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The Honorable David A. Cook, 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, 2011, 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 November 21, 2011, contains our report on significant deficiencies and material weaknesses in the Department's internal control. This letter does not affect our report dated November 21, 2011, 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
November 21, 2011

MLC-1: Executive Level Review of Non-Routine Processes and Outsourced Activity

The Department's financial statements include a significant number of estimates which include allowances for bad debts, reserves and other accruals such as the Upper Payment Limit (UPL) estimate, estimates for claims incurred-but-not-reported (IBNR), and reserves for payments due to and from third parties. Although some of the estimates are provided to management by Department employees, many of them are performed by outside actuaries, attorneys and consultants. Additionally, Department management utilizes over twenty-five (25) third party service providers to process transactions on behalf of the Department.

Based on our observations, inquiries and other audit procedures, we have noted Department management is not currently putting sufficient focus on understanding, reviewing, and challenging the assumptions or calculations provided to them by others within the Department or outside contractors (actuaries, attorneys, and consultants) causing incorrect information to be included in the financial statements. This situation resulted in a number of significant post closing journal entries to the financial statements this year and in prior years.

Additionally, we have noted Department management has not been timely in addressing its responsibilities to perform thorough reviews of all data and information that will be included in its various operations and financial statements whether obtained from internal or external sources. Management did not appear to be proactive in addressing all issues it notes as part of its review processes. This includes: a) consideration of collectability of accounts receivable; b) safeguarding of cash; c) observations of clean cut-off in the various assets and the liabilities; and, d) the propriety of making disbursements of significant funds relative to general operations of the Department.

Department management is responsible for all output resulting from data processed by third party service providers, and should ensure that those employees who work directly with the third party service providers obtain and review reports prepared and issued by the respective third party service providers under the American Institute of Certified Public Accountants (AICPA) Statements on Standards of Attestation Engagements (SSAE) No. 16. Department management did not appear to be performing the necessary due diligence to understand the capabilities and independence of all third party service providers, validating their assumptions and carefully reviewing and challenging their work product. Proper review includes considerations of the effectiveness of the controls at those service providers and determination as to whether the recommended user controls are in place and operating effectively. Department management has a significant role to play in the assessing of the adequacy of such internal control structures and must be proactive in addressing such concerns.

We recommend Department management place priority on taking the time to thoroughly review and challenge information that is provided to them for inclusion in financial statements by both internal and external sources. We recommend the Department demonstrate a more proactive approach to addressing all of the concerns noted in the above paragraphs. The quantitative element of management in the accounting function is the demonstration that amounts balance and are supported. The qualitative element of accounting is diving into the various balances and determining their propriety and determining that all appropriate steps have been taken to turn all assets into a form of liquidity such as cash, and that all disbursements of funds are appropriate.

In conclusion, Department management should enhance its documentation to demonstrate that all of the above concerns are adequately addressed, and the quantitative and qualitative approaches to managing the accounting function are being employed. Such documentation should include:

- Copies of well-documented, reviewed and approved reconciliations of all amounts significant to the financial statements;
- Required deliverables from third parties for work performed which includes documentation of assumptions used and basis for developing the respective conclusions;
- Management's review and acknowledgement of agreement with information provided by internal and external sources;
- Conclusions reached by management, and the basis for the respective conclusions; and,
- Concurrence of the Department's Office of Inspector General (OIG) on matters of significance to the Department's financial position and operations.

MLC-2: Financial Statement Preparation,
Budget Comparison Reports, and Annual Closeout

During the summer of 2011, the Department created an audit report delivery time-line and schedule with assistance and agreement of the Georgia State Accounting Office (SAO), the Georgia Department of Audits and Accounts (DOAA), and the Department's annual audit engagement team. This schedule incorporated several important dates, and the schedule was shared with members of the Department's Audit Committee and the Commissioner on August 11, 2011 as well as on October 13, 2011.

