

Annual Audit Agenda

June 30, 2010



Georgia Department of
Community Health

Audited and Reported by a Joint Venture of Certified Public Accounting Firms



Certified Public Accountants

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

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

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PURPOSE OF AGENDA

To share information about the *engagement team*.

To share information about the *audit process and deliverables timeline*.

To address the overall *independent auditors' report* relative to fiscal year 2010.

To provide a *summary overview of the financial statements & footnotes* of fiscal year 2010.

To address certain *required communications* related to the fiscal year 2010 engagement.

To provide summarizations of *findings and management letter comments* related to the fiscal year 2010 engagement.

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ENGAGEMENT TEAM

Metcalf Davis / Mauldin & Jenkins:

- Large regional joint venture audit organization serving the Southeastern United States.
- Multiple offices located in Atlanta, Macon, Albany and Birmingham.
- Serve more governmental entities in Georgia than any other certified public accounting firm requiring over 60,000 hours of service on an annual basis. Provider of over 250,000 hours of service to all clients on an annual basis.
- Firms are the auditor of a very large and substantial part of the State of Georgia including approximately 25% of the State's general fund, and the solid majority of the State of Georgia's component units, including the audit of the State of Georgia's Department of Audits & Accounts.
- Auditors of entities with assets as much as \$5 billion.
- Most recent auditor of over 180 total governmental entities in Georgia, and also serves another 250 not-for-profit entities in Georgia. The solid majority of these governmental and not-for-profit entities receive substantial federal funding.

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Engagement Team Leaders on the Audit Engagement Include:

- **Miller Edwards**, Engagement Partner - 25 years experience serving governments with 11 years experience auditing the Department of Community Health (the "Department").
- **Dave Decker**, Engagement Partner - 22 years experience in serving governments, and partner managing the audit fieldwork of the Department for the past 11 years.
- **Matt Hill**, Manager (Compliance = Single Audit) - 12 years experience serving governments with 11 years experience auditing the Department.
- **Donarene Steele**, Manager (Financial Audit) - 19 years experience serving governments with 6 years experience auditing the Department.
- **Clayton Knox**, Manager (Financial Audit) - 9 years experience serving governments with 6 years experience auditing the Department.
- **Marci Thomas**, Manager (Compliance & Financial Audits) - 24 years experience serving governments with 1 year experience auditing the Department.
- **Greg Davis**, Quality Assurance Partner - 35 years experience serving governments with 11 years experience auditing the Department.
- **Rodney Brown**, Quality Assurance Partner - 37 years experience serving governments with 10 years experience auditing the Department.
- **Meredith Lipson**, Quality Assurance Partner (Compliance) - 21 years experience serving governments with 10 years experience auditing the Department.
- **Billy Minch**, Quality Assurance Partner (Compliance) - 21 years experience serving governments with 11 years experience auditing the Department.
- **Jerry Anderson**, External Consultant to Engagement Team – 42 years experience serving governments with 11 years experience consulting this audit team.

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OVERVIEW OF AUDIT PROCESS & DELIVERABLES TIMELINE

The following information presents a small timeline of certain significant events in the conduct of the annual financial and compliance audit:

- **May 10, 2010** We began the annual audit process focusing on the compliance and planning elements of the audit.
- **July 28, 2010** Management provided a preliminary Schedule of Expenditures of Federal Award (SEFA).
- **September 17, 2010** Management provided completed internal control questionnaires.
- **October 27, 2010** Management provided closed and adjusted general ledgers and draft financial statement amounts for audit (subsequently revised by management on **October 29, 2010**).
- **November 10, 2010** Management provided draft financial statement footnotes.
- **November 24, 2010** Management provided a final SEFA.
- **December 6, 2010** We conducted our financial and compliance audits based on information provided by Department management, and all of our reports (deliverables) are dated this date which was our last day of fieldwork as well as the completion of our extensive quality assurance and review process.
- **December 8, 2010** We delivered final financial and compliance audit report packages, management letter and Audit Agenda to Department management.

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INDEPENDENT AUDITORS' REPORT

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

- A. **Scope:** "We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Georgia's Department of Community Health (hereinafter referred to as the "Department of Community Health") as of and for the year ended June 30, 2010, which collectively comprise the Department of Community Health's basic financial statements as listed in the table of contents."
- B. **Your Responsibility:** "These financial statements are the responsibility of the Department of Community Health's management."
- C. **Our Responsibility:** "Our responsibility is to express opinions on these financial statements based on our audit."
- D. **Audit Standards:** "We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States."
- E. **Clean Opinion:** "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department of Community Health, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America."

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OVERVIEW OF FINANCIAL STATEMENTS AND FOOTNOTES

Statement of Net Assets (Page 4) – This statement is similar to a balance sheet, and presents the governmental and business-type activities of the Department of Community Health (hereinafter referred to as the “Department”) as of June 30, 2010. The statement is prepared under the full-accrual method of accounting and includes components for capital assets and long-term debt. The governmental activities are primarily the Medicaid activities of the Department, and the business-type activities surround the State Health Benefit Plan (SHBP).

Significant elements to consider as of June 30, 2010 include:

- Cash and cash equivalents amount to approximately \$83 million as of June 30, 2010 as compared to \$288 million as of June 30, 2009. Consequently, cash and cash equivalents decreased by approximately \$205 million during 2010. Further, over a two (2) year period, cash and cash equivalents have decreased by approximately \$600 million since June 30, 2008. Most of the cash reduction was in the SHBP.
- Total receivables amount to approximately \$1.15 billion as compared to \$840 million as of the close of the prior fiscal year. This results in an increase in receivables during 2010 in the approximate amount of \$310 million.
- Total assets amount to approximately \$1.26 billion versus the prior year approximation of \$1.13 billion. Therefore, total assets have been increased by approximately \$130 million in net of decreases in cash and increases in receivables.

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- Liabilities include the usual items such as accounts payable, accrued liabilities and benefits payable. One of the more significant obligations includes accounts payable and other accruals approximating \$350 million as compared to \$154 million in the prior year. Additionally, benefits payable approximate \$970 million as of June 30, 2010 as compared to \$908 million as of June 30, 2009. The benefits payable consists primarily of actuarially calculated amounts for the respective incurred-but-not-reported (IBNR) liabilities for the payment of claims.
- Total liabilities approximated \$1.47 billion as of June 30, 2010 as compared to \$1.13 billion as of June 30, 2009. Current liabilities amounted to approximately \$1.46 billion.
- During 2010:
 - Assets increased by approximately \$130 million;
 - Liabilities increased by approximately \$330 million;
 - Net Assets resulted in a deficit that increased by \$196 million to a cumulative total deficit of approximately \$200 million.
 - Governmental activities represented a positive equity position of approximately \$34 million while the Business-Type Activities (SHBP) represented a deficit of approximately \$234 million.

Statement of Activities (Page 5) – This statement is intended to report the operations of the Department based on its primary functions and programs. It is reported on the full-accrual basis of accounting and is certainly a unique presentation as required by governmental financial reporting standards.

