Annual Audit Agenda

Summary of Information & Communications:
Annual Financial & Compliance Audit
As Of and For the Year Ended June 30, 2012

Georgia Department of Community Health

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

Metcalf Davis
Certified Public Accountants

Mauldin & Jenkins
Certified Public Accountants, LLC

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 2012.

To provide a ***summary overview of the financial statements and footnotes*** of fiscal year 2012.

To address certain ***required communications*** related to the fiscal year 2012 engagement.

To provide summarizations of ***findings and management letter comments*** related to the fiscal year 2012 engagement.

ENGAGEMENT TEAM

Metcalf Davis / Mauldin & Jenkins:

- Large regional joint venture audit organization serving the Southeastern United States.

- Multiple offices located in:

    - **Georgia:**
        - Atlanta
        - Macon
        - Albany
    - **Alabama:**
        - Birmingham
    - **Florida:**
        - Bradenton

- Serve more governmental entities in the Southeast USA than any other certified public accounting firm requiring over 65,000 hours of service on an annual basis. Provider of over 300,000 hours of service to all such clients on an annual basis.

- Most recent auditor of approximately 200 total governmental entities, and also serves another 250 not-for-profit entities. The solid majority of these governmental and not-for-profit entities receive substantial federal funding.

- Firms are the auditor of a very large and substantial part of the State of Georgia including approximately 25% of the State's general fund, and the solid majority of the State of Georgia's component units, including the audit of the State of Georgia's Department of Audits and Accounts.

- Auditors of entities with assets as much as $5 billion.

ENGAGEMENT TEAM

Engagement Team Leaders on the Audit Engagement Include:

- **Miller Edwards**, Engagement Partner - 27 years experience serving governments with 13 years experience auditing the Department of Community Health (the "Department").

- **Greg Davis**, Quality Assurance Partner - 37 years experience serving governments with 13 years experience auditing the Department.

- **Matt Hill**, Manager (Compliance = Single Audit) - 14 years experience serving governments with 13 years experience auditing the Department.

- **Donarene Steele**, Manager (Financial Audit) - 21 years experience serving governments with 8 years experience auditing the Department.

- **Clayton Knox**, Manager (Financial Audit) - 11 years experience serving governments with 8 years experience auditing the Department.

- **Marci Thomas**, Quality Assurance Partner (Compliance and Financial Audits) - 26 years experience serving governments with 3 year experience auditing the Department.

- **Joel Black**, Quality Assurance Partner - 19 years experience serving governments with 2 year experience auditing the Department.

- **Meredith Lipson**, Quality Assurance Partner (Compliance) - 23 years experience serving governments with 12 years experience auditing 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:

- **May 2, 2012** Audit engagement letter executed by Commissioner.
- **May 6, 2012** Single Audit planning commenced on Medicaid and the Children's Health Insurance Plan (CHIP) programs.
- **May 9, 2012** 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. Bi-weekly audit status meetings were planned going forward.
- **June 7, 2012** Received draft SEFA which prompted an additional major program audit – Money Follows the Person (MFP) program.
- **September 21, 2012** Management provided adjusted general ledgers and draft financial statements for the enterprise and fiduciary funds. Weekly audit status meetings commenced.
- **October 10, 2012** Management provided adjusted general ledgers and draft financial statements for the governmental funds (subsequent revisions by management on several occasions through November 27, 2012).
- **October 16, 2012** Management provided a final SEFA.
- **October 17, 2012** Management provided the financial statements notes.
- **October 26, 2012** Met with the Commissioner to share the status of the annual audits, and addressed questions and thoughts provided.
- **October 31, 2012** Received from management a reissued actuarial report for the incurred-but-not-reported (IBNR) liability for the Medicaid program.

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

Annual Audit Agenda

June 30, 2012

- **November 8, 2012** Met with Audit Committee to discuss the status of the respective audits, and future key dates were addressed.
- **November 9, 2012** Received communication from Department management that the audit process would be delayed due to certain budget matters being addressed by the Department, the State Accounting Office and the Department of Audits and Accounts.
- **November 9, 2012** Date for oral affirmations to the State Accounting Office relative to Department's ending balances. This date was not met due to the IBNR reissuance of the Department's actuarial report and due to the budget deficit matter noted above.
- **November 14, 2012** Department officials provided summation of prospective plan to amend, adjust and record certain activities relative to June 30, 2012 budgeted amounts.
- **November 14, 2012** We provided oral affirmations to the State Accounting Office representative at the weekly status meeting. Such affirmations were qualified; however, subject to the budget matter being addressed by the Department. This affirmation was delayed for a few days from the original plan of November 9, 2012 due to the reissued actuarial report and the need for our actuaries to revisit the IBNR estimate with updated information.
- **November 19, 2012** Original date for final audit reviews delayed due to the budget matter noted above.
- **November 27, 2012** Department of Audits and Accounts' officials and Department officials provided final budget information for audit and inclusion in the Department's audited financial statements as of and for the year ended June 30, 2012.
- **November 28, 2012** We concluded our financial and compliance audits based on information and final finding responses provided by Department management. Accordingly, all of our reports (deliverables) are dated this date which was our last day of fieldwork as well as the completion of our extensive quality assurance and review process.
- **November 30, 2012** Hand-delivery of the all the respective audit reports, etc.

INDEPENDENT AUDITORS' REPORT

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

A. Scope: "**We have audited** the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Georgia's Department of Community Health (hereinafter referred to as the "Department of Community Health") as of and for the year ended June 30, 2012, which collectively comprise the Department of Community Health's basic financial statements as listed in the table of contents."

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

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

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

E. Clean Opinion: "**In our opinion**, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department of Community Health, as of June 30, 2012, 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

Effective July 1, 2011, under House Bill 214, the Department of Community Health (hereinafter referred to as the "Department") was reorganized and the public health programs were removed. This reorganization created a new, stand-alone state agency, the Georgia Department of Public Health.

As of June 30, 2012, reserves associated with Division of Public Health in conjunction with the aforementioned reorganization, results in a restatement of governmental fund balance/governmental activities net assets in the amount of $2,602,031.

Net capital assets and beginning net assets for governmental activities have been restated by $28,213,533, to include amounts representing net capital assets transferred to the Georgia Department of Public Health. Accrued compensated absences and beginning net assets for governmental activities have been restated by $4,731,890 to exclude amounts representing available, unused compensated absences of employees of the former Division of Public Health.

