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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

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# DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St. S.W. Suite 1-156  
Atlanta, Georgia 30334

**RUSSELL W. HINTON**

STATE AUDITOR  
(404) 656-2174

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Sonny Perdue  
Governor of Georgia  
and  
Members of the General Assembly  
of the State of Georgia

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregated discretely presented component units, each major fund, and the aggregated remaining fund information of the State of Georgia as of and for the year ended June 30, 2006 which collectively comprise the State's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 12, 2007. The opinion related to governmental activities was qualified.

Except as discussed in the following paragraph of this report, 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.

The financial statements of the Georgia Lottery Corporation, Georgia College and State University Foundation, Georgia Southern University Housing Foundation, Inc., Georgia State University Foundation, Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc., Medical College of Georgia Foundation, Inc., Medical College of Georgia Physician's Practice Group Foundation, University of Georgia Athletic Association, Inc. and the University of Georgia Foundation were audited in accordance with auditing standards generally accepted in the United States of America but were not audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and accordingly, this report does not extend to those organizations.

We did not audit the financial statements of certain organizations and they reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Governmental Activities	17%	17%
Business-Type Activities	5%	34%
Aggregate Discretely Presented Component Units	92%	93%
Governmental Fund - General Fund	18%	17%
Governmental Fund - Georgia State Financing and Investment Commission	100%	100%
Proprietary Fund/Enterprise Fund - State Employees' Health Benefit Plan	100%	100%
Aggregate Remaining Fund Information	89%	39%

The financial statements of these organizations and component units were audited by other auditors whose reports have been furnished to us, and our report, insofar as it relates to the amounts included for those financial statements, is based solely upon the reports of the other auditors.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we and other auditors considered the State of Georgia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Georgia's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions are described in the Financial Statement Findings section of the accompanying schedule of *Findings and Questioned Costs*.

#### **(1) Accounting Controls (Overall)**

Deficiencies in Data Provided for Audit Testing

FS-440-06-01 – Department of Labor

Deficit Fund Balance

FS-420-06-02 – State Forestry Commission

Failure to Provide a Reconciliation of the September 30, 2005 ED Form 2000 to the National Student Loan Data System (NSLDS) Extract

FS-918-06-01 – Georgia Higher Education Assistance Corporation

Federal Fund Ledger and Accounts Receivable Deficiencies

FS-420-06-03 – State Forestry Commission

Inaccurate Financial Reporting

FS-420-06-01 – State Forestry Commission

Inadequate Accounting Procedures

FS-408-06-01 – Department of Insurance

FS-488-06-01 – Department of Veterans Service

Inadequate Controls Over Operating Leases

FS-467-06-01 – Department of Corrections

**(1) Accounting Controls (Overall) (continued)**

Inadequate General Controls

FS-509-06-01 – Georgia State University

FS-571-06-01 – Georgia Perimeter College

Inadequate Monitoring Procedures

FS-474-06-01 – Department of Revenue

Inadequate Systems Documentation

FS-474-06-02 – Department of Revenue

Internal Control Deficiencies

FS-427-06-01 – Department of Human Resources

Payment Accuracy of the Medicaid Management Information System

FS-419-06-01 – Department of Community Health

**(2) Budget Preparation/Execution**

Budgetary Compliance Deficiencies

FS-SW-06-01 – Statewide

**(3) Cash and Cash Equivalents**

Failure to Reconcile Bank Accounts in a Timely Manner

FS-420-06-04 – State Forestry Commission

FS-440-06-02 – Department of Labor

Inadequacies in Bank Reconciliation Procedures

FS-411-06-01 – Department of Defense

FS-440-06-03 – Department of Labor

FS-474-06-03 – Department of Revenue

FS-488-06-02 – Department of Veterans Service

Inadequate Accounting Procedures

FS-408-06-01 – Department of Insurance

FS-521-06-01 – Albany State University

FS-548-06-01 – Savannah State University

FS-816-06-01 – Georgia Aviation and Technical College

Inadequate Bank Reconciliations

FS-462-06-01 – Department of Natural Resources

**(4) Inventories**

Inadequate Accounting Procedures

FS-521-06-01 – Albany State University

**(5) Revenues/Receivables/Receipts**

Deficiencies in the Income Tax Division Subsidiary Records

FS-474-06-04 – Department of Revenue

Deficiencies in the Review and Approval of Journal Entries

FS-474-06-05 – Department of Revenue

**(5) Revenues/Receivables/Receipts (continued)**

Failure to Establish Adequate Procedures to Verify a Student's Loan Status with the Vendor as well as Establish Adequate Procedures to Ensure that Lenders Report and that the Corporation Properly Records Loans Paid in Full

FS-918-06-02 – Georgia Higher Education Assistance Corporation

Failure to Maintain Current Records

FS-918-06-03 – Georgia Higher Education Assistance Corporation

Failure to Monitor Sponsored Projects

FS-503-06-01 – Georgia Institute of Technology

FS-521-06-02 – Albany State University

Failure to Reconcile Subsidiary Systems to PeopleSoft

FS-474-06-06 – Department of Revenue

Improper Recognition of Contract Revenue

FS-503-06-03 – Georgia Institute of Technology

Improper Write-off of Accounts Receivable

FS-548-06-05 – Savannah State University

Inadequate Accounting Controls

FS-548-06-01 – Savannah State University

Inadequate Accounting Procedures

FS-427-06-02 – Department of Human Resources

FS-521-06-01 – Albany State University

FS-548-06-06 – Savannah State University

FS-816-06-03 – Georgia Aviation and Technical College

FS-844-06-01 – Ogeechee Technical College

Inadequate Accounting Procedures for Accounts Receivable

FS-573-06-01 – Georgia Highlands College

Inadequate Control Procedures for Collection of Tuition and Fees

FS-548-06-04 – Savannah State University

Inadequate Internal Controls

FS-533-06-01 – Fort Valley State University

Inadequate Procedures Over Cash Draws of Federal Grants

FS-427-06-03 – Department of Human Resources

Revenue Collections Not Received in a Timely Manner

FS-474-06-07 – Department of Revenue

**(6) Expenditures/Liabilities/Disbursements**

Accounts Payable and Other Accruals

FS-419-06-02 – Department of Community Health

Accounting/Internal Control Deficiencies

FS-462-06-02 – Department of Natural Resources

Contract Procurement, Administration, Vendor Management and Fiscal Services

FS-419-06-03 – Department of Community Health

Deficiencies in Accounting Procedures

FS-548-06-08 – Savannah State University

Exceptions Related to Purchasing Card Transactions

FS-440-06-04 – Department of Labor

**(6) Expenditures/Liabilities/Disbursements (continued)**

- Inadequacies in Allocation Procedures
  - FS-414-06-02 – Department of Education
- Inadequate Accounting Procedures/Controls
  - FS-414-06-03 – Department of Education
  - FS-521-06-01 – Albany State University
  - FS-548-06-01 – Savannah State University
- Inadequate Controls Over Operating Leases
  - FS-467-06-01 – Department of Corrections
- Inadequate Internal Controls
  - FS-414-06-01 – Department of Education
  - FS-533-06-01 – Fort Valley State University
  - FS-847-06-01 – Flint River Technical College
- Inadequate Subsidiary Records
  - FS-533-06-03 – Fort Valley State University
- Overpayments of Pension Benefits
  - FS-949-06-01 – Judges of the Probate Courts Retirement Fund of Georgia

**(7) Employee Compensation**

- Inaccurate Reporting of Senior Management Compensation
  - FS-8664-06-01 – Oconee Regional Educational Service Agency
- Inadequate Internal Controls
  - FS-847-06-01 – Flint River Technical College
- Inappropriate Payments to Student Athletes
  - FS-521-06-04 – Albany State University

**(8) General Ledger**

- Deficiencies in Account Balances
  - FS-440-06-06 – Department of Labor
- Deficiencies in Accounting Procedures
  - FS-548-06-08 – Savannah State University
- Deficiencies in Financial Statement Presentation
  - FS-816-06-04 – Georgia Aviation and Technical College
  - FS-841-06-01 – Savannah Technical College
  - FS-844-06-02 – Ogeechee Technical College
  - FS-845-06-01 – Swainsboro Technical College
- Deficiencies in the Review and Approval of Journal Entries
  - FS-474-06-05 – Department of Revenue
- Ending Balances in Balance Sheet Clearing Accounts
  - FS-420-06-05 – State Forestry Commission
- Failure to Reconcile Subsidiary Systems to PeopleSoft
  - FS-474-06-06 – Department of Revenue
- Inadequacies in Bank Reconciliation Procedures
  - FS-474-06-03 – Department of Revenue
  - FS-488-06-02 – Department of Veterans Services

**(8) General Ledger (continued)**

- Inadequate Accounting Procedures
  - FS-408-06-01 – Department of Insurance
  - FS-427-06-02 – Department of Human Resources
  - FS-521-06-01 – Albany State University
  - FS-548-06-06 – Savannah State University
  - FS-573-06-02 – Georgia Highlands College
- Inadequate Accounting Procedures for Restricted Funds
  - FS-533-06-04 – Fort Valley State University
- Inadequate General Ledger
  - FS-440-06-05 – Department of Labor
- Unsupported Financial Statements
  - FS-533-06-06 – Fort Valley State University

**(9) Capital Assets**

- Inadequate Accounting Procedures
  - FS-573-06-02 – Georgia Highlands College
  - FS-587-06-01 – South Georgia College
- Inadequate Capital Asset Records
  - FS-427-06-04 – Department of Human Resources
  - FS-484-06-01 – Department of Transportation
  - FS-533-06-02 – Fort Valley State University
  - FS-548-06-09 – Savannah State University
  - FS-834-06-01 – Lanier Technical College
  - FS-940-06-01 – Georgia Agrirama Development Authority
- Inadequate Capital Asset Records – Machinery and Equipment
  - FS-427-06-05 – Department of Human Resources
  - FS-428-06-01 – Department of Community Affairs
  - FS-462-06-03 – Department of Natural Resources
  - FS-471-06-01 – Georgia Bureau of Investigation
- Inadequate Internal Controls
  - FS-533-06-01 – Fort Valley State University
  - FS-847-06-02 – Flint River Technical College
- Incorrect Recording of Similar Asset Exchange
  - FS-462-06-04 – Department of Natural Resources

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following items to be material weaknesses.

- (1) **Accounting Controls (Overall)**  
 Deficiencies in Data Provided for Audit Testing  
     FS-440-06-01 – Department of Labor  
 Deficit Fund Balance  
     FS-420-06-02 – State Forestry Commission  
 Federal Fund Ledger and Accounts Receivable Deficiencies  
     FS-420-06-03 – State Forestry Commission  
 Inadequate Accounting Procedures  
     FS-408-06-01 – Department of Insurance  
 Inadequate Controls Over Operating Leases  
     FS-467-06-01 – Department of Corrections  
 Inadequate Monitoring Procedures  
     FS-474-06-01 – Department of Revenue  
 Payment Accuracy of the Medicaid Management Information System  
     FS-419-06-01 – Department of Community Health
- (2) **Budget Preparation/Execution**  
 Budgetary Compliance Deficiencies  
     FS-SW-06-01 – Statewide
- (3) **Cash and Cash Equivalents**  
 Failure to Reconcile Bank Accounts in a Timely Manner  
     FS-420-06-04 – State Forestry Commission  
     FS-440-06-02 – Department of Labor  
 Inadequacies in Bank Reconciliation Procedures  
     FS-411-06-01 – Department of Defense  
     FS-440-06-03 – Department of Labor  
     FS-474-06-03 – Department of Revenue  
     FS-488-06-02 – Department of Veterans Service  
 Inadequate Accounting Procedures  
     FS-408-06-01 – Department of Insurance
- (4) **Revenues/Receivables/Receipts**  
 Deficiencies in the Income Tax Division Subsidiary Records  
     FS-474-06-04 – Department of Revenue  
 Deficiencies in the Review and Approval of Journal Entries  
     FS-474-06-05 – Department of Revenue  
 Revenue Collections Not Received in a Timely Manner  
     FS-474-06-07 – Department of Revenue
- (5) **Expenditures/Liabilities/Disbursements**  
 Accounts Payable and Other Accruals  
     FS-419-06-02 – Department of Community Health

**(5) Expenditures/Liabilities/Disbursements (continued)**

- Contract Procurement, Administration, Vendor Management and Fiscal Services
  - FS-419-06-03 – Department of Community Health
- Exceptions Related to Purchasing Card Transactions
  - FS-440-06-04 – Department of Labor
- Inadequate Accounting Procedures/Controls
  - FS-414-06-03 – Department of Education
- Inadequate Controls Over Operating Leases
  - FS-467-06-01 – Department of Corrections

**(6) Employee Compensation**

- Inaccurate Reporting of Senior Management Compensation
  - FS-8664-06-01 – Oconee Regional Educational Service Agency

**(7) General Ledger**

- Deficiencies in Account Balances
  - FS-440-06-06 – Department of Labor
- Deficiencies in the Review and Approval of Journal Entries
  - FS-474-06-05 – Department of Revenue
- Ending Balances in Balance Sheet Clearing Accounts
  - FS-420-06-05 – State Forestry Commission
- Inadequacies in Bank Reconciliation Procedures
  - FS-474-06-03 – Department of Revenue
  - FS-488-06-02 – Department of Veterans Services
- Inadequate Accounting Procedures
  - FS-408-06-01 – Department of Insurance
- Inadequate General Ledger
  - FS-440-06-05 – Department of Labor

**(8) Capital Assets**

- Inadequate Capital Asset Records
  - FS-427-06-04 – Department of Human Resources
  - FS-533-06-02 – Fort Valley State University
- Inadequate Capital Asset Records – Machinery and Equipment
  - FS-427-06-05 – Department of Human Resources
  - FS-428-06-01 – Department of Community Affairs
  - FS-462-06-03 – Department of Natural Resources
  - FS-471-06-01 – Georgia Bureau of Investigation
- Incorrect Recording of Similar Asset Exchange
  - FS-462-06-04 – Department of Natural Resources

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Georgia's financial statements are free of material misstatement, we and other auditors performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our and other auditors' tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Financial Statement Finding section of the accompanying schedule of *Findings and Questioned Costs*.

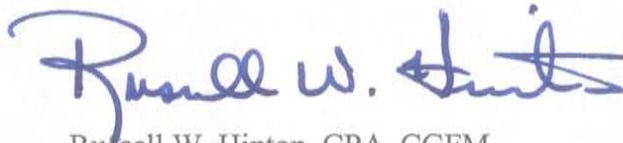
**(1) Budget Preparation/Execution**

Budgetary Compliance Deficiencies  
FS-SW-06-01 – Statewide

We noted certain matters that were reported to management in separate letters.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in blue ink that reads "Russell W. Hinton". The signature is stylized and cursive.

Russell W. Hinton, CPA, CGFM  
State Auditor

January 12, 2007

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**Report on Compliance with Requirements  
Applicable to Each Major Program and on  
Internal Control over Compliance in  
Accordance with OMB Circular A-133**

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# DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St. S.W. Suite 1-156  
Atlanta, Georgia 30334

**RUSSELL W. HINTON**  
STATE AUDITOR  
(404) 656-2174

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Sonny Perdue  
Governor of Georgia  
and  
Members of the General Assembly  
of the State of Georgia

### Compliance

We have audited the compliance of the State of Georgia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The State of Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of *Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Georgia's management. Our responsibility is to express an opinion on the State of Georgia's compliance based on our audit. We did not audit the following major federal programs or percentages of federal programs:

CFDA NO.	PROGRAM NAME	% AUDITED BY OTHER AUDITORS	MONETARY EXPENDITURES	NONMONETARY EXPENDITURES
47.076	Education and Human Resources	51%	\$23,750,482	\$0
66.458	Capitalization Grants for Clean Water State Revolving Funds	100%	\$19,308,852	\$262,555,492
66.468	Capitalization Grants for Drinking Water State Revolving Fund	100%	\$33,007,496	\$30,320,507
81.041	State Energy Program	100%	\$1,018,364	\$0
81.042	Weatherization Assistance for Low-Income Persons	100%	\$3,704,388	\$0
93.767	State Children's Insurance Program	100%	\$191,362,599	\$0
93.926	Healthy Start Initiative	99%	\$930,906	\$0
	Homeland Security Grant Cluster	1%	\$41,153,810	\$0
	Medicaid Cluster	92%	\$4,164,102,266	\$0
	Research and Development Cluster	83%	\$482,432,767	\$0
	Student Financial Aid Cluster	63%	\$679,697,202	\$1,159,703,450

The programs listed above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based solely upon the reports of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material affect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Georgia's compliance with those requirements.

An independent single audit of Georgia Institute of Technology (GIT) and Georgia Tech Research Corporation (GTRC), which was conducted by other auditors, reported that GTRC and GIT “*did not comply with requirements regarding reporting, subrecipient monitoring, special tests and provisions, that are applicable to Research and Development programs and compliance requirements regarding reporting that are applicable to the Human Resource programs. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with requirements applicable to those programs.*” These matters are further described in finding numbers FA-503-06-01 through FA-503-06-03 in the accompanying schedule of *Findings and Questioned Costs*.

As described in finding number FA-427-06-03 in the accompanying schedule of *Findings and Questioned Costs*, the State of Georgia did not comply with requirements regarding Cash Management that are applicable to the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557); Temporary Assistance for Needy Families (CFDA 93.558); Child Support Enforcement (CFDA 93.563); Child Care and Development Fund Cluster Program (CCDF) and the Social Services Block Grant (CFDA 93.667). Compliance with such requirements is necessary, in our opinion, for the State of Georgia to comply with requirements applicable to this program.

As described in finding number FA-427-06-04 in the accompanying schedule of *Findings and Questioned Costs*, the State of Georgia did not comply with requirements regarding Eligibility that are applicable to the Temporary Assistance for Needy Families (CFDA 93.558). Compliance with such requirements is necessary, in our opinion, for the State of Georgia to comply with requirements applicable to this program.

As described in finding number FA-427-06-06 in the accompanying schedule of *Findings and Questioned Costs*, the State of Georgia did not comply with requirements regarding Eligibility that are applicable to the Child Care and Development Fund Cluster Program (CCDF). Compliance with such requirements is necessary, in our opinion, for the State of Georgia to comply with requirements applicable to this program.

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matters discussed in the three preceding paragraphs, the State of Georgia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our and other auditors' auditing procedures disclosed the following instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the Federal Awards Findings and Questioned Costs section of the accompanying schedule of *Findings and Questioned Costs*.

<b>Allowable Costs/Cost Principles</b> FA-403-06-01	<b>Reporting</b> FA-440-06-01 FA-521-06-02 FA-528-06-01 FA-533-06-01 FA-918-06-01 FA-918-06-02 FA-918-06-03	<b>Subrecipients Monitoring</b> FA-414-06-01 FA-414-06-02  <b>Special Tests and Provisions</b> FA-521-06-03 FA-521-06-04 FA-528-06-02 FA-548-06-04 FA-548-06-05 FA-571-06-02
<b>Eligibility</b> FA-419-06-04 FA-521-06-01 FA-548-06-01 FA-548-06-02 FA-548-06-03 FA-571-06-01		

Internal Control Over Compliance

The management of the State of Georgia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. We did not consider the internal control structures applicable to the federal programs listed in the table in paragraph one. Those internal control structures were considered by other auditors whose reports have been furnished to us. Our report, insofar as it relates to the internal control structures used in administering federal programs of the organizations mentioned previously is based solely upon the reports of the other auditors.

In planning and performing our audit, we and other auditors considered the State of Georgia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We and other auditors noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Georgia's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The following reportable conditions are described in the Federal Awards Findings and Questioned Costs section of the accompanying schedule of *Findings and Questioned Costs*.

