058,044.94</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, 2008

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, 2008.

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

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 fiscal year 2007 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 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 fiscal year 2007 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. During fiscal year 2007 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 fiscal year 2006 procedures related to this contract.

Auditee Response/

Status: This finding was not noted in the current year audit.

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 fiscal year 2007 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.

*Auditee Response/
Status:*

This finding was not noted in the current year audit.

SA 07-01 Payment Errors

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 fiscal year 2007 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 duplicate payments similar to the ones identified in our sample.

*Auditee Response/
Status:*

This finding was not noted in the current year audit.

SA 07-02 Verification and Documentation of Citizenship

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 July 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.

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 fiscal year 2007 fieldwork we noted three instances in a sample of 60 of Medicaid recipients whose citizenship was not properly documented under the new CMS guidelines.

*Auditee Response/
Status:* Unresolved: See current year finding SA 08-01 for status of documentation of eligibility.

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

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 fiscal year 2007 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.

*Auditee Response/
Status:* This finding was not noted in the current year audit.

SA 07-04 Provider Licensing

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 fiscal year 2007 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.

*Auditee Response/
Status:* This finding was not noted in the current year audit.