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Significant elements to consider for the year ended June 30, 2010 include:

- The governmental activities primarily surround the Medicaid Program and Children's Health Insurance Program (CHIP) programs as well as numerous programs that transitioned with divisions of the former Department of Human Resources (DHR). The business-type activities represent activities of the SHBP.
- Total revenues (program and general revenues) amounted to approximately \$11.6 billion as compared to \$10.2 billion in the prior year. This represents an increase of approximately \$1.34 billion or 13.1%. A further breakdown and comparison is as follows:

	FY 2010	FY 2009	Change
Charges for Services	\$ 2,136,000,000	\$ 1,899,000,000	12.5%
Operating Grants	6,742,000,000	5,888,000,000	14.5%
State Appropriation	2,099,000,000	1,896,000,000	10.7%
Other General Revenues	606,000,000	557,000,000	8.8%
Total Revenues	\$11,583,000,000	\$10,240,000,000	13.1%

- Total expenses (first column) amounted to approximately \$11.8 billion as compared to \$10.9 billion in the prior year. This represents an increase of approximately \$960 million or 8.8%. A further breakdown and comparison is as follows:

	FY 2010	FY 2009	Change
Education	\$ 43,000,000	\$ 41,000,000	4.9%
Health & Welfare - Public	9,265,000,000	8,232,000,000	12.6%
Contribution to State	205,000,000	372,000,000	- 44.9%
Health & Welfare – State Health Benefit Plan	2,298,000,000	2,211,000,000	3.9%
Total Expenses	\$11,811,000,000	\$10,856,000,000	8.8%

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- Program revenues (second and third columns) are those revenues received and earned that directly offset the functional expenses. Program revenues (charges for services and operating grants) amounted to approximately \$8.9 billion as compared to \$7.8 billion in the prior year. This represents an increase of approximately \$1.1 billion or 14.1%.

Included in the program revenues is approximately \$732 million of federal funds provided by the American Recovery & Reinvestment Act (commonly referred to as ARRA).

- Looking at the far right column & midway down the column, and as designed and budgeted, the net effect of the above bullets reflects a net cost of \$2.9 billion as compared to \$3.1 billion in the prior fiscal year. This results in the need for certain general revenues to support the various programs. The net costs of providing the primary functions and programs of the Department decreased by approximately \$136 million (or 4.4%) from the prior year.
- General revenues primarily include the State appropriations, other revenue collections, and intergovernmental transfers, and such amounts totaled approximately \$2.7 billion for the fiscal year ended 2010.
- In the end, the change in net assets represents the current fiscal year shortage of revenues versus expenses in the approximate amount of \$228 million. The change in net assets (the net income or net loss) continues to be a negative amount on net assets for which fiscal year 2009 experienced a shortfall of approximately \$616 million in addition to the current year amount resulting in a two (2) year negative change in net assets of approximately \$844 million. Of this two (2) year cumulative shortfall of revenues versus expenses, the SHBP represents approximately \$707 million.

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General Fund Financial Statements (Pages 6 – 8) – Such statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance. These statements follow accounting standards, and use the modified accrual method of accounting. Reconciliations from the modified accrual to full-accrual basis of accounting are reported at the bottom of page 6 and also on page 8.

Proprietary Fund Financial Statements (Pages 9 – 11) – Such statements include a statement of net assets and a statement of revenues, expenses and changes in net assets. These statements follow accounting standards, and use the full-accrual method of accounting. A statement of cash flows is included, and it reflects the sources and uses of cash and cash equivalents.

Fiduciary Fund Financial Statements (Pages 12 – 13) – Such statements include a statement of net assets and a statement of changes in fiduciary net assets relative to post employment health benefits. These statements follow accounting standards, and use the full-accrual method of accounting.

Footnotes (Pages 14 – 35) – The more significant footnotes are discussed below:

Note 1 – Summary of Significant Accounting Policies. This footnote discusses the overall Department, and the nature of its operations. This footnote also shares with the reader of the financial statements the significant accounting policies and principles utilized in the preparation of the financial statements.

This year, the footnote also includes information relative to the reorganization of the Department to include public and long-term care regulation programs of the former DHR, and the nature of the resulting restatement of opening net assets and fund balance.

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Note 2 – Deposits and Investments. This footnote discloses common deposit and investment risks related to credit risk, concentration of credit risk, and interest rate risk. The footnote also addresses collateralization of bank deposits.

Note 3 – Accounts Receivable. Information regarding receivables and allowances for bad debts are discussed in this footnote.

Note 4 – Capital Assets. This footnote provides information relative to the buildings and equipment owned and occupied by the Department and reflects changes to opening balances relative to the DHR transition.

Note 9 – Risk Management. This footnote provides details on how the Department manages risks for which it is exposed.

Note 11 – Other Postemployment Benefits (OPEB). Substantial information is disclosed in this footnote about the Department's administration of the defined benefit postemployment healthcare plan.

Note 12 – Retirement Systems. Disclosure is provided about the Department's participation in the various retirement plans administered by the State.

Required Supplementary Information (Pages 36 – 42) – Governmental Accounting Standards Board (GASB) pronouncements require certain supplemental information with the basic financial statements. A summary of this information is provided below:

Schedules of Funding Progress and Employer Contributions (Page 36 and 37). As required by GASB, information is disclosed regarding the State's other post employment benefit plan.

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Budget Comparison Schedules, Reconciliations, and Notes (Pages 38 – 42). As required by GASB, this information attempts to share information regarding budget to actual amounts on a budget basis and then reconciled to GAAP.

OVERVIEW OF COMPLIANCE REPORTS

As part of the annual audit process, we have performed a substantial compliance audit and Single Audit of the programs which are federally funded. For the year ended June 30, 2010, total expenditures of federal awards amounted to approximately \$6.9 billion of which approximately \$732 million was funded through ARRA. Consequently, federal revenues approximated 58.5% of total Department revenues, and/or expenses.

We have issued two (2) reports which are required by *Government Auditing Standards* and they are in a separate package from the financial statements. As part of those reports, we have reported one (1) material weakness and several significant deficiencies.

We have also issued a management letter with further recommendations for improvement in the areas of internal control, compliance and general operations.

We have also included a summation of all the above items and other matters within this Audit Agenda.

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REQUIRED COMMUNICATIONS

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As previously stated in our agreement with the Department and as stated above, we would like everyone to understand our responsibility in connection with your audit.

Our audit of the financial statements of the Department for the year ended June 30, 2010, was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contributed to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Department's internal control or compliance with laws and regulations.

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Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Department. There were no significant new accounting policies or standards implemented this year. There are new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

In considering the qualitative aspects of the Department's accounting policies, we did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The Department's policies relative to the timing of recording of transactions are consistent with generally accepted accounting principles (GAAP) and typical government organizations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our engagement. We considered this information along with the qualitative aspects of management's calculations in evaluating the Department's significant accounting estimates. Estimates significant to the financial statements include such items as the estimate for the valuation of benefit claims incurred but not reported, federal accounts receivable, over/under payment of claims, and allowance for doubtful accounts receivable.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the

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disclosures was the same process used in accumulating the financial statements and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

Difficulties encountered in performing the audits are to include any serious difficulties that we encountered in dealing with management related to the performance of the audits. *Statements of Auditing Standards* issued by the American Institute of Certified Public Accountants (AICPA) defines “difficulties encountered” to include, but not limited to: unreasonable delays by management in providing needed information; unreasonable timetables set by management; and unavailability or lack of cooperation of client personnel in responding to appropriate audit inquiries.

We believe we received full cooperation of Department personnel, and believe we were given direct and unrestricted access to the Department’s officials and the respective books and records. We experienced no significant difficulties (as defined in the above paragraph) in the performance of the fiscal year 2010 audit.

Audit Adjustments

As part of the Department’s post-closing exercises, the Department made a significant amount of general ledger and financial statement adjustments. In accordance with GAAP, a series of audit adjustments were necessary to properly reflect the Department’s financial statements as of and for the fiscal year ended June 30, 2010. Such adjustments surrounded amounts computed and recorded relative to the upper payment limit, and a summary of respective amounts are noted as part of our Finding FS 10-01 Upper Payment Limit (UPL) Calculation. Additionally, adjustments related to fixed assets and accumulated depreciation were required to be recorded. See management letter comment number one (or audit agenda item number nine).