Statement of Net Assets (Page 4) – This statement is similar to a balance sheet, and presents the governmental and business-type activities of the Department as of June 30, 2012. 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, 2012 include:

- Cash and cash equivalents amount to approximately $79 million as of June 30, 2012 as compared to $91 million as of June 30, 2011. Consequently, cash and cash equivalents decreased by approximately $12 million during 2012. Further, over a four (4) year period, cash and cash equivalents have decreased by approximately $612 million since June 30, 2008. Most of the cash reduction was in the SHBP.

- Total receivables amount to approximately $1.519 billion as compared to $922 million as of the close of the prior fiscal year. This results in an increase in receivables during 2012 in the approximate amount of $596 million.

- Total assets amount to approximately $1.600 billion versus the prior year approximation of $1.040 billion. Therefore, total assets have increased by approximately $560 million.

- Liabilities include the usual items such as accounts payable, accrued liabilities and benefits payable. Accounts payable and other accruals amount to approximately $920 million as compared to $289 million as of the close of the prior fiscal year. This results in an increase in payables during 2012 in the approximate amount of $631 million. Additionally, benefits payable approximated $1.175 billion as of June 30, 2012 as compared to $910 million as of June 30, 2011. The benefits payable consists primarily of actuarially calculated amounts for the respective incurred-but-not-reported (IBNR) liabilities for the payment of claims.

- Total liabilities approximated $2.270 billion as of June 30, 2012 as compared to approximately $1.390 billion as of June 30, 2011.

- In summary and during 2012:

    - Assets increased by approximately $560 million.

    - Liabilities increased by approximately $880 million.

    - Net Assets ended in a deficit of approximately $670 million as compared to the prior year deficit of approximately $383 million.

- Governmental activities represented a deficit of approximately $398 million while the Business-Type Activities (SHBP) represented a deficit of approximately $272 million.

- Total Net Assets decreased across activities by approximately $287 million.

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

Significant elements to consider for the year ended June 30, 2012 include:

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

- **Revenues.** Total revenues (program and general revenues) amounted to approximately $12.095 billion as compared to $11.953 billion in the prior year. This represents an increase of approximately $142 million or 1.2%. A further breakdown and comparison is as follows:

	FY 2012	FY 2011	Change
Charges for Services	$ 2,402,000,000	$ 2,406,000,000	(.2%)
Operating Grants	6,390,000,000	6,484,000,000	(1.4%)
Capital Grants	1,000,000	N/A	100%
State Appropriation	2,562,000,000	2,233,000,000	14.7%
Other General Revenues	739,000,000	830,000,000	11.0%
Total Revenues	**$12,094,000,000**	**$11,953,000,000**	**1.2%**

- Program revenues (second and third columns) are those revenues received and earned that directly offset the functional expenses. Program revenues (charges for services and operating grants) amounted to approximately $8.8 billion as compared to $8.9 billion in the prior year. Therefore program revenues decreased by approximately $100 million during 2012.

- General revenues primarily include the State Appropriations, other revenue collections, and intergovernmental transfers, and such amounts totaled approximately $3.3 billion for the fiscal year ended 2012.

- **Expenses.** Total expenses (first column) amounted to approximately $12.382 billion as compared to $12.110 billion in the prior year. This represents an increase of approximately $272 million or 2.2%. A further breakdown and comparison is as follows:

	FY 2012	FY 2011	Change
Education	$ 41,000,000	$ 54,000,000	(24.1%)
Health & Welfare - Public	9,599,000,000	9,426,000,000	1.8%
Contribution to State	379,000,000	406,000,000	(6.2%)
Health & Welfare – State Health Benefit Plan	2,363,000,000	2,224,000,000	6.2%
Total Expenses	**$12,382,000,000**	**$12,110,000,000**	**2.2%**

- Federally funded expenses/expenditures in fiscal year 2012 amounted to approximately $6.386 billion or 52% of all of the above expenses. Fiscal year 2011 expenditures included approximately $600 million of federal funds related to programs transferred to the Department of Public Health.

- **Change in Net Assets.** In the end, the change in Net Assets represents the current fiscal year shortage of revenues versus expenses in the approximate amount of $287 million. The change in net assets (which is a net loss) continues to be a negative amount on Net

Assets for which fiscal year 2011 experienced a shortfall of approximately $157 million. Consequently, the Department has reported losses from overall operations over the past two (2) years in the approximate amount of $444 million.

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 assets and a statement of revenues, expenses and changes in net assets. These statements follow accounting standards, and use the full-accrual method of accounting. A statement of cash flows is included, and it reflects the sources and uses of cash and cash equivalents.

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

Footnotes (Pages 14 – 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 policies and 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.

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 – 45) – Governmental Accounting Standards Board (GASB) pronouncements require certain supplemental information with the basic financial statements. A summary of this information is provided below:

Schedules of Funding Progress and Employer Contributions (Page 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 (Pages 37 – 45). As required by GASB, this information attempts to share information regarding budget to actual amounts on a budget basis and then is reconciled to GAAP.

OVERVIEW OF COMPLIANCE REPORTS

As part of the annual audit process, we have performed a substantial compliance audit and Single Audit of the programs which are federally funded. For the year ended June 30, 2012, total expenditures of federal awards amounted to approximately $6.386 billion. ARRA funded expenditures amounted to approximately $71 million as compared to $586 million in the prior year. Federally funded expenditures approximated 52% of total Department expenditures.

We have issued two (2) reports which are required by *Government Auditing Standards* and they are in a separate package from the financial statements. <u>We reported seven (7) findings (material weaknesses and significant deficiencies) relative to the Department's lack of internal controls and noncompliance with general accounting and reporting processes as well as certain Federal programs' rules and regulations</u>.

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

1)	$6.042 billion	-	Medicaid Cluster
2)	$272 million	-	Children's Healthcare Insurance Program (CHIP)
3)	$20 million	-	Money Follows the Person (MFP) Rebalancing Demonstration
	$6.334 billion	-	**Total Federal Expenditures Tested Under the Provisions of the Single Audit Act of 1984**

We have also issued a management letter with further recommendations for improvement in the areas of internal control, compliance and general operations. <u>We reported fifteen (15) additional recommendations to the Department in the management letter</u>.

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, 2012, 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 generally accepted accounting principles (GAAP) and typical government organizations.

Management Judgments and Accounting Estimates

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

Financial Statement Disclosures

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

Significant Difficulties Encountered in Performing the Audit

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

We believe we received full cooperation of Department personnel, and believe we were given direct and unrestricted access to the Department's officials and the respective books and records. However, we did experience delays by management in providing certain information considered to be significant to the audit process. This information related to the incurred-but-not-reported (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 2012 audit.