Key dates noted in the schedule related to significant areas of audit such as: a) actuarial reports by September 1, 2011; b) State Health Benefit Plan (SHBP) financial statements by September 21, 2011; c) complete financial statements, notes, supplementary information, and the schedule of expenditures of federal awards (SEFA) by October 14, 2011; d) oral affirmation was to be provided to the SAO by November 11, 2011; and, all audit reports were to be issued by November 23, 2011.

The actuarial reports and the SHBP financial statements were provided at the approximate target dates; however, those reports and statements required revision by the actuaries and management due to logic errors and those revisions were not received by the audit team until October 2011. The complete financial statements, notes, supplementary information and the SEFA were several weeks in arrears. Once received in early November 2011, significant adjustments were required to further refine and adjust the financial statements and the SEFA.

To further the above thoughts, the SAO and DOAA are required to annually report on the Department of Community Health's Budget Comparison Report (BCR). All respective budgetary adjustments were scheduled to be completed and delivered to the SAO by the close of October 2011, but budgetary adjustments were recorded by management well into November 2011.

All of the above observations emphasize the need for changes to be made at the Department of Community Health relative to the accounting and financial reporting system, and the respective policies and procedures. One recommendation surrounds the need for a timelier annual closeout which will be accommodated by monthly closeouts (see MLC-3). Another recommendation which goes beyond the monthly closeout concept is to address the need to utilize other financial reporting systems that are already provided through the SAO. This reporting system (FASTR) is set up to accommodate both budgetary and GAAP reporting. It is a web-based system and therefore data and entries could be accessed by all interested parties (DOAA, SAO and external auditors). Additionally, as the Department's data is included in the BCR and the State of Georgia's Comprehensive Annual Financial Report (CAFR) produced by SAO, it would reduce or eliminate time spent and the risks involved in having to maintain the same data in two (2) different systems. Management should contact SAO to discuss using the FASTR reporting system to produce the Department's financial statements.

MLC-3: Monthly Balancing of General Ledger Accounts

As noted in prior years as well as this current fiscal year audit, the Department takes a significant amount of time to perform the annual closeout process coupled with the Department's annual financial statement preparation process. The amount of time required to closeout and report was significantly heightened with the reorganization of the Department to include all the public and healthcare facility regulation programs of the former Department of Human Resources.

As part of our annual audit process, we noted numerous adjustments and journal entries required to be prepared, processed and recorded during the annual closeout period and deep into the audit fieldwork period. Many of the adjustments relate to matters occurring throughout the fiscal year, and not just during the final month of June.

The above observation is furthered when we audit various financial statement balance sheet accounts and note the delinquency of the balancing of accounts. The term "balancing" means taking supporting detail listings from subsidiary ledgers of financial information and reconciling such amounts to those amounts recorded on the Department's general ledger. Balancing should incorporate a requirement to resolve any differences and to make the necessary adjustments to the general ledger and, or the supporting subsidiary ledgers resulting in the ability to confidently report the statement of position and statement of operations on a monthly basis.

Currently, many of the Department's balance sheet accounts do not appear to incorporate a monthly balancing requirement. Such balance sheet accounts in which it is not apparent as to a monthly balancing include, but are not limited to: a) cash; b) Federal receivables; c) certain other receivables; d) accounts payable; and, e) deferred revenues. Other accounts such as the incurred-but-not-reported (IBNR) are estimates that stress an annual evaluation, but even those types of accounts should be periodically reviewed and adjusted accordingly, and the effect on the Federal accounts receivable is important to consider as well.

In the end, it appears much of the Department's annual closeout effort is the result of a lack of a monthly (or quarterly as determined by management) balancing of its general ledger accounts. The colossal effort at year end could be mitigated if the Department balanced its books on a monthly basis. If the Department wishes to accelerate the annual closeout process and the financial reporting preparation process, as discussed during the audit, then we believe it is imperative to require such a monthly balancing. Therefore, we recommend the Department begin monthly closeouts as part of its ongoing financial and accounting processes.