<b>Activities Allowed or Unallowed</b> FA-419-06-01 FA-419-06-02 FA-428-06-01  <b>Allowable Costs/Cost Principles</b> FA-403-06-01 FA-419-06-01 FA-419-06-02 FA-428-06-01  <b>Cash Management</b> FA-427-06-01 FA-427-06-02 FA-427-06-03	<b>Eligibility</b> FA-427-06-04 FA-427-06-05 FA-427-06-06 FA-428-06-01 FA-521-06-01 FA-548-06-02 FA-548-06-03  <b>Procurement and Suspension and Debarment</b> FA-419-06-03  <b>Reporting</b> FA-419-06-02 FA-428-06-01 FA-440-06-01	<b>Reporting (Continued)</b> FA-521-06-02 FA-528-06-01 FA-533-06-01 FA-918-06-01 FA-918-06-02 FA-918-06-03  <b>Special Tests and Provisions</b> FA-427-06-05 FA-427-06-07 FA-521-06-03 FA-521-06-04 FA-528-06-02 FA-548-06-04 FA-548-06-05
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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers, FA-419-06-01, FA-419-06-02, FA-419-06-03, FA-427-06-03, FA-427-06-04, FA-427-06-05, FA-427-06-06, and FA-428-06-01 to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Russell W. Hinton, CPA, CGFM  
State Auditor

February 15, 2007

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## **Findings and Questioned Costs**

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## **Summary of Auditor's Results**

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# State of Georgia

## Summary of Auditor's Results For the Fiscal Year Ended June 30, 2006

### Financial Statements

Type of auditor's report issued: Governmental Activities	Qualified
Business-Type Activities, Aggregate Discretely Presented Component Units, Major Governmental Funds: General Fund; and Georgia State Financing and Investment Commission, Major Proprietary Funds/Enterprise Funds: State Employees' Health Benefit Plan; Higher Education Fund; Unemployment Compensation Fund and Aggregate Remaining Fund Information	Unqualified
Internal control over financial reporting: Reportable Condition identified?	Yes
Reportable Conditions identified considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

### Federal Awards

Internal control over major programs: Reportable Condition identified?	Yes
Reportable Conditions identified considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs: Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557), Temporary Assistance for Needy Families (CFDA 93.558), Child Support Enforcement (CFDA 93.563), Social Services Block Grant (CFDA 93.667) Child Care and Development Fund Cluster Program (CFDA 93.575 & CFDA 93.596) Research and Development Cluster, and Education and Human Services (CFDA 47.076)	Qualified
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

### Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Food Stamp Cluster
	Child Nutrition Cluster
10.550	Food Distribution
10.557	Special Supplemental Nutrition Program for Women, Infant and Children
14.228	Community Development Block Grants/State's Program
14.871	Section 8 Housing Choice Vouchers
	WIA Cluster
47.076	Education and Human Resources
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
81.041	State Energy Program
81.042	Weatherization Assistance for Low Income Persons
84.002	Adult Education – State Grant Program
	Student Financial Aid Cluster
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation
84.287	Twenty-First Century Community Learning Centers

# State of Georgia

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## Summary of Auditor's Results For the Fiscal Year Ended June 30, 2006

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.357	Reading First State Grants
84.938	Hurricane Education Recovery Act Program
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.926	Healthy Start Initiative
	Medicaid Cluster Program
	Child Care and Development Fund Cluster Program
	Disability Insurance/SSI Cluster Program
	Homeland Security Grant Cluster Program
	Research and Development Cluster Program

Dollar threshold used to distinguish between Type A and Type B programs - \$30,000,000.00

Auditee Qualified as low-risk auditee

No

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# **Financial Statement Findings**

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# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### FINANCIAL STATEMENT RELATED FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### STATEWIDE

Finding Control Number: **FS-SW-06-01**  
BUDGET PREPARATION AND EXECUTION  
Budgetary Compliance Deficiencies

**Condition:** Our review of the agencies' 2006 budgetary comparison schedules identified significant deficiencies in the manner in which appropriated agencies accounted for and reported on budgetary compliance at the legal level of budgetary control. The deficiencies were of such magnitude that reported over and under expenditures were not deemed to be accurate and should not be used for decision making at the legal level of budgetary control.

Additional analysis of agencies' budgetary comparisons schedules at higher levels of summarization revealed the following:

- At the program level, 15 of the 49 agencies reported that 35 of the 439 authorized programs had overspent their authorized amounts by approximately \$254 million.
- At the agency level, the 49 agencies reported actual expenditures less than budgeted expenditures by approximately \$2.8 billion.

As a result of the inaccurate and unreliable data provided in the budgetary comparison schedules, programmatic deficiencies could not be distinguished from accounting deficiencies.

**Criteria:** The State of Georgia's budget is enacted each year and serves as a significant "internal control" to ensure spending is limited to authorized amounts and areas. For fiscal year 2006, the State of Georgia implemented a new budget methodology, Prioritized Program Based Budgeting (PPBB). PPBB required agencies to report revenues and expenditures by fund source within program level as opposed to object class level, as required by previous appropriations acts. The State's shift in budgetary focus was significant, introducing extraordinary risks to agencies' ability to comply with the 2006 Appropriations Act.

The Department of Audits and Accounts (DOAA) is charged with the responsibility of determining whether the State of Georgia's appropriated agencies spent and obligated funds in accordance with the Appropriations Act, related Constitutional provisions and various aspects of budget law.

**Cause:** The specific causes of the aforementioned condition are listed below. It should be noted that seven of the eight causes are associated with the State's unsuccessful transition to PPBB. (Problems with extending the budget amendment process are unrelated to the shift to PPBB.)

- Agencies did not consistently and/or correctly record revenues and expenditures by fund source within program level, as required by the 2006 Appropriation Acts, resulting in unreliable budget comparison data.
- Adequate guidance/training was not provided to agencies regarding the requirement to monitor and report their program budgets by fund source within program level.
- Varying interpretations of the "flex" language, found in the 2006 Appropriation Acts, were utilized by the three budget oversight offices and State agencies.
- Procedures were not in place to monitor agencies' expenditures against their annual operating budgets (AOB).

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Classification of fund sources in the FY 2006 Amended Appropriations Act (HB 1026) was not consistent with the classification of the fund sources in the FY 2006 General Appropriations Act (HB 85).
- The Amended Appropriations Act did not reconcile with the General Appropriations Act.
- The FY 2006 budget amendment process was extended for an excessive period of time, diminishing the effectiveness of the budget as a management tool.
- The State's accounting software (PeopleSoft version 7.02) was not designed to easily account for activity at the program level. Also, the system upgrade to the new version of the State's accounting software (PeopleSoft version 8.8) in July 2006 impacted agencies' ability to obtain reliable budget comparison reports.

**Effect:**

For fiscal year 2006, the DOAA was unable to fulfill its statutory responsibility of determining if appropriated agencies spent and obligated funds at the legal level of budgetary control, as prescribed by the 2006 Appropriations Acts. While most appropriated agencies did not comply with the 2006 Appropriation Acts at the legal level of budgetary control, it does appear that compliance was generally achieved at the agency level. Had we been able to test agencies' revenue and expenditure activity as of and for the year ended June 30, 2006, at the legal level of budgetary control, amounts reported as year-end surplus (to be remitted to the State Treasury), may have been significantly different.

**Recommendations:** Based on the deficiencies we detected during our testing of the 2006 Appropriation Acts, we offer the following recommendations:

- Policies, procedures, and guidance should be implemented that establish uniformity in the manner in which agencies allocate administrative and/or overhead costs.
- Policies, procedures, and guidance should be established which direct the manner and order in which funding sources within programs are to be spent.
- Extensive guidance and training should be provided to agency personnel to assist them in reporting and monitoring their revenues and expenditures at the legal level of budgetary control. The State Accounting Office and the three budget oversight offices should work with the agencies to facilitate their compliance with the appropriate budgetary requirements.
- The Georgia General Assembly and the three budget oversight offices should evaluate the necessity of inclusion of flex amendment provisions in future appropriation acts. If provided in future appropriation acts, flex amendment language should be comprehensive and clear, with implementation being consistently applied.
- As flex amendments are included in future appropriation acts, they should be separately identified from all other types of amendments in BudgetNet.
- Management oversight should be implemented to ensure that appropriated agencies comply with future appropriation acts. Oversight should include, but not be limited to, the following:
  - Monitor PeopleSoft budget override capabilities;
  - Ensure that all programs prescribed by future appropriation acts have been correctly established in the appropriated agencies' accounting records;
  - Ensure that budget amounts reflected in the accounting system (PeopleSoft and other accounting systems) are in agreement with BudgetNet;
  - Monitor agencies' budget to "actuals" comparisons during the year in order to detect programmatic and/or accounting deficiencies.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- For future appropriation acts:
  - Unless indicated to the contrary, the level of detail included in the appropriations act establishes the legal level of budgetary control upon which appropriated agencies must comply. Consideration should be given to the legal level of budgetary control that is required, because the greater the required level of detail and complexity, the greater the risk of agencies' noncompliance with the appropriation acts.
  - Amended appropriation acts should be reconciled with general appropriation acts. Amended appropriation acts, usually signed into law in the 10<sup>th</sup> or 11<sup>th</sup> month of the fiscal year, containing format changes (i.e., increases in the identification of program funding sources) make compliance extremely difficult, if not impossible, for appropriated agencies to achieve.
  - Future amended appropriation acts should reconcile to the general appropriation acts for all fund sources, and should incorporate amendments already approved by the Office of Planning and Budget.
  
- The Office of Planning and Budget should establish a final amendment cut-off date that is not later than the year-end accounting close (normally during the last week in July). Strict adherence to an earlier amendment cut-off date will strengthen the State of Georgia's internal controls intended to limit spending to authorized amounts and areas.
  
- The budget comparison format at the fund source within program level, in order to demonstrate budgetary compliance, should include the following:
  1. Comparison of Funds Available to Budget
  2. Comparison of Expenditures to Budget
  3. Actual Funds Available Over/(Under) Expenditures

### Status of Deficiencies in FY 2007

Subsequent to the end of fiscal year 2006, management of the State of Georgia initiated extensive efforts to resolve the identified deficiencies. These efforts include surveys to agencies, additional training, and discussions regarding policy development.

Also, the State Accounting Office conducted an upgrade of the State of Georgia's primary accounting system, PeopleSoft, to version 8.8, effective for fiscal year 2007. PeopleSoft version 8.8 includes enhancements that will enable agencies to more easily account for revenue and expenditure activity within authorized programs. While audit work related to the State of Georgia's compliance with the 2007 General Appropriations Act has not been conducted, various system inquiries made by this office relative to fiscal year 2007 activity indicate that agencies are still not consistently recording revenue at the program level.

PeopleSoft version 8.8 includes a mechanism by which approved budget amounts contained in BudgetNet (the State's official record of the budget), maintained by OPB, interfaces with PeopleSoft accounting records. Audit testing of this BudgetNet to PeopleSoft interface has not been conducted.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### DEPARTMENT OF INSURANCE

Finding Control Number: **FS-408-06-01**  
ACCOUNTING CONTROL (OVERALL)  
CASH AND CASH EQUIVALENTS  
GENERAL LEDGER  
Inadequate Accounting Procedures

- Condition:** A review of the general ledger, adjusting journal entries, and bank reconciliations maintained by the Department of Insurance revealed significant deficiencies. The cash balances, clearing accounts (other assets), and fund balance adjustments as presented on the financial statements could not be verified.
- Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section One, page 1-9-1 states in part: "Trial balances, adjusting entries and other financial statement preparation audit documentation should be retained in order to provide a clear audit trail from the organization's accounting records to balances listed on the financial statements."
- Information:** A review of the general ledger revealed obvious errors in the following accounts:
- 196 - Clearing Account \$ 46,733,294.69
  - 390 - Fund Balance Adjustment \$ 66,135,048.50
  - 401 - Appropriation Allotment (Revenues) \$ 0.00
- Cause:** Subsequent to the close of the general ledger, material undocumented adjustments were made in an effort to correct the errors noted above. These adjustments resulted in an unexplained balance of \$125.88 in the clearing account which was reported as an "other asset" on the financial statements and an unidentified fund balance adjustment of \$1,960,516.37.
- The bank reconciliations presented for review were also performed incorrectly. Manual journal entries were posted to the general ledger in the amount of \$1,628,768.46 for the Operating Account and \$2,434,654.09 for the Payroll Account, which contained no supporting documentation. The purpose of the entries was to adjust the cash accounts on the general ledger to agree with the cash balances reported on the June Operating and Payroll bank statements.
- Cause:** These deficiencies were the result of a general lack of oversight, control and accountability in regards to bank reconciliation process and the general ledger.
- Result:** As a result of the deficiencies noted above we could not rely on surplus (fund balance) of \$1,552,261.28 as reported on the financial statements. The fund balance was reclassified to Other Reserves.
- Recommendation:** The Department of Insurance should take immediate action to correct the deficiencies noted above and determine an accurate surplus to remit to the Treasury. Procedures should be implemented to ensure that bank reconciliations are properly performed, the general ledger accurately reflects the financial activity of the Department and any adjustments made to the general ledger are properly documented.

### DEPARTMENT OF DEFENSE

Finding Control Number: **FS-411-06-01**  
CASH AND CASH EQUIVALENTS  
Inadequacies in Bank Reconciliation Procedures

- Condition:** The Department of Defense (Department) failed to perform adequate bank reconciliation procedures on two bank accounts: the Operating Account and the Federal Advance Fund Account. Exceptions noted in relation to the June 30, 2006 Operating Account bank reconciliation were:

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- (1) There were a total of 64 items, netting to \$1,849,345.99, that were included as general ledger reconciling items. These items ranged in date from July 2006 through June 2006.
- (2) Adjustments for outstanding checks were inaccurately reflected on the reconciliation summary page in the amount of \$362.00
- (3) The supporting schedules provided for deposits in transit and outstanding checks/wires did not include dates for the outstanding items which made aging of those items impossible.
- (4) Although it appeared that reconciliations had been independently prepared and approved (two sets of initials were present on the reconciliations), the preparer could not be distinguished from the approver. Also, the preparation and approval dates were not indicated on the reconciliation.

Exceptions noted in relation to the June 30, 2006 Federal Advance Fund Account bank reconciliation were:

- (1) There were a total of 40 items, netting to \$519,871.20, that were included as general ledger reconciling items. These items ranged in date from February 2004 through June 2006.
- (2) Although it appeared that reconciliations had been independently prepared and approved (two sets of initials were present on the reconciliations), the preparer could not be distinguished from the approver. Also, the preparation and approval dates were not indicated on the reconciliations.

**Criteria:** An adequate system of internal controls dictate that bank reconciliations be performed on a monthly basis, and include the following: 1) adequate supporting documentation, 2) reconciling items correctly identified by description and amount, 3) adjustments which are needed are identified and made in a timely manner and 4) evidence of an effective supervisory review and approval function.

**Cause:** These deficiencies were the result of the Department's failure to adequately manage and monitor the reconciliation process for the Operating Account and the Federal Advance Fund Account.

**Effect:** The failure to maintain an effective bank reconciliation process increases the risk of material misstatements in the financial statements including misstatements due to fraud.

**Recommendation:** The Department should ensure their internal control procedures relating to bank reconciliations are adequate and being followed for their Operating and Federal Advance Fund bank accounts.

Subsequent to the end of fiscal year 2006 fieldwork, the Department of Defense indicated it corrected these deficiencies by identifying and making necessary adjusting entries. However, we have not reviewed these adjustments.

## DEPARTMENT OF EDUCATION

Finding Control Number: **FS-414-06-01**  
EXPENDITURES/LIABILITIES/DISBURSEMENTS  
Inadequate Control Procedures

**Condition:** Our examination included a review of the internal accounting controls used by the Department of Education in computing Pre-School Handicapped Program allocations to local units of administration. The supporting documentation for the fiscal year 2006 allocations did not follow the Department's policy.

**Criteria:** The Department's policy is to allocate Pre-School Handicapped Program funds based on birth rates in each local school system

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** Program personnel failed to follow the Department's policy for allocating Pre-School Handicapped funds. Program personnel developed a hybrid formula which combines birth rates with students served as a basis for allocation, but decided to award amounts based on an across the board increase over the prior year allocations.
- Effect:** A possible misallocation of the Pre-School Handicapped Program funds could occur.
- Recommendation:** The Department of Education should review its internal control procedures over allocation of Pre-School Handicapped Program funds to ensure compliance with Department's policy.

**Finding Control Number: FS-414-06-02**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
**Inadequacies in Allocation Procedures**

- Condition:** Our examination included a review of the reconciliation of the Instructional Services-Handicapped grant amounts per the allocation spreadsheet and the State Board approved Budget for Subclass 553. There was an unexplained variance of \$4,392,477.00 between the allocation spreadsheet and the amount approved by the State Board. The amount approved by the State Board was less than the allocation spreadsheet. The GDOE Division for Exceptional Students was unable to provide an explanation for this variance.
- Criteria:** Grant allocation spreadsheet amounts should agree with amounts submitted to the State Board for approval and subsequently entered in GAORS to the amounts generated by their allocation spreadsheet.
- Effect:** The GDOE Division for Exceptional Students allocated \$4,392,477.00 more funds than were approved by the State Board.
- Recommendation:** The GDOE Division for Exceptional Students should establish sufficient controls to ensure that grant amounts approved by the State Board and subsequently entered into GAORS agree with the grant amounts generated by their allocation spreadsheet.

**Finding Control Number: FS-414-06-03**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
**Inadequacies in Accounting Procedures**

- Condition:** Our examination included a review of the Georgia Department of Education Pupil Transportation grant. Our examination included a recalculation of eighteen of the one-hundred-eighty systems receiving the Pupil Transportation grant. The following deficiencies were noted:
- (1) The Georgia Department of Education (GDOE) Division for Pupil Transportation's policy for the calculation of Pupil Transportation grant allocations lacks sufficient detail to address the unique situations involved in the Pupil Transportation grant allocation process. The policy is not being followed consistently by all personnel involved in the allocation process.
  - (2) Excessively old documentation is being used in the allocation process. The average age of the source documents provided by GDOE for the eighteen systems tested was nine years old.
  - (3) The allocation spreadsheet contained only hard-keyed entries, without formulas or an adequate audit trail to back up the amounts.
  - (4) Variances existed between the amounts recalculated and the amounts actually paid for three of the eighteen systems tested.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- (5) Three of the eighteen systems tested had submitted newer surveys with increased bus counts, which would have increased their funding, but the newer surveys were not used in the allocation calculation.

Criteria:	The GDOE Division for Pupil Transportation should consistently follow written policies and procedures for allocating Pupil Transportation state grant funds, including policies for appropriate source documentation, to ensure the equitable distribution of the Pupil Transportation state grant.
Cause:	The deficiencies described above are the result of management's failure to consistently follow written policies and procedures for documenting the allocation proves for the Pupil Transportation grant funds, and its failure in obtaining up-to-date source documentation. Management's failure to maintain all source documentation, and management's use of incorrect components, such as using the wrong category for systems, are further causes for the deficiencies.
Effect:	The failure to consistently follow written policy for the allocation of the Pupil Transportation grant could result in the misallocation of state funds to school systems. The use of inconsistent supporting documentation (anywhere from 5 years to 15 years old) being used in the allocation process further complicates the equitable distribution of the funds.
Recommendation:	The GDOE Division for Pupil Transportation should follow written policies and procedures for the allocation of the Pupil Transportation state grant funds. The allocation process should be based on up-to-date supporting documentation, consistent in its application, and be designed such that allocations can be consistently recalculated. The Division should also maintain all documentation supporting the allocation process.