Audit Adjustments

As part of the Department's post-closing exercises, the Department made 184 Hyperion adjusting journal entries to the respective general ledgers and financial statements. Included in the 184 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, 2012.

Such adjustments surrounded amounts computed and recorded relative to:

a) Allowance for doubtful accounts;

b) Incurred-but-not-reported (IBNR); and,

c) Accrued expenses associated with claims and judgments.

See various 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 Georgia Department of Audits and Accounts (DOAA) for internal auditing functions throughout the year as well as the performance of an attestation engagement relative to the Department's Budget Comparison Reports;
- 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, 2012;
- 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; and
- During the planning phase of the Single Audit, it was determined by representatives of the Department, the State Accounting Office and the Department of Audits and Accounts that certain prior year compliance audit findings associated with public health grants would be addressed and reported on by the Department of Audits and Accounts as part of their statewide Single Audit which would include grants transitioned and administered during fiscal year 2012 by the Georgia Department of Public Health.

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, 2012 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, 2012, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as material weaknesses and significant deficiencies in our supplemental reports on internal controls and compliance. Additionally, we noted certain items management should consider as part of its decision making process. Our recommendations (also commonly referred to as management points) are presented in the following paragraphs. Further, during our audit of the financial statements as of and for the year ended June 30, 2012, we noted other matters which we wish to communicate to you in an effort to keep the Department abreast of accounting matters that could present challenges in financial reporting in future periods. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Material Weakness

1. **Budgetary Control**

   As communicated in Note 1 of the Department's financial statements, the Department does not have the authority to determine the amount of funding it will receive from the State of Georgia (the "State") for any given fiscal year. Such authority is vested with the General Assembly of Georgia. The Department also does not have the authority to retain unexpended State appropriations (surplus) for any given fiscal year.

   The Department is responsible for adhering to the Appropriations Acts, as amended, (Final Budget) which prohibits an agency from overspending their authorized budgeted amounts at the legal level of budgetary control (funding source within a program). As applied at the

Department, this means that expenditures at the legal level of control are not allowed to result in specific programs reporting expenditures exceeding funds available.

Further, the Department is responsible for adhering to Article VII, Section IV Paragraph VIII of the Constitution of the State of Georgia which provides, in part, "… the credit of the State shall not be pledged or loaned to any individual, company, corporation or association." As applied at the Department, this means that expenditures are not allowed to result in reporting expenditures exceeding funds available.

Finally, each budget unit subject or subjecting to the allotment process is required to limit the total of its expenditures and contractual obligations of State general funds to the reduced amount in appropriations it then withdraws by warrant pursuant to the reduced allotment. In the obligation and expenditure of federal funds, a budget unit may not expend or obligate more in federal funds than it has available for obligation by the appropriation and grant of relevant federal funds (with the addition of excess, changed or unanticipated federal funds also available to it). In the obligation and expenditure of other funds, a budget unit may not expend or obligate more than it has on hand for the purpose of the expenditure or encumbrance.

The accounting records for each appropriated budget unit of the State (as well as the Department) should be maintained in such a manner to allow for budgetary reporting to be accurately prepared and supported.

During our audit, we noted the Department of Community Health reported expenditures which exceeded authorized budgeted amounts and, or funds available which oftentimes resulted in reporting deficit fund balances in several categories of program services as well as the operations of an attached organization. The following table summarizes the condition:

	Program / Attached Agency and Fund Source	Expenditures Exceeded Authorized Budget	Expenditures Exceeded Funds Available	Deficit Ending Fund Balance
1)	Aged, Blind and Disabled Medicaid (ABD)			
	State Appropriations/State General Funds	$ 72,763,135	$ 72,763,135	$ 72,422,321
2)	Low-Income Medicaid (LIM)			
	State Funds - Prior Year Carry-Over/State General Funds Prior Year	-	-	4,558,412
	Federal Funds - Federal Funds Not Specifically Identified	2,650,014	-	-
3)	PeachCare			
	State Appropriations/State General Funds	5,220,041	5,220,041	5,213,869
	Federal Funds - State Childrens' Insurance Program	16,637,455	-	-
4)	State Health Benefit Plan (SHBP)			
	Other Funds	11,497,062	18,425,645	18,425,645
5)	Adult Essential Health Treatment Services			
	State Appropriations/State General Funds	-	-	49,637
6)	Epidemiology			
	State Appropriations/State General Funds	-	-	55,373
7)	Public Health Formula Grants to Counties			
	State Appropriations/State General Funds	-	-	122,945
8)	Georgia Composite Medical Board			
	Other Funds	-	113,097	3,026

The over-expenditure of State appropriated funds is a violation of the Appropriations Act, as amended, (Final Budget). Consequently, the Department did not fully comply with the Appropriations Act, as amended, (Final Budget) and the Constitution of the State of Georgia.

The Department failed to act in a timely manner to take all appropriate corrective actions to prevent the resulting instances of non-compliance.

The Department should implement policies and procedures to address any future budget reductions and closely monitor their expenditures within all fund sources to ensure that funds are available for these expenditures. If the situation arises where the Department realizes they may be in budgetary non-compliance, all avenues of resolution such as seeking amended appropriations, fiscal affairs, etc., should be explored as solutions, and such efforts should be performed in a timely manner.

Further, the Department should manage its budgetary activity at the legal level of control, which is fund source within a program. The Department should perform the following procedures in a timely manner:

1) Review its internal control procedures over budget operations;
2) Design procedures that would prohibit the expenditure of funds in excess of budget approval;
3) Implement those procedures to strengthen the internal controls over the budget function;
4) Monitor PeopleSoft budgetary reports throughout the fiscal year to ensure that required adjusting journal entries are made before the year-end closing; and,
5) Review to ensure appropriate accounting and reporting of encumbrances has been achieved.

Significant Deficiencies

2. Verification and Documentation of Eligibility (Substantial Repeat of Prior Year Finding)

The Department is responsible for administering the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through the Centers for Medicare and Medicaid (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 Division of Family and Children Services (DFCS) to provide enrollment and monitoring services for Medicaid members. During fieldwork we noted three (3) recipients' files in a sample of sixty (60) Medicaid recipients whose eligibility was not properly documented. Those three (3) files included the following documentation deficiencies:

1) Two (2) case files did not contain a signed application;

2) Two (2) case files did not contain acceptable documentation verifying income; and

3) One (1) case file did not contain evidence that eligibility was recertified in a timely manner.

Without adherence to the Department's policies and procedures in place to determine and document Medicaid eligibility, members in the Medicaid program may no longer be eligible to receive 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 funds used to fund the Medicaid program may be used to provide benefits for members who are not eligible for the program.

