



# Georgia Department of Audits and Accounts

## 2009 Annual Report

*Russell W. Hinton*

*State Auditor of Georgia*

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## *A Message from the State Auditor*

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*It is my honor to present to you and other stakeholders this Annual Report for the Department of Audits and Accounts. This report highlights the activities and accomplishments of our office during calendar year 2009. Our mission is to provide decision-makers with credible management information to promote improvements in accountability and stewardship of state and local government. Through our audit efforts, we also hope to provide the citizens of the state with assurances that their tax dollars are properly accounted for, safeguarded, and expended for programs efficiently and effectively. This report describes many of the activities of the Department of Audits and Accounts and summarizes the impact that our oversight activities have on state and local government.*



*Our audit work impacts the state's overall bond rating as well as the bond ratings of local school systems, results in dollar savings of both state and federal funds, improves the efficiency and effectiveness of state programs, strengthens the security over the state's electronic information systems, provides assurances of the financial soundness of local retirement systems, and facilitates the equitable distribution of education funds to school systems throughout the state.*

*We are proud of our accomplishments and will continue our efforts to serve the citizens of Georgia.*

*Respectfully Submitted,*

A handwritten signature in blue ink that reads "Russell W. Hinton". The signature is written in a cursive, flowing style.

*Russell W. Hinton  
State Auditor*

## About the Department

***Our Mission:***  
*to provide decision-makers with credible management information to promote improvements in accountability and stewardship in state and local government.*

### Introduction

The Department of Audits and Accounts serves the citizens of Georgia through its auditing and oversight activities of state agencies, colleges, universities, local school systems, Medicaid providers, county tax assessors, local retirement systems, county and municipal governments, and nonprofit organizations. The Department is also responsible for implementing the Transparency in Government Act (SB 300) passed during the 2008 Session of the General Assembly. Beginning January 2009, Georgia citizens now have Internet access to a substantial amount of information regarding the state's revenues and expenditures, including financial and performance audit reports.

### Our People

The Department's staff of professional and administrative personnel is committed to promoting accountability and stewardship in state and local government. The Department's 287 professional personnel include:

- 72 CPAs;
- 7 CIAs (Certified Internal Auditors);
- 14 CFEs (Certified Fraud Examiners);
- 6 CISAs (Certified Information System Auditors); and
- 69 personnel who hold other professional designations such as Certified Government Auditing Professional (CGAP), Certified Government Financial Manager (CGFM), and Certified General Real Property Appraiser. Many of our personnel hold more than one professional designation.<sup>1</sup>

Additionally, the Department has 70 professional personnel who have earned advanced degrees.

In recognition of their interest in and commitment to their profession, 15 of our employees serve on boards and committees of state and national professional organizations, including the:

- Government Accountability Office's Advisory Council on Government Auditing Standards;
- Executive Committee of the National Legislative Program Evaluation Society;

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<sup>1</sup> The numbers include personnel who have passed the required examination(s) and are awaiting official certification.

- Executive Board of the Georgia Fiscal Management Council;
- Executive, Programs, CGFM, Meetings, Community Service, and Performance and Reporting Committees of the Association of Government Accountants;
- Committee on Risk Suite Implementation of the National State Auditors Association (NSAA);
- Special Review Committee of the Government Finance Officers Association; and
- The Audit Standards and Reporting, E-Government, Peer Review, Human Resources, and Audit Standards and Reporting Committees of NSAA.

## National Recognition and Awards

As a result of our staff's dedication and commitment, the Department has an excellent reputation among its peers and has been recognized nationally for the quality of its work. The quality of the Department's work was recognized through two awards received during the year by our Performance Audit Operations Division:

- The National State Auditors Association selected the 2007 audit of *Loss Control Efforts Related to State Insurance Claims* as the recipient of its **Excellence in Accountability Award**.
- NLPES also selected the audit of *Loss Control Efforts Related to State Insurance Claims* as a recipient of its **Recognition of Impact Award**.

**National Recognition:**  
*Our Performance Audit Operations received two national awards for its audit of Loss Control Efforts Related to State Insurance Claims.*

## Departmental Activities

In calendar year 2009, the Department issued 464 audit reports, agreed-upon procedures reports, special reports, financial management letters, special examinations, and follow-up reports, including audits of the state's **Comprehensive Annual Financial Report (CAFR)** and the **Single Audit Report**. A total of 176 fiscal notes and retirement certifications were prepared by the Department in response to proposed legislation that would potentially impact agencies' revenues or expenditures and the funding of public retirement systems. The Department also analyzed 1,544 financial audit reports, actuarial reports, and financial statements submitted by county and municipal governments, by local government retirement systems, and by nonprofit organizations that contract with the state. In addition, the Department prepared the **Statewide-Equalized Adjusted Property Tax Digest**. The Digest is used to ensure that local school systems provide funding on an equal basis (as determined by the relative market value of the property in their school district), and to distribute additional funds to those systems with the lowest property tax base. The audit reports and other documents issued in 2009 include:

**Activity Data:**

*In calendar year 2009, the Department issued more than 450 audit reports, agreed-upon procedures reports, special reports, financial management reports, special examinations, and follow-up report that focused on state agencies and programs, colleges and universities, technical colleges, local school systems, and nursing homes and other Medicaid providers. The Department also prepared 176 fiscal notes and retirement certifications that addressed the potential financial effect of proposed legislation.*

- **327 Financial Statement Audits, Agreed-Upon Procedures Reports, Special Reports, and Financial Management Reports** - These reports provide the results of the Department's financial audit engagements of state agencies, colleges and universities, technical colleges, and local school systems. The audit work involving state entities enabled the Department to render an opinion on the state's Comprehensive Annual Financial Report (CAFR) and the Single Audit Report.
- **19 Performance Audits and Follow-up Reviews** - The performance audit reports (including special examinations) focus on the efficiency and effectiveness of state programs in accomplishing their objectives. Follow-up reviews are conducted approximately two years following the release of a performance audit to assess the extent to which the recommendations cited in the audit have been implemented.
- **68 Nursing Home Cost Report Audits** - These reports are used by the Department of Community Health (DCH) in setting the reimbursement rates paid those nursing homes that participate in the state's Medicaid Program. Desk reviews of 344 nursing homes' cost reports were also conducted.
- **27 Provider Claim Audits** - These reports are used by DCH to recoup overpayments made to physicians and other Medicaid providers. From the total audits issued, 18 providers were referred to the State Healthcare Fraud Control Unit for investigation and possible criminal prosecution.
- **9 Internal Audits of DCH** - These reports present the results of internal reviews requested by DCH to improve their operations.
- **I Information Systems Audit and II IT Specialist Assistance Projects** - The information systems audit focused on the extent to which the State Accounting Office and the Georgia Technology Authority have implemented the internal controls necessary to safeguard the State of Georgia's PeopleSoft Financials and Human Capital Management systems. The PeopleSoft Financials process transactions for 70 plus Georgia agencies including technical colleges, while PeopleSoft HCM supports approximately 115 state entities. The II IT Specialist Assistance projects addressed IT-related operations and controls associated with ten distinct Georgia entities. These projects were conducted to assist internal Department staff.
- **2 Fraud Investigations** - These reports document the results of the Department's forensic audit activities involving cases of suspected fraud.
- **176 Fiscal Notes and Retirement Certifications** - As required by state law, the Department prepared 176 fiscal notes and retirement certifications for the 2009 Session of the General Assembly that addressed the anticipated effect of proposed legislation that could

impact agencies' revenues or expenditures and funding of public retirement systems.

In calendar year 2009, the Department also analyzed 754 financial audit reports and agreed-upon procedures reports submitted by local governments. In addition to reviewing the reports, Department personnel are responsible for ensuring that the local governments have prepared corrective action plans to address the findings and recommendations cited in the reports. The Department also analyzed 790 financial audit reports/financial statements submitted by nonprofit organizations that contract with state agencies.

The preparation of the Statewide-Equalized Adjusted Property Tax Digest requires Department personnel to determine the ratio of the assessed value of property to its sales price using a representative number of valid sales in every county. In 2009, this required Department personnel to review more than 400,000 validated property sales and conduct almost 8,000 appraisals. The sum for all counties is the Statewide-Equalized Adjusted Property Tax Digest.

## Impact on State and Local Government

One of our goals is to have a positive, indelible impact on state and local government. We want to provide the citizens of Georgia with assurances that their tax dollars are safeguarded from fraud, waste, and abuse and that state programs are using their tax dollars efficiently and effectively. The results of the audit work that we conducted in calendar year 2009 are highlighted below.

- Our financial audit work for the state's Single Audit Report resulted in 121 audit findings and \$1.2 million in questioned costs. Extensive audit work was required at the Department of Human Resources to determine their surplus; resulting in \$59 million in audit adjustments being made. Other financial audit work conducted during the year identified an additional \$6.8 million in lapsed agency funds that were returned to the state treasury at year end. Our financial audit of the CAFR resulted in audit adjustments/reclassifications of approximately \$45 million.
- Our audit work at the state's colleges, universities, and technical colleges identified questioned costs of more than \$1.7 million. It should also be noted that our audit work at the technical colleges served to facilitate the accreditation/reaccreditation of 13 colleges and the mergers of six colleges.
- Our financial audits of local school systems resulted in 54 findings involving 15 major federal programs with questioned costs totaling more than \$1.5 million.
- Our performance audits released in 2009 included a total of 50 recommendations for improving the efficiency and effectiveness of state

