

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



**GEORGIA DEPARTMENT OF  
COMMUNITY HEALTH**

June 30, 2009



*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, 2009**

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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, 2009, which collectively comprise the Department of Community Health's basic financial statements and have issued our report thereon dated November 20, 2009. 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 09-01, FS 09-02 and FS 09-03, 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, we consider the significant deficiencies described above in items FS 09-01 and FS 09-02, 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 other matters that we reported to management of the Department of Community Health in a separate letter dated November 20, 2009.

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  
November 20, 2009

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



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, 2009. 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 09-01 and SA 09-02.

#### 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 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 others that we consider to be 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 09-01, SA 09-02, SA 09-03 and SA 09-04 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 09-01, SA 09-02 and SA 09-03 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, 2009, and have issued our report thereon dated November 20, 2009. Our audit was performed for the purpose of forming our 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.



Atlanta, Georgia  
November 20, 2009

**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?  X  yes   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	Children's Healthcare Insurance Program (CHIP)
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 17,664,174

Auditee qualified as low-risk auditee?   yes  X  no



**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES**



**Section II**  
**Financial Statement Findings and Responses**

**FS 09-01 Upper Payment Limit Calculation**

*Criteria:* Title 42 of the Code of Federal Regulations, sections 447.272 for inpatient services and 447.321 for outpatient services and nursing homes, states that the Department of Community Health is eligible to calculate Upper Payment Limit (UPL) for providers that are State Government, Non-State Government and Privately owned and operated facilities. UPL refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles.

*Condition:* During the performance of our annual audit procedures, we obtained UPL calculations that were performed twice during fiscal year 2009, one for first and second quarter and the other for third and fourth quarter. Through examination of the UPL calculations we noted that all second, third and fourth quarter calculations for nursing homes had been performed incorrectly, which led to underpayments of UPL, and an understatement of the respective assets and liabilities associated with this calculation.

*Context:* The UPL calculations for second, third and fourth quarter for nursing homes resulted in 80 providers being underpaid. The Department of Community Health was able to determine the underpayments and plans to correct the error with future UPL calculations.

*Effect:* The total dollar value of nursing home calculations and payments was understated for the year in the amount of approximately \$24.4 million, and the intergovernmental revenues from the federal government were also understated by approximately \$18 million.

*Cause:* The cause for this condition is due to erroneous information provided from one division within the Department of Community Health to the division responsible for performing the UPL calculation.

*Recommendation:* Management should develop procedures to review UPL calculations to ensure the calculations of the Department of Community Health's obligations and offsetting receivables are properly performed and recorded. Part of this should encompass a review of supporting documentation to ensure the data within the calculation is reasonable and accurate.

*Auditee's Response:* The Department of Community Health concurs with this finding. For future nursing home UPL payment calculations, the Department of Community Health will utilize an audited patient bed day report that has been validated by the Georgia Department of Audits and Accounts in their annual nursing home cost report audit process. The Department of Community Health will

also expand the internal quality assurance and review process to validate the correct data has been utilized in preparing UPL payment calculations. The Department of Community Health will continue to provide payment calculations to providers in an additional effort to identify any data errors or payment miscalculations prior to payments being made.

**FS 09-02 Reserve for Encumbrances, Accounts Payable and Other Accruals, and Federal Receivables**

*Criteria:*

The Department of Community Health's management is responsible for accurately reporting reservations of fund balance which would include a reserve for any encumbrances at year end. A reserve for encumbrance exists when a commitment resulting from a contract, purchase order, salary agreement, travel claim or other such commitment remains unsatisfied and the delivery of goods or services and the related expenditure will occur after year end. Encumbered funds may be released when no further transactions will be forthcoming or are pending related to an encumbrance.

Further, the Department of Community Health's management is responsible for ensuring costs associated with payment obligations are recorded promptly when incurred and measurable, and reported accurately in the schedule of expenditures of federal awards as well as the financial statements. An account payable exists when the Department of Community Health has benefited from the delivery of goods or services and the related obligation remains unsatisfied. Additionally, management is responsible for consistently applying adequate review and approval controls over all disbursements made by the Department of Community Health as well as compliance with all terms of contractual agreements where the Department of Community Health is a party to the agreement.

Finally, an accounts receivable is typically calculated and recorded when the Department of Community Health determines benefits have been paid or are payable. The Department of Community Health's management is responsible for recognizing and recording revenues and accounts receivable associated with these benefits.