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Uncorrected Misstatements

We had no passed adjustments.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on significant matters, or significant disclosures to be included in the financial statements.

Representation from Management

We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

Management's Consultation with Other Accountants

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

- ❑ The Department utilized the services of the Georgia Department of Audits & Accounts for internal auditing functions throughout the year as well as the performance of an attestation engagement relative to the Department's Budget Comparison Reports (BCR);
- ❑ The Department utilized actuarial services of outside consultants for assistance in calculating the Medicaid (governmental activities) and Employee Health Benefits (business-type activities) claims IBNR;
- ❑ The Department utilized the attestation services of other certified public accounting firms for purposes of providing attestation reports relative to the over/under payment of claims

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associated with payment accuracy of the Medicaid Management Information System (MMIS);

- We, likewise, utilized the services of an outside consultant for purposes of evaluating the Medicaid and Employee Health Benefits claims payable and the over/under payment of claims amounts as of June 30, 2010;
- The Department utilized the services of other certified public accounting firms for purposes of obtaining Statement on Auditing Standards (SAS) No. 70, "*Reports on Internal Controls in a Services Organization*" and reports for various aspects of the Department's operations. We reviewed those reports, and considered their effects on the financial audit;
- We, likewise, retained an independent CPA consultant, as provided in our contract, for ongoing assistance in planning and reviewing our audits as we deemed prudent.

Significant Issues Discussed with Management

There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements. We are not aware of any consultations management had with us or other accountants about accounting or auditing matters. No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Other Information in Documents Containing Audited Financial Statements

If you intend to publish or otherwise reproduce the Department's June 30, 2010 financial statements and make reference to either of our firms, we must be provided with printers' proofs or masters for our review and approval before printing. You must also provide us with a copy of the final reproduced material for our approval before it is distributed. We are not aware of any other documents that contain the basic financial statements. If such documents were to be

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published, we would have a responsibility to determine that such financial information was not materially inconsistent with the statements of the Department.

Independence

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

Audit Firm Retention

We know of no issues which would prevent us from performing next year's audits.

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ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2010, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as material weaknesses and significant deficiencies in our supplemental reports on internal controls and compliance. Additionally, we noted certain items management should consider as part of its decision making process. Our recommendations (also commonly referred to as management points) are presented in the following paragraphs. Further, during our audit of the financial statements as of and for the year ended June 30, 2010, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Material Weakness

1. Upper Payment Limit Calculation (modification & partial repeat of a 2009 finding)

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 is eligible to calculate 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.

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During fiscal year 2010, the Department did not perform final UPL calculations for inpatient and outpatient services because updated cost reports were not yet available. However, since the asset and liability related to the UPL payments are significant, the Department developed an estimate of its liability for those payments as well as for the associated receivable from the federal government. This estimate was recorded in the June 30, 2010 financial statements.

During our review of this estimate, we noted it had been computed based on a revised UPL state plan which did not take effect until fiscal year 2011. Upon being made aware of the error, the Department recalculated the estimate in accordance with the applicable fiscal year 2010 UPL state plan and made the necessary adjustments to its assets, liabilities, revenues and expenses.

The total dollar value of the initial UPL estimate for payments was overstated by approximately \$79 million, and the intergovernmental revenues from the federal government were overstated by approximately \$59 million, prior to making the adjustments to reflect the correction.

Management should develop procedures to review its UPL estimates and calculations to ensure the amounts recorded in the Department's financial statements are properly supported, reviewed and represent management's best estimates. This process should include a detailed review of supporting documentation to ensure the data used in calculating the estimate is reasonable, accurate and in accordance with the applicable UPL state plan.

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Significant Deficiencies

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

2. System Override of Internal Controls

The Department is responsible for developing, maintaining and following internal controls over provider receivables to prevent or detect potential misstatements, ensure accurate reporting of receivable balances and develop an expectation of cash inflows.

The Department has policies and procedures in place formally documenting and approving a request for extended repayment of amounts receivable from providers. During our testing, we noted the terms of a request for extended payment were later renegotiated with the provider. However, it was not subject to the same level of review and documentation as the initial agreement.

Upper level management did not have the opportunity to review the renegotiated terms. Internal controls in place over provider receivable repayment terms were overridden and not filtered through the proper channels of internal control established by the Department. Due to a lack of cash flow at the provider, repayment terms were renegotiated informally as a means to quickly provide relief to the provider.

We understand cash flow situations for certain providers may often necessitate management to move quickly to modify repayment terms. However, management should not override the system of controls which govern requests for extended payment without an appropriate review and approval process. In the event that terms of an existing agreement must be modified, we recommend management follow the established policies and procedures for

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formally documenting and approving a request for extended repayment or develop an emergency review and approval process for unusual transactions.

3. Controls Over Processes Performed at Service Organizations

Management is responsible for implementing and maintaining effective internal controls over financial reporting whether the processing is performed at the Department or whether it is outsourced to an outside service organization.

Service auditor reports (a/k/a SAS 70 reports) are not always obtained by the various business process owners where transaction processing is outsourced. In two (2) out of twenty (20) instances, management was unable to provide us with a service auditor report for its key business processes. In addition, several of the business owners did not provide us with information relative to the user controls that the Department has in place to detect and correct any errors that might result from improper processing.

If the Department does not obtain service auditor reports on its key processes it may be unaware of changes in the controls at the service organization that could cause transactions to be processed incorrectly. This could affect the amounts and disclosures in the financial statements.

The Department should ensure that the business owners for the key outsourced processes obtain service auditor reports on a yearly basis. Management should review the opinion of the service auditor and review the contents of the report for any deviations noted by the service auditor in testing. Further, the business owner should ensure that appropriate user controls are in place to detect and correct any errors that might occur at the service organization.

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4. Verification and Documentation of Eligibility (modification & partial repeat of a 2009 finding)

The Department 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 & Medicaid Services (CMS). The Department is responsible for determining that all recipients meet prescribed eligibility requirements and those requirements are appropriately documented.

The Department has contracted with the Department of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork, we noted eight (8) instances in a sample of sixty (60) Medicaid recipients whose eligibility was not properly documented. Those eight (8) instances were as follows:

- a) A case file did not contain acceptable proof of identification.
- b) A case file did not contain acceptable documentation of citizenship verification.
- c) A volume of a case file was not able to be located by the Department of Human Services (DHS)/DFCS (a contractor to the Department).
- d) A case file did not contain evidence that eligibility was recertified in accordance with the policies and procedures in place.
- e) A case file contained evidence that eligibility was improperly terminated.
- f) Three (3) case files did not contain acceptable documentation of income verification.

Without adherence to the Department's policies and procedures in place to determine and document Medicaid eligibility, members in the Medicaid program may no longer be eligible to receive payments if documentation of their eligibility status is incomplete or inadequate.

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The Department does not have an adequate monitoring process in place over DFCS to ensure all CMS guidelines in regards to the documentation of a member's eligibility are properly followed. The Department should improve their verification and documentation monitoring policy for Medicaid members and create more stringent controls over the eligibility process.

5. Matching of Allowable Expenditures (modification & partial repeat of a 2009 finding)

The Department is responsible for administering the Children's Health Insurance Program (CHIP). CHIP is overseen by the U.S. Department of Health and Human Services through CMS. The Department is responsible for matching federal program expenditures at the federally determined rate.

