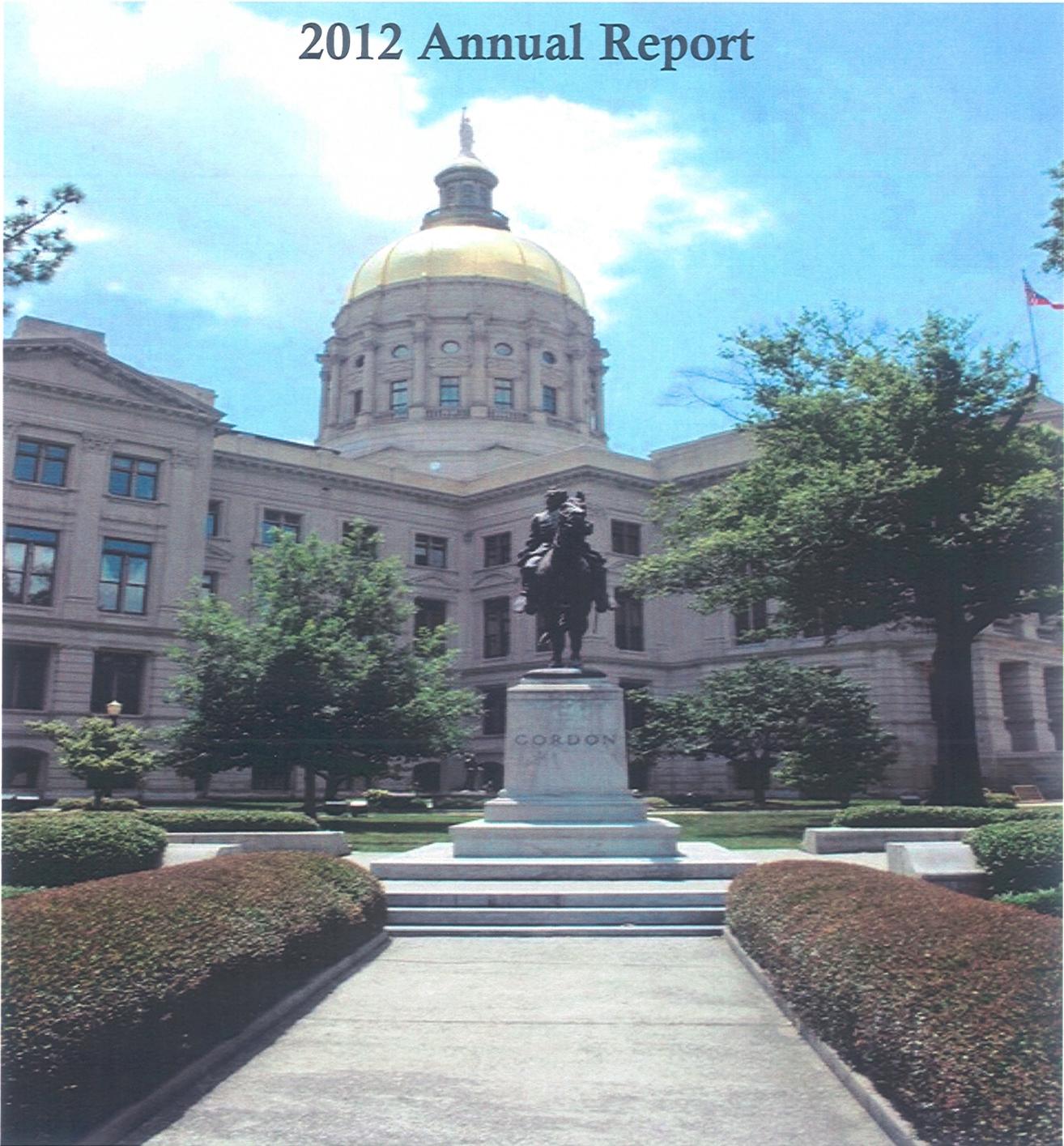


Georgia Department of

DOAA
Audits and Accounts



2012 Annual Report



Greg S. Griffin
State Auditor of Georgia

A Message from the State Auditor

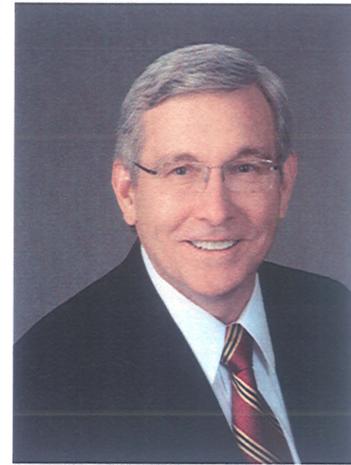
It is my honor to present my first annual report for the Department of Audits and Accounts. This report highlights the activities and accomplishments of our Department during calendar year 2012 and summarizes the impact that our oversight activities have on state and local government.

One of the highlights of my first year as State Auditor has been the welcome and support I have received from staff. Their professionalism and enthusiasm for the Audit Department and its role have made my transition much easier.

I would also like to acknowledge the success of my respected predecessor, Russell Hinton, in improving government accountability and financial management in the state. Russell retired from the Department in June after 38 years of distinguished service to the Legislature and the citizens of the state, while serving 13 of those years as State Auditor. During his tenure, Russell implemented a number of initiatives and strategies that had a profound effect on this Department, which included substantial advances in the breadth and quality of government financial reporting and auditing.

I look forward to building on this work and am keenly aware of the importance of an effective and independent audit function. I am committed to continuing the impressive tradition of my predecessor by serving the Legislature and the citizens of Georgia in a forthright, credible and relevant manner.

Growing demands and increasing expectations of the Department are a challenge that must be managed. We are committed to efficiency in



the use of public funds and pursuing initiatives that will increase the efficiency and effectiveness of our service delivery, while maintaining accountability requirements of the Governor and General Assembly. Accordingly, my initial focus will be on strategic planning and resourcing to ensure that the Department is equipped to meet current and future challenges. This will involve a proactive but responsible approach to help us maintain and continue to build the confidence of our stakeholders, which is paramount to our success.

Recognizing and acting on opportunities to improve and enhance the efficiency of our work is important to us. To that end, we will be seeking feedback from our peers, clients, staff and the General Assembly to determine how satisfied they are with our work and opportunities for improvement. I commit to work closely with the General Assembly and client agencies to effect positive change in these and other areas.