## DEPARTMENT OF COMMUNITY HEALTH

Finding Control Number: **FS-419-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Payment Accuracy of the Medicaid Management Information System

Condition:	This is a modification and partial repeat of finding FS-419-05-01 ended June 30, 2005. During fiscal year 2006, the <b>Department of Community Health</b> determined that cumulative evidence gathered from all monitoring functions available to management suggested payment errors existed in fiscal year 2006 in Medicaid and SCHIP benefit expenditure information; however the <b>Department of Community Health</b> was unable to systematically and specifically quantify the financial impact of such errors prior to June 30, 2006.
Criteria:	The State of Georgia administers the Medicaid health benefit program for its citizens subject to federal laws and regulations. The State of Georgia has charged the <b>Department of Community Health</b> with the responsibility for this program and provides the <b>Department of Community Health</b> with the authority to use Medicaid funds for Medicaid benefit payments (as specified in the State of Georgia plan, federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units. The State of Georgia plan may also provide for case management services, managed care waivers, payment of certain health insurance premiums for Medicare patients, payments to Disproportionate Share Hospitals, and home and community based services which may permit an individual from avoiding institutionalization. The <b>Department of Community Health</b> is also provided with the responsibility for the State Children's Healthcare Insurance Program (SCHIP), which used federal and state funds for assisting uninsured, low income children.
Context:	The <b>Department of Community Health</b> identified a need to determine the financial impact of suspected claims payment errors resulting from incorrect claims adjudication logic and from adjudication programming changes that were necessary for the Georgia Healthy Families care management organization implementation. To confirm and adjust, as necessary, Medicaid and SCHIP benefit amounts reported in the fiscal year 2006 financial statements, the <b>Department of Community</b>

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Health engaged an independent CPA firm to conduct a comprehensive claim payment analysis to estimate the amounts of claim overpayments and underpayments.

**Cause:** The Department of Community Health did not limit financial reporting risk for Medicaid and SCHIP expenditures to an acceptable level before beginning fiscal year 2006 benefits payments or before implementing drastic changes to the two programs' financial structures, health care management, and system programming.

**Effect:** In order to produce fairly presented financial statements of the **Department of Community Health** as of June 30, 2006, adjustments were recorded to the governmental fund – general fund's assets and liabilities totals to reflect estimated overpayments and underpayments respectively. The effect of the adjustments was to report estimated additional accounts receivable – other of \$16,572,556.00 and estimated additional accounts payable and other accruals of \$2,186,893.00.

**Recommendation:** Management should address with verifiable actions the nine recommendations specified in the final report, dated October 12, 2006, of the fiscal year 2006 claim analysis. Management should document with objective evidence the actions taken.

**Finding Control Number: FS-419-06-02**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
Accounts Payable and Other Accruals

**Condition:** This is a modification of Finding FS-419-05-02 from the year ended June 30, 2005.

**Criteria:** The **Department of Community Health's** management is responsible for ensuring expenditures are recorded when incurred and measurable, and its financial statements and the related information included in the schedule of expenditures of federal awards are accurate. This included recognizing the expenditures and liabilities for costs associated with the receipt of goods or services in a timely manner.

**Cause:** The responsibility of identifying the **Department of Community Health's** liabilities was labor intensive and fell primarily upon one division. Additionally, the conversion to the new financial system required the **Department of Community Health** to validate the financial data reflected in the system reports before beginning the process to ensure expenditures were recorded accurately. This additional effort contributed to making the process more labor intensive.

**Effect:** In an effort to capture and report all material liabilities of the **Department of Community Health**, managers and employees of the financial services/accounting division of financial management spent several weeks reviewing and analyzing documentation.

**Recommendation:** The recognition of a liability primarily begins with the obligation for goods or services. Therefore, the identification of a liability is best performed at the point of origination and encumbrance, including obligation and/or receipt. We recommend the **Department of Community Health** establish goals, provide training and reinforce policies in order to simplify and expedite the identification and recording of a liability at the point of obligation. We recommend, divisions and offices throughout the **Department of Community Health** be charged with the due diligence of identifying obligations at year end, including any related liabilities, assessing those liabilities and ensuring the timely reporting of those liabilities.

**Finding Control Number: FS-419-06-03**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
Contract Procurement, Administration, Vendor Management and Fiscal Services

**Condition:** I. During our fieldwork, we noted a lack of internal controls governing the Department of Community Health's contract proves. This included inconsistently applying policies and procedures. Our tests of contracts encompassed the overall contracts proves which included: 1) contract procurement; 2)

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

administration; 3) vendor management; and, 4) fiscal services. As a result of our tests of 25 contracts under \$100,000, we noted the following items we consider to be deficiencies in internal control or a lack of consistently applying policies and procedures:

- a. Two of the three sole source contracts included in the sample did not contain written sole source justification.
  - b. Management was unable to provide us with five of the original, fully executed contracts signed by both parties.
  - c. Management failed to complete the execution of two contracts.
  - d. 18 of the contracts within the sample were renewed. 13 of the contract renewals did not include adequate renewal documentation.
  - e. Of the 25 contracts tested, only two were fully executed before the effective date. The amount of time elapsed between the effective date and the execution did not occur until the contract had been in effect for at least a year. Additionally, two "agreement" contracts were never signed by the **Department of Community Health**; as a result they were never fully executed. In both cases these "agreement" contracts were drafted after the services had already been performed by the contractor.
  - f. The **Department of Community Health's** policies and procedures stipulate every contract should have an "annual Contract Monitoring" form each fiscal year if no other monitoring procedures have been performed during the year. Of the 25 contracts in the sample, only four had documentation noting some type of monitoring had been performed during the year.
  - g. The Department of Community Health has a policy in place whereby vendor management is required to send a letter to the vendor indicating the results of the desk review within 39 days of receipt of the "Vendor Assessment Survey". Of the four desk reviews performed during fiscal year 2006, three of the letters were not sent to the vendor within the required 30 day period. No letter was noted to have been sent to the fourth vendor.
  - h. The **Department of Community Health** has a policy in place to send vendors a letter notifying them they have been selected for an on-site review. Further, the **Department of Community Health** has a policy in place where they are to notify the vendor of the results of the review within 30 days of the on-site review. Of the four that were reviewed during the fiscal year 2006, two of the vendor files did not contain the letter informing the vendor. Three of the four on-site review result letters were not sent within the required 30 day period; for one of the three there was no documentation in the file of a results letter being sent or the results of the review.
  - i. The **Department of Community Health's** policy is to send a termination letter to the vendor at the expiration of the contract. Of the 14 expired contracts included in our sample, four did not have a termination letter in the file. Of the termination letters delivered, two of the letters were dated approximately a year after termination and the others had generally a three month gap between the termination and the termination letter. Further, we noted closeout forms had not been fully completed for six of the 14 terminated contracts.
- II. In addition to the items noted above, we noted an instance in which a former employee was hired as a consultant to perform consulting services for the **Department of Community Health**. After completion of the consulting services the employee was rehired by the **Department of Community Health** to serve as a director for the division in which the consulting services were performed. In his capacity as director, he is responsible for reviewing and monitoring contracts performed by outside contractors. During our review of contract termination documents, we noted he completed Section II: "Program Assessment of Contractor" of the "Contract Closeout" form for

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

his own consulting contract. Additionally, it appears this portion of the "Contract Closeout" form was not reviewed or monitored by anyone other than the director.

III. During fieldwork, we noted discrepancies between written policies and procedures and the understanding of such policies and procedures by various personnel. Therefore, we were provided inconsistent information related to the Department of Community Health's internal controls over contracts.

IV. During our review of vendor management related to monitoring and termination documents, we noted certain forms utilized by vendor management that do not require the signature or initials of the person completing the form or the person evaluating the form. We recommend the **Department of Community Health's** management review the various monitoring and termination documents utilized by vendor management to identify those which most appropriately should require a formal signature as to who completed and approved the document. Further, we noted no language in place within the policies which address whether the contract compliance manager's work is reviewed by the director of grants and vendor management.

V. During our procedures, we noted a general disorganization in the procurement records and a lack of consistency in the procurement documentation maintained in the files of contracts not subject to the competitive bid process.

- Criteria: The **Department of Community Health's** management is responsible for designing and maintaining internal controls relating to the overall contract process and ensuring these controls are followed on a consistent basis. This includes contract procurement, administration, vendor management and fiscal services.
- Context: See condition as noted above.
- Cause: The **Department of Community Health's** management did not have in place and functioning adequate internal controls related to 1) contract procurement; 2) administration; 3) vendor management; and, 4) fiscal services.
- Effect: The lack of well organized and functioning policies, procedures and controls consistently applied over the contract process exposed the **Department of Community Health** to undo legal and financial risk, and creates an environment in which there is a greater level of risk encumbrances as well as liabilities will go unreported.
- Recommendation: We recommend the **Department of Community Health** address all the conditions noted above. Additional, we recommend all policies and procedures relevant to each contract process be formally incorporated into a set of clearly defined written policies and these policies be communicated to all levels of employees involved in the contract process. Further, we recommend the **Department of Community Health** charge each responsible manager and employee with consistent and continual application of these policies and procedures.

### STATE FORESTRY COMMISSION

Finding Control Number: **FS-420-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Inaccurate Financial Reporting

- Condition: The State Forestry Commission did not provide accurate financial information to the State Accounting Office.
- Criteria: The Official Code of Georgia Annotated, 50-5B-4(c), states in part: "All organizations of state government shall submit statements, reports, information, and data necessary to enable the state accounting officer to complete the reports required..."

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** The Commission did not properly maintain and monitor its accounting records. The Commission did not analyze the accounting records when preparing the reports submitted to the State Accounting Office.
- Effect:** The failure to provide accurate financial information increases the risk of material misstatement in the financial statements including misstatement due to fraud.
- Recommendation:** The State Forestry Commission should implement policies and procedures to ensure that the accounting records are properly maintained and monitored throughout the year and financial information reported at year end is accurate.

**Finding Control Number: FS-420-06-02**  
**ACCOUNTING CONTROLS (OVERALL)**  
**Deficit Fund Balance**

- Condition:** The unadjusted fund balance of the State Forestry Commission at June 30, 2006 was (\$934,947.64).
- Criteria:** The Constitution of the State of Georgia (Article VII, Section IV, Paragraph 8) does not authorize a state agency to obligate availability of appropriations or other source of state funds beyond the authorization contained in a presently effective General Appropriations Act.
- Cause:** The State Forestry Commission did not properly maintain and monitor its accounting records. Encumbrances were recorded at year end for which funds were not available.
- Effect:** Audit adjustments were necessary to write-off \$1.4 million in encumbrances in order for the State Forestry Commission to have a positive fund balance at June 30, 2006.
- Recommendation:** The State Forestry Commission should implement policies and procedures to ensure that the accounting records are properly maintained and monitored throughout the year. Encumbrances should only be recorded when sufficient funds are available.

**Finding Control Number: FS-420-06-03**  
**ACCOUNTING CONTROLS (OVERALL)**  
**Federal Fund Ledger and Accounts Receivable Deficiencies**

- Condition:** The State Forestry Commission did not adequately state and monitor financial activity at the fund source level. Specifically, revenues and expenditures were not appropriately recorded for its federal fund sources. Also, the Commission had negative fund balances at the fund source level and negative accounts receivable amounts on the General Ledger at year end.
- Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section One, page 1-6-1, states in part: "State organizations that administer Federal programs must maintain sufficient accounting records to allow for the recording of Federal funds at an expenditure level adequate to establish that the funds have not been used in violation of Federal laws and regulations. These records must provide for the identification of individual grants, expenditures and revenues from such grants, unobligated grant balances and grant assets and liabilities."
- Cause:** The Commission agrees that all federal fund balances should be zero. However, journal entries were not made to adjust revenues and expenditures to correct the out of balance fund sources at Jun 30, 2006. Therefore, some fund sources were left with negative balances and others with positive balances. In addition, some federal revenues and expenditures were booked in Fund Source 1 as state revenues and expenditures.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Effect:** The General Ledger at the fund source level is misstated. While the overall balance of assets, liabilities and fund balance for the Commission appear correct, the activity and balances for the different fund sources cannot be relied upon. The amount of the misstatements at the fund source level cannot be determined.

**Recommendation:** The State Forestry Commission should develop and implement policies and procedures to ensure the accounting records are properly maintained and monitored at the fund source level. The Commission should also confirm that negative fund balances and negative accounts receivable have been corrected.

**Finding Control Number: FS-420-06-04**

**CASH AND CASH EQUIVALENTS**

**Failure to Reconcile Bank Accounts in a Timely Manner**

**Condition:** The State Forestry Commission did not perform adequate bank reconciliation procedures on its bank accounts. As a result, adjustments were not made to the general ledger in a timely manner.

**Criteria:** Good internal control practices dictate that bank reconciliations should include the following: 1) adequate supporting documentation, 2) reconciling items correctly identified by description and amount, 3) adjustments which are needed are identified and made in a timely manner, 4) accurate general ledger balances, and 5) evidence of an effective supervisory review and approval function.

**Cause:** The State Forestry Commission failed to implement adequate internal controls to ensure that all of its bank accounts were reconciled, approved and adjusted in a timely manner.

**Effect:** The failure to implement an effective bank reconciliation process could result in errors in financial reporting and increase the risk of material misstatement in the financial statements, including misstatement due to fraud.

**Recommendation:** The State Forestry Commission should establish sufficient internal control procedures to ensure adequate monthly bank reconciliations for all of its cash accounts are performed in a timely manner.

**Finding Control Number: FS-420-06-05**

**GENERAL LEDGER**

**Ending Balances in Balance Sheet Clearing Accounts**

**Condition:** Our review of the general ledger balance sheet clearing accounts revealed that account 296003 had a balance of -\$23,708.43 at June 30, 2006. In addition, accounts 196031, 196050, 196051, 196099, and 196119 had zero balances on the general ledger at June 30, 2006; however, there were multiple balances in these accounts at the fund source level.

**Criteria:** In accordance with the *Accounting Procedures Manual* for the State of Georgia, Section Three, page 3-4-1 states: "Balance sheet clearing accounts have been provided in the State Chart of Accounts to facilitate the accumulation of transactions which are later distributed to appropriate accounts. Care should be taken to ensure that clearing accounts do not have balances at the end of each reporting period since such accounts should not be listed on either budgetary or GAAP financial statements."

**Cause:** This deficiency was a result of management's failure to ensure that all clearing account balances were properly distributed to appropriate accounts on the general ledger.

**Effect:** Balances remaining in these accounts at fiscal year end could cause the financial statements to be misstated and could lead to erroneous decisions by the Commission's management.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Recommendation:** The Commission should ensure that clearing account balances have been distributed to the appropriate accounts at the end of each accounting period and that no balances remain in the clearing accounts at fiscal year end in accordance with the *Accounting Procedures Manual* for the State of Georgia. In addition, the Commission should review the clearing account balances at the fund source level to ensure distribution to the appropriate accounts.

### DEPARTMENT OF HUMAN RESOURCES

Finding Control Number: **FS-427-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Internal Control Deficiencies

**Condition:** The following internal control deficiencies relating to the cash receipts, deposit, and data entry functions at the Department of Human Resources (Department) were identified during our engagement:

1. Employees responsible for preparing deposits also create the deposit listing that is compared by the same employees to the cash receipts journal and bank deposit tickets. These employees also have access to perform data entry into the accounts receivable ledgers.
2. There is no independent reconciliation between the listing of checks that were logged in to the deposit listing.

**Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section V, Pages 5-1-1 and 5-1-2 state, in part: "Each State organization is responsible for adopting an internal control framework that is suitable for the type of services they provide.... Each State organization has a responsibility to assess their internal control system and use this information to design, implement, and monitor internal controls that are suitable for their organization."

**Information:** An employee that is independent of the cashier and accounts receivable bookkeeper is responsible for opening cash receipts and logging them in a Microsoft Access data file. This file, however, is not compared to the bank deposit tickets or to the cash receipts journal, and is maintained in a shared network folder, as is the deposit listing previously mentioned.

**Cause:** The Department's management did not design its internal controls to include proper separation of critical duties related to cash receipts.

**Effect:** The failure to implement adequate internal controls increases the risk of material misstatement in the financial statements, including misstatement due to fraud and the possible misappropriation of the Department's assets.

**Recommendation:** The Department of Human Resources should design and implement additional policies and procedures to strengthen internal controls relating to the cash receipts, deposit, and data entry functions.

Finding Control Number: **FS-427-06-02**  
REVENUE/RECEIVABLES/RECEIPTS  
GENERAL LEDGER  
Inadequate Accounting Procedures

**Condition:** Our examination included a review of the internal accounting controls and accounting procedures utilized by the Department of Human Resources (Department) in the recording of Federal program activity. We noted that Federal grant awards were not recorded on the general ledger in a timely manner. A review of 338 grant awards revealed that 54 grant awards were not recorded on the general ledger for at least 30 days after receipt of the grant. This review also revealed that 48 of these 54 grant awards were not recorded on the general ledger for at least 60 days after receipt of the award and 39 of

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

these 54 grant awards were not recorded on the general ledger for at least 90 days after receipt of the award.

- Criteria:** To accurately account for Federal program revenues and expenditures, grant awards should be recorded on the general ledger in a timely manner.
- Cause:** These deficiencies were a result of the Department's failure to have procedures in place to record Federal grant awards in the general ledger in a timely manner.
- Effect:** Failure to record grant availability in a timely manner could affect the proper recording of Federal program revenues (and expenditures) which could result in misstatements in the financial statements. In addition, this condition could result in the Department not requesting reimbursement of Federal funds on a timely basis.
- Recommendation:** The Department of Human Resources should establish policies and procedures to ensure the timely recording of grant awards.

**Finding Control Number: FS-427-06-03**

**REVENUE/RECEIVABLES/RECEIPTS**

**Inadequate Procedures Over Cash Draws of Federal Grants**

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA 10.557)

State Administrative Matching Grants for Food Stamp Program (CFDA 10.561)

Temporary Assistance for Needy Families (CFDA 93.558)

Child Support Enforcement (CFDA 93.563)

Child Care and Development Block Grant (CCDF) (CFDA 93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) (CFDA 93.596)

Foster Care - Title IV-E (CFDA 93.658)

Adoption Assistance (CFDA 93.659)

Social Services Block Grant (CFDA 93.667)

HIV Care Formula Grants (CFDA 93.917)

Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)

**Condition:** Our examination of Cash Management over Federal Financial Assistance Programs at the Department of Human Resources (Department) disclosed the following deficiencies:

- (1) Requests for reimbursement were not sufficient to cover Federal program expenditures. The following table identifies the programs and the number of months with requests in excess of expenditures:

<u>CFDA #</u>	<u>Program Name</u>	<u>Number of Months Reimbursements Exceeded Expenditures</u>	<u>Average Monthly Balance of Excess Funds on Hand</u>
10.557	WIC Administration	9	1,500,000.00
	WIC Food Supplement	11	8,500,000.00
93.558	TANF	8	15,200,000.00
93.563	CSE	8	7,600,000.00
93.575 &			
93.596	CCDF	4	7,400,000.00
93.658	Foster Care	4	13,200,000.00
93.667	SSBG	6	4,100,000.00
93.917	HIV	9	3,400,000.00

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## Financial Statement Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2006

- Criteria: Code of Federal Regulations Title 31, Chapter II, Part 205, Subpart A and B indicates that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A State and Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.
- Cause: The Department's policies and procedures for requesting Federal funds to reimburse program costs were inadequate.
- Effect: Failure to drawdown Federal funds on an as-needed basis could result in an interest liability being incurred.
- Recommendation: The Department of Human Resources should review their policies and procedures for requesting and recording Federal funds to ensure that they are adequate to meet cash management objectives. The Department should also review the clearance patterns used for drawing Federal funds to ensure that they are still relevant to current trends.