The Department does not have an adequate monitoring process in place 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 monitoring policy for Medicaid members and create more stringent controls over the eligibility process.

3. Controls Over and Compliance With Procurement

The Department is responsible for administering the following programs: the Medicaid program, the Children's Health Insurance Program (CHIP) and the Money Follows the Person (MFP) Rebalancing Demonstration. These programs are overseen by the U.S. Department of Health and Human Services through the CMS. The Department is responsible for complying with the Procurement, Suspension, and Debarment requirements applicable to these federally subsidized programs and is also responsible for establishing and maintaining effective internal controls over compliance with the aforementioned requirements.

When procuring goods and services that are federally funded, the Department is required to use the same State policies and procedures used for procurements from non-federal funds. In addition, the Department must also ensure that federally funded contracts include any clauses required by federal statutes or regulations. We noted two (2) contract files in a sample of eleven (11) did not contain required certifications for covered contracts. Those two (2) contract files did not include a signed Drug Free Workplace certification which is required documentation.

The Department did not obtain appropriate documentation from two contractors in accordance with the departmental policies and procedures in place to ensure compliance with federal guidelines and the Georgia Procurement Manual.

Federal funds may be used to fund contracts with entities that are not in compliance with federal provisions and the Georgia Procurement Manual.

The Department has policies and procedures in place to ensure that goods and services are procured and contracts are enacted in compliance with applicable federal and state regulations. The Department did not appropriately obtain required certifications for two contracts and the policies and procedures in place did not prevent or detect this oversight in a timely manner.

The Department should improve internal controls as they relate to the procurement and contracting processes to ensure that all required documents are obtained and the Department complies with all applicable federal and state regulations.

4. Controls Over and Compliance With Medicaid Administrative Expenditures

The Department is responsible for the State of Georgia's Medicaid program. Management is responsible for establishing and maintaining effective internal controls over compliance with the allowable activities and cost principles applicable to the Medicaid program and for complying with those requirements.

The Department was unable to provide appropriate documentation to adequately support that one (1) expenditure in a sample of sixty (60) was appropriately reviewed and approved in accordance with the procedures put in place by the Department and to adequately support that the expenditure met the allowable activities and cost principles applicable to the Medicaid program.

The Department was unable to locate the voucher documentation for a Medicaid administrative expenditure. A Medicaid administrative expenditure was inadequately documented as to appropriate departmental review and approval of Medicaid expenditures and allowability for payment using federal Medicaid funds. The monetary effect is that federal funds used to fund the Medicaid program may be used for unallowable activities or costs. The Department did not appropriately file and retain supporting documentation for a Medicaid administrative expenditure.

The Department needs to appropriately maintain supporting documentation for all Medicaid program expenditures.

5. Matching of Allowable Expenditures for Children's Health Insurance Program (CHIP) (Substantial Repeat of Prior Year Finding)

The Department is responsible for administering CHIP. CHIP is overseen by the U.S. Department of Health and Human Services through the Centers for Medicare and Medicaid Services (CMS). The Department is responsible for matching federal program expenditures at the federally determined rate.

The state matching rate for the Department's CHIP expenditures is determined in accordance with the federal matching rate for such expenditures, referred to as enhanced Federal Medical Assistance Percentage (Enhanced FMAP). The Enhanced FMAP for federal fiscal year (FFY) 2012 is 76.31 percent and the Enhanced FMAP for FFY 2011 is 75.73 percent. During fieldwork, we noted two (2) instances in a sample of fifty-one (51) CHIP administrative expenditures in which incorrect federal matching rates were used. Those two (2) instances were as follows:

1) An expenditure was incorrectly matched at the FFY 2010 Enhanced FMAP (75.57%) based on the date of the expenditure.

2) An expenditure was incorrectly matched at a rate other than the Enhanced FMAP for CHIP expenditures.

The Department overpaid the state portion. The dollar variance of the overpayments is immaterial. The Department has an extensive chart of accounts to separately denote expenditure funding sources and other details. If the funding and other account information is documented incorrectly and is not corrected during the review and approval process, the expenditure could be recorded incorrectly. The Department did not match CHIP expenditures at the correct federally determined rate. The Department did not adequately monitor the matching rate applied to CHIP administrative expenditures.

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

6. Controls Over Money Follows the Person (MFP) Eligibility Determination

The Department is responsible for administering the State of Georgia's Money Follows the Person program. The Money Follows the Person program is overseen by the U.S. Department of Health and Human Services through the Centers for Medicare and Medicaid Services (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 Georgia Department of Human Services' Division of Aging Services (DAS) and the Georgia Department of Behavioral Health and Developmental Disabilities (DBHDD) to provide enrollment and monitoring services for Money Follows the Person participants. During fieldwork we noted nine (9) participant files in a sample of sixty (60) Money Follows the Person (MFP) participants whose eligibility was not properly documented in accordance with departmental procedures. Those nine (9) files included the following documentation deficiencies:

1) One (1) participant file did not contain MFP Transition screening form;

2) Four (4) participant files did not contain form DMA 6/*Level of Care*; and

3) Four (4) participant files did not contain form DMA 59/*Authorization for Nursing Facility Reimbursement*.

Without adherence to the Department's policies and procedures in place to determine and document MFP eligibility, participants in the MFP program may not be eligible to receive benefits.

An indeterminate number of participants are inadequately documented in accordance with departmental policy and procedures to demonstrate eligibility for the MFP program. The monetary effect is that federal funds used to fund the MFP program may be used to provide benefits for participants who are not eligible for the program.

The Department does not have an adequate monitoring process in place to review eligibility determinations made by the DAS and the DBHDD. In addition, the Department did not obtain from DAS and DBHDD all of the appropriate eligibility documentation for MFP participants in accordance with departmental policy and procedures.

The Department should implement an eligibility determination review process to ensure that DAS and DBHDD are appropriately determining participant MFP eligibility in accordance with federal and departmental guidelines. In addition, the Department should improve the procedures for monitoring the participant file documentation received from DAS and DBHDD to ensure that all appropriate documents are received.

7. Matching of Allowable Medicaid Benefit Expenditures

The Department is responsible for the State of Georgia's Medicaid program. The Medicaid program is overseen by the U.S. Department of Health and Human Services through the Centers for CMS. The Department is responsible for matching federal program expenditures at the federally determined rate.