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 for federal fiscal year (FFY) 2010 is 75.57 percent and the Enhanced FMAP for FFY 2009 is 75.14 percent. During fieldwork, we noted five (5) instances in a sample of fifty-one (51) CHIP administrative expenditures in which incorrect federal matching rates were used. Those five instances were as follows:

- a) One (1) expenditure was incorrectly matched at the FFY 2009 Enhanced FMAP based on the date of the expenditure.
- b) Four (4) expenditures were incorrectly matched at a rate other than the Enhanced FMAP for CHIP expenditures.

The Department 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 could be recorded incorrectly.

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The Department did not match CHIP expenditures at the correct federally determined rate. The Department did not adequately monitor the matching rate applied to CHIP administrative expenditures.

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

6. Subrecipient Monitoring

The Department is responsible for administering the State of Georgia's Public Health Emergency Preparedness (PHEP) program. The PHEP program is overseen by the U.S. Department of Health and Human Services. The Department is also responsible for monitoring the subrecipients of the PHEP program.

During fieldwork, we noted there were very limited and inadequate processes in place during fiscal year 2010 to evaluate and monitor subrecipient compliance with program requirements for any PHEP program except the H1N1 program.

The lack of oversight of the emergency preparedness activities was caused in part by the reporting requirements associated with the H1N1 program. Department personnel did not perform any site visits or internal audits to monitor subrecipient compliance with the master agreements, grant in aid annexes or other program requirements. The subrecipients were also not monitored via quarterly reporting during fiscal year 2010. Additionally, we noted the Department considered the requirement of the subrecipients to be independently audited under OMB Circular A-133 as an effective control.

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The Department does not have an adequate monitoring process in place over their subrecipients. The Department should improve the subrecipient monitoring process in place over the PHEP program.

7. Controls Over Emergency Preparedness Administrative Expenses

The Department is responsible for administering the State of Georgia's PHEP program. The PHEP program is overseen by the U.S. Department of Health and Human Services through the Centers for Disease Control and Prevention (CDC). The Department is responsible for establishing and maintaining effective internal controls over compliance with the allowable activities and cost principles applicable to the PHEP program.

The Department is required to have adequate controls to prevent and detect material errors. We noted one (1) expenditure in a sample of sixty (60) did not contain evidence of departmental approval in accordance with the procedures put in place by the Department.

PHEP funds may be improperly used to fund unallowable costs and activities because the policies and procedures in place at the Department to prevent and/or detect the improper payment are not being appropriately followed and/or documented.

The policies and procedures the Department has in place to prevent and detect improper usage of program funds are not functioning effectively. The Department should improve internal controls as they relate to the review and authorization of PHEP administrative expenses.

8. Documentation of Matching and Maintenance of Funding Compliance

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

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the CDC. The Department is responsible for separately documenting compliance with the Matching and Maintenance of Funding (MOF) requirements applicable to the PHEP program.

The Department is required to separately account for the non-federal funds used to meet MOF requirements. We noted that there was inadequate supporting documentation for the MOF amounts reported to the grantor via the PERFORMS system and that the Emergency Preparedness staff was inconsistent in the separate designation of funds as matching funding or as MOF funding. Based on discussions with Emergency Preparedness staff and review of the PERFORMS system, amounts listed as Matching in PERFORMS were also identified as meeting the MOF requirement.

There was inadequate documentation for the amounts reported as MOF in PERFORMS and the PHEP program had inadequate procedures in place to consistently distinguish between and separately account for amounts used to meet MOF requirements for the PHEP program. The Department may not be meeting its MOF requirements for the PHEP program because it is not appropriately distinguishing between, separately accounting for, and adequately documenting the amounts used to meet these requirements.

The Department has inadequate policies and procedures in place to consistently distinguish between, separately account for and adequately document the non-federal amounts used to meet MOF requirements for the PHEP program.

The Department should improve policies and procedures in place to consistently distinguish between, separately account for and adequately document the non-federal amounts used to meet MOF requirements.

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Management Points

We have discussed various matters with management pertaining to operations, controls and compliance including, but not limited to:

9. Transition of the Division of Public Health and the Office of Regulatory Services

As entitled by HB 228, on July 1, 2009, the Department accepted all rights, privileges, entitlements, assets, liabilities, federal programs, employee benefit liabilities (except retirement benefits), contracts, leases, agreements, commitments, contingencies, and duties of parties (responsibilities), including all rules, regulations, policies, procedures, and administrative orders related to the Division of Public Health (DPH) and the Office of Regulatory Services (ORS). In addition, the Department accepted approximately 1,400 budgeted personnel positions of which 1,061 were positions filled by transitioned employees.

Management's plan for the transition was well thought out and documented from a program, management and logistical point of view. However, the plan lacked specific direction and readily available documentation related to the transfer of beginning general ledger balances from the transferred agencies. As a result, the adjustments needed to recognize transferred program reserves, capital assets, and compensated absences were not reviewed or recorded on a timely basis. For example, an adjustment in the amount of \$13 million net of accumulated depreciation in amount of \$6 million was necessary to properly record the beginning balance of buildings. Additionally, an adjustment of \$600,000 was necessary to properly state current year depreciation expense.

In the event the Department assumes responsibility for other state agencies in the future, we recommend management validate estimated amounts and develop specific procedures for

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transferring relevant assets and liabilities. These procedures could be included in a financial section in the overall transition plan.

10. Employee Personnel Files

2

During our review of employee personnel files, we noted one (1) of the files included in our review of three (3) did not contain an employee personnel action form from the employee's date of hire. The Department's internal controls require that personnel action forms be completed and properly approved when employees are hired.

We understand this employee became an employee of the Department during the transition of the DPH to the Department which occurred on July 1, 2009. We further noted that the other personnel files we reviewed had the personnel action form in the employee file. Since other employees of the former DPH could have been affected during the transition, we recommend the Department go back and ensure personnel action forms are in the files for these employees and continue to ensure that the forms are completed when Department employees are hired.

11. Reconciling Bank Statements Regularly

3

During the audit, we noted that bank statements for the DPH bank accounts were not reconciled to the general ledger in a timely manner. It is important for bank accounts to be reconciled in a timely fashion so errors or fraud can be detected and corrected in a timely manner. We recommend priority be placed on completing all bank reconciliations and adjusting the general ledger where necessary. Bank reconciliations should be performed and reviewed monthly.

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12. Outstanding Checks

(14)*

At the time of our audit, there were several large checks outstanding for several months, specifically for the administrative accounts payable account. Investigating outstanding checks is an important control procedure that helps to ensure transactions are properly accounted for. We recommend an accurate outstanding check list be kept for each bank account and a periodic review of the list be performed on a timely basis.

13. Accurate Rollforward of Receivables

(5)

Jerry Dubberly

During the audit, we noted there were receivables in the financial statements that included amounts resulting from claim errors which had been identified by a third party service provider. The detail of amounts that supported these receivables which was provided to us by management considered only the balances resulting from claims paid during the year ended June 30, 2010. However, amounts reported at June 30, 2009 also remain uncollected.

Management has engaged a third party to perform collection procedures and believes that ultimately significant portions of the remaining June 30, 2009 balances will be collected. These should be recorded as receivables.

In addition, as of June 30, 2010, management did not estimate an allowance for uncollectable receivables related to the claim errors for fiscal years 2009 or 2010. In the future, we recommend management consider the status of both current and previously reported amounts and record them as a receivable and then evaluate all receivables for collectability and record an allowance for doubtful accounts.