We acknowledge implementation of this suggestion will not be an easy one to accomplish as the Department is now approximately five (5) months into the current 2012 fiscal year. However, our recommendation to kick-start this concept of monthly balancing of accounts is furthered with the following thoughts and recommendations. Effective immediately, the Department should perform a closeout and balancing of the:

- Six (6) months ending December 31, 2011;
- Three (3) months ending March 31, 2012;
- Three (3) months ending June 30, 2012;
- One (1) month ending July 31, 2012, and onward on a monthly basis.

Each of the above closeouts and process of balancing the general ledger to subsidiary ledger should be heavily scrutinized, and the demand for "getting it right" needs to be similar to the annual audit process.

The above recommendation will be a painful process to implement this first year and will require substantial effort; however, it is a process that needs to be heavily considered if the Department truly desires to "right the ship" from an accountability standpoint, and to provide for a smoother annual closeout and financial reporting process.

MLC-4: Journal Entries

The Department records a significant number of adjusting journal entries to its books and records. Management is constantly overriding the financial information system which could be construed to mean the system is not operating and working as designed, or that the users of the system need additional training and expertise in their respective areas. During our annual audit, we noted a significant number of adjusting journal entries were determined to be needed (either by management or by the audit team) to correct previously erroneously prepared, processed and recorded journal entries.

We recommend individual responsibilities be better understood and communicated within the Department, and for management to spend the appropriate time to review, scrutinize and approve adjusting journal entries. Further, we recommend more training of the Department's personnel as needed. The goal is to reduce the number of adjustments required to reverse improper or erroneous prior journal entries noted during the annual closeout and audit processes.

MLC-5: Internal Oversight Function

Department management is responsible for the quality and effectiveness of the Department's internal controls including reviewing and challenging information provided to them by internal and external sources and monitoring the controls related to financial processes. This also helps to ensure that employees perform high quality work and sets the tone for accurate financial reporting.

However, in an entity the size and complexity of the Department, even an excellent system of internal controls will only provide reasonable assurance that financial reporting errors, irregularities, fraud and operating inefficiencies will be identified, addressed and resolved. A primary method to significantly enhance the quality of internal control is to create a mechanism for additional internal oversight.

Presently, the Department's Office of the Inspector General (OIG) performs oversight in several important areas which is primarily related to operations and largely externally focused. We believe such oversight should be extended to the financial reporting arena as well. An internal oversight function would not be a substitute for management's review and monitoring. Rather, a plan would be developed for oversight personnel to conduct a series of continuous reviews in specific areas such as financial services, Medicaid and the State Health Benefit Plan which result in focused fact-based reports that include their findings and recommendations for improvement. The plan should include monitoring the satisfaction of the findings and management recommendations made each year in the annual audit. The reports generated by the internal oversight function would be reviewed with Department management and corrective action plans developed. The internal oversight function would monitor the corrective action to see that it was implemented. Such an oversight function would also provide greater confidence to everyone in the Department's management relative to financial and non-financial information generated by the system and communicated to internal and external parties. The internal oversight function should be housed in with the OIG who reports directly to the Commissioner.

MLC-6: Schedule of Expenditures of Federal Award (SEFA)

Early in the annual audit process (approximately May 2011), we discussed with Department management and the Audit Committee the need for a projected SEFA which would be the basis for the determination of the major programs for the conduct of a Single Audit, which is a compliance audit of Federal programs administered by the Department. The Department diligently calculated and projected the amounts expected to be expended under the various Federal programs which resulted in the need for five (5) major programs to be audited under the Single Audit. Throughout the months that followed, weekly audit status meetings were held with Department management and the weekly audit agenda included a question regarding the accuracy of the previously projected SEFA.