The state matching rate for the Department's Medicaid Benefit expenditures is determined in accordance with the federal matching rate for such expenditures, referred to as the FMAP. The FMAP for FFY 2012 is 66.16 percent and the FMAP for FFY 2011 is 65.33 percent. During fieldwork, we noted three (3) instances in a sample of sixty (60) Medicaid administrative expenditures in which incorrect federal matching rates were used. Specifically, three (3) expenditures were using the FMAP rate for a prior year.

The Department has an extensive chart of accounts to separately denote expenditure funding sources and other details. If the funding and other account information is documented incorrectly and is not corrected during the review and approval process, the expenditure could be recorded incorrectly. The Department did not match Medicaid Benefit expenditures at the correct federally determined rate. The Department did not adequately monitor the matching rate applied to Medicaid Benefit expenditures.

The Department should improve the monitoring policy for the payment of Medicaid Benefit expenditures to ensure expenditures are matched at the proper rate.

Management Points

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

8. Encumbrances

The laws of the State of Georgia require funds appropriated for a specific fiscal year must be "expended or obligated" in that fiscal year, or "lapse" and be returned to the State of Georgia Treasury to be available for future appropriations. At the end of each June 30th fiscal year, the amount of each appropriation (except for the mandatory appropriations required by the Constitution of Georgia) remaining unexpended and not contractually obligated in writing shall lapse and cease to be available; and the State of Georgia Treasury shall not pay any unallotted appropriations and shall make the necessary adjustments in its appropriation accounts to charge off the amount of the lapsed appropriations. All appropriated funds (except for the mandatory appropriations required by the Constitution of Georgia) remaining unexpended and not contractually obligated at the expiration of the General Appropriations Act shall lapse.

Purchase orders issued and encumbered in a previous fiscal year that are paid in the following fiscal year for exactly the encumbered amount have no effect on "surplus".

Purchase orders issued and encumbered in a previous fiscal year that are paid (as final payment with purchase order closed) for an amount less than the encumbered amount will contribute the difference between original encumbrance amount and payment amount to "surplus". No journal entry or other action is required, since the "surplus" amount to be returned to the State of Georgia Treasury is already in the appropriate net asset account due to the previous fiscal year being closed using generally accepted accounting principles. As a reminder, generally accepted accounting principles do not expense encumbrances.

Purchase orders issued and encumbered in a previous fiscal year that need to be paid for an amount greater than the encumbered amount should have the excess amount charged to the current budget period. The original encumbered amount may be paid against the original budget period. The excess amount should be paid against the current budget period.

If a vendor cannot supply the item(s) ordered and the Department does not desire to reissue the purchase order to a new vendor, the purchase order can simply be cancelled. The entire purchase order amount will become surplus.

Purchase orders issued and encumbered in a previous fiscal year that are cancelled in a subsequent fiscal year may be reissued to a different vendor for similar goods and services in an amount not to exceed the original purchase order amount. The reissued purchase order must reflect the budget period of the original purchase order. If the reissued purchase order is less than the original purchase order amount, the difference will increase "surplus".

During our audit, we noted encumbrances were recorded for purchase orders on contracts which were complete or whose term had expired, yet such funds continued to be encumbered. We recommend the Department analyze all encumbrances with the close of each fiscal year, and make the appropriate adjustments resulting in the possible return of surplus to the State of Georgia Treasury.

9. Consistent Application of Encumbrances Policy

We understand the Department utilizes encumbrances to indicate the intent to purchase goods or services. Additionally, we understand the Department reports its budget activity using budgetary basis of accounting, which includes encumbrances. We also understand the Department may at its discretion allow multi-year encumbrances to lapse at year end. However, historically, the Department has not taken such actions. For the fiscal year ended June 30, 2012, the Department selected certain multi-year encumbrances to lapse at year end. Not only was the decision not applied consistently across all multi-year contracts, the action was not applied across all funding sources for each of the multi-year encumbrances allowed to lapse. Additionally, we understand the decision did not rest solely with the Department.

We recommend management consistently apply the action of allowing or not allowing multi-year encumbrances to lapse at year end across all multi-year encumbrances and across all funding sources. Additionally, we recommend the decision and necessary actions be made in a timely manner to provide the opportunity for judicious communications and completion of the Department's annual financial statements and Budget Compliance Report (BCR) by the established deadlines.

10. Federal Receivable Amounts

Prompted by the deficit budget issues facing the Department, we noted the Department recorded an amount of approximately $13,000,000 as revenue and receivable relative to fiscal year 2011 activity during the latter stages of the Department's fiscal year 2012 audit process. This amount was prospectively owed but, not formally agreed and approved by CMS.

Relative to the above situation, we offer the following observations:

1) The respective amount should have been addressed for potentially being receivable many months prior to the actual recording in November 2012;

2) Prior to recording, the respective amount should have been agreed and approved by the paying party; and,

3) Considering the cash sensitive needs of the State of Georgia as well as the Department, the request for reimbursement and the approval should have been sought many months earlier to provide for better cash management.

We recommend the Department address potential revenue sources and seek the receipt of respective cash funds from such sources in a more timely manner.

11. Incurred-But-Not-Reported (IBNR)

As noted in the fiscal year 2012 report issued by the Department's actuaries, the actual results for fiscal year 2011 were different from the original estimate that was recorded by the Department as of June 30, 2011. We understand the IBNR reported at June 30, 2011 was estimated with sound actuarial principles given the data that was made available at the time of the valuation. We further understand there is an equal probability of the IBNR estimate being overstated versus understated in any given year. However, it should be noted that oftentimes additional information outside of the existing lag triangles has the potential to impact the computed estimate and should be made available to the actuaries. Going forward, we recommend the Department develop a plan of action to determine if there are additional data or program assumptions that could be more timely provided to its actuaries to allow for a more accurate estimated IBNR liability. Further, the Department should stress the need for all interested and respective parties to better communicate any and all dynamics that may potentially affect such estimates.

12. Executive Level Review of Non-Routine Processes and Outsourced Activity (Substantial Repeat of 2011 Audit Management Point)

The Department's financial statements include a significant number of estimates which include allowances for bad debts, reserves and other accruals such as the estimate for claims incurred-but-not-reported (IBNR). 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 or incomplete information to be included in the respective general ledgers as well as the fiscal year annual financial statements. This situation resulted in post closing journal entries to the financial statements this year and in prior years.

Currently, there is no documented review process in place. 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.

A good example surrounds various situations related to the estimated IBNR liabilities. The Department employs external actuaries who assist the Department in estimating IBNR liabilities to be recorded and reported in the Department's financial statements. The Department's actuaries were required to reissue the June 30, 2012 Medicaid actuarial report due to a lack of timely review by Department management of the assumptions and data utilized to compute the Medicaid IBNR liability estimate.