*Condition:*

This is a modification and partial repeat of finding FS 08-01 from the year ended June 30, 2008.

During our auditing procedures, we noted management originally encumbered a dollar amount related to a specific purchase order which resulted from a contractual agreement with another agency of the State of Georgia. As the Department of Community Health applied payments to this purchase order, it became apparent the encumbrance was insufficient to fully fund the related projects set forth in the contract. As a result, the Department of Community Health utilized an alternative control whereby a journal voucher was created for the estimated remaining liability related to the delivery of goods and services provided under the contract agreement. The

Department of Community Health applied approximately \$16 million to the journal voucher and ultimately released approximately \$4 million of the remaining encumbered from the original purchase order. However due to the nature of the agreement and the use of the journal voucher, management was unable to determine in a timely manner using adequate monitoring controls if the costs associated with the contract were in excess of the contract's 'not-to-exceed' amount.

Our procedures also noted two encumbered purchase orders within the reserve for encumbrances for which no further transactions would be forthcoming or pending at June 30, 2009. Management of the responsible division had not notified the Department of Community Health's Financial Services division the amounts should be released.

Management of the Department of Community Health provided a detail listing of liabilities supporting the accounts payable and other accruals reported by the Department of Community Health at June 30, 2009. As a result of our audit procedures, we identified several significant obligations which were not included within the detail and thus excluded from the reported balances of the Department of Community Health at year end. Additionally, we noted certain payments to hospital authorities which were supported by documents provided by another department of the State of Georgia which lacked evidence of adequate controls relating to the review and approval by employees of the Department of Community Health.

Management also provided a reconciliation of intergovernmental revenues and receivables from the federal government as of and for the year ended June 30, 2009. Due to the nature of the previously discussed adjustments to the detail listing of liabilities supporting the accounts payable and other accruals, significant adjustments were required to be recorded to properly recognize intergovernmental revenues and receivables from the federal government at year end.

*Context:*

The design and operation of the Department of Community Health's controls over reporting encumbrances as well as accounts payable and other accruals at year end did not prevent or detect financial statement misstatements in a timely manner. Additionally, the Department of Community Health's normal internal controls over the disbursement of funds were not consistently applied to certain disbursements made to hospital authorities. Further, the Department of Community Health did not have controls in place which would identify and monitor the remaining balance of funds identified with an agreement which included a 'not-to-exceed' amount within the terms of the contract. As a final element of this finding, the Department of Community Health's lack of controls prompted an understatement of revenues as of and for the year ended June 30, 2009.

*Effect:*

The conditions above resulted in an overstatement of approximately \$21.4 million of encumbrances. In addition to the amounts noted in

finding FS 09-01, the Department of Community Health's accounts payable and other accruals were understated by approximately \$57 million and the intergovernmental receivables from the federal government were understated by approximately \$32 million.

The conditions noted above were brought to the attention of management and the Department of Community Health determined adjustments were required to properly reflect the amount of funds reserved for encumbrances as well as the amounts reported as accounts payable and other accruals as of June 30, 2009. These amounts were ultimately corrected by management prior to issuance of the June 30, 2009 financial statements.

*Cause:*

Management within the various divisions of the Department of Community Health is not providing to the Financial Services division accurate and timely information related to encumbered funds. Additionally, the Department of Community Health did not have adequate controls in place to monitor the 'not-to-exceed' terms included in a contract agreement. Further, the Department of Community Health did not have a system in place to support management's assertions that the accounts payable and other accruals were complete, accurate and properly valued, and certain payments to hospital authorities did not appear to be reviewed and approved, all of which ultimately caused intergovernmental receivables from the federal government to be improperly reported.

*Recommendation:*

We understand management's reluctance to release encumbrances when the potential exists that a future invoice may yet be presented for payment or is pending. However, we recommend management of the various divisions within the Department of Community Health recognize their responsibility to monitor more closely the remaining encumbered funds related to their contract responsibilities and to provide the Financial Services division accurate and more timely information related to the need to continue the encumbrance.

We further recommend the Department of Community Health's Office of Inspector General review actual payments for all contracts with 'not-to-exceed' amounts as well as the relevant controls which ensure compliance with such contractual terms.

In an effort to ensure the Department of Community Health's reported obligations and related receivables are not materially misstated, we recommend management implement and maintain a system which carefully reviews material disbursements subsequent to year end with the intended purpose of identifying liabilities which should be reflected in the Department of Community Health's accounts payable and other accruals at fiscal year end.