### **Review of Property Sales:**

*In calendar year 2009, the Department reviewed 400,000 property sales and conducted 8,000 appraisals to ensure property values are being assessed equitably within classes of property, between classes of property, and between counties.*

**Positive Impact:**

*The audit reports released in calendar year 2009 identified questioned costs of approximately \$4.4 million in federal funds; identified \$6.8 million in agency funds that were returned (lapsed) to the state treasury; included 97 recommendations for improving state programs' efficiency and effectiveness and their controls over their electronic information systems; recommended recouping \$6.1 million paid to Medicaid providers; and identified potential savings of \$8.3 million in the Medicaid reimbursement rates paid to nursing homes.*

programs. Based on historical data, it is anticipated that about 90% of these recommendations will be implemented either fully or partially. The performance audits released during the year included recommendations for: improving the oversight of charter schools in the areas of compliance with charter terms, academic performance, and financial health; improving inspection procedures at the State Board of Workers' Compensation to more effectively identify uninsured businesses and businesses that commit workers' compensation fraud; and improving the methods used by the Department of Human Resources to identify the most critical needs of children and adolescents who are served by the Child and Adolescent Mental Health Program.

- During the 2009 Session of the General Assembly, legislation was enacted to address problems specifically noted in two of our performance audits.
- Our provider claims audits resulted in the recommended recouping of **\$6.1 million** in Medicaid funds.
- Our nursing home cost report audits identified potential savings of **\$8.3 million** in the Medicaid reimbursement rates paid to nursing homes.
- The efforts of our information systems auditors resulted in **47** recommendations for improvements. The recommendations included the need for: improved password and user account controls to prevent unauthorized users from potentially gaining access and control of critical services, servers, and databases; improved access controls to ensure that only legitimate users have access to information for which they are authorized and need to perform their official duties in order to prevent unauthorized or inadvertent disclosure, modification, deletion, or damage of State of Georgia information assets and systems; and improved system and data integrity controls and techniques to ensure that decision makers may rely upon the integrity of critical financial and operational data. The audit report noted that the agencies concurred with the recommendations and would take (or had already initiated) corrective action.
- Our investigation at the Georgia Department of Transportation found evidence of possible financial statement fraud and a change in business processes that does not appear to be authorized by the Georgia Constitution.
- Our investigation at the Governor's Council on Developmental Disabilities uncovered potentially fraudulent transactions of \$61,153, which was primarily comprised of fictitious vendor payments in the amount of \$57,766 and fictitious invoices in the amount of \$3,270.
- The Statewide-Equalized Adjusted Property Tax Digest prepared by Department personnel was used by the Department of Education to

distribute about \$1.7 billion in QBE (Quality Basic Education) funds among the state's school systems. The Digest was also used by the Department of Revenue to determine the taxable value for conservation use programs and for statistical analyses.

## Our Organizational Responsibilities and Statutory Authority

The Department of Audits and Accounts is composed of nine divisions and one office.

- The **State Government Division (56 positions)** serves as the principal auditor of the CAFR and the Single Audit Report. Division personnel perform a combination of financial statement audits, agreed-upon procedures engagements, and management reviews of state agencies, pension funds, and other organizational units. Division personnel also conduct special financial audits and reviews as requested by the Governor, the House of Representatives, or the Senate. The Division's forensic audit unit conducts investigations of suspected fraud cases. (Statutory Authority: O.C.G.A. 50-6-3 specifies that the Department "shall audit all state institutions.")
- The **Education Audit Division (106 positions)** conducts annual financial audits of county and municipal school systems. Division personnel also conduct audit work at the state's colleges and universities sufficient to render an opinion on the higher education component of the CAFR and the Single Audit Report. The Division performs a combination of financial statement audits, agreed-upon procedures engagements, and financial management reviews at the state's colleges, universities and technical colleges. (Statutory Authority: O.C.G.A. 50-6-6 specifies that it is "the duty of the Department ... to audit ... the books and accounts of the county superintendents of schools and treasurers of local school systems, of municipal systems, of the several units of the University System...")
- The **Performance Audit Operations Division (31 positions)** conducts performance audits and special examinations of state programs. The audits may be internally generated or may be conducted in response to requests received from the Governor or the House and Senate Appropriations Committees. The Division also conducts follow-up reviews to determine what actions have been taken in response to previous reports. (Statutory Authority: O.C.G.A. 50-6-24 authorizes the State Auditor to review the management of each department; O.C.G.A. 50-6-4 authorizes the Governor and the House and Senate Appropriations Committees to "require the State Auditor to make a special examination into and audit of all books, records...and management of any department...")

