Annual Audit Agenda

Summary of Information & Communications:
Annual Financial & Compliance Audit
As of and For the Year Ended June 30, 2014

Georgia Department of Community Health

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

Metcalf Davis
CPAs | ADVISORS

Mauldin & Jenkins
Certified Public Accountants, LLC

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

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June 30, 2014

PURPOSE OF AGENDA

To share information about the ***engagement team***.

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

To address the overall ***independent auditors' report*** relative to fiscal year 2014.

To provide a ***summary overview of the financial statements and footnotes*** of fiscal year 2014.

To address certain ***required communications*** related to the fiscal year 2014 engagement.

To provide summarizations of ***findings and management letter comments*** related to the fiscal year 2014 engagement.

AUDIT ORGANIZATION

Metcalf Davis / Mauldin & Jenkins:

- Large regional joint venture audit organization serving the Southeastern United States. Originated in Georgia and based out of Atlanta.
- Seven (7) offices located in six (6) communities:

Georgia:	Alabama:	Tennessee:	Florida:
Atlanta (2)	Birmingham	Chattanooga	Bradenton
Macon			
Albany			

- Over 300 individuals employed, and provider of over 375,000 hours of service annually.
- Serve more governmental entities in the Southeast USA than any other certified public accounting firm requiring over 70,000 hours of service on an annual basis.
- Auditors of over 250 total governmental entities, and also serve over 250 not-for-profit entities.
- **Auditors of more State of Georgia agencies and authorities than any other party.** We work closely with the State of Georgia's State Accounting Office (SAO) and Department of Audits & Accounts (DOAA). In addition to the Department of Community Health, we currently audit many of the State of Georgia's component units, including:
  - Ga. Ports Authority (GPA)
  - Ga. Building Authority (GBA)
  - Ga. Lottery Corporation (Lotto)
  - Ga. Environmental Loan Acquisition Corp.
  - Stone Mountain Memorial Association
  - Kennesaw State University Foundation
  - University System of Georgia Foundation
  - Medical College of Georgia Foundation
  - University of North Georgia Foundation
  - University of West Georgia Foundation
  - Ga. Student Finance Authority (GSFA)
  - Ga. General Assembly
  - Ga. Department of Audits & Accounts (DoAA)
  - Ga. Higher Education Assistance Corp. (GHEAC)
  - Ga. Environmental Finance Authority (GEFA)
  - Ga. State Financing & Investment Comm. (GSFIC)
  - State Road & Tollway Authority (SRTA)
  - Ga. Superior Court Clerk's Cooperative Auth.
  - Ga. Development Authority
  - Georgia Higher Education Facilities Authority
  - Southern Polytechnic State Univ. Foundation
  - Georgia College & State University Foundation
  - College of Coastal Georgia Foundation
  - Abraham Baldwin Agricultural College Foundation

- Auditors of twenty-three (23) governmental units whose assets exceed $1 billion and several whose revenues exceed $1 billion annually.
- Auditors of five (5) entities with assets as much as $5 billion, and four (4) governmental units whose debt obligations exceed $1 billion, and twenty-seven (27) governmental units whose debt exceeds $100 million.
- Auditors of five (5) local governments who are in the top 25 metropolitan Atlanta's largest employers (public and private) per the Atlanta Business Chronicle.
- Auditors of sixty-eight (68) governments awarded the Government Finance Officers Association's (GFOA's) Certificate of Achievement for Excellence in Financial Reporting.
- We have individuals in leadership and board positions and active roles with the American Institute of Certified Public Accountants (AICPA), the AICPA Single Audit Improvement Task Force, and the AICPA Government Quality Center.

SPECIFIC ENGAGEMENT TEAM MEMBERS

Engagement Team Leaders on the Audit Engagement Include:

- **Miller Edwards**, Engagement Partner - 29 years experience serving governments with 15 years experience auditing the Department of Community Health (the Department).

- **Greg Davis**, Quality Assurance Partner - 39 years experience serving governments with 15 years experience auditing the Department.

- **Matt Hill**, Manager (Compliance / Single Audit) - 16 years experience serving governments with 15 years experience auditing the Department.

- **Donarene Steele**, Manager (Financial Audit) - 23 years experience serving governments with 10 years experience auditing the Department.

- **Clayton Knox**, Manager (Financial Audit) - 13 years experience serving governments with 10 years experience auditing the Department.