During late October through early November 2011, it was determined upon the Department's preparation of a final SEFA relative to fiscal year 2011 that significant expenditures were incurred during June 2011. In some cases, approximately 50 percent of the program spending was noted in June alone. Although management identified the June expenditures and the need to revise the SEFA, the revised SEFA was not provided in a timely manner (November 2011) which resulted in two (2) additional major programs requiring additional compliance testing.

We recommend Department management obtain and maintain a good understanding of all Federal spending, and consider the effects of such spending on the SEFA at all times. Management should be aware of what the individual programs are spending during the year to be in a better position to more timely determine which programs will be subject to a Single Audit.

MLC-7: Lack of Formal Disbursement Policies and Procedures
(Substantial Repeat of 2010 Audit MLC-7)

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 Department of Public Health's (DPH) 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.

In the prior year, we recommended management complete its project to formalize, in writing, the Department's purchasing and disbursement policies and procedures. As of June 30, 2011, the Department was still in the process of completing this task; however, subsequent to year end, the Department had formalized, in writing, a draft of purchasing policies and procedures as well as procurement policies and procedures.

Management should ensure the finished document is distributed to all appropriate personnel in an effort to have consistent understanding and implementation of controls over the Department's purchases. Additionally, the policies should be expanded to specifically state when a purchase order must be created. For example, it must be created no later than thirty (30) days after execution of a contract, but prior to remitting payment of the invoice. Specific detail will eliminate any confusion or vague interpretation as to when the purchase order must be created. We recommend management expedite the completion of these documents and continue to provide training to all appropriate personnel.

MLC-8: Reconciling Bank Statements Regularly
(Partial Repeat of 2010 Audit MLC-3)

During the audit, we noted the Composite State Board of Medical Examiners cash account had not been reconciled to the general ledger during the fiscal year ended June 30, 2011. The cash account is a zero balance account in which all deposits represent online credit card payments that are swept daily to other State of Georgia or Department bank and investment accounts. However, the Department reported an unreconciled balance of $219,100 in the general ledger account. The $219,100 balance is the net effect of four (4) amounts posted to the account during fiscal year 2011.

Additionally, we noted the Departments review of other bank reconciliations for other cash accounts was not always performed in a timely manner. Timely and accurate reconciliations between the monthly financial institution statements and the general ledger are important in order for errors or fraud to be detected and corrected in a timely manner as well as ensuring the Department's balances are properly reported. We recommend priority be placed on completing all bank reconciliations and adjusting the general ledger when necessary in a timely manner. Such reconciliations should be performed and reviewed monthly as discussed in MLC-3.

MLC-9: Accurate Reporting of Claims Receivables
(Partial Repeat of 2010 Audit MLC-5)

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 from claims paid during the current year plus those claims identified in the prior year that related to exact duplicates. Management was not however able to identify receivable balances relating to other claim errors identified in the prior year and recorded by management in the financial statements as of June 30, 2010, because the collection on these claim errors was not monitored during the current year.

We recommend the Department consider adopting policies and procedures to ensure receivable balances are monitored throughout the year. The procedures should include appropriate controls that allow management to monitor collection on outstanding receivables to ensure the ending receivable balance is accurately stated.

MLC-10: Accounting for Other Receivables

The Department reported certain receivables, also known as other receivables, in their draft financial statements provided to us in early November 2011. During our audit of other receivables, we noted accounts approximating $14 million which appeared to have been collected during the fiscal year ended June 30, 2011, but continued to be included in the other receivables balance. Consequently, audit adjustments were required to accurately report the amount of the Department's other receivables.

We recommend the Department's management increase its level of supervision and review of those parties responsible for accurately reconciling and recording other receivables. This effort should be performed and documented on a monthly basis along with other closing procedures as discussed in MLC-2.

MLC-11: SHBP Operations
(Substantial Repeat of 2010 Audit MLC-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's SHBP has reported reductions in net assets (i.e., losses) for two (2) of the past three (3) fiscal years. As of June 30, 2008, the Department's SHBP reflected net assets of $473 million. As of June 30, 2011, the net assets have been reduced to a negative balance of $183 million.