We further recommend the Department of Community Health consistently apply its controls over disbursements even for requests received from other State of Georgia agencies.

*Auditee's Response:* The Department of Community Health concurs with this finding. Contracts payable policies do not allow funds to be unencumbered without approval from contract owners. A Purchase Order Status form is sent to program managers which requests the following information:

- 1) Approval to close the purchase order;
- 2) Extension of purchase order; and,
- 3) Delayed closing (explanations must be provided).

The Purchase Order Status form is sent periodically throughout the year, and more frequently during the months of April – June. During the months of May and June, a response is requested within two weeks. It was noted responses from program managers were not received in a timely manner and therefore resulted in certain purchase orders not being unencumbered.

Prior to year end, the Contracts Payable Unit sends an End of Year Worksheet to the program managers. The worksheet provides the vendor name, contract and purchase order number and the purchase order balance. In addition, the worksheet requests a response within two weeks from the program managers to provide the estimated expenditures remaining for the current fiscal year, amount to extend and amount to unencumber. It was noted that responses from the program managers were not received in a timely manner and therefore, resulted in accounts payable and other accruals not being set-up for expenditures.

Modifications will be made to the year end process to include:

- 1) Revision of End of Year Worksheet to capture 'not-to-exceed' amounts for each contract on the payment tracking document;
- 2) Address the 'not-to-exceed' contract clause by requiring the contract owner to include the page that references the 'not-to-exceed' amount with their renewal request. The reference page will support the amount of the renewal when the budget is approved and the Purchasing Division is setting up the purchase order;
- 3) Escalation of the request to department chiefs if responses are not received from program managers as requested;
- 4) Running queries of outstanding invoices to review dates when expenditures were incurred;
- 5) Development of a year end audit checklist to include review of outstanding payables to compare to query reports; and,
- 6) Implement procedures to include review and approval of Georgia Department of Human Resources hospital invoices by the Supplemental Reimbursement Unit, who will in turn submit the approved invoice to the Financial Services Division for payment processing.

### **FS 09-03 Journal Entries**

*Criteria:* The Department of Community Health is responsible for maintaining adequate and effective internal controls over the journal entry process to prevent or detect material misstatements and ensure accurate reporting of financial data.

*Condition:* During our testing of the journal entry process, we noted two instances, in a sample of 22 financial statement preparation entries, which did not have documented approval or adequate supporting documentation. In addition, we noted the individual who assists in the preparation of the financial statements was able to create and post financial statement entries with no documented review or approval by another individual.

*Context:* Management would not have the opportunity to prevent or detect any potential misstatements resulting from financial statement preparation entries that were not subject to additional review.

*Effect:* The design and operation of the Department of Community Health's controls over the financial statement journal entry process were not adequate to prevent or detect potential financial statement misstatements in a timely manner. However, based on our procedures, we did not note a material misstatement related to the entries lacking adequate supporting documentation or approval.

*Cause:* The Department of Community Health's controls over the financial statement journal entry process allowed one individual to make financial statement journal entries without any documented supervision or review.

*Recommendation:* We recommend the Department of Community Health require documented review and approval by a knowledgeable member of management for all journal entries and that all entries include supporting documentation that substantiates the basis for the entry.

*Auditee's Response:* The Department of Community Health concurs with this finding. As a result of this finding we will implement the following:

- 1) Modify controls over financial statement journal entries to ensure each journal entry has adequate supporting documentation;
- 2) Establish written procedures for preparation of journal entries used to reconcile federal revenues and expenses;
- 3) Review all journal entries to confirm they have gone through appropriate levels of review and approval; and,
- 4) Require authorized signatures of approval on all journal entries prior to adjustment to the financial statements.

**SECTION III**  
**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**SECTION III**  
**Federal Awards Findings and Questioned Costs**

**SA 09-01 Upper Payment Limit Calculation**

*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, 5-0805GA5028,  
5-0805GA5048, 5-0905GA5028, 5-0905GA5048 and 5-0905GAARRA  
Fiscal Year 2009

*Criteria:* See Financial Audit Finding FS 09-01.

*Condition:* See Financial Audit Finding FS 09-01.

*Questioned Cost:* \$18,330,438

*Context:* See Financial Audit Finding FS 09-01.

*Effect:* See Financial Audit Finding FS 09-01.

*Cause:* See Financial Audit Finding FS 09-01.

*Recommendation:* See Financial Audit Finding FS 09-01.

*Auditee's Response:* See Financial Audit Finding FS 09-01.