- **Marci Thomas**, Quality Assurance Partner (Compliance and Financial Audits) - 28 years experience serving governments with five (5) years experience auditing the Department.

- **Joel Black**, Quality Assurance Partner - 21 years experience serving governments with four (4) years experience providing the quality assurance reviews of the audits of the Department.

- **Meredith Lipson**, Quality Assurance Partner (Compliance) - 25 years experience serving governments with 14 years experience providing the quality assurance reviews of the audits of the Department.

OVERVIEW OF AUDIT PROCESS & DELIVERABLES TIMELINE

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

- **May 2014** Single Audit (federal compliance audit) planning commenced on Medicaid and the Children's Health Insurance Plan (CHIP) programs.
- **May 2014** First audit status meeting, and initial audit plan was theorized and discussed with management. We began the annual audit process focusing on the compliance and planning elements of the audit.
- **May 2014** Received draft of the preliminary Schedule of Expenditures of Federal Awards (the preliminary SEFA).
- **June – August 2014** Periodic meetings with management to discuss various status updates from management and the auditors points of view.
- **June – August 2014** Substantial conduct and performance of the Single Audit.
- **October 2014** Management provided adjusted general ledgers and draft financial statements for the governmental funds and the enterprise and fiduciary funds as well as the financial statement notes.
- **September 2014** Received from management the actuarial report for the incurred-but-not-reported (IBNR) liability for the State Health Benefit Plan (enterprise and fiduciary funds) and for the Medicaid program.
- **October 2014** Management provided a final SEFA.
- **November 2014** Oral affirmations to the State Accounting Office relative to Department's ending balances was on November 7, 2014.
- **November 2014** Concluded financial and compliance audits and final finding responses provided by Department management. All of our reports are dated November 18, 2014 which was our last day of fieldwork as well as the completion of our extensive quality assurance and review process.
- **November 2014** Hand-delivery of the all the respective audit reports.

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INDEPENDENT AUDITORS' REPORT

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

A. **Scope:** "**We have audited** the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2014, which collectively comprise the Department's basic financial statements as listed in the table of contents."

B. **Your Responsibility:** "These **financial statements are the responsibility of the Department's management**."

C. **Our Responsibility:** "**Our responsibility is to express opinions** on these financial statements based on our audit."

D. **Audit Standards:** "We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States."

E. **Unmodified "Clean" Audit Opinion:** "**In our opinion**, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America."

OVERVIEW OF FINANCIAL STATEMENTS AND FOOTNOTES

Statement of Net Position (Page 4) – This statement is similar to a balance sheet, and presents the governmental and business-type activities of the Department as of June = 30, 2014. The statement is prepared under the full-accrual method of accounting and includes components for capital assets and long-term debt. The governmental activities are primarily the Medicaid activities of the Department, and the business-type activities surround the State Health Benefit Plan (SHBP).

Significant elements to consider as of June 30, 2014 include:

- Cash and cash equivalents amount to approximately $718 million as of June 30, 2014 as compared to $304 million as of June 30, 2013. Consequently, cash and cash equivalents increased by approximately $414 million during 2014.

- Total receivables amount to approximately $1.407 billion as compared to $1.585 billion as of the close of the prior fiscal year. This results in a decrease in receivables during 2014 in the approximate amount of $178 million.

- Total assets amount to approximately $2.133 billion versus the prior year approximation of $1.892 billion. Therefore, total assets have increased by approximately $241 million.

- Liabilities include the usual items such as accounts payable, accrued liabilities and benefits payable. Total liabilities as of June 30, 2014 amounted to approximately $2.084 billion as compared to $2.156 billion as of June 30, 2013. This represents a decrease of approximately $72 million.

- Current liabilities such as cash overdrafts, accounts payable and other accruals which collectively amounted to approximately $754 million as compared to $771 million as of the close of the prior fiscal year. This results in a decrease in payables during 2014 in the approximate amount of $17 million.

- Benefits payable approximated $1.052 billion as of June 30, 2014 as compared to $1.131 billion as of June 30, 2013. The benefits payable consists primarily of actuarially calculated amounts for the respective IBNR liabilities for the payment of claims. Claims are typically paid on each Monday, and this year such payments were made on the last day of the fiscal year which is why the IBNR decreased as compared to the prior year.

- Unearned revenue primarily consists of amounts received by the Department but not earned until the month of July representing a prepayment of premiums.