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14. Cash Receipts

(4) *

During our review of cash receipts for the month of May 2010, we noted numerous cash receipts relating to the activities of the DPH where there was a significant time lag from the date of the check to the date when it was received and recorded on the cash receipts log of the Department and deposited to the Department's account. Based on discussions with management, providers were sending payments to an inactive address associated with the former Department of Human Resources, resulting in cash receipts moving between multiple locations before reaching the appropriate Department personnel.

Improved internal control over cash receipts can be achieved when payments are received at one central location and handled through the same internal control processes. We recommend the Department provide timely written communication to providers and others remitting cash receipts as to the appropriate location to send payment.

15. Lack of Formal Disbursement Policies and Procedures

(11)

Debbie Hall

The Department's current written purchasing policies and procedures have not been updated to reflect the current policies and procedures. Many changes were needed to incorporate the DPH's transactions on a basis consistent with other Department transactions. As a result, we noted confusion among certain Department personnel over procedures to be followed, such as when a purchase order is required and when approval from the budget department must be obtained. Failure to follow established procurement procedures could result in unauthorized expenditures or payments being made to unauthorized vendors.

We recommend management complete its project to formalize, in writing, the Department's purchasing and disbursement policies and procedures. Management should ensure the finished document is distributed and training provided to all appropriate personnel in an effort to have consistent understanding and implementation of controls over the Department's purchases.

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16. Disbursement Controls

8 *

During our testing of fiscal year 2010 disbursements, we noted two (2) disbursements out of a sample of sixty (60) which were coded to the wrong expenditure/expense account within PeopleSoft. Additionally, we noted a disbursement in the sample which was not properly supported by a purchase order. Considering the importance stressed in the Department of program budgeting and purchase order monitoring, we recommend management implement controls over disbursements are consistently applied to ensure expenditures/expenses are properly coded with the general ledger and purchase orders are obtained as required by Department policy.

17. Adequate Review and Approval Process for all Expenditures

9

On July 1, 2009 the Department assumed responsibility for the State of Georgia Public Health programs. As a result of that responsibility, certain expenditures of the various local health departments across the State are submitted to the Department for payment. During our testing of expenditures, we noted that in ten (10) of sixty (60) expenditures chosen for testing, management could not provide adequate support for the payments. The only support available for each of the ten (10) was an electronic identification of the item in the form of a screen print. The ten (10) expenditures were ones submitted to the Department for payment by various health departments. Through discussions with the Department personnel, we determined that management expects the health departments to maintain their own supporting documentation for these expenditures and does not require the expenditures to be subject to the process used by the Department for its other expenditures.

We recommend that management develop procedures for health department expenditures which would include maintaining adequate support for the expenditure, and an adequate review and approval process.

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18. Receipt and Payment of Division of Public Health Invoices 10*

When the Department assumed responsibility for the DPH, certain vendors were either not made aware or were uncertain as to the appropriate location at the Department to send invoices for payment of goods and services. During our fieldwork, we noted several DPH invoices were received at a variety of locations including DPH satellite offices and the Department of Human Services (DHS).

Due to the receipt of invoices at various locations, there was a significant time lag from the date of service/receipt of goods and when the invoices were received by the Department's accounts payable function. This resulted in late fees being assessed. Additionally, in certain instances where the invoice did not have an invoice number and was assigned one, a follow up invoice could have a different number resulting in two invoices in the system and duplicate payments to vendors for the same item or service.

We recommend management of the Department send formal communication to all vendors notifying them of the central location where invoices should be sent. Additionally, management should communicate to all employees the importance of processing invoices at a central location and ensure policies are in place which require invoices received by a different location, be forwarded immediately to the appropriate personnel of the Department's financial management unit.

19. Division of Public Health Federal Programs Expenditure Authorization 11

Management of each of the DPH programs rely on the review and approval by knowledgeable staff to ensure that federally funded program expenditures meet federal requirements. However, there are no formal written guidelines conveying this authority to approve expenditures to designated individuals trained to understand the federal definition of "allowable cost". Therefore, the Department's financial management unit is not certain whether the expenditures have been approved by authorized personnel who have the appropriate level of knowledge about allowable costs under federal awards.

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Management should establish written guidelines delegating the authority to approve various categories of transactions for each federally funded program to specific individuals. In addition, management should communicate these program approval guidelines in writing to the Department's financial management unit. This will further help to ensure that all expenditures are appropriately reviewed prior to payment.

20. Monitoring of Division of Public Health Contracts

12

The Department's Vendor Management unit is responsible for monitoring contractor performance. Currently, DPH contracts, which were transferred to the Department on July 1, 2009 are being monitored by individual business owners and have not been fully transitioned to the Vendor Management unit. From discussions with management, the addition of a large number of DPH contracts put a strain on the current Vendor Management unit. The Department's Vendor Management unit has made great strides over the past few years to improve contract monitoring; however, the lack of oversight on DPH contracts could result in improprieties, both real and perceived, between vendors and employees of the Department. We understand management is in the process of developing a unit that will be charged with oversight of the DPH contracts. We recommend management ensure this unit is created as soon as administratively feasible and under the umbrella of the current Vendor Management unit.

21. Subawards to Contractors

13

Federal guidelines require that subrecipients and contractors who receive grant funds meet certain criteria. Presently, there are no formal procedures in place to ensure that only approved subrecipients and contractors are registered before receiving federal awards. Management should re-examine the procedures currently in place to determine they include a review of the Central Contractor Registration (CCR) status for all subrecipients and contractors.

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The review should include procedures to ensure that all subrecipients and contractors are appropriately registered before contracts or subawards of federal funds are granted. These review procedures should be documented and communicated in writing to all personnel responsible for approving contracts and subawards.

22. Communications to Subrecipients 14

During our review of communications to subrecipients we noted there was not clear communication to subrecipients of DPH grants all of the information required to be communicated to them. The Department is obligated to separately identify to each subrecipient the Federal award number, Catalog of Federal Domestic Assistance (CFDA) number and the amount of ARRA funds, if applicable. In addition the Department is obligated to require the subrecipient to provide similar identification in its SEFA and Data Collection Form (SF-SAC). We recommend the Department improve the procedures in place to clearly communicate all required sub-award information to subrecipients at the time the sub-award is granted.

23. Review of Invoices at the DPH Laboratory Program (Lab) 5

In gaining our understanding of internal controls at the Lab, we noted there is no periodic review of amounts posted to invoices by the Lab's medical processing software and accounting software. Although no errors were noted in the current year, a lack of review could lead to errors in amounts billed to customers in the future. We recommend management of the Lab periodically review invoices prior to mailing to ensure charges per the invoice are accurate for the tests performed. Additionally, there does not appear to be a review of invoices sent to counties for tests performed. To ensure invoices are sent out for all tests performed, we recommend the Department develop controls to allow for a reconciliation of invoices for tests performed. Any discrepancies should then be investigated further.

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24. Verification of Revenue Received at the Lab

While obtaining our understanding of Lab revenues, we noted the following:

- a) It does not appear personnel at the Lab are verifying payments received from counties to determine if they actually reflect amounts collected by counties. Counties are required to maintain documentation to verify amounts paid to the Lab agree with amounts collected by them from patients on their sliding scale fee schedule. In addition, there is no evidence of a review of this documentation performed by the Department.
- b) It does not appear personnel at the Lab are comparing the number of tests conducted during the year to total payments received to determine if revenue appears reasonable. In addition, there is no evidence of such a review being performed by the Department.
- c) It does not appear revenue posted to the Department's general ledger is being reviewed to ensure it has been recorded properly.