As recommended in prior years, we continue to 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.

13. Internal Oversight Function (Repeat of 2011 Audit Management Point)

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 (SHBP) which would 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.

14. Financial Statement Review

The Department's management is responsible for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions consistent with management's assertions embodied in the financial statements. Thus, 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 that management had reasonably estimated the SHBP allowance for doubtful claim refunds. We further noticed that management correctly segregated cash and cash equivalents into unrestricted and restricted amounts. However, the drafted financial statements received from management did not accurately reflect those amounts.

We recommend management include additional steps in the financial statement preparation process that would compare expected amounts to the supporting detail. We also recommend management formally compare prior year reported amounts to current year reported amounts and reconcile any unexpected difference.

15. Violations of Purchasing Card Policy (Partial Repeat of 2011 Audit Management Point)

Management imposes Single Transaction Limits (STL) on Purchasing Card (P-Card) holders for a variety of reasons, including budgetary constraints and job requirements, in order to control the amount a cardholder can spend at one time. The Department has sixteen (16) employees that have been issued P-Cards. The Department's P-Card Policy prohibits a cardholder from splitting a purchase between two or more transactions on one or more cards in order to circumvent the STL.

During our test work, we noted one purchase of $2,584 which was split between two purchases in order to over ride the P-Card holders STL of $2,500. We understand the Department's procedures provide for increasing the STL with prior approval in order to accommodate a particular purchasing need. However, no prior approval to increase the STL was obtained for this transaction.

Further, we noted the Department's P-Card policy was updated as of April 27, 2012, but the revised policy does not incorporate the Department's current P-Card procedure which allows for the practice of increasing the STL with proper approval.

Finally, we noted a review conducted by the Department of Administrative Services of the Department's P-Card transactions made between July 1, 2011, and September 30, 2011 revealed instances of non compliance that included the failure to use statewide contracts without obtaining a waiver, inadequate documentation supporting purchases and the lack of timely reconciliation in Team Georgia Marketplace.

We recommend management evaluate the need for P-Cards. Mechanisms for purchasing outside the Department's normal accounts payable policies and procedures add an additional level of risk. Should management determine the use of P-Cards is both effective and efficient for such purchases, we recommend management provide training for each new card holder and periodic training for all existing card holders as well as employees that approve P-Card purchases. The training should emphasize the importance of the controls set forth in the Department's P-Card policy and stress that the Department's P-Card policies are used to protect the employee as well as the Department.

16. Employee Personnel Files

During our review of employee personnel files, we noted one (1) of the files included in our review of three (3) did not contain an employee personnel action form from the employee's termination date. We recommend the Department follow its policies and procedures which require personnel action forms be completed and properly approved when employees are terminated.

17. Documentation of Provider Eligibility (Repeat of 2011 Audit Management Point)

During our testing of provider eligibility for Medicaid, we noted that it took the Department an extended period of time to locate provider eligibility documentation. 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. We recommend the Department initiate a system to properly scan and maintain all files related to provider eligibility.

18. Reconciling Bank Statements Regularly
(Repeat of 2011 Audit Management Point)

During the audit, we noted a bank account of the Composite State Board of Medical Examiners, an attached agency of the Department, had not been reconciled to the general ledger during the fiscal year ended June 30, 2012. 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 bank accounts. However, the Department reported an unreconciled balance of $219,100 in the general ledger account at June 30, 2011 and 2012. The $219,100 balance is the net effect of four (4) amounts posted to the account during fiscal year 2011.

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.

19. Bank Account Reconciling Items
(Partial Repeat of 2011 Audit Management Point)

We noted the Department's management has made a significant improvement in the routine reconciliation of the Department's bank and investment accounts. However, at the time of our audit, we noted numerous small outstanding checks. Approximately, 745 checks were noted that had been outstanding for more than six (6) months.

Further, at the time of our audit fieldwork, we noted several other transactions which were reported as reconciling items. Because of the Department's management efforts during the fiscal year 2012, both the number and the dollar amount of these items were significantly reduced from those reconciling items noted at June 30, 2011.

Investigating and resolving outstanding checks and reconciling items is an important control procedure that helps to ensure transactions are properly reflected in the Department's accounting records and mitigates the possibility that errors or irregularities can occur and not be corrected and addressed in a timely manner. Therefore, we recommend management continue its efforts to reduce the number of outstanding checks and other items by investigating and resolving such items in a timely manner.

20. Lack of Current Service Organization Control Reports

The Department's management is responsible for implementing and maintaining effective internal controls over financial reporting whether the processing is performed at the Department or the processing is outsourced to an outside service organization. If the Department does not obtain the appropriate level of service auditor report on its key processes, it may be unaware of changes in the controls at the service organization which could cause transactions to be processed incorrectly. This could affect the amounts and disclosures in the financial statements.

Bank of America is responsible for the Department's lockbox services. During the current year, the Service Organization Control (SOC 1) report requested from Bank of America was not available. Instead, Bank of America provided the Department with a bridge/gap letter prepared by Bank of America's management asserting that controls previously documented and tested by Bank of America's service auditor for the period May 1, 2010 – October 31, 2010 were still in effect and functional.

As communicated in prior years, we continue to recommend the Department regularly obtain current SOC 1 reports from all service organizations whose services could affect the Departments' financial reporting process. Additionally, the Department should continue to review the service auditor's report and understand what user controls the service organization assumes the Department has in place and continually monitor the adherence to such user controls.

21. SHBP and Trust Fund Operations (Substantial Repeat of 2011 Audit Management Point)

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 continues to report negative net assets in the SHBP. At June 30, 2012, the Department's SHBP reflected a negative balance of $272 million which includes an additional decrease in net assets of $89 million reported during fiscal year 2012. The negative net assets are caused primarily by benefits payable of $203 million which includes $162 million of IBNR claims. In addition, the SHBP reports a $41 million liability due to other funds, primarily the Georgia State Employees Post-Employment Health Benefit Fund (State OPEB fund) and the Georgia School Employees Post-Employment Health Benefit Fund (School OPEB fund). 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 growing costs of providing healthcare to the participants. Thus, the SHBP operates on a pay-as-you-go basis.

Further, we noted the total liabilities in the State OPEB fund and the School OPEB fund are each equal to the total assets reported by the funds. Thus, both the State OPEB fund and the School OPEB fund report no net assets 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 $41 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 negative net assets of $272 million at June 30, 2012.

We understand management recognizes these shortfalls 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.

