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The Honorable Clyde L. Reese, Commissioner  
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 (Department of Community Health) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Department of Community Health'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 of Community Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Community Health's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Department of Community Health as of and for the year ended June 30, 2013. A separate report dated November 18, 2013, contains our report on significant deficiencies and material weaknesses in the Department of Community Health's internal control. This letter does not affect our report dated November 18, 2013, on the financial statements of the Department of Community Health.

The following items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Department of Community Health's practices and procedures.

**MLC-1: Journal Entry Review and Approval**

During our audit of the Department of Community Health's fiscal year 2013 journal entries, we noted the general ledger application used by management allowed an employee to repost a journal entry from a prior year with no review or approval by mistake. Management was unaware this entry was posted until our testing procedures identified the entry.

The general ledger application used by the Department of Community Health is a software package maintained by the State Accounting Office (SAO) which is another state agency. We recommend the Department of Community Health consult with the SAO to determine the cause and consider modifying the software package, if needed, to prevent and detect the posting of any entries without the Department of Community Health's knowledge, review and approval.

**MLC-2: Federal Receivable Amounts**  
**(Partial Repeat of 2012 Audit Management Point)**

During our audit of the Department of Community Health's federal receivables and related revenue, we noted management was able to provide a reconciliation supporting the total dollar amount of the reported federal receivable. However, the Department of Community Health's federal receivable is comprised of amounts which represent expected reimbursements from the federal government for expenditures which may be reimbursed at different rates. For example, fiscal year 2013 Medicaid benefit expenditures were reimbursed at a rate of 65.33 percent while fiscal year 2013 administrative expenditures could be reimbursed between 50 percent and 100 percent depending upon the nature of the expense. Management's reconciliation of the Medicaid benefit portion of the federal receivable reflected a positive variance of approximately \$17,400,000 or an amount less than could be supported by the reconciliation prepared by management.

Management's reconciliation of the Medicaid administrative portion of the federal receivable reflected a negative variance of approximately \$17,100,000 or an amount greater than could be supported by the reconciliation prepared by management.

Therefore, based on the reconciliation prepared by management, it is possible the reported federal receivable could be overstated or understated due to the difference in the reimbursement rates for Medicaid benefits and Medicaid administrative expenses. We recommend the Department of Community Health regularly reconcile federal receivables in order to determine any discrepancies between classes of expenditures, and any variances should be resolved in a timely manner.

**MLC-3: Provider Eligibility and Enrollment**  
**(Repeat of 2011 and 2012 Audit Management Points)**

During our testing of provider eligibility for Medicaid, we noted that due to indexing issues after the Medicaid Management Information System (MMIS) conversion, there are ongoing problems accessing original provider enrollment documents such as the statement of participation and power of attorney. Management ultimately provided substitute or replacement documents which were used to substantiate eligibility. However, we recommend the Department of Community Health initiate a system to properly scan and maintain all original files related to provider eligibility.

**MLC-4: Financial Statement Review**  
**(Repeat of 2012 Audit Management Point)**

The Department of Community Health's management is responsible for establishing and maintaining internal control which will, among other things, initiate, record, process, and report transactions consistent with management's assertions embodied in the financial statements. Therefore, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility. Internal control over financial reporting should include the comparison of expected amounts to reported amounts. We noted two bank accounts totaling \$1,854,247 which were incorrectly reported by the Department of Community Health. Of the two accounts, one was no longer an account of the Department of Community Health and the other had been closed prior to year end. Neither should have been reflected in the Department of Community Health's unaudited trial balance. Management subsequently removed the \$1,854,247 from the Department of Community Health's reported balances prior to issuance of the financial statements.

We noted management has developed, within the Department of Community Health's report writing application, an analysis of balances. The analysis is used to compare the amounts reported at the financial statement level in the prior year to amounts reported in the current year. We further understand management has developed a financial statement review checklist which will be used to verify certain reported balances. We encourage management to continue their efforts to improve the financial statement review process and recommend management's additional steps in the preparation and review process include comparing expected amounts to the supporting detail.

**MLC-5: Reconciling Bank Statements Regularly**  
**(Repeat of 2010, 2011 and 2012 Audit Management Points)**

During the audit, we noted a bank account of the Composite State Board of Medical Examiners, an attached agency of the Department of Community Health, had not been properly reconciled to the general ledger. The bank 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 of Community Health bank accounts. However, the Department of Community Health reported an unreconciled balance of \$219,103 in the general ledger account at June 30, 2010, 2011, 2012 and 2013. Account reconciliations provided by management did indicate a reduction in the number of reconciling items between April 2013 and June 2013. As of June 30, 2013, we noted seven reconciling items compared to 63 reconciling items at April 30, 2013.

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 of Community Health's balances are properly reported. We recommend priority be placed on completing an accurate reconciliation of this account and adjusting the general ledger as necessary in a timely manner. Such reconciliations should be performed and reviewed monthly.