- Due to other funds amounted to approximately $41 million and such amounts were primarily owed to the fiduciary funds by the enterprise fund.

- In the end, a quick look at the Department's balance sheet is as follows and represents a very positive shift in the balance sheet in the right direction:

	6-30-14	**6-30-13**	**Net Change**
▪ Current Assets	$2,125 billion	$1,889 billion	$236 million increase
▪ Current Liabilities	$2,081 billion	$2,154 billion	$73 million decrease
▪ Net Current Assets (Liabilities)			**$309 million improvement**

	6-30-14	6-30-13	Net Change
▪ Total Assets	$2,133 billion	$1,892 billion	$241 million increase
▪ Total Liabilities	$2,084 billion	$2,156 billion	$72 million decrease
▪ Net Asset (Liabilities)			**$313 million improvement**

The goal of any operation is to reflect a Net Asset Position which the Department accomplished in the current year.

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

Significant elements to consider for the year ended June 30, 2014 include:

- The governmental activities primarily surround the Medicaid Program and CHIP programs, but other smaller Federal subsidized programs are also captured and reported. The business-type activities represent activities of the SHBP.

- **Expenses.** Total expenses (first column) amounted to approximately $12.796 billion as compared to $12.267 billion in the prior year. This represents an increase of approximately $529 million or 4%. A further breakdown and comparison is as follows:

	FY 2014	FY 2013	Change
Education	$ 43,000,000	$ 43,000,000	0%
Health & Welfare - Public	10,126,000,000	9,609,000,000	5.4%
Contribution to State	594,000,000	421,000,000	40.8%
Health & Welfare – State Health Benefit Plan	2,033,000,000	2,194,000,000	(7.3%)
Total Expenses	**$12,796,000,000**	**$12,267,000,000**	**4.3%**

- **Revenues.** Program revenues are directly related to the respective expenses and act as direct offsets to the respective costs. Federally funded revenues are included. Total program revenues amounted to approximately $9.356 billion and $8.888 billion for fiscal years 2014 and 2013, respectively. The end result of program revenues against expenses represents the net costs which the State of Georgia must fund from a variety of General Revenues. The net costs of all programs amounted to $3.440 billion and $3.377 billion for fiscal years 2014 and 2013, respectively.

- General revenues primarily include the State Appropriations, other revenue collections, and intergovernmental transfers, and such amounts totaled approximately $3.754 billion for the fiscal year ended 2014 as compared to approximately $3,784 for fiscal year 2013.

- **Change in Net Position.** In the end, the change in Net Position represents the current fiscal year 2014 revenues over expenses in the approximate amount of $313 million as compared to $407 million for fiscal year 2013.

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

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

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

Footnotes (Pages 14 – 34) – The more significant footnotes are discussed below:

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

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

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

Note 9 – Risk Management. This footnote provides details on how the Department manages risks for which it is exposed including actuarial estimates for claims that have been IBNR.

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

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

Required Supplementary Information (Pages 35 – 40) – Governmental Accounting Standards Board (GASB) pronouncements require certain supplemental information with the basic financial statements. A summary of this information is provided below:

Schedule of Funding Progress and Schedule of Employer Contributions (Pages 35 and 36). As required by GASB, information is disclosed regarding the State's other post-employment benefit plan.

Budget Comparison Schedules, Reconciliations, and Notes (Page 37). As required by GASB, this information attempts to share information regarding budget to actual amounts on a budget basis and then is reconciled to generally accepted accounting principles (GAAP).

OVERVIEW OF COMPLIANCE REPORTS

- **Federal Funds.** As part of the annual audit process, we have performed a substantial compliance audit and Single Audit of the programs which are federally funded. For the year ended June 30, 2014, total expenditures of federal awards amounted to approximately $6.753 billion. Similar to fiscal year 2013, federally funded expenditures approximated 53% of total Department expenditures in fiscal year 2014.

- **Reports.** We have issued two (2) reports which are required by *Government Auditing Standards* and they are in a separate package from the financial statements. We reported five (5) findings: one (1) of which is classified as a material weakness; and four (4) which are significant deficiencies relative to the Department's lack of internal controls and noncompliance with certain Federal programs' rules and regulations.