Significant Changes in Auditing Standards

Major changes in the accounting and auditing profession continue to have a significant

impact on our operating environment. During the year, complex new auditing standards were issued, requiring additional procedures and significant levels of judgment during our audit work. In the year ahead, we will be implementing these new auditing standards that will result in significant revisions to certain of our current practices and require much more communication and coordination with our clients and other audit firms that we rely on.

Staff Engagement and Morale

Attracting and retaining skilled audit professionals continues to be an ongoing challenge, as is the need for succession planning and developing the leadership potential of current and future leaders within our Department.

The quality of our service relates directly to having employees who are satisfied, engaged, and challenged. To that end, we will begin conducting annual employee surveys in 2013 to determine whether we are creating the best possible work environment for our employees. The survey results will help us focus on the areas that are important to our staff and ultimately increase our levels of employee engagement and satisfaction.

Building Capacity

Investing in our people, their abilities and the knowledge they hold is vital to the success of our Department. We will build on their strong professional qualifications and further develop the skills of the people in our workforce. Beginning in 2013, we will develop a long-term plan for developing targeted training

programs for all staff levels. Leadership, mentoring and coaching will be an important focus.

Positive Contribution to the Profession

We continue to make valuable contributions to the accounting and auditing profession through participation in the respective due processes by commenting on changes to accounting and auditing standards that affect the public sector and playing an active role on external boards and committees. These activities help us maintain our professional presence, shape the future direction of the profession, and build our reputation as a leader in public sector auditing.

Appreciation

Again, I want to thank the staff that worked with both Russell Hinton and myself during the past year for their hard work and dedication to the mission of our Department.

Respectfully Submitted,



Greg S. Griffin
State Auditor

About the Department

Our Mission:

to provide independent, objective audit and assurance services and information to the leadership of the State, agency-management, and the citizens of Georgia in order to improve government accountability and transparency.