This lack of review could result in the Department receiving less than they are contractually owed or recording revenue improperly. In an effort to ensure revenue received and recorded within the general ledger is complete and accurate, we recommend the Department consider implementing the following controls:

- a) A designated individual within the Lab should review documentation maintained at the counties on a periodic basis to ensure it supports payments received. We understand there are numerous counties so this could be performed on a rotating basis.
- b) A designated individual within the Lab should develop an estimate of revenue based on the number of tests conducted; this estimate should then be compared to actual revenue per the general ledger to ensure it appears reasonable. This activity could be performed monthly.

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- c) Revenue is being recorded in the general ledger by employees who are not involved in the day to day operations of the Lab. It is recorded from the cash receipts posted to the bank account. Therefore, there is no independent verification that all revenue was posted. A designated individual at the Lab should reconcile their billings to the reports of cash receipts/revenue recorded in the general ledger on a monthly basis to ensure Lab revenues are being properly recorded.

25. Review of Credit Memos at the Lab 17

During our testing of credit memos at the Lab, we noted two (2) credit memos in which the Lab was unable to provide documentation of review prior to posting in the medical processing software. Based on discussions with Lab personnel, the billing supervisor is reviewing and approving credit memos but failing to document this review and approval. Proper review and approval of credit memos is an important control in ensuring accounts receivable balances are properly reported at year end, as well as protecting lab employees against an accusation of impropriety. We recommend management of the Lab ensure internal policies are followed and all credit memos are initialed or signed by the billing supervisor to document review and approval of the posting of credit memos.

26. Lab Receivables 18

Presently, accounts receivable at the Lab are not being recorded in the Department's general ledger. This occurs since the Department's management has determined that the work level that would be required to review and record these receivables is not justified by the amount of receivables outstanding at year end. This resulted in an understatement of the Department's revenue and receivable balance as of June 30, 2010.

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We obtained the June 30, 2010 accounts receivable aging for the infectious disease tests performed by the Lab. We also obtained the accounts receivable aging that was nearest to June 30, 2010 for the newborn screening receivables. It was dated October 18, 2010. Assuming the Lab's accounts receivable balance would remain fairly consistent throughout the year, the October 18, 2010 receivable aging should be a reasonable estimate of the amount outstanding at June 30, 2010. The total of the two agings was approximately \$1,000,000 in receivables that were outstanding for the Lab at year end but were not recorded.

We recommend that the receivables be recorded along with an allowance for doubtful accounts in the Department's financial statements.

27. Lab Receivable Aging Reports

19

During our fieldwork, we noted one of the shortcomings of the medical processing software is that receivable aging reports for newborn screenings are overwritten on a weekly basis. As a result, the history of previous accounts receivable is no longer available from the software. It does not appear the Lab maintains copies of receivable aging reports. As such, the Lab was unable to provide an aged receivable listing for those receivables at June 30, 2010. In addition, it appears that the aged receivable listing is not being reviewed after the posting of cash receipts to ensure payments and credit memos were appropriately applied which could result in payments and credit memos being posted to the incorrect customer account.

We recommend management maintain the aged receivable report and review the data on a monthly and year end basis to ensure receivable balances are accurately stated and monitored. In order to support the amounts reported as of the financial statement date, a copy of the aging report should be maintained for a period of five to seven years.

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28. Cross-Training of Employees at the Lab 20

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

29. Cash Receipts at the State Office of Vital Records (Vital Records) 21

While obtaining our understanding of the cash receipts process at Vital Records, we noted that Vital Records has a policy whereby mail is required to be opened in the presence of other employees. However, at times there were instances during the year where only one employee was present, either due to vacation or illness.

Once mail is opened, one employee takes the cash receipts to his/her workstation. Although the central table where the mail is opened is monitored by a security camera, the workstations are not. Additionally, cash receipts from walk-up orders are maintained in a cash register during the day. At the end of the day, the register tape and cash receipts are returned to the safe by one employee. Any time one single employee is involved in a cash receipts process, the possibility of misappropriation, both actual and accused is increased.

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To strengthen internal controls over the cash receipts process, we recommend mail only be opened at times when two employees are present. At the time mail is opened, we recommend the cash receipts be totaled in the presence of two individuals at the table that is visible by the security camera. The total should then be given to the individual preparing the deposit prior to entering into the general ledger. As a means to enhance controls over cash receipts received at the register, we recommend two employees return the funds to the safe at the end of each day.

30. Timely Identification and Resolution for Discrepancies at Vital Records

22

During our limited procedures to gain an understanding of internal control at Vital Records, we noted one (1) instance in which the reconciliation indicated a discrepancy between the total collected per the register and the amount returned to the safe. This error in the reconciliation resulted from an employee not including the \$200 that stays in the register as part of their total. The lack of an accurate reconciliation was not noticed by management in a timely manner. When management does not follow up on such errors, it provides an opportunity for intentional and unintentional errors.

We recommend management of Vital Records ensure discrepancies of this type are investigated and resolved on a timely basis.

31. Comparison of Revenue to Expected Amounts at Vital Records

23

In a properly functioning system of internal controls, there is a periodic comparison by management of actual results to expected results, such as a budget to actual review. At Vital Records, one of the most useful comparisons to determine the reasonableness of revenue would be the number of records pulled to the revenue for these records. We understand that such a comparison is not being performed by management at Vital Records. As a result, er-

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rors in the revenue and receivable amounts reported by Vital Records, either intentional or unintentional, might not be discovered in a timely manner.

We recommend management develop an estimate of revenue based on the number of records pulled and periodically compare this expectation to actual revenue collected.

32. Revenue for Services Provided to Other Government Agencies

24 (*) Ahmad

Payments for services provided to other government agencies by Vital Records are sent directly to the Department's location at 2 Peachtree. No formal tracking of these funds is completed which prevents the Vital Records office from being able to reconcile funds received from these agencies to the services provided. As a result, management is not able to verify the Department is fully compensated for the services generated by Vital Records. In order to ensure the Department is receiving all revenue they are entitled from such services, we recommend an employee of Vital Records obtain a report monthly from the Department's financial management unit indicating the total revenue collected from other governmental agencies in a format which can be easily reconciled to the services provided. This report should then be compared to related services provided.

33. Processing of Online Orders at Vital Records

25

During our fieldwork at Vital Records, we noted that VitalCheck, the outside company that processes online orders, sends a daily report to Vital Records indicating the amount deposited in the bank and records ordered. Currently, there does not appear to be a reconciliation of the daily report to the bank deposit or the number of orders filled for that day. To ensure Vital Records is receiving all revenues they are entitled to from VitalCheck, we recommend an employee from Vital Records reconcile the number of records ordered per the report from VitalCheck to the number of orders filled for that day. Additionally, we recommend the amounts from the daily report be reconciled to the bank statements on a monthly basis.

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34. Daily Reconciliation to Reduce the Risk of Errors at Vital Records

There is no daily reconciliation of orders received to payments received. As a result, during our limited procedures performed to gain an understanding of internal control at Vital Records, we noted one (1) instance in which a customer paid more for a record ordered than was required and was not refunded the excess. The lack of adequate internal controls in this situation resulted in a ten dollar overcharge. Without the daily reconciliation, there is also the risk of pulling records for which no payment or an underpayment is received. To help ensure that accurate charges are applied and collected and to reduce the risk of intentional or unintentional errors, we recommend daily reconciliations of records delivered to the payments received.

35. Food Instruments (FI) and Cash-Value Voucher Disposition

Georgia's Special Supplemental Nutrition Program for Women, Infants and Children (WIC) program complied with federal law that required the transition from processing paper checks to Check 21 guidelines for the payment of food instruments or vouchers for its WIC program. Though there appears to be a risk of making duplicate payments on redeemed vouchers having the same serial number due to alleged fraud, it was noted that Georgia's WIC banking processor has practiced paying only the first of redeemed vouchers containing the same serial number.