Although there have been various increases noted in the contribution rates of participants and employers, the total contributions plus the State appropriations have struggled 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-12: Inadequate Communication in the Department's Various Areas of Responsibility

During our testing of the SHBP, we noted there was inadequate communication in coordinating what members of the Department were responsible for providing certain items requested by us on the respective audit requests listing. Prior to the beginning of audit fieldwork, there was miscommunication within the Financial Management division as to who would provide certain hard copies of the respective audit requests listing which had already been prepared. As a result, we did not receive the items that had been prepared for us until the latter stages of the SHBP audit fieldwork, upon our further request.

We also noted that units did not adequately communicate with each other changes to certain inter-departmental reconciliations that were made. One example of this lack of communication is the Benefits Expense Reconciliation provided to us by the Financial Services unit. This spreadsheet is dependent on a separate reconciliation between the lag triangles and the general ledger performed by the Planning and Fiscal Analyses unit. During our audit, the Planning and Fiscal Analyses unit made changes to the calculation of the lag triangle reconciliation which had a direct effect on the Benefits Expense Reconciliation. However, these changes were not communicated to the Financial Services unit, resulting in an inaccurate Benefits Expense Reconciliation being provided to us.

We recommend divisions adequately communicate and coordinate the provision of external audit request items which are required for the annual financial and compliance audits. Additionally, we recommend all parties within the Department adequately communicate with each other throughout the fiscal year relative to any and all changes which are important to all parties involved.

MLC-13: Write-off of Uncollectable SHBP Accounts Receivable

During our testing of Enterprise Fund receivables, we noted that approximately $4 million has been recorded as prior year uncollectable receivables from Blue Cross Blue Shield for the past three years. This amount has been fully allowed for in each of the past three years but no action has been taken by the Department to write-off of this receivable in accordance with Georgia statutes.

We recommend the Department consider turning these receivables over to the Attorney General if management has determined that they are uncollectable.

MLC-14: State Health Benefit Plan (SHBP) Documentation
(Substantial Repeat of 2010 Audit MLC-31)

During our review of the SHBP claims paid during the year ended June 30, 2011, we noticed three (3) of sixty (60) claims tested did not have support for dependent eligibility. We understand the documentation supporting dependent eligibility received prior to September 2008 is stored offsite 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 its efforts to scan documents supporting dependent eligibility which were received prior to September 2008 for all currently eligible participants in the SHBP.

MLC-15: Budgetary Approval of Purchases in the Cancer State Aid Program (CSAP) (Substantial Repeat of 2010 Audit MLC-34)

During our testing of current year disbursements from the CSAP, we noted three (3) expenditures for which there was no documentation of budgetary approval, two (2) disbursements for which there was no documentation of a purchase order, two (2) disbursements for which there was no documentation of program approval and two (2) disbursements for which there was not adequate invoice support. 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.

Additionally, because transactions are approved and processed at the district level through the Uniform Accounting System (UAS) system which connects directly to the State Accounting Office, 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.

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

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

MLC-16: Violations of Purchasing Card Policy

During our fieldwork, we were not able to obtain documentation of prior approval for five (5) of the sixteen (16) purchasing card ("P-card") transactions selected for testing. For three (3) of these five (5) transactions for which prior approval could not be found, management declared that prior approval was not granted due to the urgency of these transactions. Two of these three transactions were for the order of print toner and the third transaction was for the purchase of Health Insurance Portability and Accountability Act (HIPAA) Compliance Implementation Guides.

In addition, per the P-card program policy of the Department, each Department cardholder has a single transaction limit of $2,500. During our testing of P-card transactions, six (6) of sixteen (16) transactions selected were individually over this transaction limit. Per discussion with the Department, the practice of the Department is to increase the single transaction limit with proper approval to accommodate purchasing needs. For each of the six (6) transactions referred to above, we noted that there was prior approval granted to increase the cardholder's single transaction limit above $2,500. However, this practice is in violation of the Department's current P-card Policy, which states on page 4 that "Each cardholder has a single transaction/order limit of $2,500."