**MLC- 6: Violations of Purchase Card Policy**  
**(Repeat from 2011 and 2012 Audit Management Points)**

During our audit of the Department of Community Health's fiscal year 2013 financial statement, we observed the following:

- The laws of the State of Georgia state that business purchases paid with state funds are exempt from Sales Tax. According to the Purchasing Card Policy and Procedures (P-Card Policy), the Department of Community Health's approving officials and Purchasing Card (P-Card) holders are responsible to ensure merchants do not charge Sales and Use Tax. If tax is charged, the P-Card cardholder should contact the appropriate merchant to obtain a credit for any sales tax paid. Further, the P-Card cardholder is required to document attempts to obtain credit for any State of Georgia (State) Sales and Use Tax charged in error. During our testwork, we noted five transactions in which sales tax was improperly charged. However, the Department of Community Health was unable to provide supporting documentation of the amounts which were disputed with vendors and if the sales tax charge was credited back to the P-Card.
- Four of the five P-Card transactions listed above were for group meals. According to the Statewide Travel Regulations, "purchase of such meals should be approved by a higher level approving authority prior to the date of the event, and the group meals must be documented by a copy of the formal written agenda and a list of attendees." However, the formal written agenda and the list of attendees were not scanned into Team Georgia Marketplace (TGM) (the application used to store such supporting documentation) as the Department of Community Health's policy requires. While the documentation was subsequently provided, it was not done so in a timely manner. This practice is in violation of the current P-Card Policy, which requires all supporting documentation be scanned into TGM prior to approval.
- During our testing of P-Card transactions, we noted a purchase of \$2,603 which is in violation of the Department of Community Health's current P-Card Policy which limits the amount of a single transaction to no more than \$2,500. From discussions with management, we understand the Department of Community Health has made certain exceptions to the single transaction limit without updating the P-Card Policy.

- We understand management scans the documentation within the TGM module for improper P-Card transactions on a monthly basis. However, this review is not formally documented.
- According to the Department of Community Health's policy, P-Card transactions are to be closed within five days after the closing date of each monthly statement. As P-Card transactions are closed, the amounts are applied to the appropriate general ledger accounts and the encumbrance reduced. If transactions are not closed in a timely manner, these amounts are not allocated to the general ledger. As a result, encumbrances and reductions in budgeted amounts are not reflected in the appropriate accounts. This could lead to problems such as error, misstatements or budget overruns at the end of the fiscal year. We, as well as the Department of Administrative Services (DOAS) in a DOAS recent report, noted P-Card transactions are not always closed in a timely manner.
- We further noted the review conducted by DOAS of the Department of Community Health's P-Card transactions made between December 28, 2011 and December 27, 2012 revealed instances of noncompliance which included failure to use statewide contracts without obtaining a waiver, inadequate documentation supporting purchases and the lack of timely reconciliation in TGM.

We recommend the Department of Community Health clearly communicate to all P-Card users the importance of ensuring merchants do not charge Sales and Use Tax. We additionally recommend the approver perform a detailed review of the monthly transactions to make certain Sales and Use Tax was not charged, as well as maintain an audit trail which documents the attempts to obtain credit for the tax charged in error.

Current practice should always be consistent with the written policy. It is important that written policies should support the Department of Community Health in an effective and efficient manner. Therefore, we recommend the Department of Community Health's P-Card policy, as with any policy, be periodically reviewed and if appropriate updated.

Additionally, we recommend the monthly review performed by management which consists of scanning documents within the TGM module be detailed enough to identify unusual and improper transactions including sales tax charges and amounts in excess of the single transaction limit. We further recommend the review be formally documented and provide an adequate audit trail for management's consideration as needed throughout the year.

Finally, we recommend additional training for the appropriate employees to ensure the importance of complying with the Department of Community Health's P-Card Policies including those related to approvals, timely closing of transactions, the use of waivers when statewide contracts are not

used, adequate documentation of all transactions and other relevant P-Card Policies is communicated.

**MLC-7: Internal Oversight Function**  
**(Partial Repeat of 2011 and 2012 Audit Management Points)**

We acknowledge the Department of Community Health's hiring of an additional auditor within the Internal Audits Division of the Office of Inspector General in response to our prior years recommendation that internal oversight by the Department of Community Health be strengthened. We further acknowledge his work related to reviewing the status of prior year findings and management points.

However, we believe the additional oversight should be used to further enhance the Department of Community Health's system of internal quality control. In an entity the size and complexity of the Department of Community Health, 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.

We recommend that one of the responsibilities of this position, with management's input, should include a formal, documented assessment of the Department of Community Health's risks particularly in the area of financial reporting. The identified risks should be prioritized according to degree of risk. In response to those identified risks an audit plan should be developed and implemented to provide adequate testing and reporting directed at mitigating such risks. The risk assessment should be performed periodically (at least annually) and the audit plan updated accordingly.

**MLC-8: SHBP and Trust Fund Operations**  
**(Substantial Repeat of 2011 and 2012 Audit Management Points)**

As part of our audit, we perform various analytical reviews of amounts reflected in the Department of Community Health's annual financial statements. As part of the analysis, we noted the Department of Community Health continues to report a negative net position in the State Health Benefit Plan (SHBP). At June 30, 2013, the Department of Community Health's SHBP reflected a negative net position of approximately \$129.8 million, which is an improvement of approximately \$142.7 million from the approximately \$272.5 negative net position reported at the end of fiscal year 2012. Although there have been various increases noted in the contribution rates of participants and employers, the total contributions plus the State appropriations have not been sufficient to cover the deficit as well as the growing costs of providing healthcare to the participants. Therefore, basically the SHBP operates on a pay-as-you-go basis.