Finding Control Number: **FS-427-06-04**

### CAPITAL ASSETS

#### Inadequate Capital Asset Records

- Condition: The Department of Human Resources (Department) does not have sufficient controls in place to ensure that all equipment items listed on the capital asset inventory records could be identified and located. Three hundred forty-two (342) equipment items totaling \$4,439,767.00 that were added to the capital asset inventory records during fiscal year 2006 were missing a tag number (decal) and location code.
- Criteria: The *Accounting Procedures Manual* for the State of Georgia (Manual), Section Three, Page 3-1-29 states in part: "Accurate subsidiary capital asset inventory records must be maintained." Sufficient information should be recorded on the capital asset inventory records to enable the tracing of assets from the inventory records to the floor.
- Cause: The deficiency noted above was caused by the Department's failure to develop and implement adequate policies and procedures to ensure that tag numbers and location codes were recorded in the capital asset inventory records to identify and document the location of all capital assets purchased, constructed, donated or leased, and physically on hand.
- Effect: Failure to properly identify and document the location of all capital assets could result in the misappropriation of assets and a material misstatement of the financial statements.
- Recommendation: The Department of Human Resources should develop and implement appropriate policies and procedures to ensure that all capital assets listed on the capital asset inventory records can be identified and located.

Finding Control Number: **FS-427-06-05**

### CAPITAL ASSETS

#### Inadequate Capital Asset Records – Machinery and Equipment

- Condition: The Department of Human Resources does not have sufficient controls in place to ensure that all equipment items are decaled correctly, have the correct description and are in the designated location as reported on the capital asset inventory listing. As part of an overall statewide sample of machinery and equipment, a total of 31 items reported as belonging to the Department of Human Resources were selected for testing. The following exceptions were noted in relation to these items:

- (1) Five items totaling \$41,103.97 were found to be either surplus or traded-in, but still appeared on the listing.
- (2) Two items totaling \$16,808.74 could not be located.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- (3) One item on the listing for \$17,947.20 was found to actually be a combination of eight wheelchairs each with a value below the capitalization threshold and, therefore should not have been on the listing at all.
- (4) Two items had no decal number.
- (5) One item was found in a location other than the one on the listing.

Also as part of our examination, a total of 28 items were randomly selected from various locations and traced back to the capital asset inventory listing to check the decal number, description and location of the item. Based on this testing, the following exceptions were noted:

- (1) One item, reported as missing since 1999, had no decal number.
- (2) One item had an incorrect description.
- (3) One item either had the incorrect decal number or an incorrect description.

- Criteria:** The *Accounting Procedures Manual* for the State of Georgia (Manual), Section Three, Page 3-1-29 requires that, "Accurate subsidiary capital asset inventory records must be maintained."
- Cause:** Management failed to develop and implement adequate policies and procedures that ensured decal numbers, item descriptions and locations were recorded in the capital asset inventory records.
- Effect:** Failure to properly identify and document the location of all capital assets could result in the misappropriation of assets and a material misstatement of the financial statements.
- Recommendation:** Management should take action to ensure that appropriate policies and procedures are being followed so that all capital assets listed on the capital asset inventory Records can be identified by decal number, description and location.

### DEPARTMENT OF COMMUNITY AFFAIRS

Finding Control Number: **FS-428-06-01**

#### CAPITAL ASSETS

##### Inadequate Capital Asset Records – Machinery and Equipment

- Condition:** The Department of Community Affairs does not have sufficient controls in place to ensure that all equipment items are decaled correctly, have the correct description and are in the designated location as reported on the capital asset inventory listing. As part of an overall statewide sample of machinery and equipment, a total of 18 items reported as belonging to the Department of Community Affairs were selected for testing. The following exceptions were noted in relation to these items:
- (1) One item totaling \$8,534.00 was found to be surplus, but still appeared on the listing.
  - (2) One item totaling \$14,598.52 could not be located.
  - (3) One item was found at a different location than the one on the listing.
  - (4) One item had no decal number.

Also as part of our examination, a total of 11 items were randomly selected from various locations and traced back to the capital asset inventory listing to check the decal number, description and location of the item. Based on this testing, the following exceptions were noted:

- (1) Six items had no decal number.
- (2) Three items could not be found on the listing
- (3) Two items had an incorrect description

- Criteria:** The *Accounting Procedures Manual* for the State of Georgia (Manual), Section Three, Page 3-1-29 requires that, "Accurate subsidiary capital asset inventory records must be maintained."

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** Management failed to develop and implement adequate policies and procedures that ensured decal numbers, item descriptions and locations were recorded in the capital asset inventory records.
- Effect:** Failure to properly identify and document the location of all capital assets could result in the misappropriation of assets and a material misstatement of the financial statements.
- Recommendation:** Management should develop and implement appropriate policies and procedures to ensure that all capital assets listed on the capital asset inventory records can be identified by decal number, description and location.

### DEPARTMENT OF LABOR

Finding Control Number: **FS-440-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Deficiencies in Data Provided for Audit Testing

- Condition:** The electronic tape submitted by the Department of Labor (Department) to the Department of Audits and Accounts (DOAA) of unapplied credits (deferred revenue) could not be reconciled to the copy of the HOST database. The following procedures were performed in an attempt to reconcile the data on the tape with the database copy:
1. Overall totals and totals by tax period in the image copy of the HOST database were compared with information contained on the tape of unapplied credits.
  2. A sample of employers contained in the image copy of the HOST database was compared with information contained on the tape of unapplied credits.
  3. Totals by tax period in the image copy of the HOST database by tax period were compared with information contained on the tape of unapplied credits, taking into account change dates on the individual records
  4. Overall totals were compared with individual employers in the image copy of the HOST database, using the query that the Department provided DOAA as the method used to create the tape of unapplied credits.
- Criteria:** Government Auditing Standards issued by the Comptroller General of the United States require that sufficient, competent, and relevant evidence is to be obtained to provide a reasonable basis for the auditor's findings and conclusions. Evidence is considered competent if it is accurate, authoritative, timely, and authentic. Additionally, evidence is considered relevant if it has a logical relationship with, and importance to, the issue being addressed.
- Cause:** The electronic tape of unapplied credits (deferred revenue) presented by the Department to DOAA for examination was created 13 days before the creation of the image copy of the HOST database. Additionally, neither the copy of the tape of unapplied credits (deferred revenue) nor the image copy of the HOST database was created on the cutoff date identified by the Department's management.
- Effect:** Failure to submit accurate data for testing in a timely manner could result in material misstatements in financial reporting including unfavorable audit results.
- Recommendation:** The Department of Labor should take necessary steps to ensure that future submissions of electronic tapes to DOAA accurately reflect financial data for the pre-established time period, and ensure that electronic tapes produced to document details of account balances can be tested utilizing audit image copies of the HOST database.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: **FS-440-06-02**

CASH AND CASH EQUIVALENTS

Failure to Reconcile Bank Accounts in a Timely Manner

- Condition:** The Department of Labor's (Department) internal control procedures were not sufficient to provide for the proper and timely performance of bank account reconciliations for the Department's Unemployment compensation Fund bank accounts.
- Criteria:** An adequate system of internal controls calls for the performance of a monthly reconciliation between the bank statement and the general ledger in a timely manner. Each reconciling item should be appropriately accounted for and identified and adjustments should be made to the general ledger for reconciling items when applicable.
- Cause:** Bank reconciliations were not properly completed as a result of the Department's failure to provide adequate attention and supervision to this significant internal accounting control.
- Effect:** Failure to fully reconcile the bank statements to the general ledger in a timely manner could result in errors in financial reporting or potential fraud occurring with regards to cash that could go undetected.
- Recommendation:** The Department of Labor should establish sufficient internal control procedures over its Unemployment Compensation Fund bank accounts reconciliation process to ensure all reconciling items are properly identified and adjusted for, when applicable, in a timely manner.

Finding Control Number: **FS-440-06-03**

CASH AND CASH EQUIVALENTS

Inadequate Bank Reconciliation Procedures

- Condition:** The Department of Labor (Department) did not perform adequate bank reconciliation procedures on the Budget Fund bank accounts. Exceptions noted were as follows:
1. Bank reconciliations for the Payroll account were not available for review for the months of January, 2006 through June, 2006.
  2. Bank reconciliations for the Imprest Cash, Trust Funds, Accounts Payable, and DAS & VR (Disability Adjudication Services and Vocational Rehabilitation) Accounts Payable accounts reflected per book amounts that did not agree with the general ledger.
  3. The bank reconciliations for the months of July, 2005 through December, 2005 as presented for review for the Payroll account were incorrect, containing unidentified reconciling items in excess of \$2 million.
  4. The original set of bank reconciliations presented for review for the Accounts Payable account were incorrect, containing unidentified reconciling items ranging from \$11,556.68 to \$82,011.07. When Department personnel were questioned concerning the errors noted in the bank reconciliation, two additional sets of bank reconciliations were produced which were incorrect as well.
  5. The general ledger reported a \$300.00 balance for a petty cash account that has been closed and no longer exists.
  6. Bank reconciliations for the Imprest Cash and Trust Fund accounts contained no evidence of supervisory review and approval.
  7. Bank reconciliations for the Administrative, Accounts Payable, DAS & VR Accounts Payable, and Payroll accounts were not performed in a timely manner

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

8. Bank reconciliations for the Accounts Payable and DAS & VR Accounts Payable accounts contained reconciling items that carried over for extended periods of time without correction.
9. For the June, 2006 Accounts Payable bank account, the outstanding check list contained numerous old checks with some ranging back seven fiscal years.

**Criteria:**

An adequate system of internal controls dictate that the bank reconciliations be performed at a minimum on a monthly basis, and as appropriate, include the following: 1) adequate supporting documentation, 2) reconciling items correctly identified by description and amount, 3) adjustments which are needed are identified and made in a timely manner, 4) accurate general ledger balances, and 5) evidence of an effective supervisory review and approval function.

In addition, the Disposition of Unclaimed Property Act as identified in OCGA 44-12-190 through 44-12-236 provides for procedures to be followed for those holding property for someone else and contact has been lost with that person or vendor. This act applies to outstanding checks written to both individuals and vendors. Also, the Outstanding Checks topic in Section Four of the *Accounting Procedures Manual* for the State of Georgia provides guidance on the proper accounting procedures regarding old outstanding checks.

**Information:**

The June, 2006 bank reconciliation for the Account Payable account reflected a total dollar amount of \$34,778.33 for old outstanding checks, comprised of 136 checks, which potentially should be remitted to the Department of Revenue in accordance with the Disposition of Unclaimed Property Act.

**Cause:**

These deficiencies were the result of the Department's failure to adequately manage and monitor the Budget Fund bank accounts, including the preparation and approval of bank reconciliations in a timely manner.

**Effect:**

The deficiencies noted above increase the risk of material misstatement in the financial statements including misstatements due to fraud. Also, the Department does not appear to be in compliance with the Disposition of Unclaimed Property Act as defined in OCGA 44-12-190 through 44-12-236.

**Recommendation:**

The Department of Labor should review their current internal control procedures in relation to bank reconciliations and implement additional policies and procedures as needed to ensure an effective bank reconciliation process is in place to manage and monitor the Budget Fund bank accounts. In addition, the Department should review the Disposition of Unclaimed Property Act and the Outstanding Checks section of the *Accounting Procedures Manual* for the State of Georgia and follow the guidance provided therein.

**Finding Control Number: FS-440-06-04**

**EXPENDITURES/LIABILITIES/DISBURSEMENTS**

**Exceptions Related to Purchasing Card Transactions**

**Condition:**

The Department of Labor (Department) failed to maintain adequate internal controls over their purchasing card program in accordance with the *Accounting Procedures Manual* for the State of Georgia, the Bank of America Purchasing Card Agreement, and the Georgia Department of Labor's (GDOL) Purchasing Card Manual.

Our review included an examination of active cardholders and transaction documentation involving state purchasing card transactions. The process through which employees obtain purchasing cards and a total of 12 monthly credit card statements were tested for compliance with the above sources. The following are exceptions found:

1. One hundred thirty-six (136) instances were noted in which Georgia sales tax was charged to the transaction for a combined total of \$1,009.92.
2. Twelve (12) instances were noted of equipment rental for a combined total of \$6,422.27.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

3. Nineteen (19) instances were noted of vehicle rentals for a combined total of \$9,616.06.
4. Two (2) instances were noted of gas purchases for a combined total of \$45.90.
5. One (1) instance was noted of vehicle repair for a total of \$647.31.
6. One hundred seven (107) instances were noted of mailing and distribution services for a combined total of \$13,613.78.
7. Forty-seven (47) instances were noted where food was purchased for a combined total of \$3,709.76.
8. Four (4) instances were noted where computer software was purchased for a combined total of \$338.85.
9. Five (5) instances were noted where flowers were purchased for a combined total of \$267.35.

**Criteria:**

The *Accounting Procedures Manual* for the State of Georgia, Section Five, pages 5-1-1 and 5-1-2 states, in part: 1) "Each state organization is responsible for adopting an internal control framework that is suitable for the type of service they provide..." 2) "Each state organization has a responsibility to assess their internal control system and use this information to design, implement, and monitor internal controls that are suitable for their organization."

The Department of Administrative Services (DOAS) contract with Bank of America to service the state purchasing card transactions states, in part: 1) "The Bank of America Purchasing Card may not be used for cash advances, travel and entertainment expenses, motor vehicle fuel, professional services, or personal purchases..." 2) "Each Agency or Institution must designate a Purchasing Card Program Coordinator (PPC) who shall function as the Agency's or Institution's primary liaison to Bank of America and DOAS." Responsibilities of the PPC include processing authorized requests for procurement cards, maintaining control over active cards, closing accounts, establishing and maintaining accounting code and usage controls for each card and periodically reviewing cardholder listings and summary reports to identify unauthorized use.

The *Georgia Department of Labor Purchasing Card Manual* pages 3 and 4 list Unauthorized Purchases by Department employees. These include but are not limited to computer software, live flowers, food and meals, mailing and distribution services, motor vehicle fuel, rental of equipment, travel, vehicle rental, and vehicle repair service. The Department Purchasing Card Manual (page 2) also requires that a signed Cardholder Agreement be obtained for each employee granted a card that acknowledges the employee has read and will follow departmental procurement card policies and procedures.

**Cause:**

The Department did not ensure that adequate internal controls were implemented correctly to fully comply with provisions of the *Accounting Procedures Manual* for the State of Georgia, the Bank of America Purchasing Card Agreement, and/or the Department's own Purchasing Card Manual.

**Effect:**

Inadequate internal controls can result in the misappropriation of assets, misstatement of the financial statements, inaccurate decision making regarding current and future purchasing card purchases and decisions, the lack of required information for reporting both to State and Federal agencies, and potential abuse.

**Recommendation:**

The Department of Labor should review their current policies and procedures regarding the overall purchasing card process. Specifically, any controls in place should be followed which provide for the appropriate approval of cardholder purchases. In addition, the Department should establish controls to ensure compliance with transaction documentation and authorization guidelines.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FS-440-06-05

GENERAL LEDGER

Inadequate General Ledger

- Condition:** The Department of Labor (Department) utilizes a secure, ongoing host-based application to process and account for transactions relating to the State of Georgia Unemployment Insurance Program, whereas the general ledger utilized by the Department to produce the financial statements for the Unemployment Compensation Fund is an Excel-based set of spreadsheets which are manually updated on a daily basis from reports and information produced by the host application. This type of setup is commonly referred to as "end-user computing." The general ledger utilized by the Department is inadequate due to being basically a set of ongoing cash sheets. The current system is incapable of producing accrual based accounting financial statements or of providing a detail of account balances.
- Criteria:** For all State organizational units, the *Accounting Procedures Manual* for the State of Georgia requires for financial accountability purposes, that accounting records be uniformly maintained. Also, in order to eliminate potential information systems security concerns with the processing environment and in order to be able to rely on accounting data and other information produced by the systems which are maintained as end-user computers, traditional internal controls procedures (i.e., reconciling, balancing, etc.) must be in place and operating without flaws.
- Cause:** This condition is due to the Department's failure to develop or purchase a sufficient accounting system to utilize as a general ledger for the Unemployment Compensation Fund.
- Effect:** The failure to maintain an effective general ledger process increases the risk of material misstatement in the financial statements including misstatements due to fraud. In addition, there is potentially unsupported and/or unauditible financial statement account balances and lack of data integrity if traditional internal controls are not in place and operating effectively.
- Recommendation:** The Department of Labor should seek to develop or obtain a new accounting system to serve as its general ledger for the Unemployment Compensation Fund. This new accounting system should be capable of accrual based accounting and be totally integrated, if possible, with the host-based application.

Finding Control Number: FS-440-06-06

GENERAL LEDGER

Deficiencies in Account Balances

- Condition:** Our examination included a review of the general ledger for the Department of Labor's (Department) Unemployment Compensation Fund as presented for audit. The following deficiencies were noted:
1. The balance in the accounts receivable account was overstated.
  2. The balance in the deferred revenue account was overstated.
- Criteria:** General accepted accounting principles require that proprietary funds be reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.
- Information:** The Department maintains the Unemployment Compensation Fund on a cash basis of accounting. Adjustments are made at year end to convert the general ledger to the accrual basis of accounting.
- Cause:** The deficiencies noted above were a result of the Department's failure to have adequate policies and procedures in place to convert their general ledger to the accrual basis of accounting as required by generally accepted accounting principles.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Effect:** The failure by the Department to maintain an effective general ledger process can result in material misstatements in the financial statements and increase the risk of misstatement due to fraud.

**Recommendation:** The Department should develop policies and procedures to ensure the proper reporting of accounts receivable for contributory tax and deferred revenue within their financial statements in conformity with generally accepted accounting principles.

### DEPARTMENT OF NATURAL RESOURCES

**Finding Control Number: FS-462-06-01**  
**CASH AND CASH EQUIVALENTS**  
**Inadequate Bank Reconciliations**

**Condition:** The Department of Natural Resources (Department) failed to perform adequate bank reconciliations and supervisory review and approval procedures on the bank accounts. Exceptions noted were:

1. There is no evidence of supervisory review and approval of the monthly reconciliations.
2. There are reconciling items that carried over for extended periods of time without correction.
3. There are reconciling items that are not properly classified on December, 2005 Revenue Collection account.
4. The Sweetwater Creek bank reconciliation for the month of December, 2005 did not agree with the general ledger.
5. There is supporting documentation that is not adequately completed on December, 2005 Park Receipts account.

**Criteria:** An adequate system of internal control dictates that bank reconciliations are performed to include the following: adequate supporting documentation, reconciling items correctly identified by description and amount, adjustments that are identified are made in a timely manner, and evidence of an effective supervisory review and approval function.

**Cause:** These deficiencies were the result of the Department's failure to adequately manage and monitor the bank accounts, including the preparation and approval of bank reconciliations.

**Effect:** The failure to adequately prepare bank reconciliations and perform review and approval procedures increases the risk of material misstatement in financial reporting including misstatement due to fraud.

**Recommendation:** The Department should review current internal control procedures regarding bank reconciliations and implement additional policies and procedures to ensure an effective bank reconciliation process.

**Finding Control Number: FS-462-06-02**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
**Accounting/Internal Control Deficiencies**

**Condition:** Our examination of expenditure items at the Department of Natural Resources (Department) revealed the following exceptions:

1. The Department failed to maintain adequate supporting documentation for four purchase orders.
2. There was no evidence of supervisory review and approval for two purchase orders.
3. A payment of \$5,000.00 was incorrectly charged to a fiscal year 2003 purchase order.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

4. Travel reimbursement requests were not accurately completed by the staff.
5. There were two travel reimbursement requests that had supervisory approval dates proceeding the dates the requests were completely by staff.

**Criteria:** Adequate internal controls dictate that purchase orders be adequately reviewed and approved by appropriate personnel and that adequate documentation be maintained. Section 3-2-3 of the *Accounting Procedures Manual* for the State of Georgia states that "transactions which purport to obligate appropriated funds must be supported by an approved purchase order, at a minimum, or an executed contract which contains the following: a confirmed vendor, specific services or goods, specific price for the services or goods, and a stated time or range of time for delivery or completion." Travel reimbursement requests should be adequately completed by staff and should also be reviewed and approved by appropriate personnel.