22. Controls Over Cash Receipts

During our testing of the SHBP, we noted the Eligibility Department maintains various logs of cash receipts for the SHBP. However, no reconciliation was performed between these cash receipt logs and actual deposits to the bank. We noted that all incoming checks for the SHBP Eligibility Department are tracked on a daily basis by the receptionist on a master cash receipts log and that these checks are then routed to the individual Eligibility Specialist responsible for that particular cash receipt. After each specialist updates the MEMS system for each check, the checks are deposited in the bank by one of two designated individuals.

We recommend the deposits to the bank made by each of the two designated individuals for the SHBP be reconciled to the master cash receipts log maintained by the receptionist in the Eligibility Department. We recommend that this reconciliation be performed by someone who is separate from the cash receipts function to ensure that all the receipts were deposited intact and on a timely basis. By establishing this procedure, the Department will be able to more accurately track all incoming cash and strengthen its system of internal controls over cash receipts.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2012, 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.

23. New Financial Reporting Standards

As has been the case for the past decade, the Governmental Accounting Standards Board (GASB) has issued several other new pronouncements which were effective for the 2012 fiscal year, or will be effective in future years. The following is a brief summary of the new standards:

a) **Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*** which is currently effective and attempts to incorporate into GASB's literature certain accounting and financial reporting guidance that is currently included in the AICPA's Statements on Auditing Standards. Subjects include: related party transactions; subsequent events; and going concern considerations. The Department was not significantly affected by the implementation of this statement.

b) **Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*** is currently effective, but the Department was not significantly affected by the implementation of this statement.

c) **Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*** This statement is currently effective and addresses financial reporting issues for governments who have declared bankruptcy. The Department was not significantly affected by the implementation of this statement.

d) **Statement No. 59, *Financial Instruments Omnibus*** is currently effective and deals with certain financial instruments and external investment pools. The Department was not significantly affected by the implementation of this statement.

e) **Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*** will be effective for fiscal years beginning after December 15, 2011 resulting in the Department's fiscal year ending June 30, 2013. This statement addresses arrangements where a transferor conveys to an operator the right, and related obligation, to provide public services through the use and operation of a capital asset in exchange for significant consideration. The Department should: apply certain due diligence to addressing the potential for restatements relative to the pronouncements; review various agreements previously entered into by the Department; and, determine the potential effects from adopting the requirements of this pronouncement. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented.

f) **Statement No. 61, *The Financial Reporting Entity: Omnibus (An Amendment to GASB No.'s 14 and 34)*** will be effective for fiscal years beginning after June 15, 2012 resulting in the Department's fiscal year ending June 30, 2013. This standard addresses the concept and definition of a component unit. This new statement raises the bar for an entity to be included in another primary government's financial statements. Additionally, the criteria determining whether a component unit should be blended or discretely presented has changed significantly, most notably that if it is expected that the primary government will repay substantially all of the component unit's debt, then the component unit should be blended. This statement also addresses the recognition of joint venture arrangements with other governmental units. The Department should apply certain due diligence to addressing the potential effects from adopting the requirements of this pronouncement.

g) **Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*** will be effective for fiscal years beginning after December 15, 2011 resulting in the Department's fiscal year ending June 30, 2013. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented. FASB has adopted a new codification and its original pronouncements are considered to be non-authoritative. This standard identifies those provisions in FASB Statements & Interpretations, APB Opinions, ARB's, and AICPA Accounting Interpretations issued before November 30, 1989 that are applicable to state and local governmental entities and incorporated into the GASB's literature. GASB Statement No. 20 is superseded by this statement. Matters of significance to the Department specifically addressed include:

- Capitalization of interest costs
- Statement of net asset's classifications
- Special and extraordinary items
- Comparative financial statements
- Related party activities, transactions and relationships
- Prior period adjustments and restatements
- Accounting changes and error corrections
- Contingencies
- Extinguishment of debt
- Troubled debt restructuring
- Inventory
- Leases (capital, operating, etc.)
- Sales of real estate
- Real estate projects
- Research and development arrangements
- Insurance enterprises
- Regulated operations

h) **Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** will be effective for fiscal years beginning after December 15, 2011 resulting in the Department's fiscal year ending June 30, 2013. This statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements or "equity"). This statement of net position replaces what was previously presented as the statement of net assets and does not change the title of the governmental fund balance sheet or fund balance. This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. An example of a deferred outflow of resources is a government's hedging interest rate swap agreement in which the fair value becomes negative. If the hedge is determined to be effectively offsetting the changes in fair value of the debt, the decrease in the fair value of the derivative instrument would be reported as a liability with a corresponding deferred outflow of resources to reflect the fact that this decrease is not expected to be recognized in investment income in future periods.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. An example of a deferred inflow of resources is a service concession arrangement that involves a public toll road. If the government receives an up-front payment from an operator, the revenue associated with that payment will be recognized in future years because the arrangement that generated the up-front payment relates to those periods.

Statement No. 63 also amends certain provisions of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets and to include deferred amounts in the major fund calculation with assets or liabilities, as applicable.

A further breakdown of the change in the balance sheet presentation to the new statement of net position is as follows:

Assets:		
Current:		
Cash	$	xxx
Accounts Receivable		xxx
Inventory		xxx
Prepaids		xxx
	$	xxx
Non-current:		
Fixed Assets	$	xxx
Accumulated Depreciation		xxx
	$	xxx
Total Assets	$	xxx
Deferred Outflows:		
Grants Paid in Advance of Timing Requirements	$	xxx
Total Deferred Outflows	$	xxx

Liabilities:		
Current:		
Accounts Payable	$	xxx
Accrued Expenses		xxx
Bonds Payable		xxx
Notes Payable		xxx
	$	xxx
Non-current:		
Bonds Payable	$	xxx
Notes Payable		xxx
	$	xxx
Total Liabilities	$	xxx
Deferred Inflows:		
Grants Received in Advance of Timing Requirements	$	xxx
Taxes Received in Advance		xxx
Total Deferred Outflows	$	xxx
Net Position:		
Net Investment in Capital Assets	$	xxx
Restricted		xxx
Unrestricted		xxx
Net Position	$	xxx

i) **Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (An Amendment of GASB Statement No. 53)*** is effective for government fiscal years beginning after June 15, 2011 which resulted in being effective with the close of fiscal year June 30, 2012. As of the close of June 30, 2012, this standard was not applicable to the Department due to the lack of hedging activities.

This statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. This statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Hedge accounting entails reporting fair value changes of a hedging derivative as either deferred outflows of resources or deferred inflows of resources, rather than recognizing those changes in investment income. When a hedging derivative is terminated, Statement 53 requires that hedge accounting cease and all accumulated deferred amounts be reported in investment income.