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 improving government accountability and transparency in state and local government. The Department’s 270 professional personnel include:

- 78 CPAs;
- 7 CIAs (Certified Internal Auditors);
- 30 CFEs (Certified Fraud Examiners);
- 11 CISAs (Certified Information System Auditors);
- 3 CISSPs (Certified Information Systems Security Professional; and
- 74 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 77 professional personnel who have earned advanced degrees.

The Department is also committed to help promote and improve the auditing profession at the national, local, and state level. We accomplish this through our involvement on various boards and committees. During calendar year 2012, the State Auditor was the Co-Chair of the Middle Management Conference and the Pension Standards Implementation Group, which are sponsored by the National Association of State Auditors,

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

Comptrollers, and Treasurers (NASACT). The State Auditor also served on the Financial Management and Intergovernmental Affairs Committee and the Committee on Accounting, Reporting, and Auditing, which are also sponsored by NASACT.

In addition to the committees served by the State Auditor, 19 of our employees serve on boards and committees of state and national professional organizations, including the:

- Executive Committee of the National Legislative Program Evaluation Society;
- Legislative Staff Coordinating Committee and the Energy, Transportation, and Agriculture Standing Committee of the National Conference of State Legislatures;
- Executive, CGFM, Meetings, Newsletter, and Webmaster Committees of the Association of Government Accountants;
- Special Review Committee of the Government Finance Officers Association;
- The E-Government, Peer Review, Human Resources, Auditor Training, Performance Audit, Standards, and Reporting, and Single Audit Committees of the National State Auditors Association (NSAA); and
- Training Committee for the Georgia Society of Certified Public Accountants.

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. This year, our Performance Audit Division was recognized by the National Legislative Program Evaluation Society as a recipient of the Recognition of Impact Award. The Performance Audit Division received this award for its audit report on *Reducing State Postage and Mail Services Costs*. This report informed decisions about outsourcing mail metering and courier services operations. This change resulted in a net annual savings of approximately \$488,000.

**National
Recognition:**
*Our Performance
Audit Division
received national
recognition for its
audit report on
Reducing State
Postage and Mail
Services Costs.*

Departmental Activities

In calendar year 2012, the Department issued 470 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 65 fiscal notes and 27 retirement certifications

Activity Data:

In calendar year 2012, the Department issued 470 audit reports, agreed-upon procedures reports, special reports, financial management reports, special examinations, and follow-up reports. These reports focus on state agencies and programs, colleges and universities, technical colleges, local school systems, and nursing homes and other Medicaid providers. The Department also prepared 92 fiscal notes and retirement certifications that addressed the potential financial effect of proposed legislation.

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 1,671 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 2012 include:

- 335 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.
- 20 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.
- 69 Nursing Home Cost Report Audits - These reports are used by the Department of Community Health (DCH) in setting the reimbursement rates paid to nursing homes that participate in the state's Medicaid Program. Desk reviews of 341 nursing homes' cost reports were also conducted. Furthermore, the division responded to 115 appeals of nursing home cost report audits and desk reviews.
- 17 Provider Claims Audits - These reports are used by DCH to recoup overpayments made to Medicaid providers.
- 28 Information Systems Audits - Information systems audits evaluate the effectiveness of IT general controls for 117 significant applications at various state agencies, colleges and universities, technical colleges, and local school systems. 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 Special Investigation - This report documents the results of the Department's forensic audit activities involving a requested independent investigation.

As required by state law, the Department prepared 92 fiscal notes and retirement certifications for the 2012 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 2012, the Department also analyzed 742 financial audit reports and agreed-upon procedures reports submitted by local governments, 487 financial audit reports/financial statements submitted by nonprofit organizations that contract with state agencies, and 442 actuarial reports submitted by cities, counties, local authorities, and local school boards.

In 2011, House Bill 87 was passed which requires all public employers to provide an annual compliance report to the State Auditor certifying that they have obtained proper documentation that certain contractors use the federal work authorization program for their respective workforce. House Bill 87 also requires city and county governments to submit an annual report to the State Auditor certifying that they obtained proper documentation from business owners who obtain or renew a business license that they use the federal work authorization program for their respective workforce. As a result of this legislation, the Department annually collects such information from approximately 2,300 public entities.