**Cause:** These deficiencies were the result of the Department's lack of, or failure to follow, existing internal controls concerning purchase orders and travel reimbursement requests.

**Effect:** Failure to implement adequate internal controls with regards to purchase orders and travel reimbursement requests increases the risk of material misstatement in the financial statements including misstatements due to fraud.

**Recommendation:** The Department of Natural Resources should implement internal controls regarding purchase orders and travel reimbursement requests to ensure adequate documentation is maintained and all purchase orders and travel reimbursement requests are completed, reviewed, and approved by appropriate personnel.

Finding Control Number: **FS-462-06-03**

### CAPITAL ASSETS

#### Inadequate Capital Asset Records – Machinery and Equipment

**Condition:** The Department of Natural Resources does not have sufficient controls in place to ensure that all equipment items are decaled correctly, have the correct description and are in the designated location as reported on the capital asset inventory listing. As part of an overall statewide sample of machinery and equipment, a total of 33 items reported as belonging to the Department of Natural Resources were selected for testing. The following exceptions were noted in relation to these items:

1. Three items totaling \$149,696.63 were found to be either surplus or traded-in, but still appeared on the listing.
2. Four items had no decal number.

Also as part of our examination, a total of 31 items were randomly selected from various locations and traced back to the capital asset inventory listing to check the decal number, description and location of the item. Based on this testing, one item should have been included in the listing but was not.

**Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section Three, Page 3-1-29 requires that, "Adequate subsidiary capital asset inventory records must be maintained."

**Cause:** Management failed to develop and implement adequate policies and procedures that ensured decal numbers, item descriptions and locations were recorded in the capital asset inventory records.

**Effect:** Failure to properly identify and document the location of all capital assets could result in the misappropriation of assets and a material misstatement of the financial statements.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Recommendation:** Management should develop and implement appropriate policies and procedures to ensure that all capital assets listed on the capital asset inventory records can be identified by decal number, description and location.

**Finding Control Number:** FS-462-06-04

### CAPITAL ASSETS

#### Incorrect Recording of Similar Asset Exchange

**Condition:** The Department of Natural Resources failed to record a similar property asset exchange in accordance with the State of Georgia's *Accounting Procedures Manual*. The Department recorded as asset exchange of land at the fair market value (FMV) of the received asset instead of the book value of the asset given up. It was also noted that similar transactions in prior fiscal years were accounted for in the same manner.

**Criteria:** According to the State of Georgia Capital Asset Guide (included in the *Accounting Procedures Manual*), similar exchanges of assets, when there is no additional exchange of cash, should be recorded at the book value of the asset given up.

**Information:** During our examination of current year additions, the exchange of land with the City of Warner Robins was recorded incorrectly. The Department recorded the asset received at \$968,000 which is the FMV of the received tract of land instead of the book value of the tract of land given up, which is \$348,173. This misstatement was identified in time to make the correction to the State Accounting Office's capital assets form and, as a result, the Capital Asset – Land balance in the State's Comprehensive Annual Financial Report will not be misstated for this issue.

**Cause:** The aforementioned "condition" occurred because the Department of Natural Resources applied an improper recording methodology for asset exchanges.

**Effect:** The Department of Natural Resources recorded on their capital asset records land received through an asset exchange transaction for an amount that was more that it should have been. Also, because the Department of Natural Resources indicated this practice has been followed for previous similar transactions, other land values are likely misstated as well.

**Recommendation:** The Department of Natural Resources should implement policies and procedures to record capital asset exchanges of a similar nature at the book value of the asset being given up as required by the State of Georgia Capital Asset Guide. In addition, the Department should review their capital asset records to identify and correct any previous postings that were made in error.

## DEPARTMENT OF CORRECTIONS

**Finding Control Number:** FS-467-06-01

### ACCOUNTING CONTROLS (OVERALL)

#### EXPENDITURES/LIABILITIES/DISBURSMENTS

##### Inadequate Controls over Operating Leases

**Condition:** The Department of Corrections reported current and future lease obligations to the State Accounting Office incorrectly due to numerous calculation errors.

**Criteria:** An adequate system of internal controls is one that ensures lease information submitted to the State Accounting Office is complete and all calculations are accurate.

**Information:** Based on a review of operating leases, the following was noted:

- 26 of 40 (65%) operating leases judgmentally selected for review contained an error in its calculation of current and/or future lease obligations.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- 21 fiscal year 2006 annual cost calculations contained an incorrect number of months for the expense amounts calculations.
- One lease ending date did not appear to be correct when compared to the lease beginning date and lease term.
- 10 future lease expense amounts were inaccurate.
- Four postage meter leases and two real estate leases were not accurately recorded on the Lease Agreement form.

**Cause:** This deficiency is the result of a lack of internal controls in place to ensure lease obligation information was complete and obligations were accurately reported.

**Effect:** Misstatements on the lease agreement forms could cause inaccurate and unreliable information about the lease obligations being reported and inadequate internal controls over the tracking and monitoring of leases could result in undetected fraudulent activities.

**Recommendation:** The Department of Corrections should develop policies and procedures to ensure all lease obligations are accurately calculated, monitored and reported.

### GEORGIA BUREAU OF INVESTIGATION

Finding Control Number: **FS-471-06-01**

CAPITAL ASSETS

Inadequate Capital Asset Records – Machinery and Equipment

**Condition:** The Georgia Bureau of Investigation does not have sufficient controls in place to ensure that all equipment items are decaled correctly, have the correct description and are in the designated location as reported on the capital asset inventory listing. As part of an overall statewide sample of machinery and equipment, a total of 20 items reported as belonging to the Georgia Bureau of Investigation were selected for testing. The following exceptions were noted in relation to these items:

- (1) Two items totaling \$32,000.00 were identified as being surplused, but still appeared on the listing.
- (2) One item totaling \$95,550.00 could not be located
- (3) One item had no decal number.

Also as part of our examination, a total of 17 items were randomly selected from various locations and traced back to the capital asset inventory listing to check the decal number, description and location of the item. Based on this testing, two items did not appear in the listing.

**Criteria:** The *Accounting Procedures Manual* for the State of Georgia (Manual), Section Three, Page 3-1-29 requires that, "Accurate subsidiary capital asset inventory records must be maintained".

**Cause:** Management failed to develop and implement adequate policies and procedures that ensured decal numbers, item descriptions and locations were recorded in the capital asset inventory records.

**Effect:** Failure to properly identify and document the location of all capital assets could result in the misappropriation of assets and a material misstatement of the financial statements.

**Recommendation:** Management should develop and implement appropriate policies and procedures to ensure that all capital assets listed on the capital asset inventory records can be identified by decal number, description and location.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### DEPARTMENT OF REVENUE

Finding Control Number: **FS-474-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Inadequate Monitoring Procedures

- Condition:** Management at the Motor Vehicle Division of the Department of Revenue does not adequately monitor and/or verify transaction data for accuracy, completeness and validity. During our examination the following areas of concern were noted:
- 1) Revenue collections sent to the Tradeport location from the regional offices include negative cash.
  - 2) Numerous instances of outstanding balances remain at year end which appear to be the result of underpayments/overpayments by the counties which were not corrected or did not receive follow up by accounting personnel.
  - 3) System output reports (Georgia Registration and Title Information System - GRATIS) give inaccurate/inconsistent revenue collections data.
  - 4) Numerous instances where the Pre-Processing deposits did not match the amount of revenue recognized as received in GRATIS.
- Criteria:** In accordance with the *Accounting Procedures Manual* for the State of Georgia, Section Five, page 5-4-3 states in part: "Verification is the determination of the completeness, accuracy, authenticity and/or validity of transactions, events or information."
- Cause:** These deficiencies appear to be the result of a general lack of management oversight, control, and accountability with regard to the accounting records and transaction data.
- Effect:** The Motor Vehicle License Tax revenue collections may be misstated.
- Recommendation:** Management should establish policies and procedures to ensure proper monitoring and/or verification of accounting and transaction data for accuracy, completeness and validity.

Finding Control Number: **FS-474-06-02**  
ACCOUNTING CONTROLS (OVERALL)  
Inadequate Systems Documentation

- Condition:** The Motor Vehicle Division of the Department of Revenue (DOR) does not have system documentation which reflects the original state of the Georgia Registration and Title Information System (GRATIS).
- Criteria:** Good accounting and business practices dictate that system(s) documentation for the system which generates and stores the primary transaction data is to be maintained.
- Cause:** Management has failed to take the necessary steps to obtain the system documentation for the GRATIS system, either at the time of purchase or any time thereafter.
- Effect:** Because no documentation exists which reflects the original state of the GRATIS system, changes made to the GRATIS system may not produce expected, reliable, or accurate results. Although subsequent changes made by DOR may have been documented, there is no record of the baseline against which the subsequent changes were made.
- Recommendation:** The Department of Revenue should either obtain system documentation which reflects the GRATIS system in the state in which it was purchased, or create documentation which would reflect the original condition of the system.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: **FS-474-06-03**

CASH AND CASH EQUIVALENTS

GENERAL LEDGER

Inadequate Bank Reconciliation Procedures

- Condition:** The Department of Revenue was unable to prepare accurate bank reconciliations for the Revenue Collections, General Disbursement, and Electronic Funds Transfer bank accounts. For the reconciliations provided, the amounts entered in the "Per Book" column of the bank reconciliations did not reflect totals obtained from the general ledger; thus, the bank accounts were essentially unreconciled.
- Criteria:** An adequate system of internal controls dictate that bank reconciliations be performed at a minimum on a monthly basis and, as appropriate, include the following:
- (1) adequate supporting documentation, (2) reconciling items correctly identified by description and amount, (3) accurate general ledger balances, and (4) evidence of an effective supervisory review and approval function.
- Information:** This appears to have been a PeopleSoft issue and the State Accounting Office was made aware of the problems.
- Cause:** The Department of Revenue failed to adequately manage and monitor the cash balances on the general ledger. The general ledger was overstated \$108,849,395.89 for the Revenue Collections account, \$76,892.74 for the General Disbursement account, and \$79,170,559.86 for the Electronic Funds Transfer account. The Department chose to reconcile the corresponding bank statements to the cash receipts journal instead of the general ledger. An audit adjustment for \$188,096,848.49 was made to correct the cash balances.
- Effect:** The Department of Revenue's bank reconciliations as presented for the Revenue Collections, General Disbursement, and Electronic Funds Transfer accounts were incorrect. The failure to maintain an effective bank reconciliation process increases the risk of material misstatement in the financial statements including misstatements due to fraud.
- Recommendation:** The Department of Revenue should implement additional policies and procedures to ensure an effective bank reconciliation process is in place to manage and monitor the Revenue Collections, General Disbursement and Electronic Funds Transfer bank accounts.

Finding Control Number: **FS-474-06-04**

REVENUES/RECEIVABLES/RECEIPTS

Deficiencies in the Income Tax Division Subsidiary Records

- Condition:** The Taxpayer Services Division of the Department of Revenue does not adequately track data received from companies and individuals concerning taxpayer wages, income tax withholdings or estimated payments of Georgia income tax.
- Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section Five, provides that management should establish policies and procedures to enable management to monitor the reliability of reporting systems. Such policies and procedures should include periodic review of reports to ensure data are accurate, reliable, and measuring the appropriate things, as well as, integrating or reconciling information used to manage operations with data generated by the financial reporting system.
- Cause:** These deficiencies were the result of management's failure to design and implement needed procedures, programs or systems.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Effect:** The Taxpayer Services Division cannot ensure, in all cases, that the withholding amount claimed by the taxpayer on the annual income tax return is accurate or that all known taxable income is reported as income.

**Recommendation:** The Department of Revenue should design and implement a system that will provide for the systematic reconciliation of income and withholding data received from employers and individuals with Form W-2 and other documents filed with year-end individual tax returns.

**Finding Control Number: FS-474-06-05**  
REVENUES/RECEIVABLES/RECEIPTS  
GENERAL LEDGER

Deficiencies in the Review and Approval of Journal Entries

**Condition:** The Department of Revenue's internal control policies and accounting procedures were not sufficient to provide for the proper review and approval of journal entries. Our examination of 421 journal entries revealed 43 journal entries with no evidence of review and/or approval, in the following categories:

4 of 144 Electronic Funds Transfer  
4 of 48 Income Tax  
14 of 205 Motor Vehicle License Tax  
21 of 24 Sales Tax

**Criteria:** An adequate system of internal controls requires proper supervisory review and approval of journal entries prior to posting to the accounting records.

**Cause:** These deficiencies are a result of management's failure to implement adequate policies and procedures to ensure proper supervisory review and approval of all journal entries.

**Effect:** The failure to review and approve journal entries increases the risk of material misstatements in the financial statements including misstatements due to fraud.

**Recommendation:** The Department of Revenue should implement additional policies and procedures to ensure proper supervisory review and approval of all journal entries.

**Finding Control Number: FS-474-06-06**  
REVENUES/RECEIVABLES/RECEIPTS  
GENERAL LEDGER

Failure to Reconcile Subsidiary Systems to PeopleSoft

**Condition:** The Department of Revenue did not provide 'year-in-total' reconciliations to PeopleSoft for Electronic Funds Transfer, Mailcash, Central Taxpayer Accounting, and the Georgia Registration and Title Information System.

**Criteria:** The *Accounting Procedures Manual* for the State of Georgia, Section Five, provides that management should establish policies and procedures to enable management to monitor the reliability of reporting systems. Such policies and procedures should include periodic review of reports to ensure data are accurate, reliable, and measuring the appropriate things, as well as, integrating or reconciling information used to manage operations with data generated by the financial reporting system.

**Cause:** These deficiencies are a result of management's failure to design and implement the procedures necessary to perform the 'year-in-total' reconciliations.

**Effect:** The failure to perform the 'year-in-total' reconciliations increases the risk of material misstatements in the financial statements.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Recommendation:** The Department of Revenue should establish adequate policies and procedures to perform the 'year-in-total' reconciliations between the subsidiary systems and PeopleSoft. To aid in this process, it would be beneficial for each individual area that provides revenue collection information to Central Accounting, to reconcile their collection records to amounts posted to PeopleSoft.

Finding Control Number: **FS-474-06-07**

**REVENUES/RECEIVABLES/RECEIPTS**

Revenue Collections Not Received in a Timely Manner

**Condition:** The Motor Vehicle Division (MVD) of the Department of Revenue records indicate that of the \$256,476,538.54 reported as Tag and Title Revenues, at least \$28,457,820.02 was received late and subject to penalties and interest. MVD management informed the auditors that no penalties and interest were assessed on these late payments.

**Criteria:** The Official Code of Georgia Annotated (O.C.G.A.) 40-2-34, states in part: "(a) All county tag agents accepting license applications shall ... submit to the commissioner on at least a weekly basis reports of license applications handled and remit ... related sums of money to which the state is entitled... within seven calendar days from the close of the business week during which the aforementioned license applications were handled and related sums of money received, (c) Failure to submit the reports or remit the funds within the period required by this Code section shall result in the penalties imposed by Code Section 48-2-44."

O.C.G.A. 40-3-40, states in part: "(a) All county tag agents accepting and handling title applications shall ... submit such applications and related sums of money ...within seven calendar days from the close of the business day during which such applications were handled and related sums of money collected, (c) Failure to submit the reports or remit the funds within the seven-calendar day period ... shall result in the penalties imposed by Code Section 48-2-44."

O.C.G.A. 48-2-44, states in part: "(a) In any instance in which any person.. .fails to pay the commissioner any revenue held in trust for the state...shall pay...a penalty of 10 percent of the amount of revenue held in trust and not paid on or before the time prescribed by law, together with interest on the principal amount...."

**Cause:** Management at the Motor Vehicle Division of the Department of Revenue failed to monitor and ensure the timely collection of revenues from various counties. Management also failed to impose the prescribed penalties and interest in accordance with the applicable statutes of the Official Code of Georgia Annotated.

**Effect:** The late submission of the tag and title revenues resulted in the loss of interest that could have been generated from having the funds deposited in the State Treasury. Also, no penalties and interest were assessed or collected on the late payments.

**Recommendation:** The Motor Vehicle Division of the Department of Revenue management should improve the monitoring of the counties' compliance with the applicable statutes related to tag and title revenue collections and develop and/or implement a process for assessing penalties and interest for any late payments received.

## DEPARTMENT OF TRANSPORTATION

Finding Control Number: **FS-484-06-01**

**CAPITAL ASSETS**

Inadequate Capital Asset Records

**Condition:** The accounting procedures of the Department of Transportation (Department) were insufficient to provide adequate internal controls over the Department's Buildings and Building Improvements management system. The reconciliation as presented by the Department for its buildings inventory

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

contained the following deficiencies:

- (1) Replacement cost for insurance value used by the Department to calculate estimated historical costs for buildings acquired prior to fiscal year 2006 was actually a combination of fair market value, estimated construction cost, and allocated purchase price.
- (2) Amounts reflected as additions to the buildings inventory were actually buildings under construction at year end.

Criteria:	The <i>Accounting Procedures Manual</i> for the State of Georgia requires that capital assets be reported by category at historical cost or estimated historical cost when actual records are not available. Generally Accepted Accounting Principles require that buildings under construction at year end should be recorded in a construction in progress inventory, then added to the buildings inventory upon completion.
Cause:	These deficiencies are a result of management's failure to implement adequate policies and procedures to ensure that the Department's capital assets are accounted for and reported in accordance with guidelines established by the <i>Accounting Procedures Manual</i> for the State of Georgia and Generally Accepted Accounting Principles.
Effect:	Buildings and Building Improvements balances are misstated. The extent of the misstatement cannot be determined; however, it appears to be immaterial.
Recommendation:	The Department of Transportation should develop appropriate policies and procedures to ensure that all of the Department's Buildings and Building Improvements are properly accounted for and reported in accordance with guidelines established by the <i>Accounting Procedures Manual</i> for the State of Georgia.

### DEPARTMENT OF VETERANS SERVICE

Finding Control Number: **FS-488-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Inadequate Accounting Procedures

Condition:	Our examination revealed that the Department of Veterans Service (Department) did not routinely reconcile the accounts receivable and accounts payable balances recorded in the general ledger to the relevant subsidiary ledgers.
Criteria:	The general ledger should be reconciled to the subsidiary ledgers as a routine matter with any variances noted and resolved in a timely manner
Cause:	The Department failed to establish and implement adequate controls over their general ledger.
Effect:	The failure to reconcile accounts receivable and accounts payable balances recorded in the general ledger to the relevant subsidiary ledgers increases the risk of material misstatement in the financial statements including misstatements due to fraud.
Recommendation:	The Department of Veterans Service should establish and implement appropriate controls over their general ledger to ensure that balances reported in the general ledger are routinely reconciled with relevant subsidiary ledgers with any variances noted and resolved in a timely manner.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: **FS-488-06-02**  
CASH AND CASH EQUIVALENTS  
GENERAL LEDGER  
Inadequate Bank Reconciliation Procedures

Condition: The Department of Veterans Service (Department) failed to perform adequate bank reconciliation procedures on the Operating and Payroll bank accounts. Exceptions noted were as follows:

1. For all bank reconciliations provided, the amounts entered in the "Per Books" column of the bank reconciliations did not reflect totals obtained from the general ledger; thus, the bank accounts were essentially unreconciled.
2. The bank reconciliation for the Operating account was not available for review for the month of December, 2005.
3. The bank reconciliations for the Operating and Payroll accounts did not contain evidence of an effective supervisory review and approval function for the months of December, 2005 through February, 2006.
4. A manual journal entry posted to the general ledger in June for \$716,567.43 contained no supporting documentation. The purpose of the entry was to adjust the general ledger ending cash balance to the ending cash balance reflected on the June bank statement for the Operating account. Essentially, the manual journal entry amount was an unidentified difference between the general ledger balance and the bank statement balance.

Criteria: An adequate system of internal controls dictate that bank reconciliations be performed at a minimum on a monthly basis and, as appropriate, include the following: 1) adequate supporting documentation, 2) reconciling items correctly identified by description and amount, 3) accurate general ledger balances, and 4) evidence of an effective supervisory review and approval function.