  The Single Audit compliance testing covered three (3) major programs as follows:

1)	$6.382 billion	-	Medicaid Cluster
2)	$339 million	-	Children's Healthcare Insurance Program
3)	$16 million	-	Money Follows the Person
	$6.737 billion	-	**Total Federal Expenditures Tested Under the Provisions of the Single Audit Act of 1984 (= 99.8% of Expenditures)**

- **Management Letter.** We have also issued a management letter with further recommendations for improvement in the areas of internal control, compliance and general operations. We reported eight (8) additional recommendations to the Department in the management letter.

REQUIRED COMMUNICATIONS

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

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

Our audit of the financial statements of the Department for the year ended June 30, 2014, was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

Accounting Policies

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

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

Management Judgments and Accounting Estimates

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

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

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

We believe we received full cooperation of Department personnel, and believe we were given direct and unrestricted access to the Department's officials and the respective books and records. However, we did experience delays by management in providing certain information considered to be significant to the audit process. This information related to the IBNR estimate and the matters affecting the budget of the Department. No other significant difficulties (as defined in the above paragraph) were noted in the performance of the fiscal year 2014 audit.

Audit Adjustments

As part of the Department's post-closing exercises, the Department made 148 Hyperion adjusting journal entries to the respective general ledgers and financial statements. For comparison purposes, we noted 135 such adjustments as part of the closing of fiscal year 2013.

Included in the 148 adjusting journal entries were a series of audit adjustments which were necessary to properly state the Department's financial statements as of and for the fiscal year ended June 30, 2014.

Such adjustments surrounded amounts computed and recorded relative to:

a) Reclassifications for financial statement purposes;
b) Accounts payable and other accruals; and,
c) Federal receivables.

See various findings and management letter comments that address several of the above audit adjustments.

Uncorrected Misstatements

No passed adjusting journal entries were noted which should be reported.

Disagreements with Management

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

Representation from Management

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

Management's Consultation with Other Accountants

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

- The Department utilized the services of the DOAA for internal auditing functions throughout the year as well as certain other procedures related to budgetary compliance;
- The Department utilized actuarial services of outside consultants for assistance in calculating the Medicaid (governmental activities) and Employee Health Benefits (business-type activities) claims IBNR;
- We, likewise, utilized the services of an outside consultant for purposes of evaluating the Medicaid and Employee Health Benefits claims payable and the over/under payment of claims amounts as of June 30, 2014;
- The Department utilized the attestation services of other certified public accounting firms for purposes of providing attestation reports relative to the over/under payment of claims associated with payment accuracy of the Medicaid Management Information System;
- The Department utilized the services of other certified public accounting firms for purposes of obtaining Statement on Standards for Attestation Engagements (SSAE) No. 16, *"Reports on Internal Controls at a Service Organization"* and reports for various aspects of the Department's operations. We reviewed those reports, and considered their effects on the financial audit.

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Significant Issues Discussed with Management

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

Other Information in Documents Containing Audited Financial Statements

If you intend to publish or otherwise reproduce the Department's June 30, 2014 financial statements and make reference to either of our firms, we must be provided with printers' proofs or masters for our review and approval before printing. You must also provide us with a copy of the final reproduced material for our approval before it is distributed. We are not aware of any other documents that contain the basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the statements of the Department.

Independence

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

Audit Firm Retention

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

ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2014, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as significant deficiencies in our supplemental reports on internal controls and compliance. Additionally, we noted certain items management should consider as part of its decision making process. Our recommendations (also commonly referred to as management points) are presented in the following paragraphs. Further, during our audit of the financial statements as of and for the year ended June 30, 2014, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Significant Deficiencies/Material Weakness

1. Accounts Payable and Other Accruals – Significant Deficiency

The Department of Community Health's management is responsible for ensuring costs associated with payment obligations are recorded promptly when incurred, and reported accurately in the financial statements as well as in the schedule of expenditures of federal awards. An account payable exists when the Department of Community Health has benefited from the delivery of goods or services and the related obligation remains unsatisfied.

Management of the Department of Community Health provided us with a detail listing of liabilities supporting the accounts payable and other accruals reported by the Department of Community Health at June 30, 2014. As a result of our audit procedures, we identified certain obligations which were not included within the detail and therefore excluded from the reported balances of the Department of Community Health at year end.

An adjustment of approximately $23.7 million was required to properly state accounts payable and other accruals as well as the related expense.