**SA 09-02 Reserve for Encumbrances, Accounts Payable and Other Accruals**

*Federal Program  
Information:*

CFDA Nos. 93.777, 93.778 and 93.767  
Medicaid Cluster (State Survey and Certification of Healthcare Providers and  
Medical Assistance Program) and Children's Health Insurance Program  
(CHIP)  
U.S. Department of Health and Human Services  
Grant Award Nos., 5-0705GA5028, 5-0705GA5048, 5-0805GA5028,  
5-0805GA5048, 5-0905GA5028, 5-0905GA5048, 5-0905GAARRA,  
5-0705GA5021, 5-0805GA5021 and 5-0905GA5021  
Fiscal Year 2009

*Criteria:* See Financial Audit Finding FS 09-02.

*Condition:* See Financial Audit Finding FS 09-02.



*Questioned Cost:* \$32,044,716 in addition to the questioned costs noted in finding SA 09-01.

*Context:* See Financial Audit Finding FS 09-02.

*Effect:* See Financial Audit Finding FS 09-02.

*Cause:* See Financial Audit Finding FS 09-02.

*Recommendation:* See Financial Audit Finding FS 09-02.

*Auditee's Response:* See Financial Audit Finding FS 09-02.

**SA 09-03 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., 5-0705GA5028, 5-0705GA5048, 5-0805GA5028, 5-0805GA5048, 5-0905GA5028, 5-0905GA5048 and 5-0905GAARRA  
Fiscal Year 2009

*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 08-01 from the year ended June 30, 2008. The Department of Community Health has contracted with the Department of Human Resources' Division of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted nine instances in a sample of 60 of Medicaid recipients whose eligibility was not properly documented. Those nine instances were as follows:

1. One case file was not able to be located.
2. Additional volumes of two case files were not able to be located.
3. Five case files did not contain evidence that eligibility was recertified in accordance with the policies and procedures in place.
4. One case file did not contain acceptable verification of income.

*Questioned Cost:* None

*Context:* With the institution of the passive review process, members in the Medicaid program may no longer be eligible to receive payments based upon the lack of documentation of their eligibility 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 verification and documentation monitoring policy for Medicaid members and create more stringent controls over the eligibility process.

*Auditee's Response:* The Department of Community Health concurs with this finding. The Department of Community Health recognizes and acknowledges the need to enhance the monitoring policy for case file storage, verification, documentation and completion of timely reviews. The Department of Community Health continues to conduct an independent review of case records which includes a review of all points of eligibility. There are 850 records requested for review each month from county DFCS offices. All undetermined and error cases are specifically addressed and resolved by DFCS as a part of the review process. Quarterly meetings are held with DFCS and the Department of Community Health to review progress on these findings and DFCS continues to improve in problem areas.

As a result of declining State revenues, DFCS implemented a critical hire process for the replacement of vacant staff positions in this past fiscal year. This, combined with an increase in the amount of people applying for assistance has led DFCS to serve more people with less staff. Missing case files, documentation and untimely reviews are partly a result of this process as they could not hire staff to create and file case records, work manageable caseloads or complete reviews in a timely manner. DFCS specifically tried to address the review process by implementing a "passive review" process for Family Medicaid cases without the consent of the Department of Community Health. The Department of Community Health met with DFCS and stressed that they were out of compliance with set policy and procedures as set by the Department of Community Health. The Department of Community Health followed up in writing in June 2009 informing DFCS of the financial liability they were setting and informed them that it was an unacceptable practice. The memo also opened the communications to DFCS to explore new ways of managing the Medicaid work in collaboration with the Department of Community Health.

As a part of the ongoing corrective action, the Department of Community Health Medicaid Quality Control Unit targets individual DFCS counties on a monthly basis that need additional assistance with compliance to policies and procedures. The Department of Community Health will continue to 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. Any problematic eligibility policies and procedures identified by the Administrative Services Organization quality control will be strengthened or modified in order to clarify operations.

#### **SA 09-04 Matching of Allowable Expenditures**

*Federal Program Information:*

CFDA No. 93.767  
Children's Health Insurance Program (CHIP)  
U.S. Department of Health and Human Services  
Grant Award Nos., 5-0705GA5021, 5-0805GA5021 and 5-0905GA5021  
Fiscal Year 2009

*Criteria:*

The Department of Community Health is responsible for administering the CHIP. CHIP 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 responsible for matching federal program expenditures at the federally determined rate.