Georgia's WIC has considered the option of providing its bank processor with written authorization (Decision Document) to stop duplicate vouchers having the same serial number from being paid. However, no written authorization currently exists except for a stated verbal agreement being in place through the years targeting such stop payments. We noted that applicable team members of Georgia's WIC promised to complete a written Decision Document prior to the end of the 2010 calendar year which will govern all future banking transactions for the program including how to handle payment on duplicate vouchers.

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Georgia's WIC presently has procedures in place for limited review to determine if fraudulent vouchers have slipped through the system. The Department's cognizant agency issued a finding that noted:

- "...it does not account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed. [7 CFR 246.12(q)]"..., and
- "...it has not adequately traced redeemed FIs which appeared on its Unmatched Redemption and Cumulative Unmatched Redemption (CUR) Reports – Parts I & II back to a valid WIC participant although it has procedures in place to do so..."

The Department is required, in its corrective action plan, to address how it will provide for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed. Redeemed FIs must be identified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records. We recommend management consider implementation of a single system to be utilized by all vendors for purposes of issuing food instruments or vouchers. This single system will reduce the risk that duplicate numbered FIs will be issued at the vendor level. Once this single system has been adequately implemented, we recommend management approve in writing the documented process for "*WIC Banking GA DCH WIC – Duplicate Check*".

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36. WIC Voucher Processing

28

During our testing of Georgia's WIC, we noted the program does have interventions in place to prevent making payments on redeemed vouchers that do not have corresponding issue records. The primary intervention involves requiring local WIC service providers to batch front-end system data in which electronic files that include issue records of vouchers are transmitted daily to Georgia's WIC back-end data processor, CSC. The following information was given for the various reasons why issue records may not be available at the time of voucher presentment to Georgia's WIC Banking:

- a) Clinics do not batch and transmit electronic records to the back-end data processor in a timely manner;
- b) Voucher batches may be rejected due to mismatches in the header and footer information;
- c) A critical error (such as invalid voucher code) may exist;
- d) The voucher was a manual (hand written) voucher that must be mailed to the back-end data processor keying center in Indianapolis to be hand keyed into their back-end data system.

Additionally, we noted one (1) item in a sample of sixty (60) that was paid in excess of the stated maximum reimbursable amount as noted within the WIC banking system. Upon review, it was determined that a claim will be paid at its face amount even if there was no corresponding issue record for the redeemed voucher. We recommend management implement procedures that would prevent Georgia's WIC back-end data processor and banker from not having current issue records for active vouchers.

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37. WIC Food and Nutrition Services (FNS) Program Operations

29

We noted a USDA FNS federal fiscal year (FFY)-2008 Management Evaluation was conducted by the Southeast Regional Office of the FNS which identified certain findings related to the WIC program as follows.

- a) Georgia's WIC does not have a means of preventing dual participation, but the program currently directs dual participation after the fact and has intervention procedures in place developed and implemented to prevent subsequent dual participation by those participants who have previously dually enrolled.
- b) Georgia's WIC is not ensuring that all FIs are accounted for as required by federal regulations.
- c) Georgia's WIC has failed to identify and prioritize high-risk vendors for compliance investigation.

We recommend the Department continue to work towards implementing its corrective actions in response to the USDA FNS' FFY-2008 Management Evaluation.

38. WIC Reconciliation of Food Payment Instruments

30

During our testing of WIC, we noted Georgia's WIC does not reconcile its records to issued FIs in a timely manner. We noted in our testing that completed reconciliations had not been prepared. While there was evidence to indicate a partial reconciliation had been prepared, a completed reconciliation was not provided to us in a timely manner. We recommend management implement policies and procedures to ensure the reconciliation of FIs is completed in a timely manner.

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39. State Health Benefit Plan (SHBP) Documentation 31

This is a modification and partial repeat of comment number seven reported as a result of the June 30, 2009 audit. During our review of the SHBP claims paid during the year ended June 30, 2010, we noticed three (3) of thirty (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. We believe it is important the Department have the ability to access documentation supporting eligibility in a timely manner. We further understand the Department began to utilize a scanning system in September 2008 and all dependent verification documents currently received by the SHBP are scanned.

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

40. SHBP Operations 32

As part of our audit, we perform various analytical reviews of amounts reflected in the Department's annual financial statements. As part of that analysis, we noted the Department has reported reductions in net assets (i.e., losses) for the past two fiscal years. As of June 30, 2008, the Department's SHBP reflected net assets of \$473 million. As of June 30, 2010, the net assets have been reduced to a negative balance of \$234 million.

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Although there have been various increases noted in the contributions rates of participants and employers, the total contributions plus the State appropriations have not been sufficient to cover the growing costs of providing healthcare to the participants. We understand management recognizes the shortfall and the reduction of assets used to satisfy claims and have communicated their concerns to appropriate State of Georgia officials. We believe the Department should continue communicating such concerns to appropriate State of Georgia officials.

41. Emergency Preparedness Reporting

33

During our testing of the Emergency Preparedness grants, we noted the SF 269 Financial Status Report for Grant Number 5U90TP417013-09, Public Health Preparedness and Response for Bioterrorism, was not filed within the time period required by the grant agreement. We noted the report was required to be filed by November 9, 2009 but was not filed until September 1, 2010. We recommend the Department put procedures in place to ensure Financial Status Reports are filed in a timely manner.

42. Budgetary Approval of Purchases in the Cancer State Aid Program (CSAP)

34

During our testing of current year disbursements, we noted five (5) purchases for which there was no documentation of budgetary approval. Through discussion with Department personnel, we understand the CSAP's policy is to track all payments through an Excel spreadsheet that helps to limit purchases to only those that fall within the program's budget and that in lieu of having the budget department sign off on every purchase, the CSAP personnel meet with their budget analyst on a monthly basis to compare budget to actual expenditures.

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The lack of consistency between the budget approval process in this area and other areas within the Department could lead to new employees not properly following the budget approval process and exceeding budget with purchases during the year. Additionally, a greater potential for error is created by this more manual process.

We recommend the Department develop a uniform budget approval process, and that this process be followed by all programs and departments at the Department.

43. Overpayments to Hospice

35

During our audit, we noted payments made for hospice services were made to providers which included the patient cost sharing amounts. This occurred because of a failure of the Division of Family and Children's Services' (DFCS) SUCCESS system to properly interface with the ACS system at the Department. This issue was identified by the Department approximately three years ago. Nursing homes and hospice providers have been asked to refund the overpayments. The Department has not determined the amount of overpayments receivable from the nursing homes and hospice providers. A list of repayments is being maintained in order to be able to post them to the receivables when the situation is corrected. We recommend priority be placed on the correction of this issue and that the Department pursue the collection of amounts owed from the providers.

44. Policies to Address Unallowed Costs Under OMB Circular – A-87

26

The U.S. Department of Education has identified separation leave costs (addressed in OMB Circular A-87, Attachment B, paragraph 8.d.(3)), severance costs (addressed in OMB Circular A-87, Attachment B, paragraph 8.g.(3)), post retirement health benefit costs (addressed in OMB Circular A-87, Attachment B, paragraph 8.f), and costs associated with lease or rental agreements with affiliate organizations (addressed in OMB Circular A-87, Attachment B, paragraph 37.c) as potential unallowable costs that could be charged to the IDEA Part C Cluster

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(Babies Can't Wait) program. Management should create written policies addressing these costs and incorporate the provisions of OMB Circular A-87 to ensure these costs are only charged to the Babies Can't Wait program in accordance with OMB Circular A-87. In addition, management should communicate these written policies to the individuals who review and approve the Babies Can't Wait program expenditures.

