

Georgia Department of Audits and
Accounts
2011 Annual Report



Russell W. Hinton
State Auditor of Georgia

A Message from the State Auditor

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 2011. 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 maintaining the “Open Georgia” website. This website provides Georgia’s citizens Internet access to a substantial amount of information regarding the state’s revenues and expenditures, including financial and performance audit reports. This website also provides expenditure information relating to local boards of education.

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 270 professional personnel include:

- 80 CPAs;
- 8 CIAs (Certified Internal Auditors);
- 25 CFEs (Certified Fraud Examiners);
- 11 CISAs (Certified Information System Auditors); and
- 79 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.¹

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

In recognition of their interest in and commitment to their profession, 19 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;

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

- Executive, CGFM, Meetings, Newsletter, and Webmaster Committees of the Association of Government Accountants;
- Accounting, Reporting, and Auditing Committee, the Financial Management and Intergovernmental Affairs Committee, and the Government Accounting Standards and Management Oversight Committees of the NASACT;
- Special Review Committee of the Government Finance Officers Association; and
- The E-Government, Peer Review, Human Resources, Auditor Training, Performance Audit, and Nominating 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. In September 2011, a review team from the National State Auditor's Association (NSAA) found that because the Department's system of quality control was suitably designed and complied with, our audit work was in conformance with government auditing standards. This clean bill of health is the highest mark a state audit organization can receive.

In addition to the review by NSAA, the quality of the Department's work was also recognized through several awards received during the year. Our Performance Audit Operations was the recipient of three awards from the National Legislative Program Evaluation Society (NLPES):

- The NLPES selected our Performance Audit Operations Division as the office that demonstrated a positive impact on its state, produced a notable body of work over the previous four years, and furthered the field of legislation evaluation;
- The Performance Audit Operations Division was awarded the Excellence in Research Methods Award, which recognizes the breadth, depth, and scope of fieldwork. The report on Georgia's drug courts was recognized for methodologies that allowed for estimates of cost savings associated with drug court use, comparisons of recidivism rates for drug and traditional courts, and identification of defendants in traditional courts that could have been served by a drug court.
- The Recognition of Impact Award was given to the Performance Audit Operations Division in recognition of the specialty license plate report's use during the 2010 legislative session. The report was used in formulating legislative changes to license plate charges and associated revenue distribution.

National Recognition:
Our Performance Audit Operations Division received all three awards presented by the National Legislative Program Evaluation Society.

Departmental Activities

In calendar year 2011, the Department issued over 490 audit reports, agreed-upon procedures reports, special reports, financial management reports, budgetary compliance reports, 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 116 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 1,416 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 2011 include:

Activity Data:

In calendar year 2011, the Department issued more than 490 audit reports, agreed-upon procedures reports, special reports, financial management reports, special examinations, and follow-up reports 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 116 fiscal notes and retirement certifications that addressed the potential financial effect of proposed legislation.

- 379 Financial Statement Audits, Agreed-Upon Procedures Reports, Special Reports, Financial Management Reports, and Budgetary Compliance 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.
- 25 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.
- 72 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 347 nursing homes' cost reports were also conducted. Furthermore, the division responded to 86 appeals of fair rental value calculations. These calculations were used to establish payment rates for nursing home providers for the property component under the new fair rental value methodology implemented on July 1, 2009.

- 17 Provider Claim Audits - These reports are used by DCH to recoup overpayments made to physicians and other Medicaid providers.
- 23 Information Systems Audits - These information systems audits evaluate the effectiveness of IT general controls for 105 significant applications at various state agencies and universities. These audits focus on applications that support the initiation, authorization, recording, processing, and reporting of significant classes of transactions and material account balances reported within the state's Comprehensive Annual Financial Report (CAFR). The audits assess the effectiveness of management's primary controls over applications and their supporting infrastructure in order to gain reasonable assurance over data integrity.
- 1 Fraud Investigation - This report documents the results of the Department's forensic audit activities involving cases of suspected fraud.
- 116 Fiscal Notes and Retirement Certifications - As required by state law, the Department prepared 116 fiscal notes and retirement certifications for the 2011 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 2011, the Department also analyzed 750 financial audit reports and agreed-upon procedures reports submitted by local governments and 666 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 2011, this required Department personnel to review more than 400,000 validated property sales and conduct approximately 3,650 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 maximize the value of the State Auditor's Office by being a model state agency and by providing both necessary and valuable services to stakeholders and the public. 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 2011 are highlighted below.