Cause: These deficiencies were the result of the Department's failure to comprehend the bank reconciliation process.

Effect: The Department's bank reconciliations for the Operating and Payroll bank accounts are incorrect. Extensive work was necessary to determine the correct reconciling items. The failure to maintain an effective bank reconciliation process increases the risk of material misstatement in the financial statements including misstatements due to fraud.

Recommendation: The Department of Veterans Service should gain an understanding of the bank reconciliation process in order to better manage and monitor the Operating and Payroll bank accounts.

## GEORGIA INSTITUTE OF TECHNOLOGY

Finding Control Number: **FS-503-06-01**  
REVENUES/RECEIVABLES/RECEIPTS  
Failure to Monitor Sponsored Projects

Georgia Institute of Technology did not adequately maintain fund integrity related to uncollectible accounts receivables associated with Sponsored Projects. These uncollectible amounts for certain Sponsored Projects in Restricted funds were funded by General Operations (Resident Instruction Fund and Other Organized Activities Fund).

Criteria: The Board of Regents of the University System of Georgia's Business Procedures Manual, Section 10.4.1 (4), as revised, requires that uncollectible accounts must be identified by fund and that "fund integrity must be maintained at all times with regard to the uncollectible accounts". Section 10.4.3 also state "federal receivables resulting from contract or grant activity are to be considered for write-off

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

purposes, as disallowed charges. The funding source for disallowed charges is indirect cost recoveries (revenue)."

**Information:** An examination of uncollectible accounts receivable written off during fiscal year 2006, disclosed that \$191,978.97 was reimbursed by the Resident Instruction and Other Organized Funds.

**Cause:** Management at Georgia Institute of Technology failed to adequately follow write-off guidelines established in the Board of Regents of the University System of Georgia's Business Procedures Manual.

**Effect:** As a result of the weakness identified, certain uncollectible accounts receivable associated with Sponsored Projects were funded by the General Operations (Resident Instruction Fund and Other Organized Activities Fund) of the Institute. However, the funding source for these uncollectibles should be the Indirect Cost Recoveries Fund.

**Recommendation:** Institute management should strengthen controls to ensure that charges against Sponsored Projects are made in a timely manner to facilitate prompt billing. Also, accounts receivable related to these charges should be closely monitored and recorded in accordance with Board of Regents policies.

**Finding Control Number: FS-503-06-03 (\*)**  
**REVENUES/RECEIVABLES/RECEIPTS**  
**Improper Recognition of Contract Revenues**

**Condition:** We identified payments received in advance from sponsors that were prematurely recognized before the revenue was earned. These payments related to recurring invoices set up in the accounting application system when the payment was received for contracts with fixed payment schedules. For example, under the terms of certain contracts, payments were due on July 1, 2006; however, the related revenue was recognized when the sponsor payment was received which was prior to the due date. This resulted in a revenue cut-off error at year end.

**Criteria:** Contract revenue should be recognized in the period earned.

**Effect:** The condition could result in misstatements in the Organization's financial statements.

**Recommendation:** We recommend that the Organization establish procedures and accounting application controls to ensure revenue payments received for fixed payment schedule contracts and sponsor payments received in advance are accounted for in accordance with the contract terms and generally accepted accounting principles.

**Finding Control Number: FS-503-06-04 (\*)**  
**REVENUES/RECEIVABLES/RECEIPTS**  
**Improper Recognition of Contract Revenues**

**Condition:** The Organization does not recognize revenue for some reimbursement basis contracts in accordance with generally accepted accounting principles. The Organization recognizes revenue when the sponsor is billed, as opposed to when the costs are incurred and the revenue is earned.

**Criteria:** Contract revenue and expense should be recognized in accordance with generally accepted accounting principles.

**Effect:** The condition could result in misstatements in the Organization's financial statements.

**Recommendation:** We recommend that the Organization implement a revenue recognition policy to recognize revenue related to reimbursement basis contracts when the costs are incurred and accumulated as research in process.

**(\*) THIS FINDING WAS A RESULT OF AN AUDIT PERFORMED BY OTHER AUDITORS**

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### GEORGIA STATE UNIVERSITY

Finding Control Number: **FS-509-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Inadequate General Controls

- Condition: Our examination of the University included a review of general controls related to their financial information systems. We noted weaknesses in internal controls which we consider relevant to the University's financial statements for the fiscal year ended June 30, 2006.
- Criteria: Policies and procedures should be in place to reasonably mitigate the risk of loss, manipulation, or corruption of data due to internal or external threats.
- Information: Weaknesses in internal control over financial information systems were identified at the University related to access controls.
- Cause: Management did not implement proper policies or controls over access to their financial information systems.
- Effect: Without satisfactory controls in place, losses, changes or misuses of data could occur and possibly not be detected.
- Recommendation: Management should perform a complete risk assessment. Policies and procedures should be developed and implemented to address the weaknesses identified in the risk assessment, which should include those identified above.

### UNIVERSITY OF GEORGIA

Finding Control Number: **FS-518-06-01**  
EXPENDITURES/LIABILITIES/DISBURSEMENTS  
Improper Use of Purchasing Cards

- Condition: The University of Georgia did not have adequate procedures in place to ensure purchasing card expenditures were properly documented, allowable, and reviewed/approved by someone other than the cardholder. Additionally, procedures were not in place to ensure that violations of the purchasing card policy were documented or communicated to the Procurement Department.
- Criteria: Purchasing card transactions must comply with purchasing guidelines established in the University's (1) Procurement Card Manual and (2) with prescribed credit and transaction limits.
- Information: The University did not follow the guidelines as prescribed in the University of Georgia's Procurement Card Manual. A review of eighty-seven purchasing card expenditures revealed the following:
- 1) According to the University's policy, certain types of goods and services are not allowable purchases with the purchase card. Our review revealed sixteen instances in which purchases were made for unallowable items.
  - 2) The University's policy identifies that cardholders will be authorized a Single Transaction Limit. Seven cardholders were identified as having overspent their single transaction limit.
  - 3) The University's policy states, "No single purchase shall exceed \$4,999.00. The practice of splitting a large order into two or more orders may be considered an attempt to evade the limitations of the P-Card and could lead to revocation of the individual's card." Four transactions appear to have been for purchases greater than the single purchase limit of \$4,999.00. These purchases appear to have been improperly divided into multiple transactions in order to avoid exceeding the approved single transaction limit.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- 4) The University's policy states, "It is the cardholder's responsibility to maintain receipts and review statements." No documentation could be provided for twelve transactions that were selected for testing.
- 5) The University's policy states, "The main function of a WORKS manager is to sign off on the transactions indicating appropriate review has occurred. Thirty-two transactions did not contain a sign off by the WORKS manager and ten additional transactions were signed off by someone other than the WORKS manager designated for a specific cardholder.
- 6) The University's policy identifies the responsibilities of the Department P-Card Coordinator. The policy states, "Identify any violations and discuss with the cardholder to provide additional instruction. If violations are noted, the situation should be documented, attached to the bank statement and a copy forwarded to the Department Head and the P-Card Administrator in the Procurement Office." None of the thirty-nine violations, identified in items 1 thru 4 above, were documented as having been identified by the designated P-Card Coordinators. As a result, neither the Department Head nor the P-Card Administrator was notified and, consequently, none of the cardholders, violating the University's P-Card Policy, received written notification of their violation. Additionally, none of these violations are documented in the P-Card system for consideration in determining whether future violations might constitute revocation of the individual's card.

Cause: Management at the University of Georgia failed to enforce the transaction limits and guidelines established in the Procurement Card Manual.

Effect: The purchasing card program was designed to simplify and streamline the purchasing process and lower overall transaction costs for smaller supplies and materials purchases. However, the University of Georgia has placed itself in a position in which the benefits of using the purchasing cards could be diminished because of misuse and failure to follow purchasing card guidelines.

Recommendation: The University of Georgia should establish and implement appropriate procedures to ensure that purchasing card guidelines are followed for all purchasing card transactions.

### ALBANY STATE UNIVERSITY

Finding Control Number: **FS-521-06-01**  
CASH AND CASH EQUIVALENTS  
INVENTORIES  
REVENUES/RECEIVABLES/RECEIPTS  
EXPENDITURES/LIABILITIES/DISBURSEMENTS  
GENERAL LEDGER  
Inadequate Accounting Procedures

Condition: The accounting procedures of the University were insufficient to provide for adequate controls over (1) Cash and Cash Equivalents; (2) Inventories; (3) Revenues/Receivables/Receipts; (4) Expenditures/Liabilities/Disbursements; and (5) General Ledger.

Criteria: NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose the funds of the governmental unit in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements contained in the University System of Georgia, Board of Regents *Business Procedures Manual* and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).

Information: We noted the following weaknesses/deficiencies relating to various control categories:

- 1.) Cash and Cash Equivalents

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

An examination of the March 2006 and June 2006 bank reconciliations revealed the following:

- a.) The amount of outstanding checks listed on the March 2006 bank reconciliation did not agree to the outstanding check listing provided by \$19,215.53.
- b.) The bank reconciliations chosen for testing contained numerous reconciling items that were either unidentified variances or could not be adequately documented by University personnel.
- c.) Numerous reconciling items outstanding in excess of one year were located on the reconciliations chosen for testing, including outstanding checks dating to October of 2001. This indicates a lack of controls in place to ensure the propriety of reconciling items.
- d.) Documentation of supervisory review of the March 2006 operating bank reconciliation was not available.

### 2.) Inventories

- a.) Tests of the perpetual inventory system revealed errors between physical counts taken by the auditors and the inventory subsidiary records.

### 3.) Revenues/Receivables/Receipts

- a.) The student information system (BANNER) acts as a subsidiary ledger for student accounts receivable, collections of student tuition and fees, and various other revenues. The University is required to prepare reconciliations of the BANNER activity to the GeorgiaFIRST system to ensure that accuracy of the interfaced data. Section 1.7.2 of the *Business Procedures Manual* published by the Board of Regents, recommends that these reconciliations be performed weekly and requires them to be performed on a monthly basis. Performance of monthly reconciliations is a necessary control to detect and correct variances between BANNER and GeorgiaFIRST in a timely manner. The University completed and submitted five of the twelve monthly reconciliations to the Board of Regents as required. All five reconciliations were submitted with out of balance conditions. The failure of the University to adhere to the Board of Regents policies and recommendations, results in an internal control structure that cannot be relied upon to ensure accuracy of BANNER activity recorded on the general ledger.
- b.) An examination of the student accounts receivable subsidiary ledger (BANNER) at June 30, 2006, revealed that \$1,116,647.89 in receivables were over ninety days old and were not supported by approved financial aid.
- c.) Numerous other accounts receivable accounts were deemed invalid, including one account totaling \$31,483.90 for which no documentation was provided. The total balance for all invalid accounts is \$196,027.89.
- d.) Uncollectible accounts receivable reserve was set up as an estimate, which is against Board of Regents policy. In correcting the reserve to agree with accounts receivable aged more than 120 days, the University reduced the Resident Instruction reserve by \$415,250.18. The reduction was used to cover a current year deficit in the Resident Instruction fund.

### 4.) Expenditures/Liabilities/Disbursements

- a.) The student information system (BANNER) acts as a subsidiary ledger for student scholarship disbursements. As noted in 3.a.) above, the University is required to prepare reconciliations of the BANNER activity to the GeorgiaFIRST system to ensure the accuracy of the interfaced data. The University completed and submitted five of the twelve

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

monthly reconciliations to the Board of Regents as required. All five reconciliations were submitted with out of balance conditions.

- b.) A review by the University of expenditures charged to Student Activities and Technology Fees funds revealed that the University had incorrectly charged Resident Instruction fund expenditures to those funds in fiscal years 2002 through 2006 due to a lack of internal controls over expenditures. In fiscal year 2006 the University reclassified \$255,106.01 in Student Activity prior year expenditures and \$380,608.74 in Technology Fees prior year expenditures back to the Resident Instruction fund.

### 5.) General Ledger

- a.) The GeorgiaFIRST financial system performs an edit check on all journal entries before they are allowed to post to the general ledger. Entries that are not in balance, or contain other validation errors remain unposted until corrections are made. In order to post the entries, University personnel must research the cause of these errors and make necessary adjustments. At June 30, 2006, there were 101 unposted journal entries in the accounting system. Some of the entries date back to 2002, the year of implementation of the GeorgiaFIRST system.
- b.) During review of journal entry documentation, it was noted that journal entries were not posted to the general ledger in a timely manner. Thirty entries were noted to have been posted at least one month after the transaction date. This resulted in a numbering sequence of the journal entries that is not in chronological order.

**Cause:** University management failed to implement satisfactory controls to: (1) safeguard cash and cash equivalents; (2) ensure accuracy of resale inventories; (3) ensure revenues, receivables, and receipts were properly documented and recorded in the accounting records; (4) ensure expenditures, liabilities, and disbursements were properly documented and recorded in the accounting records; and (5) ensure amounts posted to the general ledger were accurate and timely.

**Effect:** Without satisfactory accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls and failure to adhere to Board of Regents policies could impact reporting of its financial position and results of operations.

**Recommendation:** The University should review the accounting controls and procedures currently in place, identify weaknesses, and design and implement procedures necessary to strengthen controls over the accounting functions for the above mentioned control categories.

**Finding Control Number:** FS-521-06-02  
REVENUES/RECEIVABLES/RECEIPTS  
Failure to Monitor Sponsored Projects

**Condition:** The University did not adequately monitor their Sponsored Projects which resulted in funds due to the University becoming uncollectible. These uncollectible amounts for certain Sponsored Projects in Restricted Funds were funded by General Operations (Resident Instruction Fund).

**Criteria:** The Board of Regents of the University System of Georgia's *Business Procedures Manual*, Section 10.4.1 (4), as revised, requires that uncollectible accounts must be identified by fund and that "fund integrity must be maintained at all times with regard to the uncollectible accounts". Section 10.4.3 also state "Federal receivables resulting from contract or grant activity are to be considered for write-off purposes, as disallowed charges. The funding source for disallowed charges is indirect cost recoveries (revenue)".

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Information:** An examination disclosed that \$755,432.95 was reimbursed by the Resident Instruction Fund to fund uncollectible Sponsored Project accounts receivable.
- Cause:** Management at the University failed to adequately monitor charges to and collections of certain Sponsored Projects with the Restricted Funds of the University.
- Effect:** As a result of the weakness identified, certain Sponsored Projects reflected accounts receivable which were uncollectible due to inadequate collection procedures and/or disallowed charges. These uncollectible amounts were funded by General Operations (Resident Instruction Fund) of the University. However, the funding source for these uncollectibles should be the Indirect Cost Recoveries Fund.
- Recommendation:** University management should strengthen controls to ensure that charges against Sponsored Projects are made in a timely manner to facilitate prompt billing. Also, accounts receivable related to these charges should be closely monitored to ensure proper collection from Sponsors.

**Finding Control Number: FS-521-06-03**  
**EXPENDITURES/LIABILITIES/DISBURSEMENTS**  
**Improper Use of Purchase Cards**

- Condition:** The University did not have adequate procedures in place to ensure purchasing card expenditures were properly documented and allowable.
- Criteria:** Purchasing card transactions must comply with purchasing guidelines established in the University's *Purchasing Card Program Policies and Procedures Handbook*.
- Information:** The following deficiencies were noted in the review of the purchasing card expenditures:
- The University did not follow the guidelines as prescribed in the University's *Purchasing Card Program Policies and Procedures Handbook*. A review of the purchasing card expenditures revealed the following:
- 1.) According to the University's policy, purchases for telecommunications, firearms and explosives are not allowable. Our review revealed several instances in which purchases were made for telecommunications and ammunition. No reimbursement was sought by the University from employees who purchased these items.
  - 2.) The University's policy states, "The cardholder statements must be reviewed monthly to ensure that a receipt or other acceptable documentation supports each purchase. Failure to have the appropriate supporting documentation, authorization signatures, etc., will result in revocation of the card and/or termination of employment." There were ten transactions tested that had inadequate documentation to support the transaction.
- Cause:** University management failed to adhere to transaction limits and guidelines established in the *Purchasing Card Program Policies and Procedures Handbook*.
- Effect:** The purchasing card program was designed to simplify and streamline the purchasing process and lower overall transaction costs for smaller supplies and materials purchases. However, the University has placed itself in a position in which the benefits of using the purchasing cards could be diminished because of misuse and failure to follow purchasing card guidelines.
- Recommendation:** The University should establish and implement appropriate procedures to ensure that purchasing card guidelines are followed for all purchasing card transactions.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FS-521-06-04

EMPLOYEE COMPENSATION

Inappropriate Payments to Student-Athletes

**Condition:** Student-athletes participating in the University's institutional work-study program were paid from timesheets which indicated that they had worked during class times or during intercollegiate athletic events where their participation was documented in official game records.

**Criteria:** University employees, including work-study program participants, should only be paid based on actual time worked. Supervisory controls should be designed such that time records accurately reflect time work-study participants actually worked and should not conflict with class schedules and/or athletic events.

**Questioned Cost:** A questioned cost was not calculated, however, University's accounting records indicated that \$401,003.51 was paid from the College Work-study Department and the Health and P. E. Department of the Resident Instruction fund for the institutional work-study program. The Board of Regents should review activity charged to these Departments to determine the amount of overpayments. Also, since these payments were made from general operating funds of the University which are subject to lapsing provisions of State law, a determination should be made as to whether any of these funds are subject to be returned as lapsed surplus to the State treasury.

**Information:** During testing of student-athletes timesheets, irregularities were noted in payments made to student-athletes participating in the non-Federal institutional work-study program. Testing procedures performed consisted of choosing at least two pay periods during the Spring Semester 2006 for two sports. Timesheets submitted by student-athletes were then compared to class schedules, athletic event schedules, and statistics from the athletic events to determine if students received payments for working while in class or participating in athletic events. Numerous conflicts were noted between student work-study timesheets and participation in class or athletic events. It was also noted that timesheets reviewed were signed as approved by supervisors. A summary of the conflicts noted is as follows:

- Baseball (11 players tested) – For the pay periods tested of January 28, 2006 to February 10, 2006; February 11, 2006 to February 24, 2006; and April 8, 2006 to April 21, 2006:
  1. Nine athletes reported time worked that conflicted with their class schedules.
  2. Two athletes reported time worked that conflicted with an athletic event held in Carrollton, Georgia on February 8, 2006.
  3. One athlete reported time worked that conflicted with an athletic event held in Montgomery, Alabama on February 9, 2006.
  4. One athlete reported time worked that conflicted with an athletic event held in Mt. Vernon, Georgia on February 20, 2006.
- Men's Basketball (6 players tested) – For the pay periods tested of December 31, 2005 to January 13, 2006 and January 16, 2006 to January 27, 2006:
  1. Three athletes reported time worked that conflicted with their class schedules.

**Cause:** The University failed to implement satisfactory controls to ensure that time records submitted by student-athlete employees reflected actual time worked.

**Effect:** Without satisfactory controls and procedures in place, the University has placed itself in a position where abuse of the institutional work-study program could occur.

**Recommendation:** The Institution should develop and establish policies and procedures to ensure that written time records for each student-athlete employee are properly maintained and reflect actual time worked. As previously stated, the Board of Regents should review this situation to determine the extent of the

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

overpayments, if any reclaim of funds is appropriate, and if these funds are subject to be returned as lapsed funds to the State treasury.

### FORT VALLEY STATE UNIVERSITY

Finding Control Number: **FS-533-06-01**

REVENUES/RECEIVABLES/RECEIPTS

CAPITAL ASSETS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Internal Controls

**Condition:** The accounting procedures of the University were insufficient to provide for adequate controls over (1) Revenues/Receivables/Receipts (2) Capital Assets and (3) Expenditures /Liabilities/ Disbursements.