During our fieldwork, we also noted another instance of noncompliance with the Department's P-card Policy: on March 13, 2011, computer equipment of $1,999 was purchased with a P-card directly through a vendor website. Per page 16 of the Department's P-card Policy, computer equipment is a prohibited purchase. Per discussion with the Department, the practice of the Department is to allow purchases of computer equipment if the purchase is made from a Statewide Contract through Team Georgia Marketplace ("TGM"), a PeopleSoft module which automatically updates the asset inventory system in PeopleSoft when purchases are made from Statewide Contracts. For this instance, the purchase was made directly through the vendor website rather than through TGM, which is a departure from the Department's practice.

We recommend that the Department clearly communicate to all P-card users the importance of obtaining prior approval for all P-card transactions. We additionally recommend that the Department maintain an audit trail of prior approval for all P-card transactions. We understand that for most transactions, documentation of prior approval is maintained electronically through the TGM module in PeopleSoft; however, there is no such documentation maintained electronically for point-of-sale transactions made directly with the vendor. All six (6) of the sixteen (16) transactions for which we could not obtain documentation of prior approval were such point-of-sale transactions. We recommend that the Department pay special regard to maintaining adequate documentation for these point-of-sale transactions.

We recommend that the Department's P-card Policy is reviewed and updated to properly document the Department's practice and to eliminate inconsistencies within the document. We understand that the Department's P-card policy must be in accordance with the Statewide P-card Policy and recognize that the Department also desires to maintain a policy which is more closely fitted to the Department's needs. Therefore, we recommend that the Department's P-card Policy properly clarifies incongruities between the Department's policies and Statewide P-card policies which are cited in the Department's Policy.

In addition, we recommend that all parties involved in the Department's P-card program are aware of the Department's policies and procedures for P-cards. We understand that there is mandatory training for new cardholders which covers both the State P-card Policy and the Department's P-card Policy. We recommend that cardholders and approvers are made aware of the differences between the two policies and are communicated the importance of being in compliance with both Department and State P-card Policies.

MLC-17: Timely and Accurate Booking of Outstanding Items

During our audit process, we noted several significant transactions which were outstanding reconciling items for extensive periods of time, and whose disposition is considered to have been very untimely. The following outstanding reconciling items relative to the Department's cash accounts were noted as of June 30, 2011:

Cash, General Ledger Account #106010

- Outstanding deposit dated July 14, 2010 in the amount of $500,000;
- Outstanding deposit dated August 31, 2010 in the amount of $600,000;
- Outstanding disbursement dated April 6, 2011 in the amount of $900,000;
- Outstanding disbursement dated May 2, 2011 in the amount of $1,200,000;

Cash, General Ledger Account #101161

- Outstanding wire transfer disbursement dated August 24, 2010 in the amount of $20,230,715.

Also, at the time of our audit fieldwork, we noted approximately fifty (50) journal entries were required to balance the various cash accounts after the normal general ledger close. All reconciliations were approved by a member of management, yet there were still significant outstanding items which required journal entries to balance the cash accounts.

Investigating outstanding items is an important internal control procedure which mitigates the possibility that errors or irregularities can occur and not be corrected and addressed in a timely manner. Therefore, we recommend all outstanding items be investigated, addressed, corrected and adjusted in a timely manner, and not allowed to carryover for several months.

MLC-18: Adequate Review and Approval Process for Public Health Division Expenditures (Substantial Repeat of 2010 Audit MLC-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 current year expenditures, we noted that in eleven (11) of sixty (60) expenditures chosen for testing, management did not provide adequate support for the payments. The only support available for each of the eleven (11) was a copy of the check and electronic identification of the item in the form of a screen print. All eleven (11) expenditures were expenditures 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 formal policies and procedures for health department expenditures which would include maintaining adequate support for the expenditure, and establishing guidelines for adequate review and approval process. These guidelines should document a detailed process from start to finish for budget and program approval, and should include a description of specific forms for which approval should be documented on.