- Our financial audit work for the state's Single Audit Report resulted in 144 audit findings and over \$155,000 in questioned costs. Other financial audit work conducted during the year identified an additional

Review of Property Sales:

In calendar year 2011, the Department reviewed 400,000 property sales and conducted 3,650 appraisals to ensure property values are being assessed equitably within classes of property, between classes of property, and between counties.

\$4.98 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 \$988 million.

Positive Impact:

The audit reports released in calendar year 2011 identified questioned costs of more than \$4.3 million in federal funds; identified almost \$5 million in agency funds that were returned (lapsed) to the state treasury; included over 1,000 recommendations for improving state programs' efficiency and effectiveness and their controls over their electronic information systems; recommended recouping \$1.5 million paid to Medicaid providers; and identified potential savings of \$13.2 million in the Medicaid reimbursement rates paid to nursing homes.

- Our audit work at the state's colleges, universities, and technical colleges resulted in 31 findings and \$1.4 million in projected questioned costs. This audit work also resulted in the identification of 55 recommendations for improvements to control processes. It should also be noted that our audit work served to facilitate the accreditation/reaccreditation and degree program additions for fifteen colleges/universities and ten technical colleges.
- Our financial audits of local school systems resulted in 208 findings including 51 Federal award findings and approximately \$2.8 million in questioned costs. These audits also resulted in the identification of 512 recommendations for improvements to control processes and noncompliance with various laws and regulations.
- Our performance audits released in 2011 included a total of approximately 100 recommendations for improving the efficiency and effectiveness of state programs. Based on historical data, it is anticipated that about 85% of these recommendations will be implemented either fully or partially. The performance audits released during the year included: recommendations for better aligning troopers and resources with the Georgia State Patrol's core mission; analysis of sales, proceeds, and pay within the Georgia Lottery Corporation; recommendations for improving indigent determinations and defense cost recovery; recommendations for decreasing costs of security on Capitol Hill; analysis of income demographics of HOPE recipients; and analysis of income demographics of Pre-K participants.
- During the 2011 Session of the General Assembly, our analysis of Pre-K income demographics was used to make informed decisions about changing the number of available slots for Pre-K to address funding issues. In addition, the analysis of HOPE income demographics was used to make informed decisions regarding changes to eligibility and funding. The General Assembly also used the report on the Georgia Lottery Corporation to make changes to compensation. Through the appropriations process, funding for the Capitol Police was also changed based on recommendations from our report. During the 2011 Session of the General Assembly, legislators met with agency staff to address recommendations in the Sex Offender Registry report and HB 290 was passed to expand the provisions protecting against fraudulent use of state purchasing cards to include authorities. Finally, the Governor named a Special Council on Criminal Justice Reform to address issues similar to those raised in our Adult Felony Drug Courts report.

- Our provider claims audits resulted in the recommended recoupment of \$1.5 million in Medicaid funds.
- Our nursing home cost report audits identified potential savings of \$15.2 million in the Medicaid reimbursement rates paid to nursing homes.
- Our information systems audits resulted in the identification of 135 recommendations for improvements over data integrity controls. These improvements help increase the reliability of automated controls supporting the integrity of critical financial data that is used by key decision makers.
- Our fraud investigation of the Adult Subsidized Employment Program administered through the Department of Human Services' Division of Family and Children Services found that possible fraudulent activities, waste and abuse in the low-income jobs program likely resulted from mismanagement and weak controls at the central office.
- 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.

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 (104 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...")
- The **Healthcare Audits Division (44 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. (The Division's work is performed through a contract with DCH.)
- The **Technology Risk and Assurance 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 determines 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.)

Organization:

The Department is composed of 9 divisions:

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

And 1 office –

- **Quality Assurance**

- 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 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 providing a secure infrastructure as well as the hardware and software used by the Department. The Division provides technical assistance to Department personnel, develops web-based applications to streamline processes, and provides public access to the information required by the Transparency in Government Act.
- The **Administrative Division (12 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).

During the 2008 session of the General Assembly, the Transparency In Government Act was passed into law. This Act requires our Department to create and maintain a searchable data base that provides Georgia's citizens Internet access to key documents about how the State of Georgia spends tax dollars and other revenues to provide services to Georgians. The information that is maintained on the website, known as "Open Georgia," comes directly from various state agencies and local school boards and is updated annually.

For additional copies of the 2011 Annual Report, please call 404-656-2180.

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