**Criteria:** AICPA Professional Standards, AU §319.04, states that internal control is a process - effected by an entity's board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

**Information:** We noted various deficiencies related to the following control categories:

1. Revenues/Receivables/Receipts

A review of daily cashier session deposits revealed that the University did not have adequate controls in place to ensure that the daily deposits were reviewed by someone independent of the cash receipts process.

2. Capital Assets

Testing of the University's internal control structure revealed that the University did not have adequate internal controls in place to ensure that all capital assets purchased during the year were added to the capital asset subsidiary ledger or that all capital assets disposed of during the year were deleted from their capital asset subsidiary ledger. The review also revealed that the University did not have adequate internal controls in place to track the location of capital assets on their campus.

3. Expenditures/Liabilities/Disbursements

(a) Tests performed on the University's voucher packages revealed that the University did not have adequate internal controls in place to ensure that requisitions and purchase orders were properly approved, that goods were received or that voucher packages were complete before payment was made.

(b) Tests performed on the University's purchase card transactions revealed that the University did not have adequate controls in place to ensure that purchase card statements were properly approved and that adequate documentation was attached. The tests also revealed that documentation of the purchase card transactions was not properly maintained and that charges were made to inappropriate vendors.

**Cause:** The University failed to implement satisfactory accounting controls and procedures to ensure that all transactions were posted to the appropriate subsidiary modules. Additionally, reconciliations between the general ledger and subsidiary records were not completed by the University.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Effect:** Without proper accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.

**Recommendation:** The University should review the accounting controls and procedures currently in place, identify weaknesses, and design and implement procedures necessary to strengthen controls over the accounting functions for the above mentioned control categories.

**Finding Control Number:** FS-533-06-02

### CAPITAL ASSETS

#### Inadequate Capital Asset Records

**Condition:** The University did not maintain adequate controls over their subsidiary ledger for Capital Assets.

**Criteria:** The University should maintain their subsidiary ledger for Capital Assets in accordance with capitalization guidelines and instructions provided in Chapter 7 of the Board of Regents *Business Procedures Manual*.

**Information:** We noted the following weaknesses/deficiencies relating to Capital Assets:

1. Capital Assets reported in the financial statements did not agree with the subsidiary ledger by \$177,956.12.
2. There were numerous items on the inventory listing that were below capitalization thresholds established by the Board of Regents.
3. There were numerous items capitalized with the wrong useful lives, thus causing errors in the depreciation calculations for the related assets.
4. The University could not provide complete and accurate records for equipment in the amount of \$5,549,042.29.

**Cause:** The University's management failed to implement satisfactory controls and procedures necessary to properly record and maintain capital asset records.

**Effect:** Without proper accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.

**Recommendation:** The University should establish appropriate procedures and controls to ensure capital assets are properly recorded in the general ledger and that equipment items are easily identified and tracked through the Capital Asset system.

**Finding Control Number:** FS-533-06-03

### EXPENDITURES/LIABILITIES/DISBURSEMENTS

#### Inadequate Subsidiary Records

**Condition:** The accounting procedures of the University were insufficient to provide for adequate documentation for Expenditures/Liabilities/Disbursements.

**Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in Chapter 20 of the University System of Georgia, Board of Regents *Business Procedures Manual* and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).

**Information:** We noted the following deficiencies:

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

1. A review of the Accounts Payable balance of \$1,466,550.97 at June 30, 2006 revealed that no subsidiary records were provided for \$55,010.44 of the total amount. In addition, tests revealed that \$63,320.27 of Accounts Payable reported on the subsidiary ledgers provided were invalid.
2. A review of the Deposits balance of \$163,681.91 at June 30, 2006 revealed that subsidiary records could not be provided for the entire balance.

**Cause:** The University failed to implement satisfactory accounting procedures to ensure that all transactions were posted to the appropriate subsidiary modules. Additionally, reconciliations between the general ledger and subsidiary records were not completed by the University.

**Effect:** Without proper accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.

**Recommendation:** To reduce the risk of reporting incomplete and/or inaccurate information, the University should implement procedures and controls to ensure that transactions are posted correctly in the appropriate subsidiary ledgers. At a minimum, procedures should be developed which require the reconciliation of subsidiary ledgers to the general ledger on a regular basis.

**Finding Control Number:** FS-533-06-04

**GENERAL LEDGER**

**Inadequate Accounting Procedures for Restricted Funds**

**Condition:** The accounting procedures of the University were insufficient to provide adequate general ledger control over the restricted grants account activity.

**Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in Chapter 20 of the University System of Georgia, Board of Regents *Business Procedures Manual* and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).

**Information:** The following deficiencies were noted in the review of restricted grant projects:

1. A review of the Restricted fund grant project Accounts Receivable balances of \$2,121,127.51 at June 30, 2006, revealed that inadequate subsidiary records were provided for numerous projects totaling \$365,139.80. In addition, tests revealed that \$526,549.55 of Accounts Receivable reported on the subsidiary ledgers provided were invalid.
2. Reconciliations of net assets by project were not performed to ensure that revenues equaled expenditures. At June 30, 2006, Restricted Fund projects reported a total deficit of \$271,034.20. Eleven projects had deficit balances totaling \$273,721.55.

**Cause:** The University failed to implement satisfactory controls to ensure that activity for restricted grant funds is properly documented and recorded in the accounting records.

**Effect:** Failure to implement satisfactory accounting controls and procedures could cause internal reports to management, grantor reimbursement requests and other restricted grant information generated from the general ledger to be inaccurate and misleading. In addition, the University could place itself in a position where potential misrepresentation of financial activities could occur.

**Recommendation:** The University should review the accounting procedures in place and design and implement procedures relative to restricted grant funds to ensure that all grant activity is properly accounted for by project.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FS-533-06-06

GENERAL LEDGER

Unsupported Financial Statements

- Condition:** Management failed to submit accurate financial statement data to the Board of Regents in the Annual Financial Report (AFR).
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in Chapter 20 of the University System of Georgia, Board of Regents *Business Procedures Manual* and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information:** An examination of the AFR prepared and submitted to the Board of Regents revealed the University did not ensure the statements submitted were accurate and reconcilable to the general ledger.
- Cause:** The University failed to implement satisfactory controls to ensure that financial statements reconciled to the general ledger.
- Effect:** Failure to implement satisfactory accounting controls and procedures could place the University in a position where potential misrepresentation of financial activities could occur.
- Recommendation:** The University should establish a procedure to ensure that the financial statements submitted to the Board of Regents are accurately prepared and properly reconciled to the University's formal accounting records.

### SAVANNAH STATE UNIVERSITY

Finding Control Number: FS-548-06-01

CASH AND CASH EQUIVALENTS

REVENUES/RECEIVABLES/RECEIPTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Accounting Controls

- Condition:** The accounting procedures of the University were insufficient to provide for adequate controls over (1) Cash and Cash Equivalents; (2) Revenues/Receivables/Receipts; and (3) Expenditures/Liabilities/Disbursements.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds and account groups in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Administrative requirements contained in the University System of Georgia, Board of Regents Business Procedures Manual and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information:** We noted the following weaknesses/deficiencies relating to various control categories:

(1) Cash and Cash Equivalents

A review of the bank reconciliations for the Operating and Payroll accounts revealed the following:

- (a) The University failed to post receipts and disbursements in a timely manner to the financial records for items that had cleared the bank. Reconciling items were carried on the bank reconciliation for an unreasonable amount of time.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- (b) The University erroneously recorded duplicate receipts totaling \$337,376.41 in the financial records for up to four months.
- (c) Unidentified variances were noted on the reconciliations for the Operating and Payroll accounts in the amounts of \$4,449.19 and \$15,422.68, respectively for April 2006.

### (2) Revenues/Receivables/Receipts

Our examination and testing for the year under review revealed the following:

- (a) The University failed to properly update student accounts in the subsidiary ledger (BANNER) and interface the BANNER system with the GeorgiaFIRST system that records the activity on the general ledger. Numerous adjustments were posted directly to the general ledger via journal entry.
- (b) The student information system (BANNER) acts as a subsidiary ledger for student accounts receivable, collections of student tuition and fees, and various other revenues. The University is required to prepare reconciliations of the BANNER activity to the GeorgiaFIRST system to ensure the accuracy of the interfaced data. Section 1.7.2 of the Business Procedures Manual published by the Board of Regents, recommends that these reconciliations be performed weekly and requires them to be performed on a monthly basis. Performance of monthly reconciliations is a necessary control to detect and correct variances between BANNER and GeorgiaFIRST in a timely manner. Based on a review of six months of reconciliations, the student accounts receivable subsidiary ledger (BANNER) was not properly reconciled to the general ledger. No reconciliation was performed for August 2005 and numerous adjustments to student accounts in the BANNER system are necessary in order to reconcile to the general ledger.
- (c) Based on a review of ten journal entries, recording the receipt of Federal funds, the University failed to post receipts for thirty-eight grants in the Restricted Funds to the financial records in a timely manner.
- (d) Based on a review of twenty-five daily receipt files, adequate documentation was not available to support the cash receipts for two of the days tested.

### (3) Expenditures/Liabilities/Disbursements

Our examination and testing for the year under review revealed the following:

- (a) Based on testing of eighty-five expenditures, one item did not have an approved purchase order or check request. Additionally, original invoice documentation was not maintained for one of the vouchers tested. A copy of this invoice was not properly stamped to prevent duplicate payment.
- (b) Based on testing of fifty purchasing card transactions, adequate documentation was not available to support six transactions. In addition, sales tax was paid on ten transactions and one instance of splitting payments was noted.

**Cause:** These conditions occurred because the University failed to have adequate accounting policies and procedures in place.

**Effect:** Without satisfactory accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.

**Recommendation:** Management should review accounting controls and procedures currently in place, identify weaknesses, and implement procedures relative to the above control categories to strengthen the internal controls over the accounting functions.

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: **FS-548-06-04**

REVENUES/RECEIVABLES/RECEIPTS

Inadequate Control Procedures for Collection of Tuition and Fees

**Condition:** Internal control procedures of Savannah State University were insufficient to provide for adequate collection of tuition and fees.

**Criteria:** Board of Regents Policy Manual Section 704.03 states "All tuition and fees are due and payable upon registration. Exceptions to the time of payment are as follows:

- 1) An institution may defer tuition and fees up to the amount authorized for a specific academic term for students whose fees are guaranteed and will be paid by an outside agency under a documented agreement with the institution.
- 2) An institution may defer tuition and fees up to the amount of the aid granted for a specified academic term for students who have an institution administered loan or scholarship in process.
- 3) An institution may defer tuition and fees up to the limit stated in the certificate or other document for a specified academic term for foreign students who have a certificate or other acceptable documented evidence that payment will be made after a statement of charges from the student has been presented for payment".

**Information:** A test of 20 student accounts receivable under one year old revealed 17 instances in which Savannah State University did not comply with the Board of Regents Policy Manual for collecting tuition and fees. It was determined that out of the \$71,784.87 accounts receivable tested, \$67,657.87 was not supported by approved student financial aid.

**Cause:** University's management failed to implement adequate policies and procedures to ensure that only students with approved financial aid would receive tuition and fee deferments.

**Effect:** By allowing students to enroll and remain in school without approved financial aid, the University has incurred student accounts receivable which were not in accordance with Board of Regents policy.

**Recommendation:** The University should follow billing and collection guidelines for student accounts receivable as established in the Board of Regents' Business Procedures Manual. Also, no student should be granted a deferment without having approved financial aid.

Finding Control Number: **FS-548-06-05**

REVENUES/RECEIVABLES/RECEIPTS

Improper Write-off of Accounts Receivable

**Condition:** Accounts Receivable approved by the State Accounting Office to be written-off were not appropriately removed from the University's financial records.

**Criteria:** Section 10 of the Board of Regents' Business Procedures Manual (BPM) sets forth requirements for documentation and collection of accounts receivable. In accordance with Section 10.4 of the BPM and the Official Code of Georgia (O.C.G.A.) 50-16-18, Institutions may write-off uncollectible accounts receivable of less than or equal to \$3,000.00, if proper due diligence has been performed and the write-offs have been approved by the State Accounting Office and the State Auditor's Office.

**Information:** Accounts Receivable written-off by the University for the current fiscal year totaled \$32,585.88. This amount exceeded the amount approved by the State Accounting Office of \$30,617.22. These Accounts Receivables were inappropriately removed from the general ledger by journal entry and were not removed from the subsidiary ledger (BANNER system).

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

In addition, the journal entry posted to write-off Accounts Receivable in the Student Activities and Auxiliary Enterprises funds was posted to the wrong accounts. The University's entry was posted to Bad Debt Expense and Allowance for Doubtful Accounts, but the entry should have been posted to Allowance for Doubtful Accounts and Accounts Receivable, removing the activity from the general ledger. Furthermore, the listing of accounts which comprised the Uncollectible Accounts Receivable balance for Student Activities and Auxiliary Enterprises funds did not include the students on this journal entry.

- Cause:** This condition occurred because management failed to comply with state law regarding Accounts Receivable eligible to be written-off. Management also failed to appropriately remove the Accounts Receivable from the general ledger.
- Effect:** The University did not comply with state law concerning the write-off of Accounts Receivable. The University posted inappropriate journal entries to the general ledger.
- Recommendation:** The University should reverse the entries made to the general ledger and write-off eligible Accounts Receivable through the subsidiary ledger. Additionally, the University should follow instructions provided in Sections 10.4 and 10.7 of the BPM regarding due diligence collection efforts on accounts receivable and appropriate write-off procedures.

Finding Control Number: **FS-548-06-06**  
REVENUES/RECEIVABLES/RECEIPTS  
GENERAL LEDGER  
Inadequate Accounting Procedures

- Condition:** The accounting procedures of the University were insufficient to provide for adequate controls over Revenues/Receivables/Receipts and the General Ledger.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose the funds of the governmental unit in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in the University System of Georgia, Board of Regents Business Procedures Manual and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information:** Our examination and testing for the year under review revealed the following deficiencies:

- (1) The GAAP journal entry to reclassify negative student accounts receivable to accounts payable was made incorrectly. The total amount reclassified of \$281,147.61 represented individual transactions on the student accounts and not the overall balance. Additionally, the GAAP journal entry, to reclassify Accounts Payable - BANNER Clearing Accounts of students with debit balances to Accounts Receivables, was made incorrectly. The total amount reclassified of \$164,638.89 represented individual transactions on the student accounts and not the overall balance.
- (2) The Accounts Receivable on the Annual Financial Report was overstated by \$181,631.64. The reversal entry recorded by the University in the prior period failed to remove the invalid student accounts receivable.
- (3) The University failed to record deferred revenue in the amount of \$103,335.77 for the Restricted Funds.
- (4) The University recorded an accounts receivable of \$133,741.19 in Unexpended Plant Funds that was determined to be invalid.
- (5) A GAAP journal entry, to set up Accounts Receivable for agency accounts with deficit balances, was recorded in excess of the actual deficits creating an overstatement of \$32,502.09.
- (6) The Students Accounts Receivable and the BANNER Clearing Accounts reported in the General Ledger were not supported by the BANNER subsidiary ledger. Numerous adjustments to BANNER have been identified. However, the University has failed to record them.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- (7) Other Accounts Receivable - Travel Advances from the prior period in the amount of \$32,764.80 were inappropriately reclassified to Allowance for Uncollectible Accounts Receivable.
- (8) In a review of thirty-five accounts receivable over one year old, the following deficiencies were noted:
  - a. A fictitious student by the name of Jane Doe (SN#999-99-999) was noted on the BANNER subsidiary ledger. The student has an invalid accounts receivable balance of \$4,295.98.
  - b. The University established an Accounts Receivable from a prior period for employee garnishments. The University remitted payment on behalf of the employee but failed to withhold the deduction from the employee's paycheck.

**Cause:** University's management failed to implement satisfactory controls to: (1) ensure revenues, receivables and receipts were properly documented and recorded in the accounting records, (2) ensure amounts posted to the general ledger were accurate and (3) properly record and maintain the BANNER subsystem.

**Effect:** Failure to implement satisfactory accounting controls and procedures could cause information generated from the general ledger and the BANNER subsystem to be inaccurate and misleading. In addition, the University could place itself in a position where a material misrepresentation of financial reporting could occur.

**Recommendation:** The University should review the accounting controls and procedures currently in place, identify weaknesses, and design and implement procedures necessary to ensure correct reporting of Revenues, Receivables and Receipts. It is recommended that the University implement all of the required processes established by the Board of Regents to ensure that the BANNER subsidiary ledger supports the general ledger accounts.

**Finding Control Number:** **FS-548-06-08**  
EXPENDITURES/LIABILITIES/DISBURSEMENTS  
GENERAL LEDGER  
Deficiencies in Accounting Procedures

**Condition:** The University failed to have sufficient accounting policies and procedures in place to provide for adequate controls over Expenditures/Liabilities/ Disbursements and General Ledger.

**Criteria:** NCGA Statement 1, paragraph 1, which prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Administrative requirements contained in the University System of Georgia, Board of Regents Business Procedures Manual and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).

**Information:** Our examination and testing for the year under review revealed the following deficiencies:

- (1) The amounts reported in the General Ledger for Accounts Payable - BANNER Clearing Accounts were not supported by the BANNER subsidiary ledger.
- (2) A GAAP journal entry, to reclassify Accounts Payable - BANNER Clearing Accounts of students with debit balances to Accounts Receivables, was made incorrectly. The total amount reclassified of \$164,638.89 represented individual transactions on the student accounts and not the overall balance.
- (3) For budgetary purposes, encumbrances tested of \$17,840.27 were paid and deemed invalid.
- (4) For budgetary purposes, \$384,907.24 in encumbrances for Resident Instruction was removed to cover budget overexpenditures. This still left a budget fund balance deficit of \$107,322.35 in the Resident Instruction Fund. This deficit was offset with a matching surplus amount in the Unexpended Plant Fund.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Cause:** These conditions occurred because the University failed to have adequate accounting policies and procedures in place.

**Effect:** Without satisfactory accounting controls and procedures in place, the University could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.

**Recommendation:** Management should review current accounting policies and procedures, identify weaknesses, and implement procedures to ensure that the BANNER subsidiary ledger properly supports the general ledger and that the University does not expend or encumber funds in excess of funds available.

**Finding Control:** FS-548-06-09  
CAPITAL ASSETS  
Inadequate Capital Asset Records

**Condition:** The accounting procedures of the University were insufficient to provide adequate control over Capital Assets.

**Criteria:** The University should maintain capital asset records in accordance with capitalization guidelines and instructions provided in Chapter 7 of the Board of Regents Business Procedures Manual.

**Information:** The following weaknesses/deficiencies were noted relating to Capital Assets:

- (1) The University incorrectly capitalized encumbrances of \$12,130.00 in the current year additions for Library Collections.
- (2) Library collections in the amount of \$172,685.97 were recorded twice by the University resulting in an overstatement for Library Collections on the Annual Financial Report.
- (3) Library Collections - Accumulated Depreciation is overstated by \$65,006.69. The University incorrectly posted Library Collections directly to the Asset Management module in the Capitals Ledger.
- (4) Equipment deletions in the amount of \$51,506.00 were improperly removed from the Capital Asset records. The items removed were never reported on the equipment listing.
- (5) Equipment - Accumulated Depreciation totaling \$25,755.71 for five assets was erroneously deleted from the Capital Asset records. Depreciation expense was never recognized on these items.
- (6) Equipment - Accumulated Depreciation is understated by \$22,468.81. The University improperly removed the accumulated depreciation of assets retired in prior periods from the Capital Asset records.
- (7) Depreciation Expense reported on the University's Annual Financial Report is overstated by \$225,466.41. The University incorrectly recognized prior period adjustments in Accumulated Depreciation for Buildings, Library Collections and Equipment as current year expense.

