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

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the basic financial statements of the **State of Georgia's Department of Community Health** (hereinafter referred to as the "Department of Community Health") for the year ended June 30, 2009. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Department of Community Health's practices and procedures.

### **1. State Health Benefit Plan (the "Plan") Operations**

As part of our audit, we performed various analytical reviews of amounts reflected in the Department of Community Health's annual financial statements. As part of this review, we noted a reduction in net assets (i.e., losses) of \$439 million in the current year, causing a reduction from \$472 million as of June 30, 2008, to \$33 million as of June 30, 2009.

We understand, due to the State budget crisis, employer contributions from State and school system agencies were practically eliminated in March 2009 to assist those employers in compensating for the overall decrease in State revenues. The reduction of employer contributions was funded from net assets of the Plan.

We further understand the Department of Community Health has taken steps to evaluate costs associated with the Plan in addition to communicating these concerns to the

appropriate State of Georgia officials. It is expected a continuation of this practice will create difficulties in continuing to fund the claims on a pay-as-you go basis.

That being said, we recommend the Department of Community Health continue evaluating Plan costs and cash flow in an effort to provide support and communication to appropriate State of Georgia officials to avoid unsustainable increases in the burden of charity care. Should charity care increase to a level providers can not sustain, a decrease in the quality of life may occur among State employees, retirees and others covered by the Plan.

## **2. State Health Benefit Plan Dependent Documentation**

This is a modification and partial repeat of comment number nine from June 30, 2008. During our review of the State Health Benefit Plan claims paid during the year ended June 30, 2009, we noticed one of 30 claims tested did not have support for dependent eligibility. We understand the documentation supporting dependent eligibility received prior to September 2008 is stored off site and is often difficult to locate. Nonetheless, all documentation supporting eligibility should be accessible in a timely manner.

We further understand the Department of Community Health began to utilize a scanning system in September 2008 and all dependent verification documents currently received by the State Health Benefit Plan are scanned.

We recommend the Department of Community Health continue utilizing scanning, where possible, to enable efficiency in locating documents, especially documents supporting eligibility. We further recommend the Department of Community Health continue with its efforts to scan documents supporting dependent eligibility which were received prior to September 2008 for all currently eligible participants in the Plan.

### **3. Drug Utilization Rebates**

The Department of Community Health, as a State Medicaid agency, is entitled to drug rebates offered by drug manufacturers just as any other entity receives drug rebates. The Centers for Medicare and Medicaid Services (“CMS”) requires, through prescribed steps in the Medicaid Cluster compliance supplement, that a State Medicaid agency provide drug manufacturers with quarterly drug rebate data within 60 days of the end of the quarter. The Department of Community Health has contracted with First Health to perform this process. Through our examination we noted invoices for drug rebates were not mailed within the allotted time for two quarters during fiscal year 2009.

We recommend the Department of Community Health develop a system to monitor the progress with regard to the timely mailing and reporting of quarterly drug rebate data.

### **4. Testing of Service Providers’ Relevant Internal Controls**

This is a modification and partial repeat of comment number four from June 30, 2008. The Department of Community Health relies frequently on outside entities to provide services which are critical to the Department of Community Health’s objectives. As a matter of policy, the Department of Community Health requires assurance from independent sources that relevant internal controls at its service providers are in place and functioning effectively.

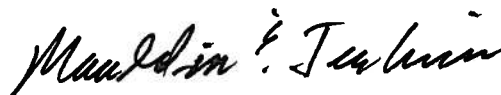
The State Accounting Office provides services which are critical to the Department of Community Health’s objectives to provide timely, accurate and reliable financial information. We understand, in August 2009 a report was issued by the Georgia Department of Audits and Accounts based on procedures performed to determine whether adequate internal controls exist to address the operational, managerial, and technical controls of the financial systems administered by the State Accounting Office and supported by the Georgia Technology Authority. The report revealed significant deficiencies in the protection of sensitive information and critical computer systems. We further understand, the majority of the deficiencies have been at least partially addressed or will be addressed.

During 2009, the Department of Community Health's infrastructure services and managed network services were outsourced to external service providers. However, the Department of Community Health's management was unable to provide the procedures as to how it would seek assurance that the significant service providers' internal controls relevant to the Department of Community Health's financial reporting process are in place and functioning effectively.

We strongly recommend management require assurance that relevant internal controls are in place and functioning at all service providers which are significant to the Department of Community Health's financial reporting process. We further recommend management have a process in place to evaluate the consequences to the Department of Community Health when control deficiencies at such service providers are reported.

This report is intended solely for the information and use of management and Audit Committee of the **State of Georgia's Department of Community Health**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate serving the **State of Georgia's Department of Community Health** and would be happy to assist you in addressing and implementing any of the suggestions in this letter.



Atlanta, Georgia  
November 20, 2009