The Department of Community Health did not adequately evaluate amounts paid in the months of September through October of 2014 to determine if they properly recorded a liability for the delivery of goods or services during fiscal year 2014. This appears to have occurred primarily due to miscommunication as to the scope of the requested detail.

In an effort to ensure the Department of Community Health's reported obligations are always accurately stated, we recommend management implement a process which includes a system of controls intended to capture relevant information as to when an obligation has been incurred and when such an obligation has been satisfied via payment. The intended purpose of such controls is to identify liabilities which should be reflected in the Department of Community Health's accounts payable and other accruals. Additionally, we recommend the Department of Community Health establish written closing processes and provide training to employees that reinforces its accrual policies in order to ensure that liabilities are properly identified and recorded at the point of incurring the obligation.

2. Federal Receivables and Cash Management – Significant Deficiency

The Department of Community Health's management is responsible for ensuring that receivables from the federal government and unearned federal award amounts are reported accurately in the financial statements and properly reconciled to supporting documentation.

Management of the Department of Community Health provided us with a reconciliation of federal receivables as initially reported in the June 30, 2014 financial statements. As a result of our audit procedures, we identified adjustments which needed to be made to the reconciliation, as well as adjustments necessary to properly state the June 30, 2014 reported balances.

An adjustment of approximately $23 million was required to properly increase receivables and increase the Department of Community Health's federal unearned revenue. Additionally as a result of our procedures, an error in the financial statement journal entries was identified and management was required to reverse the entry in order to accurately state the Department of Community Health's federal receivable.

Management was able to reconcile, within an immaterial difference, the federal receivable balance reported in the Department of Community Health's financial statements; however, the Medicaid Program Services (Benefits) and Medicaid Administration funding sources within the reconciliation had variances of approximately ($13 million) and $17 million, respectively.

Historically, management has not always drawn funds from federal grant awards based directly upon expenditures incurred. Over the course of several years, management of the Department of Community Health overdrew funds available from the Medicaid Administration portion of federal grant awards. While the Department of Community Health had adequate expenditures under the Medicaid Program Services (Benefits) portion of the federal award, the Centers for Medicaid and Medicare Services (CMS) does not allow funds drawn from the Medicaid Administration portion of the Department of Community Health's federal grant awards to be used to satisfy expenditures related to the Medicaid Program Services (Benefits) portion of its federal grant awards. The amount of overdrawn federal funds approximated $23 million and was not reflected in the Department of Community Health's federal unearned revenue.

We understand management has now implemented procedures which base the drawdown request on federal funds directly to expenditures incurred. We further understand management has engaged an outside party to assist with the investigation and reconciliation of certain amounts historically drawn down from and applicable to federal awards. In addition to these measures, we recommend management:

- Regularly reconcile federal draws and the related general ledger balances throughout the year and timely investigate and resolve any variances between funding source draws and the supporting expenditures (Medicaid Program Services and Medicaid Administration) identified during these reconciliations;

- Closely monitor federal draws during the year for potential overdrawn funds in certain categories of expenditures. If any such variances are identified, management should consider whether any adjustments are needed to properly state the general ledger balances;

- Implement a process which includes a careful review by an individual outside of the reconciliation process. The reviewer should carefully consider each component of the reconciliation to determine its reasonableness; and,

- Establish written procedures documenting the reconciliation process and provide training to new employees performing this reconciliation. Such training should include an explanation of not only the procedures to be performed in the reconciliation, but the rationale for the inclusion or exclusion of certain items in the reconciliation.

3. Surveys to Monitor Facility Compliance with Provider Health and Safety Standards – Materical Weakness

The Department of Community Health is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through CMS. The Department's Healthcare Facility Regulation Division (HFRD) functions as the State Survey Agency (SSA) for the State of Georgia to perform surveys (i.e. inspections) on behalf of CMS to determine whether providers meet the conditions of participation. The Social Security Act mandates the establishment of minimum health and safety standards that must be met by providers and suppliers participating in the Medicare and Medicaid programs.

The Department is responsible for ensuring that providers meet prescribed health and safety standards for hospital, nursing facilities and Intermediate Care Facilities for individuals with Mental Retardation (ICFMR). In accordance with 42 CFR 488.308, the survey agency must conduct a standard survey of each skilled nursing facility and nursing facility, not later than 15 months after the last day of the previous standard survey and the statewide average interval between standard surveys must be 12 months or less.