As Statement 53 was being implemented, questions had arisen regarding situations in which a government has entered into a hedging interest rate swap or a hedging commodity swap and the swap counterparty (or the swap counterparty's credit support provider) commits or experiences an act of default or a termination event under the swap agreement through no fault of the government. When a swap counterparty (or a swap counterparty's credit support provider) is replaced through an assignment or an in-substance assignment, the GASB concluded that the government's financial position remains unchanged.

j) **Statement No. 65, *Items Previously Reported as Assets and Liabilities*** will be effective for fiscal years beginning after December 15, 2012 resulting in the Department's fiscal year ending June 30, 2014. Although implementation is a year later, this standard goes along with the previously discussed Statement 63. GASB Concepts Statement No. 4, *Elements of Financial Statements*, and Statement 63 specify that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources (expense) and inflows of resources (revenue). Examples of these changes are as follows:

* Reclassifying certain assets to be deferred outflows of resources:
  - Grants paid in advance of meeting time requirements;
  - Deferred amounts from refunding of debt (debits);
  - Costs to acquire rights to future revenues; and,
  - Deferred losses from sale-leasebacks.

* Reclassifying certain liabilities to be deferred inflows of resources:
  - Grants received in advance of meeting time requirements;
  - Taxes received in advance;
  - Deferred amounts from refunding of debt (credits);
  - Proceeds from sales of future revenues;
  - Deferred gains from sale-leasebacks; and,
  - "Unavailable" revenue in governmental funds.

* Recognizing certain assets as outflows (expenses):
  - Debt issuance Costs (other than bond insurance);
  - Initial costs incurred by lessor in an operating lease;
  - Loan origination costs (by entities in the lending business); and,
  - Costs to acquire loans.

* Recognizing certain assets as inflows (revenues):
  - Loan origination fees, excluding points (by entities in the lending business);
  - Commitment fees (after exercise or expiration); and,
  - Fees received for sales of loans.

k) **Statement No. 66, *Technical Corrections – 2012*** will be effective for fiscal years beginning after December 15, 2012 resulting in the Department's fiscal year ending June 30, 2014. This pronouncement amends Statement No. 10, *Accounting and*

Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* by modifying the specific guidance on accounting for: (1) operating lease payments that vary from a straight-line basis; (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and, (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

l) **Statement No. 67, *Financial Reporting for Pension Plans*** will be effective for fiscal years beginning after June 15, 2013 resulting in the Department's fiscal year ending June 30, 2014. This pronouncement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

The changes noted above by Statement No. 67 are significant to pension plans, and we strongly encourage Department officials to review the actual pronouncement and consider the potential effects on the financial reporting of the Department.

m) **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 <u>immediate recognition of more pension expense</u> 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.

Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. 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.

24. AICPA Group Audit Standards

With the release of Statement on Auditing Standards (SASs) Nos. 122-126, the Auditing Standards Board (ASB) has substantially completed its project to redraft all of the auditing sections into the *Codification of Statements on Auditing Standards* (contained in AICPA Professional Standards). The issuance of the clarified standards reflects the ASB's established clarity drafting conventions designed to make the standards easier to read, understand, and apply. Among other improvements, generally accepted auditing standards (GAAS) now specify more clearly the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with GAAS. These standards are applicable for both the private, public, and governmental sectors.

In the particular case of the Department, the need for the primary government (in this case, the State of Georgia) and its auditor (Department of Audits and Accounts a/k/a DOAA) to obtain and maintain correspondence with the Department auditor (Metcalf-Davis/Mauldin & Jenkins a/k/a MD/MJ) has been formally heightened. However, the State Accounting Office (SAO) and the DOAA have historically had a certain amount of involvement in the annual audit process thereby mitigating the potential effect of this new audit standard.

Even though the DOAA will continue to reference and rely on the MD/MJ's audit report of the Department, going forward, the SAO and the DOAA will be required to perform additional, but limited, procedures to include the audit results of the Department into the financial report of the State of Georgia. Such procedures may extend to the management of the Department and MD/MJ for which we collectively will have to consider subsequent events and other matters that may have occurred since the release of the audit report of the Department just prior to the release of the State of Georgia's annual audit report. A great deal of this exercise will be dictated by the SAO and the DOAA.

25. Federal Government Accountability Office (GAO) Yellow Book Auditing Standards

While GASB has been issuing new financial reporting pronouncements affecting governmental units, the Government Accountability Office (GAO) has been issuing revised standards relative to the audits of state and local governments. An exposure draft was issued in August 2010 by the GAO amending and revising *Government Auditing Standards* (the Yellow Book). Finally, it has now been finalized. The more significant items addressed by the GAO in this revision of auditing standards include:

a) Actions required if an impairment to auditor independence is identified;

b) Definition of those charged with governance consistent with other AICPA audit guidelines;

c) Definition of internal control deficiencies to be consistent with other AICPA audit guidelines;

- **d)** Promoting modernization of auditing standards consistent with technologies of today;
- **e)** Added requirements for restatements of previously issued financial statements;
- **f)** Addressed standards related to 1) performance audits, and 2) internal audits; and,
- **g)** Changed and emphasized continuing education requirements of auditors in the governmental sector to obtain a minimum of 80 hours of continuing education every two (2) years. The GAO emphasized a significant component of these hours must be directly relevant to governmental auditing.

Summations of Thoughts Noted Above

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

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

Annual Audit Agenda

June 30, 2012

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. Examples of subjects addressed in the past few quarters include:

1. American Recovery & Reinvestment Act (ARRA) information and issues;
2. GASB updates (several sessions);
3. Internal Controls Over Revenue and Cash Receipting;
4. Collateralization of Deposits and Investments;
5. SPLOST Accounting, Reporting and Compliance;
6. Internal Controls Over Accounts Payable, Payroll and Cash Disbursements;
7. Capital Asset Accounting Processes and Controls;
8. Grant Accounting Processes and Controls;
9. American Recovery & Reinvestment Act (ARRA) Updates;
10. Policies and Procedures Manuals;
11. Segregation of Duties;
12. GASB No. 51 – Intangible Assets;
13. Single Audits for Auditees;
14. GASB No. 54 – Governmental Fund Balance (subject addressed twice);
15. Best Budgeting Practices, Policies and Processes;
16. Internal Revenue Service (IRS) Compliance Issues, Primarily Payroll Matters;
17. CAFR Preparation (several times including a two (2) day hands-on course).
18. GASB No. 60, Service Concession Arrangements.

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 {approximately ten (10) times per year}, 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.