45. Monitoring of Medicaid Administrative Expenses Processed Through the Uniform Accounting System (UAS)

39

During our testing of Medicaid administrative expenses, we noted six (6) out of a sample of sixty (60) that were processed through the UAS, which is also utilized by the programs included under DPH to process expenses at the District Public Health Department level. However, the DPH program expenses processed through the UAS are subject to additional monitoring procedures through the Department's internal audit program. The Medicaid expenses processed through the UAS are not subjected to similar monitoring procedures. We would recommend the Department develop procedures to monitor Medicaid expenses processed through the UAS, and such monitoring could simply be additional procedures performed via the internal audit function.

46. Schedule of Expenditures of Federal Awards (SEFA) Accuracy

38

During our testing of the SEFA, we noted certain expenses were coded to an improper Catalog of Federal Domestic Assistance number. Additionally, a reclassification between American Recovery and Reinvestment Act of 2009 (ARRA) awards and other grant awards in the amount of \$24 million was required to properly report the amounts in the SEFA. We recommend the Department implement the necessary policies and procedures to ensure the accuracy of the SEFA.

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Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2010, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods.

47. New GASB Standards

As has been the case for the past 10 years, GASB has issued several other new pronouncements which will be effective in future years. The following is a brief summary of the new standards:

- a) **Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments***, which is intended to improve how governments report information about derivative instruments in their financial statements.

Over the past two decades, the use of derivative instruments by state and local governments has increased significantly. Although derivatives often result from complex financial transactions, governments have discovered their usefulness in lowering borrowing costs, providing up-front cash payments, and reducing future risks of declining cash flows or asset values. Many governments also use derivative instruments as simple investments intended to generate additional revenues. Examples of derivative instruments commonly used in the public sector include interest rate swaps, forward delivery swaps, "swaptions," and interest rate caps.

Specifically, this pronouncement requires governments to measure most derivative instruments at fair value in their financial statements. It also addresses hedge accounting requirements to determine whether a derivative instrument results in an effective hedge. This pronouncement was effective for the Department with fiscal year ending June 30,

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2010, and should be heavily considered by the Department going forward as opportunities present themselves for investing in various investments as well as issuing certain types of indebtedness.

- b) **Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions***, which changes the terminology and reporting relative to the presentation of fund balance in governmental funds at the fund level. This is effective for the Department with fiscal year ending June 30, 2011.

Currently, we have fund balance terms such as reserved, unreserved and designated. Going forward under this new pronouncement we will have terms such as:

- a. Nonspendable
- b. Restricted
- c. Committed
- d. Assigned
- e. Unassigned

Nonspendable fund balance would include amounts associated with inventory, prepaids, long-term receivables, property held for sale and the corpus of a permanent fund. In essence, ***nonspendable*** is the fund balance term to indicate that the respective resources are not available to be spent in any way due to their very nature and, or their lack of availability.

Restricted carries the same definition as set forth by GASB No. 34 relative to net assets. This would include any fund balance that is restricted in its use by: a) external parties; b) constitutional provisions; or, c) enabling legislation.

Committed fund balance represents amounts for which the governing board of the respective reporting government imposes constraints on how funds may or may not be used. In such a case, the only way a constraint can be removed or changed is by action of

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the respective governing board. Actions to constrain resources should occur prior to the end of a fiscal year, though the exact amount may be determined subsequently.

Assigned fund balance represents amounts intended to be used for specific purposes with the intent being expressed by the reporting government's governing board or a high level body or individual authorized by the governing board. With the exception of the General Fund, amounts in all other governmental funds that are not *nonspendable*, *restricted* or *committed* will be considered to be *assigned*. Also, at the fiscal year end any appropriation of existing fund balance to eliminate a projected budgetary deficit in the next year's budget is considered to be an assignment of fund balance.

Unassigned fund balance is anything that does not meet the above definitions and represents fund balance that is available for any purpose. The only fund that will ever report *unassigned* fund balance is the General Fund except in cases of other governmental funds reporting deficit fund balance (or negative fund balance).

The biggest implication to consider today is how your fund balance will be reflected under these new reporting standards and what will interested parties think and understand these amounts to mean and represent. For instance, will your unreserved fund balance of today equate with unassigned fund balance of tomorrow?

As you can see, financial reporting for governmental units continues to evolve and change with each and every GASB pronouncement. Along with the above financial statement elements, this new pronouncement will require additional information and changes to the respective notes to the financial statements, and, as applicable, to any future management discussion and analysis (MD&A). Such information will include the relevant policies and procedures of the Department; consequently, the Department should review the pronouncement and consider amending accounting and financial reporting policies that

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affect the categorization of fund balance, and such efforts should be prior to the close of the 2011 fiscal year.

c) **Other New Statements.** The GASB continues to be busy preparing and issuing new pronouncements regulating financial reporting of governmental units. The following list provides brief information relative to new pronouncements that have recently been issued by the GASB. It is not expected that any of the pronouncements will have a significant impact on the financial reporting of the Department:

- i. **Statement No. 55, GASB Hierarchy of GAAP for State and Local Governments** was effective upon issuance in March 2009. This pronouncement formalizes the order of priority on authoritative financial reporting guidance for governmental units.
 - ii. **Statement No. 56, Codification of Accounting and Financial Reporting Contained in AICPA Statements and Auditing Standards** was also effective upon issuance in March 2009. Specifically, this standard addresses: a) related party transactions; b) subsequent events; and, c) going concern considerations.
 - iii. **Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans** is effective the year ending June 30, 2012. This pronouncement should not affect the Department unless the Department becomes an agent for such plans.
 - iv. **Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies.** This statement is currently effective and addresses financial reporting issues for governments who have declared bankruptcy.
- Statement No. 59, Financial Instruments Omnibus** is currently effective and deals with certain financial instruments and external investment pools. This statement is not expected to significantly affect the Department.

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48. New Yellow Book Standards

While GASB has been issuing new financial reporting pronouncements affecting governmental units, the Government Accountability Office (GAO) has been issuing revised standards relative to the audits of state and local governments. An exposure draft was issued in August 2010 by the GAO amending and revising *Government Auditing Standards* (the Yellow Book). It is expected that these standards will be finalized and issued in calendar year 2011. The more significant items addressed by the GAO in the August 2010 exposure draft included:

- a) Actions required if an impairment to auditor independence is identified;
- b) Definition of those charged with governance consistent with other AICPA audit guidelines;
- c) Definition of internal control deficiencies to be consistent with other AICPA audit guidelines;
- d) Promoting modernization of auditing standards consistent with technologies of today;
- e) Added requirements for reporting restatements of previously issued financial statements;
- f) Addressed standards related to 1) performance audits, and 2) internal audits; and,
- g) Changed and emphasized continuing education requirements of auditors in the governmental sector to obtain a minimum of 80 hours of continuing education every two (2) years. The GAO emphasized a significant component of these hours must be directly relevant to governmental auditing. Further, audit team specialists (actuaries, engineers, etc.) have specific guidelines as well.

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Summations of Thoughts Noted Above

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures.

CLOSING

If you have any questions regarding any comments, suggestions or recommendations set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

This report is intended solely for the information and use of the Board, the audit committee, management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Department of Community Health and look forward to serving the Department in the future. If we could be of further assistance, please feel free to call upon us.