During our review, we noted 28 nursing facilities out of a sample of 40 facilities for which more than 15 months had elapsed since the last standard inspection.

The Department has an obligation to ensure that providers meet prescribed health and safety standards. The Department performs this responsibility in part through conducting surveys in accordance with CMS guidelines.

The Department's HFRD did not perform the surveys within the required timeframe.

Due to staff turnover and training issues, the Department's HFRD did not complete surveys in accordance with CMS guidelines.

The Department should improve their process for performing and completing surveys to ensure that surveys are completed in accordance with CMS guidelines in a timely manner. To accomplish this objective, it may be necessary for the Department to increase the number of trained and experienced staff.

4. SA 2014-004 Verification and Documentation of Medicaid Eligibility – Significant Deficiency

The Department is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through CMS. The Department is responsible for determining that all recipients meet prescribed eligibility requirements and ensuring those requirements are appropriately documented.

The Department has contracted with the Department of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted six recipient files in a sample of 60 Medicaid recipients whose eligibility was not properly documented. Those six files included the following documentation deficiencies:

a) One case file did not contain an expected form.
b) Two case files did not contain acceptable documentation verifying income.
c) Two case files did not contain acceptable documentation of verification of citizenship and/or proof of identity.
d) One case file did not contain acceptable documentation of social security number validation.

Without adherence to the Department's policies and procedures to determine and document Medicaid eligibility, members in the Medicaid program may not be eligible to receive benefits if documentation of their eligibility status is incomplete or inadequate.

An indeterminate number of participants are inadequately documented as to eligibility for Medicaid. The monetary effect is that federal Medicaid funds may be used to provide benefits for members who are not eligible for the program.

The Department does not have adequate controls in place to enforce findings in State Audit Reviews and Medicaid Quality Control (MEQC) reviews over DFCS to ensure that all CMS guidelines in regards to the documentation of a member's eligibility are properly followed.

The Department should improve their verification and documentation enforcement policy for Medicaid members and create more stringent controls over the eligibility process.

5. Documentation of Medicaid Provider Eligibility – Significant Deficiency

The Department of Community Health is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through the CMS. The Department of Community Health is responsible for determining that all providers meet prescribed eligibility requirements for participation in the Medicaid program including required provider disclosures and appropriate licensure. The Department of Community Health is also responsible for ensuring those requirements are appropriately documented.

During fieldwork we noted four provider files in a sample of 60 Medicaid providers whose eligibility was not properly documented as they did not contain a statement of participation.

Without adherence to the Department of Community Health's policies and procedures to determine and document provider eligibility for participation in the Medicaid program, providers participating in the Medicaid program may not be eligible to provide services.

An indeterminate number of providers are inadequately documented as to eligibility for participation in the Medicaid program. The monetary effect is that federal Medicaid funds may be used to compensate service providers who are not eligible for participation in the Medicaid program.

When the Department of Community Health changed the electronic storage system for provider enrollment documents, the documents were moved into the new system in an unindexed format. The unindexed format made it difficult to locate the documents supporting the eligibility for a specific provider as the information was no longer available in an easily searchable format.

The Department of Community Health should address the electronic document indexing issues and/or obtain updated appropriately indexed documentation to support the eligibility of all providers participating in the Medicaid program.

Management Points

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

1. Accounting for Other Receivables and Cash

The Department of Community Health reported certain receivables (also known as other receivables), and cash in their draft financial statements provided to us in early October 2014. During our audit of other receivables and cash, we noted accounts approximating $14 million which were collected during the fiscal year ended June 30, 2014, but continued to be included in the other receivables balance and were not included in the Department of Community Health's cash balance. Consequently, an audit adjustment was required to accurately report the amount of the Department of Community Health's other receivables and cash.

We recommend the Department of Community Health's management increase its level of supervision and review of those parties responsible for accurately reconciling and recording other receivables and cash. Such reconciliations should be performed and reviewed monthly. 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 further recommend additional training be provided to ensure amounts are appropriately accounted for and reconciled in the future.

2. Internal Oversight Function

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 believe independent procedures performed by an auditor within the Internal Audits Division of the Office of Inspector General could be used to further enhance the Department of Community Health's system of internal quality control.

We recommend the auditor, with input from management of the Division of Financial Services, complete 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.