Further, we noted the total liabilities in the State Other Post-Employment Benefits (OPEB) fund and the School OPEB fund are each equal to the total assets reported by the funds. Therefore, neither the State OPEB fund nor the School OPEB fund report any amounts held in trust for other post-employment benefits. We further noted the total assets reported by the two funds are comprised of only receivables and amounts due from other funds. The amount due from other funds in both the State OPEB fund and the School OPEB fund which totals approximately \$41.5 million is due from the SHBP and represents more than two thirds of the total assets reported in each of the two trust funds. As noted above the SHBP reported a negative net position of approximately \$129.8 million at June 30, 2013.

We understand management recognizes these funding shortfalls and the reduction of available assets needed to satisfy current and future claims and have communicated their concerns to appropriate State of Georgia officials. This ongoing concern was made most recently in a letter dated June 28, 2013 addressed to the State CFO and Director of the State's Office of Planning and Budget. We continue to recommend that the Department of Community Health should proactively communicate such concerns to appropriate State of Georgia officials.

#### **MLC-9: Service Auditor's Reports** **(Partial Repeat of 2012 Audit Management Points)**

User organizations that obtain a Service Auditor's Report from their service organizations receive valuable information regarding the service organization's controls (SOC) and the effectiveness of those controls. In order to benefit fully from the use of Service Auditor's Reports, it is important to understand the SOC reporting framework and how it impacts what SOC report is most valuable to the Department of Community Health's management. The following bullets highlight the fundamental difference between the SOC reports.

- The SOC 1 reports on the controls of the service organization which are relevant to the user organization's financial statement assertions.
- The SOC 2 reports on the effectiveness of the controls of the service organization related to compliance or operations, including the following criteria: security, availability, processing integrity, confidentiality, and/or privacy (also known as trust services principles and criteria). The security, availability, and processing integrity criteria are related to the controls system, and the confidentiality and privacy criteria are related to the information processed by the system.
- The SOC 3 report is very similar to the SOC 2 report. The two key differentiators are: 1) a SOC 3 report does not require a detailed description of the controls of the service organization related to compliance or operations or detailed testing procedures (though it

does cover the trust services principles and criteria); and 2) the distribution of the report is not restricted. The SOC 3 report simply reports on whether the service organization achieved one or more of the trust services principles and criteria.

SOC 1 and SOC 2 reports can both be further subdivided into Type 1 and Type 2 reports. A Type 1 report is an assessment of the service organization's system and the suitability of the design of controls at a specific point in time. A Type 2 report is not only an assessment of the service organization's system and the suitability of the design of controls; it is an assessment of the operating effectiveness of controls over a period of time. SOC 3 reports have no such subdivision.

We noted significant improvement by management in obtaining and reviewing Service Auditor Reports. However, management was unable to provide a SOC 1, Type 2 report for Wells Fargo, an entity where the operating effectiveness of controls at the service organization is relevant to the Department of Community Health's financial statement assertions. Additionally, management was unable to provide any SOC report for the Georgia Technology Authority, a service organization relevant to the Department of Community Health's controls. Moving forward, we recommend management review the services provided by each service organization, determine the applicable SOC report needed and ensure the requirement to provide the appropriate level of SOC report as well as the appropriate subdivided report either Type 1 or Type 2 is included in the written agreement with the service organization.

### **MLC-10: Vendor Performance Monitoring and Performance Management**

The Department of Community Health has adopted policies and procedures which govern the manner in which management conducts activities associated with vendor performance monitoring and its management of and interaction with contract vendors. Contract monitoring and reporting activities are the responsibility of each business owner assigned a contract. The Vendor Management System utilizes a Vendor Report Card (Report Card) to assess and document the progress a vendor is making in accordance with the terms of the agreement. The frequency of the Report Cards is based upon the contract execution date and/or a profile and a risk assessment analysis. Report Card frequencies vary from one per year to four per year.

In order to adequately document and evaluate the performance of a vendor, it is important that these assessments be completed in a timely manner. From a sample test of three vendors, we noted two vendors where by the quarterly assessments were not always performed in a timely manner. Both were considered high risk contractors which required a quarterly Report Card during the fiscal year 2013. For one vendor, all four quarterly Report Cards for the year were completed on August 23, 2013. For the second vendor, the third and fourth quarter Report Cards were completed in a timely manner. However, the first quarter Report Card was not completed until December 23, 2012 and the second quarter was not completed until June 4, 2013.



Recognizing the need for the Department of Community Health to ensure contract compliance on the part of the Department of Community Health's vendors, we recommend all assessments be performed and documented in a timely manner, but not more than 15 days after the performance period.

**Closing Thoughts**

We have already discussed many of these comments and suggestions with various Department of Community Health 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 Maudslayi Testerman*

Atlanta, Georgia  
November 18, 2013