**Organization:**

*The Department is composed of 9 divisions:*

- *State Government*
- *Education Audit*
- *Performance Audit Operations*
- *Healthcare Audits*
- *Information Systems Audit and Assurance Services*
- *Nonprofit and Local Government Audits*
- *Sales Ratio*
- *Information Technology*
- *Administrative*

*And 1 office –*

- *Quality Assurance*

- The **Healthcare Audits Division (84 positions)** conducts cost report audits of nursing homes for use by the Department of Community Health (DCH) in setting the nursing home reimbursement rates. The Division also conducts audits of provider claims to determine if they were appropriate, and performs internal program audits for DCH. Ten Division personnel are assigned to the State Health Care Fraud Control Unit, a cooperative effort involving the Department of Audits, the Department of Law, and the Georgia Bureau of Investigation (GBI). The Unit, which is a budget unit of GBI, is responsible for the investigation and prosecution of fraudulent activities by health care providers enrolled in the state's Medicaid Program. (The Division's work is performed through a contract with DCH; the Fraud Control Unit was established by Executive Order in response to federal requirements.)
- The **Information Systems Audit and Assurance Services Division (10 Positions)** assesses IT risk and the effectiveness of the information technology control environment for the state. Division personnel evaluate IT general and application controls to support financial auditors in planning and determining the nature, timing and extent of audit procedures to be performed in support of the CAFR, as well as providing timely recommendations to management for needed improvements in IT-related controls. Division personnel also evaluate IT general and application controls for information systems supporting significant business processes related to performance audit engagements. These evaluations may be used to assess controls in place for the confidentiality, integrity, and availability of data and ensures the accuracy and validity of data supporting core business processes. Other activities include performing risk-based information systems reviews to evaluate IT governance related to IT processes and IT strategic alignment, and performing vulnerability assessments for significant state businesses to determine weaknesses within the IT environment. (Statutory Authority: O.C.G.A. 50-6-4 authorizes the State Auditor to "conduct... vulnerability assessments or reviews" of electronic financial information systems, computing networks, Internet websites, etc.)
- The **Nonprofit and Local Government Audits Division (8 positions)** reviews financial audit reports and agreed-upon procedures reports of county and municipal governments for compliance with generally accepted accounting principles (GAAP) and ensures that they have prepared corrective action plans to address the reports' findings and recommendations. The Division reviews the actuarial investigations/reports submitted by local retirement systems and prepares a biennial report on the financial soundness of the systems. Nonprofit organizations that contract with the state are required to submit financial audit reports/financial statements for review. (Statutory Authority: O.C.G.A. 36-81-7 requires local governments to submit audits/agreed-upon

procedures reports; O.C.G.A. 47-1-3 requires local retirement systems to file actuarial reports and O.C.G.A. 47-1-4 requires the State Auditor to prepare a biennial report on the condition of the systems; O.C.G.A. 50-20-3 requires nonprofit organizations doing business with the state to submit annual financial audit reports/financial statements.)

- The **Sales Ratio Division (20 positions)** prepares the Statewide-Equalized Adjusted Property Tax Digest. Division personnel determine the ratio of assessed value of property to the sales price to ensure that the property is being assessed equitably within classes of property, between classes of property, and between counties. (Statutory Authority: O.C.G.A. 48-5-274 requires the State Auditor to prepare “...in each year, an equalized adjusted property tax digest for each county in the state and for the state as a whole...”)
- The **Information Technology Division (16 positions)** is responsible for the Department’s computer network as well as the hardware and software used by the Department. The Division provides technical assistance to Department personnel, develops software applications, and provides public access to the information required by the Transparency in Government Act.
- The **Administrative Division (13 positions)** prepares the Department’s annual budget and financial statements, makes the Department’s purchases, maintains the Department’s personnel records, and prepares and updates the Department’s general policies and procedures.
- The **Office of Quality Assurance (3 positions)** performs independent reviews of the audit work conducted by the Department’s operating divisions to ensure that the work is conducted in compliance with applicable government auditing standards.

The Department also prepares fiscal notes estimating the effect of any proposed legislation that may impact the revenues or expenditures of any state agency. For legislation affecting state retirement systems, the Department is required to have an actuarial investigation conducted, unless the Department certifies that the proposed legislation has no fiscal impact. (Statutory Authority: O.C.G.A. 28-5-42 requires the General Assembly to have the State Auditor prepare a fiscal note on any bill that will have a significant impact on the anticipated revenues or expenditures of any state agency; O.C.G.A. 47-20-34 requires the General Assembly to have an actuarial investigation conducted for any retirement bill that is reported out of committee, unless the State Auditor certifies that the bill will have no fiscal impact; O.C.G.A. 47-20-36 specifies that the State Auditor is responsible for having the actuarial investigation conducted, if required).

For additional copies of the 2009 Annual Report, please call 404-656-2180.

This report may also be obtained from our Department website at:  
<http://www.audits.state.ga.us>