3. Violations of Purchase Card Policy

The laws of the State of Georgia provide that business purchases paid with State of Georgia (State) funds are exempt from the State sales and use tax, and 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 for ensuring merchants do not charge State sales and use tax. If tax is charged, the P-Card holder should contact the appropriate merchant to obtain a credit for any sales tax paid. Further, the P-Card holder is required to document attempts to obtain credit for any State sales and use tax charged in error. During our fieldwork, we noted seven transactions in which sales tax was improperly charged.

We understand management randomly selects a P-card holder's transactions to audit on a monthly basis. The audit consists of timeliness of reconciliation, signature of approvers, documentation of receipt of purchases, and appropriate documentation maintained on the P-Card log. These audits have historically been documented on an audit log; however, we noted these audits were not formally documented in the current year. Additionally, we understand management works with the Budget Office and division directors to establish and maintain usage controls for each card. Spending limits are based on job responsibilities of the cardholder and are reviewed annually by the supervisor/approver to ensure that actual usage is consistent with spending limits. However, this review was not formally documented in the current year.

We recommend the Department of Community Health clearly communicate to all P-Card holders the importance of ensuring merchants do not charge State sales and use tax. We additionally recommend the approver perform a detailed review of the monthly transactions to make certain State 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. Secondly, we recommend the monthly random audits performed by the P-Card administrator to ensure compliance with state P-Card Policies and best practices be formally documented in order to provide an adequate audit trail for management's consideration as needed throughout the year. Lastly, we recommend management document their annual review of cardholder spending limits.

4. 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 grant performance monitoring and management's interaction with grantees. Grant monitoring and reporting activities are the responsibility of each grant manager assigned to the grant. The Grantee Management System utilizes a Grantee Report Card (Report Card) to assess and document the progress a grantee is making in accordance with the terms of the agreement. The frequency of the Report Card is based upon the execution date and/or a profile and a risk assessment analysis. Report Card frequencies vary from one per year to 12 per year.

In order to adequately document and evaluate the performance of a grant, it is important that these assessments be completed in a timely manner. From a sample of two grants, we noted one grant whereby the monthly assessments were not always performed in a timely manner. The grant was considered an American Recovery and Reinvestment Act (ARRA) grant which required a monthly Report Card for the period of September 5, 2013 through January 31, 2014. The first monthly Report Card was completed in a timely manner; however, the October monthly Report Card was not completed until December 6, 2013; the November monthly Report Card was not completed until January 9, 2014; and the December monthly Report Card was not completed until March 18, 2014. Since the grant was fully disbursed in December 2013, there was no fourth monthly Report Card.

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

5. Service Auditor's Reports

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. We noted significant improvement by management in obtaining and reviewing service auditor reports. However, management was unable to provide a SOC 2 report for the Georgia Technology Authority, a service organization relevant to the Department of Community Health's controls. We understand management at the Georgia Technology Authority is currently documenting controls and reviewing a readiness report in an effort to offer a SOC 2 report to the Department of Community Health at a future date. We encourage management to continue monitoring the progress made by the Georgia Technology Authority toward completing a SOC 2 report over the Georgia Technology Authority's controls relevant to the services provided the Department of Community Health. We recommend management obtain a SOC Type 2 report which includes an understanding of controls in place as well as testing the operational effectiveness of those controls. In addition, we further encourage management to 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 any service organization.

6. User Controls Related to Service Auditor's Reports

During our testing of user controls, we identified areas in which the Department of Community Health can enhance its system of internal controls. One of the user controls listed in the service auditor's report for Policy Studies, Inc. which the Department of Community Health is expected to have in place is the following: "Review of monthly statistical reports occurs timely and discrepancies are reported to the Project." Per discussion with management, there appears to be no documentation for this review of monthly reports during the current year, as documentation appears to be maintained only on the reports with identified errors, and there were no such error reports in the current year. We recommend the individual reviewing monthly reports initial and date each report to document their review.

During user control testing for WellPoint, Inc. (WellPoint), we identified another opportunity for improvement. The user controls listed on the service auditor's report for WellPoint's WGS 2.0 system included the following: "Customers should ensure that transmission errors are corrected according to agreed-upon time frames." Per discussion with management, we understand that no time frame has been agreed upon between the Department of Community Health and WellPoint for such corrections. Additionally, we selected one error report during the current year and noted that the items on the error report were not corrected for more than one month. We recommend management establish an agreed-upon time frame for the correction of such errors, and that every effort be made to meet the established time frame.