MLC-19: Authorization of Division of Public Health Federal Programs Expenditures (Partial Repeat of 2010 Audit MLC-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. In the prior year, we recommended management establish written guidelines delegating the authority to approve various categories of transactions for each federally funded program to specific individuals. Additionally, we recommended management communicate these program approval guidelines in writing to the Department's financial management unit.

We commend management for implementing our recommendation of communicating these program approval guidelines in writing to the Department's financial management unit. However, it was noted during our testing of the HIV program that there were still issues with allowable cost. We recommend management continue their efforts to ensure those individuals given the authority to approve various categories of transactions for each federally funded program.

MLC-20: Review of Invoices at the DPH Laboratory Program (Lab) (Substantial Repeat of 2010 Audit MLC-15)

In gaining our understanding of internal controls at the Lab last year, we noted there was no periodic review of amounts posted to invoices by the Lab's medical processing software and accounting software. As noted in the prior year audit, 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. We understand the Department's software currently being used by the Lab does not provide the accurate information needed to perform the reconciliations. We understand the lab is in the process of installing and implementing the use of new software that will improve the software capabilities and allow management to review invoices. We recommend management place a priority on completing the installation and implementation of the new software.

MLC-21: Verification of Revenue Received at the Lab
(Substantial Repeat of 2010 Audit MLC-16)

In the prior year, during our understanding of Lab revenues, we noted the following:

- It did not appear personnel at the Lab were 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 was no evidence of a review of this documentation performed by the Department. Currently the Lab does not have the personnel resources to be able to perform these duties.
- It did not appear personnel at the Lab were comparing the number of tests conducted during the year to total payments received to determine if revenue appears reasonable. In addition, there was no evidence of such a review being performed by the Department. Currently the software system used by the Lab does not generate reports, which shows an accurate number of tests conducted during the year. Management is in the process of installing new software that provides the ability to run reports with accurate data. Management should make the implementation of the new software a priority in the current year.
- It did not appear revenue posted to the Department's general ledger was being reviewed to ensure it has been recorded properly. Currently, this deficiency continues to occur in the current year.

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 continue to recommend the Department consider implementing the following controls:

- 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.

- 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.
- 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-22: Lab Receivables
(Substantial Repeat of 2010 Audit MLC-18)

In the prior year, it was noted that accounts receivable at the Lab were not being recorded in the Department's general ledger. This practice continued into the current year. This occurred since the Department's management concluded, based on the dollar amount of these items in comparison to the Department's financial statements, the cost of tracking each item as a receivable would exceed the benefit. For this reason, these items flow through to the State Treasury on a cash basis. We obtained the June 30, 2011 accounts receivable aging for the infectious disease tests performed by the Lab. We also obtained the June 30, 2011 accounts receivable aging for the newborn screening receivables. The total of the two aging listings included approximately $1,900,000 in receivables that were outstanding for the Lab at year end but were not recorded in the financial statements.

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

MLC-23: Cross-Training of Employees at the Lab
(Substantial Repeat of 2010 Audit MLC-20)

During our follow up procedures performed at the Lab in the current year, we continued to note 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 continue to 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-24: Comparison of Revenue to Expected Amounts at Vital Records (Substantial Repeat of 2010 Audit MLC-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. During prior year's audit, we noted that such a comparison was 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.

It is our understanding that management is in the process of upgrading their software, which will allow management to generate reports with the number of records pulled accurately. We commend management for taking the steps to improve their controls with the future implementation of the new software. We recommend management make the software upgrade a priority so that management can monitor revenues.