*Condition:*

The State matching rate for its CHIP expenditures is determined in accordance with the federal matching rate for such expenditures, referred to as the enhanced Federal Medical Assistance Percentage (Enhanced FMAP). The Enhanced FMAP rate for federal fiscal year (FFY) 2009 is 75.14 percent and the Enhanced FMAP rate for FFY 2008 is 74.17 percent. During fieldwork we noted five instances in a sample of 40 CHIP administrative expenditures in which an incorrect federal matching rate was applied. Those five instances were as follows:

1. One expenditure was incorrectly matched at the prior year enhanced FMAP rate based on the date of the expenditure.
2. Four expenditures were incorrectly matched at a rate other than the enhanced FMAP for CHIP expenditures.

*Questioned Cost:*

The Department of Community Health overpaid the State portion. The dollar variance of the overpayments is immaterial.

*Context:* The Department of Community Health has an extensive chart of accounts to separately denote expenditure funding sources and other details. If the funding and other account information is documented incorrectly and is not corrected during the review and approval process, the expenditure will be recorded incorrectly.

*Effect:* The Department of Community Health did not match CHIP expenditures at the federally determined rate.

*Cause:* The Department of Community Health did not adequately monitor the matching rate applied to CHIP administrative expenditures.

*Recommendation:* The Department of Community Health should improve their monitoring policy for the payment of CHIP administrative expenditures to ensure that expenditures are coded appropriately and matched at the proper rate.

*Auditee's Response:* The Department of Community Health concurs with this finding. We recognize and acknowledge the need to enhance the review of payments to ensure the correct FMAP rate is used in calculating the federal and State portion of CHIP administrative expenses.

A procedure will be implemented to have the Accounts Payable Manager review each transaction prior to and after each entry has been processed.

**SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS**

# Department of Community Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FEDERAL AGENCY DIRECT OR PASS-THROUGH ENTITY PROGRAM NAME	CFDA NO.	FEDERAL EXPENDITURES
<b>Health and Human Services, U. S. Department of</b>		
<b>Direct</b>		
Medicaid Cluster:		
State Survey and Certification of Health Care Providers	93.777	\$ 5,155,847.76
Medical Assistance Program	93.778	5,149,526,880.46
American Recovery and Reinvestment Act (ARRA) - Medical Assistance Program	93.778	<u>497,422,573.58</u>
		5,652,105,301.80
HLTH CTR/Migrant Health	93.224	<u>2,525,915.84</u>
State and Territorial and Technical Assistance Capacity	93.006	219,019.02
Primary Care Services - Resource Coordination and Development	93.130	<u>205,339.14</u>
Medicaid Transformation Grants	93.793	<u>3,761,055.07</u>
State Rural Hospital Flexibility Program	93.241	<u>474,627.53</u>
State Children's Healthcare Insurance Program	93.767	<u>222,704,995.21</u>
Grants to States for Operation of Offices of Rural Health	93.913	<u>220,882.30</u>
CMS Research Demonstrations and Evaluations	93.779	<u>1,232,962.31</u>
Small Rural Hospital Improvements	93.301	<u>474,468.83</u>
Alternate NonEmergency Services Provider	93.790	<u>298,288.46</u>
ARRA -Service Health Center	93.703	<u>12,559.80</u>
<b>Total U.S. Department of Health and Human Services</b>		5,884,235,415.31
<b>Human Resources, Department of</b>		
Refugee and Entrant Assistance - State Administered Programs	93.566	<u>3,822,650.14</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 5,888,058.065.45</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, 2009

## **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, 2009.

**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 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.

*Auditee Response/  
Status:*

Unresolved: See current year finding FA 09-03 for status of the reserve for encumbrances.

### **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.

*Auditee Response/  
Status:*

Partially resolved: The Department of Community Health implemented procedures whereby the initial federal accounts receivable reconciliation provided was accurately performed and properly approved; however, certain adjustments were noted during audit fieldwork. See current year findings FS 09-01 and FS 09-02 for status of the federal accounts receivable.

**SA 08-01 Verification and Documentation of Eligibility**

*Criteria:*

The Department of Community Health is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through the 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.

*Auditee Response/*

*Status:* Unresolved: See current year finding SA 09-01 for status of the documentation of eligibility.

**SA 08-02 Federal Accounts Receivable**

*Criteria:* See Financial Audit Finding FS 08-02.

*Condition:* See Financial Audit Finding FS 08-02.

*Auditee Response/*

*Status:* See Financial Audit Finding FS 08-02.