7. Money Follows the Person (MFP) Eligibility

We noted the Department of Community Health performed monitoring reviews on eligibility determinations made by the Georgia Department of Human Services' Division of Aging Services (DAS); however, monitoring reviews on eligibility determinations made by the Georgia Department of Behavioral Health and Developmental Disabilities (DBHDD) were not performed during fiscal year 2014. As this is an eligibility requirement under the MFP program, we recommend the Department of Community Health perform monitoring reviews on eligibility determinations made by both DAS and DBHDD.

8. Children's Health Insurance Program (CHIP) Quality Assurance Reports

We noted Maximus did not perform a review of new web-based applications for PeachCare for Kids on the February Monthly Quality Assurance Report. As this is an eligibility requirement under the CHIP program, we recommend the Department of Community Health improve monitoring of the Monthly Quality Assurance Reports to ensure that reviews of both paper and web-based applications are appropriately documented.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2013, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods.

1. New Financial Reporting Standards

As has been the case for the past decade, the GASB has issued several other new pronouncements which were effective for the 2013 fiscal year, or will be effective in future years. The following is a brief summary of the a new standard that will affect the Department next year in some shape, form or fashion to be determined by the SAO:

- **Statement No. 68, *Accounting and Reporting for Pensions*** will be effective for fiscal years beginning after June 15, 2014 resulting in the Department's fiscal year ending June 30, 2015. This pronouncement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria, including agent and cost-sharing multiple employer plans.

  Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Defined Benefit Pension Plans. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

Statement No. 68 calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of: (1) changes in economic and demographic assumptions used to project benefits; and, (2) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period.

Of great interest to the Department, Statement No. 68 requires cost-sharing employers, such as the Department, to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. This means that the Department will be required to record its share of the total liabilities the any and all cost-sharing plans it participates.

The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. These changes include:

- **Projections of Benefit Payments.** Projections of benefit payments to employees will be based on the then-existing benefit terms and incorporate projected salary changes and projected service credits (if they are factors in the pension formula), as well as projected automatic post-employment benefit changes (those written into the benefit terms), including automatic cost-of-living-adjustments (COLAs). For the first time, projections also will include ad hoc post-employment benefit changes (those not written into the benefit terms), including ad hoc COLAs, if they are considered to be substantively automatic.

- **Discount Rate.** The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met.

- **Attribution Method.** Governments will use a single actuarial cost allocation method – "entry age," with each period's service cost determined as a level percentage of pay.

Note Disclosures and Required Supplementary Information. Statement No. 68 also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Single and agent employers will disclose additional information, such as the composition of the employees covered by the benefit terms and the sources of changes in the components of the net pension liability for the current year. A single or agent employer will also will present RSI schedules covering the past 10 years regarding:

- Sources of changes in the components of the net pension liability
- Ratios that assist in assessing the magnitude of the net pension liability
- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Cost-sharing employers also will present the RSI schedule of net pension liability, information about contractually required contributions, and related ratios.

Defined Contribution Pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in this new statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan.

Special Funding Situations. Certain governments are legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another government. For example, a state is legally required to contribute to a pension plan that covers local school districts' teachers. In specific circumstances called special funding situations, the Statement requires governments that are non-employer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability and pension expense.

The changes noted above by Statement No. 68 are significant to governments who sponsor retirement plans, and we strongly encourage Department officials to review the actual pronouncement and consider the potential effects on the financial reporting of the Department.

Summations of Thoughts Noted Above

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

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers along with providing the instruction utilizing our in-house professionals. We hope Department staff and officials have been able to participate in this opportunity, and that it has been beneficial to you.

Governmental Newsletters. We produce newsletters tailored to meet the needs of governments. The newsletters have addressed a variety of subjects and are intended to be timely in their subject matter. The newsletters are authored by Mauldin & Jenkins partners and managers, and are not purchased from an outside agency. The newsletters are produced and delivered periodically, and are intended to keep you informed of current developments in the government finance environment.

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Lauren Payne at LPayne@mjcpa.com (send corresponding copy to medwards@mjcpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

CLOSING

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures. If you have any questions regarding any comments, suggestions or recommendations set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

This information is intended solely for the use of the Department's management, and others within the Department's organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Department of Community Health and look forward to serving the Department in the future. Thank you.