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The Honorable Clyde L. Reese, III, Esq., Commissioner
Members of the Audit Committee
State of Georgia's Department of Community Health

In planning and performing our audit of the financial statements of the State of Georgia's Department of Community Health (the "Department") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 6, 2010, contains our report on significant deficiencies and material weaknesses in the Department's internal control. This letter does not affect our report dated December 6, 2010, on the financial statements of the Department.

We have already discussed many of these comments and suggestions with various Department personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Metcalf Davis   Mauldin & Jenkins

Atlanta, Georgia
December 6, 2010

MLC-1: 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 transferring relevant assets and liabilities. These procedures could be included in a financial section in the overall transition plan.

MLC-2: Employee Personnel Files

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.

MLC-3: Reconciling Bank Statements Regularly

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.

MLC-4: Outstanding Checks

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.

MLC-5: Accurate Rollforward of Receivables

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.

MLC-6: Cash Receipts

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.

MLC-7: Lack of Formal Disbursement Policies and Procedures

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.

MLC-8: Disbursement Controls

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.

MLC-9: Adequate Review and Approval Process for all Expenditures

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.

MLC-10: Receipt and Payment of Division of Public Health Invoices

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.

MLC-11: Division of Public Health Federal Programs Expenditure Authorization

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.

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.

MLC-12: Monitoring of Division of Public Health Contracts

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.

MLC-13: Subawards to Contractors

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.

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.

MLC-14: Communications to Subrecipients

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.

MLC-15: Review of Invoices at the DPH Laboratory Program (Lab)

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.

MLC-16: 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.

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.

MLC-17: Review of Credit Memos at the Lab

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.

MLC-18: Lab Receivables

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 is an understatement of the Department's revenue and receivable balance as of June 30, 2010.

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.

MLC-19: Lab Receivable Aging Reports

During our fieldwork, we noted one of the short comings 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 maintain for a period of five to seven years.

MLC-20: Cross-Training of Employees at the Lab

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.

MLC-21: Cash Receipts at the State Office of Vital Records (Vital Records)

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.

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.

MLC-22: Timely Identification and Resolution for Discrepancies at Vital Records

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.

MLC-23: Comparison of Revenue to Expected Amounts at Vital Records

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, errors 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.

MLC-24: Revenue for Services Provided to Other Government Agencies

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.

MLC-25: Processing of Online Orders at Vital Records

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.

MLC-26: 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.

MLC-27: 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.

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*".

MLC-28: WIC Voucher Processing

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.

MLC-29: WIC Food and Nutrition Services (FNS) Program Operations

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.

MLC-30: WIC Reconciliation of Food Payment Instruments

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.

MLC-31: State Health Benefit Plan (SHBP) Documentation

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.

MLC-32: SHBP Operations

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.

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.

MLC-33: Emergency Preparedness Reporting

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.

MLC-34: Budgetary Approval of Purchases in the Cancer State Aid Program (CSAP)

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.

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.

MLC-35: Overpayments to Hospice

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.

MLC-36: Policies to Address Unallowed Costs Under OMB Circular – A-87

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 (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.

MLC-37: Monitoring of Medicaid Administrative Expenses Processed Through the Uniform Accounting System (UAS)

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.

MLC-38: Schedule of Expenditures of Federal Awards (SEFA) Accuracy

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.