MLC-25: Daily Reconciliation to Reduce the Risk of Errors at Vital Records (Substantial Repeat of 2010 Audit MLC-26)

In the prior year, it was noted that there was no daily reconciliation of orders received to payments received. In discussions with management, it is our understanding that the software system currently being used does not provide the reports needed to run this reconciliation due to the software recording all records performed, including faulty records. Vital Records installed a procedure to have an individual go into each customer's profile and record the number of records sent to the mailing office for mailing. The software cannot produce a report showing the number of records sent to the mailing office; therefore, the only way to verify the number of records produces that day would be to review each customer's profile individually. It is our understanding Vital Records is in the process of installing new software that will improve management's ability to run reports. We recommend management make the implementation of this software a priority and that the Department implement procedures for reconciling on a daily basis.

MLC-26: Women, Infants and Children (WIC) Voucher Processing (Substantial Repeat of 2010 Audit MLC-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. 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:

- Clinics do not batch and transmit electronic records to the back-end data processor in a timely manner;
- Voucher batches may be rejected due to mismatches in the header and footer information;
- A critical error (such as invalid voucher code) may exist; and,
- 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 three (3) items in a sample of sixty (60) in which the amount presented for payment was 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. In the three noted instances, an error was generated and payment was made for the average cost for the respective voucher code during the respective period. This actual payment was ultimately less than the maximum reimbursable amount. However, we continue to 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-27: WIC Food and Nutrition Services (FNS) Program Operations
(Partial Repeat of MLC-29)

We noted a U.S. Department of Agriculture (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. One such finding in that report noted that "Georgia's WIC does not have a means of preventing dual participation, but the program currently detects 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."

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

MLC-28: Filing of Federal Financial Reports in a Timely Manner
(Partial Repeat of 2010 Audit MLC-33)

During our testing of the Ryan White Part B program, we noted the SF 425 Federal Financial for Grant Number X07HA15591, was not filed within the time period required by the grant agreement. We noted the report was required to be filed by a revised submission date of July 31, 2011 but was not filed until August 1, 2011. In addition, the State funding amount was incorrect in the initially submitted report and the Department had to re-file the report.

During our testing of the Emergency Preparedness grants, we noted the SF 269 Financial Status Report for Grant Number 5U90TP417013-10, 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, 2010 but was not filed until November 29, 2010.

We recommend the Department put procedures in place to ensure Federal Financial Reports are filed correctly in a timely manner.

MLC-29: Policies to Address Unallowed Costs Under Office of Management and Budget (OMB) Circular – A-87
(Substantial Repeat of 2010 Audit MLC-36)

Although we did not observe any instances of the Department charging such costs to the program, 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-30: Monitoring of Medicaid Administrative Expenses Processed Through the UAS
(Substantial Repeat of 2010 Audit MLC-37)

During our testing of Medicaid administrative expenses, we noted one (1) 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.

MLC-31: Matching of Medicaid Administrative Expenses

During our testing of Matching of Medicaid Administrative Expenses, we noted that one (1) invoice in a voucher packet containing multiple invoices did not match at the appropriate Federal Medical Assistance Percentage (FMAP). We recommend the Department improve the review process to ensure that all expenses are recorded at the appropriate FMAP.

MLC-32: Financial Reporting on Immunization Grants

During our testing of the Immunization grants, we noted the quarterly 1512 American Recovery and Reinvestment Act (ARRA) Reports for Grant Numbers 3H23IP422521-07S2 and 3U01C1000312-06S2 for the quarter ended December 31, 2010, were incorrect as they excluded December expenditures.

We recommend the Department put procedures in place to ensure Federal Financial Reports are filed correctly in a timely manner.

MLC-33: Documentation of Provider Eligibility

During our testing of provider eligibility for Medicaid, we noted certain requested documentation could not be provided by the Department. The documentation, which the Department believes it has stored electronically but has not properly indexed, included the Statement of Participation, Power of Attorney, and the Provider License. The information included on those documents was ultimately provided from other sources. We recommend the Department initiate a system to properly scan and maintain all files related to provider eligibility.