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 2012, this required Department personnel to review approximately 390,950 validated property sales and conduct approximately 5,417 appraisals. The sum for all counties is the Statewide-Equalized Adjusted Property Tax Digest.

Impact on State and Local Government

Through our work, we seek 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 2012 are highlighted below.

- Our financial audit work for the state's fiscal year 2011 Single Audit Report resulted in 179 audit findings and over \$2,500,000 in questioned costs. Other financial audit work conducted during the year identified

Review of Property Sales:

In calendar year 2012, the Department reviewed about 390,950 property sales and conducted 5,417 appraisals to ensure property values are being assessed equitably within classes of property, between classes of property, and between counties.

an additional \$7.27 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 over \$688 million.

Positive Impact:

The audit reports released in calendar year 2012 identified questioned costs of \$5.9 million in federal funds; identified over \$7.2 million in agency funds that were returned (lapsed) to the state treasury; included 277 recommendations for improving state programs' efficiency and effectiveness and their controls over their electronic information systems; recommended recouping \$2.1 million paid to Medicaid providers; and identified potential savings of \$15.8 million in the Medicaid reimbursement rates paid to nursing homes.

- Our audit work at the state's colleges, universities, and technical colleges resulted in 15 financial statement findings and 12 federal financial assistance findings. These findings included questioned costs of over \$33,000, with projected questioned costs of over \$2.8 million. Additionally, we provided 116 recommendations for improvements to control processes. It should also be noted that our audit work served to facilitate the accreditation/reaccreditation of 28 colleges, universities, and technical colleges as well as the mergers of 10 colleges, universities, and technical colleges within the state.
- Our financial audits of local school systems resulted in 45 financial statement findings and 147 federal financial assistance findings. These findings identified over \$660,000 in questioned costs. Additionally, we provided 580 recommendations for improvements to control processes.
- Our performance audits released in 2012 included a total of approximately 75 recommendations for improving the efficiency and effectiveness of state programs. Based on historical data, it is anticipated that about 80% of these recommendations will be implemented either fully or partially within two years of a report's release. The performance audits released during the year included: recommendations for rebalancing long-term care options and spending for the elderly and physically disabled toward home and community based services; recommendations that a risk-based model be used for scheduling routine food processing inspections; analysis regarding the potential to reduce state inmates' inpatient healthcare costs by enrolling eligible inmates in the state's Medicaid program; and recommendations for improving accountability for and controls over a child abuse prevention trust fund account and expenditures.
- Our provider claims audits resulted in the recommended recoupment of approximately \$2.1 million in Medicaid funds.
- Our nursing home cost report audits identified potential savings of \$15.8 million in the Medicaid reimbursement rates paid to nursing homes.
- Our information systems audits resulted in the identification of 202 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 special investigation of the HIV Program administered through the Department of Public Health identified deficiencies in controls and suspected waste and abuse in the HIV program.
- The Statewide-Equalized Adjusted Property Tax Digest prepared by Department personnel was used by the Department of Education to assign about \$1.7 billion in local five mill share funds for QBE (Quality Basic Education). Additionally, this tax digest helps to distribute over \$436 million in QBE equalization funds among school systems. The Digest was also used by the Department of Revenue to establish the correct level of tax assessment for approximately \$35 billion in public utility property and to test the level and uniformity of tax assessments at the county level.

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 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. As required by federal regulations, monitoring of the state’s Care Management Organizations (CMOs) is conducted by this Division to ensure proper access, availability, and capacity of healthcare services to Medicaid recipients. (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.)
- 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

Organization:

The Department is composed of 9 divisions:

- **State Government**
 - **Education Audit**
 - **Performance Audit**
 - **Healthcare Audits**
 - **Technology Risk and Assurance**
 - **Nonprofit and Local Government Audits**
 - **Sales Ratio**
 - **Information Technology**
 - **Administrative**
- And 1 office –**
- **Quality Assurance**

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, provides data services, and develops web-based applications to streamline processes. Furthermore, this division collects, maintains, and provides the 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. This office is the Department's primary resource for updates and changes to the auditing and accounting standards and ensures that audit procedures reflect the most current 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 database 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 2012 Annual Report, please call 404-656-2180.

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