**Cause:** University's management failed to implement satisfactory controls and procedures necessary to properly record and maintain capital asset records.

**Effect:** Without proper accounting controls and procedures in place, capital acquisitions and depreciation expense could be reported at amounts not consistent with provisions set forth in Chapter 7 of the Board of Regents Business Procedures Manual.

**Recommendation:** The University should review the accounting procedures in place and design and implement procedures necessary to ensure that assets are properly recorded and accounted for in the Asset Management Module and on the general ledger.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### GEORGIA PERIMETER COLLEGE

Finding Control Number: **FS-571-06-01**  
ACCOUNTING CONTROLS (OVERALL)  
Inadequate General Controls

- Condition:** Our examination of the College included a review of general controls related to their financial information systems. We noted weaknesses in internal controls which we consider relevant to the College's financial statements for the fiscal year ended June 30, 2006.
- Criteria:** Policies and procedures should be in place to reasonably mitigate the risk of loss, manipulation, or corruption of data due to internal or external threats.
- Information:** Weaknesses in internal control over financial information systems were identified at the College.
- Cause:** Management did not implement proper policies or controls over risk assessments or access to their financial information systems.
- Effect:** Without satisfactory controls in place, losses, changes or misuses of data could occur and possibly not be detected.
- Recommendation:** Management should perform a complete risk assessment to identify internal and external threats that could cause loss, manipulation, or corruption of data maintained in the financial information system. Policies and procedures should be developed and implemented to address the weaknesses.

### GEORGIA HIGHLANDS COLLEGE

Finding Control Number: **FS-573-06-01**  
REVENUES/RECEIVABLES/RECEIPTS  
Inadequate Accounting Procedures for Accounts Receivable

- Condition:** Accounts Receivable determined to be uncollectible and written off during the current year were not properly documented by vendor or individual. No documentation could be provided that indicated due diligence by the College or proper authorization from the State Accounting Office.
- Criteria:** Section 10 of the Board of Regents' *Business Procedures Manual* (BPM) sets forth requirements for documentation and collection of accounts receivable. In accordance with Section 10.4 of the BPM and the Official Code of Georgia (O.C.G.A.) 50-16-18, Institutions may write-off uncollectible accounts receivable of less than or equal to \$3,000.00, if proper due diligence has been performed and the write-offs have been approved by the State Accounting Office and the State Auditor's Office.
- Information:** The College wrote off \$174,173.65 in old outstanding accounts receivable without proper documentation. The College could not provide a listing of the amounts written off or any evidence that due diligence was performed to collect the balances outstanding.
- Cause:** College management failed to implement necessary procedures to ensure that accounts receivable activity was properly documented and recorded in the accounts receivable subsystem (BANNER). College management also failed to maintain adequate documentation of collection efforts.
- Effect:** Without satisfactory accounting procedures in place, the College cannot document that due diligence collection efforts were performed on receivables determined to be uncollectible, or that proper approval was obtained prior to writing off receivable balances from the general ledger.
- Recommendation:** The College should follow instructions provided in Sections 10.4 and 10.7 of the BPM regarding due diligence collection efforts on accounts receivable and appropriate write-off procedures.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FS-573-06-02

GENERAL LEDGER

CAPITAL ASSETS

Inadequate Accounting Procedures

**Condition:** The College failed to properly record the Cartersville Campus construction project, a Georgia State Financing and Investment Commission (GSFIC) managed project, in accordance with Board of Regents directives.

**Criteria:** Section 7 of the Board of Regents of the University of Georgia's *Business Procedures Manual* (BPM) provides units of the University System of Georgia with guidelines for "assets purchased, constructed or donated that meet or exceed established capitalization thresholds". Also, various interoffice memorandums from the Board of Regents' Office of Internal Audit provide additional instructions for handling of GSFIC construction projects.

**Information:** The following deficiencies were noted:

1) Capital Assets

a) The College failed to accurately capitalize fiscal year 2006 Building and Equipment additions related to a new construction project managed by Georgia State Financing and Investment Commission (GSFIC). The College failed to record \$1,033,061.53 in capital additions related to the Cartersville Campus project. Building and Building Improvements were understated by \$591,988.25 and Equipment additions were understated by \$441,073.28. In addition, \$6,207.50 in Building additions were improperly recorded as Construction in Progress. An audit adjustment was made to properly record the capital additions and the related capital gift revenues.

b) The College could not provide documentation to support capital asset deletions made during fiscal year 2006.

2) General Ledger

The College failed to accurately record non-capitalized equipment expense and related gift revenue associated with the Cartersville Campus construction project. For fiscal year 2006, the Supplies and Other Services expense was understated by \$971,435.53 and Nonoperating - Gifts Revenue was understated by \$971,435.53. An audit adjustment was made to correctly report this activity.

**Cause:** College management failed to implement adequate procedures to (1) properly record and maintain capital assets and (2) properly record expenditures and gift revenue related to construction activity.

**Effect:** Without satisfactory accounting procedures in place, the College placed itself in a position where the financial statements were materially misstated. The auditors posted an adjusting entry to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets to ensure that the financial statements were materially correct.

**Recommendation:** The College should review the accounting procedures in place and design and implement procedures necessary to ensure that assets are properly recorded and accounted for in the Asset Management Module and on the general ledger.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### SOUTH GEORGIA COLLEGE

Finding Control Number: **FS-587-06-01**

#### CAPITAL ASSETS

##### Inadequate Accounting Procedures

- Condition:** The accounting procedures of the College were insufficient to provide adequate controls over Capital Assets.
- Criteria:** NCGA Statement 1, paragraph 1, which prescribes that an accounting system both: (1) present fairly and fully disclose its financial position, including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. In addition, administrative requirements contained in the University System of Georgia, Board of Regents Business Manual and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.) must be followed by the institution.
- Information:** We noted the following weaknesses/deficiencies relating to Capital Assets:
- 1.) Assets were not properly deleted from the Asset Management Module.
  - 2.) The College failed to reconcile the Capital Ledger to the subsidiary ledger.
- Cause:** The College's management failed to implement satisfactory controls to properly record and maintain capital asset records.
- Effect:** Without satisfactory accounting controls and procedures in place, the College could place itself in a position where misappropriation of assets could potentially occur. In addition, the lack on controls could impact reporting of its financial position and results of operations.
- Recommendation:** The College should establish appropriate procedures to ensure that assets are properly accounted for and safeguarded. Additionally, problems noted in the reconciliation process should be resolved.

### GEORGIA AVIATION AND TECHNICAL COLLEGE

Finding Control Number: **FS-816-06-01**

#### CASH AND CASH EQUIVALENTS

##### Inadequate Accounting Procedures

- Condition:** The accounting procedures of the Technical College were insufficient to provide adequate controls over Cash and Cash Equivalents.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds and account groups in accordance with generally accepted accounting principles and (2) demonstrates compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in the *Accounting Procedures Manual* for the State of Georgia and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information:** We noted deficiencies in accounting procedures for three of the four bank accounts held by the Technical College creating a cumulative understatement of cash on the financial statements of \$42,135.67. The following deficiencies were noted:
- Deposits, checks, and other withdrawals which had cleared the bank had not been posted to the general ledger.
  - Numerous unexplained stale items were noted on the bank reconciliations. Some reconciling items were dated as far back as fiscal year 2004.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** Technical College management failed to implement satisfactory policies and procedures to safeguard cash and cash equivalents.
- Effect:** Without satisfactory accounting policies and procedures in place, the Technical College could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.
- Recommendation:** The Technical College should establish appropriate procedures and controls to ensure that unadjusted reconciling items identified during the bank statement reconciliation process are documented and posted to the general ledger in a timely manner.

Finding Control Number: **FS-816-06-03**  
REVENUES/RECEIVABLES/RECEIPTS  
Inadequate Accounting Procedures

- Condition:** The accounting procedures of the Technical College were insufficient to provide adequate controls over Accounts Receivable.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds and account groups in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Additional administrative requirements are contained in the *Accounting Procedures Manual* for the State of Georgia and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information:** We noted the following weaknesses/deficiencies relating to Accounts Receivable:
- The Technical College failed to record Banner student accounts receivable on the general ledger. A correcting entry was posted to report student receivables in the financial statements.
  - The Accounts Receivable listing provided by the Technical College included receivables which were classified as "unknown".

- Cause:** Technical College management failed to implement satisfactory policies and procedures to ensure accurate reporting of Accounts Receivable.
- Effect:** Without satisfactory accounting policies and procedures in place, the Technical College could place themselves in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact reporting of its financial position and results of operations.
- Recommendation:** The Technical College should establish appropriate procedures and controls to ensure that all Accounts Receivables are recorded on the general ledger, that accounts receivables are maintained by source, and that periodic reviews of accounts receivables are performed by personnel in a supervisory position.

Finding Control Number: **FS-816-06-04**  
GENERAL LEDGER  
Deficiencies in Financial Statement Presentation

- Condition:** The Technical College's financial statements prepared for inclusion in the *State of Georgia Comprehensive Annual Financial Report* (CAFR) and the *State of Georgia Single Audit Report* included numerous errors.
- Criteria:** Each of the thirty-four (34) Technical Colleges which are units of the Department of Technical and Adult Education, an organizational unit of the State of Georgia, are required to submit to the State Accounting Office, financial statements prepared in accordance with generally accepted accounting principles (GAAP) for inclusion in the State's CAFR and Single Audit Report.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Information: The following deficiencies were noted in the Technical College's GAAP basis financial statements:
- A portion of current year capital asset additions received as on-behalf payments from the Department of Technical and Adult Education in the amount of \$824,504 was not added to the capital assets ledger.
  - Deferred Revenue, which is made up of student flight deposits, was materially misstated. The preliminary financial statements reported a liability in the amount of \$624,308.53. The actual liability amount was \$158,513.88.
  - Net Assets - Beginning of Year on the Statement of Revenues, Expenses and Changes in Net Assets did not agree to Net Assets - End of Year reported in fiscal year 2005 by \$331,195.
  - Numerous accounts were misclassified and/or misstated on the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.
- Numerous audit adjustments were proposed and posted to correct these deficiencies on the financial statements.
- Cause: Management failed to adequately review GAAP basis journal entries to ensure that financial statement information prepared for inclusion in the CAFR and Single Audit Report was accurate and properly supported by underlying accounting records.
- Effect: Significant errors and misstatements were included in the financial statement information provided.
- Recommendation: The Technical College should implement procedures to ensure that journal entries made to produce GAAP basis financial statement information are correctly prepared and accurately posted to proper accounts within the financial statements.

### LANIER TECHNICAL COLLEGE

Finding Control Number: FS-834-06-01

#### CAPITAL ASSETS

Inadequate Capital Asset Records

Repeated From Prior Year

- Condition: The College failed to record building renovations within the Capital Assets Module.
- Criteria: NCGA Statement 1, paragraph 1, which prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds and account groups in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Administrative requirements contained in the *Accounting Procedures Manual* for State of Georgia and Pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).
- Information: Capital expenditures related to building renovations and improvements totaling \$585,554.45 were not properly accounted for within the Capital Assets Module.
- Cause: The College failed to properly maintain and track capital asset additions.
- Effect: By failing to accurately record capital assets, the College could place itself in a position where potential misappropriation of assets could occur and impact reporting of its financial position and results of operations.
- Recommendation: The College should establish appropriate procedures and controls to ensure that all items, meeting capitalization thresholds, are recorded in accordance with guidelines set forth in the State of Georgia Capital Asset Guide. Policies and procedures should also be established to ensure that reconciliations are performed for the Capital Assets Module and the related subsidiary records.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### SAVANNAH TECHNICAL COLLEGE

Finding Control Number: **FS-841-06-01**

GENERAL LEDGER

Deficiencies in Financial Statement Presentation

**Condition:** The Technical College's financial statements prepared for inclusion in the State of Georgia Comprehensive Annual Financial Report (CAFR) and the State of Georgia Single Audit Report included numerous errors.

**Criteria:** Each of the thirty-four (34) Technical Colleges which are units of the Department of Technical and Adult Education (DTAE), an organizational unit of the State of Georgia, are required to submit to the State Accounting Office, financial statements prepared in accordance with generally accepted accounting principles (GAAP) for inclusion in the State's CAFR and Single Audit Report.

**Information:** The following deficiencies were noted in the Technical College's GAAP basis financial statements:

- 1) The liability for Funds Held for Others was not properly recorded on the Statement of Net Assets.
- 2) The capital assets recorded on the Statement of Net Assets were not supported by the Asset Management Module subsidiary ledger or other supporting documentation.
- 3) The College failed to remove all encumbrances associated with Federal programs from the financial statements.
- 4) The liability for Compensated Absences was not properly recorded on the Statement of Net Assets.
- 5) There were numerous accounts that were misclassified and/or misstated on the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets.

Significant adjustments were made to correct the above deficiencies.

**Cause:** Management failed to adequately review GAAP basis journal entries to ensure that financial statement information prepared for inclusion in the CAFR and Single Audit Report was accurate and properly supported by underlying accounting records.

**Effect:** Significant errors and misstatements were included in the financial statement information provided.

**Recommendation:** The Technical College should implement procedures to ensure that journal entries made to produce GAAP basis financial statement information are correctly prepared and accurately posted to proper accounts within the financial statements.

### OGEECHEE TECHNICAL COLLEGE

Finding Control Number: **FS-844-06-01**

REVENUES/RECEIVABLES/RECEIPTS

Inadequate Accounting Procedures

**Condition:** The accounting procedures of the Technical College were insufficient to provide for adequate controls over the receipt of funds.

**Criteria:** NCGA Statement 1, paragraph 1, which prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds and account groups in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions. Administrative requirements contained in the *Accounting Procedures Manual* for the State of Georgia and pertinent sections of the Official Code of Georgia Annotated (O.C.G.A.).

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Information:** We noted the following weaknesses/deficiencies relating to the receipting process:
- Cash receipting and deposit preparation were not separated from the record keeping and cash custody functions.
- A test of twenty daily receipts revealed that six daily receipts were not deposited in a timely manner.
- Cause:** The Technical College failed to segregate key accounting functions or establish compensating controls. In addition, the Technical College failed to ensure that receipts were deposited in a timely manner.
- Effect:** Without satisfactory accounting controls and procedures in place, the Technical College could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact the reporting of its financial position and results of operations.
- Recommendation:** The Technical College should review the accounting procedures in place and design and implement procedures relative to the above control category to strengthen the internal controls over the accounting functions.
- Finding Control Number:** **FS-844-06-02**  
**GENERAL LEDGER**  
**Deficiencies in Financial Statement Presentation**
- Condition:** The Technical College's financial statements prepared for inclusion in the *State of Georgia Comprehensive Annual Financial Report (CAFR)* and the *State of Georgia Single Audit Report* included numerous errors.
- Criteria:** Each of the thirty-four (34) Technical Colleges which are units of the Department of Technical and Adult Education (DTAE), an organizational unit of the State of Georgia, are required to submit to the State Accounting Office, financial statements prepared in accordance with generally accepted accounting principles (GAAP) for inclusion in the State's CAFR and Single Audit Report.
- Information:** The following deficiencies were noted in the Technical College's GAAP basis financial statements:
- 1) The Technical College inaccurately reported the current year changes in Capital Assets. Capital Asset additions were reported in excess of actual acquisition amounts. Donated Capital Assets were improperly recorded. In addition, Capital Asset deletions were recorded but there were no current year disposals.
  - 2) The Technical College failed to record Scholarship Allowances. College Work Study revenue and Scholarships and Fellowships expenses were not reclassified correctly.
  - 3) Fund balance adjustments were not correctly reclassified.
- Significant audit adjustments were proposed and made to correct the above deficiencies.
- Cause:** Management failed to adequately review GAAP basis journal entries to ensure that financial statement information prepared for inclusion in the CAFR and Single Audit Report was accurate and properly supported by underlying accounting records.
- Effect:** Significant errors and misstatements were included in the financial statement information provided.
- Recommendation:** The Technical College should implement procedures to ensure that journal entries made to produce GAAP basis financial statement information are correctly prepared and accurately posted to proper accounts within the financial statements.

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### SWAINSBORO TECHNICAL COLLEGE

Finding Control Number: **FS-845-06-01**

GENERAL LEDGER

Deficiencies in Financial Statement Presentation

- Condition:** The Technical College's financial statements prepared for inclusion in the *State of Georgia Comprehensive Annual Financial Report (CAFR)* and the *State of Georgia Single Audit Report* included numerous errors.
- Criteria:** Each of the thirty-four (34) Technical Colleges which are units of the Department of Technical and Adult Education (DTAE), an organizational unit of the State of Georgia, are required to submit to the State Accounting Office, financial statements prepared in accordance with generally accepted accounting principles (GAAP) for inclusion in the State's CAFR and Single Audit Report.
- Information:** Numerous deficiencies were noted in the Technical College's GAAP basis financial statements. Out of twenty-five GAAP adjusting entries prepared by the College, six, although prepared correctly, were posted incorrectly within the GAAP financial statements, two entries were prepared utilizing the wrong information, and one entry was not made at all. These errors were significant and substantial adjustments and were necessary to provide materially correct financial statements.
- Cause:** College personnel failed to adequately review GAAP basis journal entries to ensure that financial statement information prepared for inclusion in the CAFR and Single Audit Report was accurate and properly supported by underlying accounting records.
- Effect:** Significant errors and misstatements were included in the financial statement information provided.
- Recommendation:** The Technical College should implement procedures to ensure that journal entries made to produce GAAP basis financial statement information are correctly prepared and accurately posted to proper accounts within the financial statements.

### FLINT RIVER TECHNICAL COLLEGE

Finding Control Number: **FS-847-06-01**

EMPLOYEE COMPENSATION

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Internal Controls

- Condition:** The accounting procedures of the College were insufficient to provide for adequate controls over Employee Compensation and Expenditures/Liabilities/ Disbursements.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions.
- Questioned Cost:** Overpayment noted by the auditor during testing was \$228.21.
- Information:** While conducting tests of controls, the following deficiencies were noted:
- Employee Compensation
- A sample of 10 salaried and 20 hourly employees was selected in order to test controls over employee compensation:
- 1) Supervisors did not carefully monitor the calculations of total hours worked which resulted in three employees being overpaid. In one case, it appeared that the time sheet was changed after supervisory approval. This incident revealed that employees have access to time sheets

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- after supervisory approval, but prior to processing by the Human Resource Department.
- 2) In some cases, time sheets did not agree to internal departmental time records.
  - 3) In two cases employees were not paid for hours worked, including hours that should have been overtime.

### Expenditures/Liabilities/Disbursements

A sample of twenty-two items was selected in order to test controls over expenditure transactions:

- 1) Two voucher packages did not have an approved Purchase Requisition.
- 2) One voucher package did not have an approved Payment Voucher.
- 3) Five voucher packages did not have proper evidence that items were received prior to payment being made.
- 4) Three voucher packages did not contain an invoice.

- Cause:** College management failed to implement satisfactory controls over the processing of its employee compensation transactions for its hourly employees and its expenditure process.
- Effect:** Without satisfactory accounting controls and procedures in place, the College could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact the reporting of its financial position and results of operations.
- Recommendation:** The College should review its internal control policies. It should ensure that these policies are adequate and should then determine whether or not they are placed in operation and operating effectively. In areas where deficiencies exist, the College should design and implement additional control procedures over Employee Compensation and Expenditures/Liabilities/Disbursements.

Finding Control Number: **FS-847-06-02**

### CAPITAL ASSETS

#### Inadequate Internal Controls

- Condition:** The accounting procedures of the College were insufficient to provide for adequate controls over Capital Assets.
- Criteria:** NCGA Statement 1, paragraph 1, prescribes that an accounting system (1) present fairly and fully disclose its financial position including its financial operation of its funds in accordance with generally accepted accounting principles and (2) demonstrate compliance with finance related legal and contractual provisions.
- Information:** We noted the following weaknesses/deficiencies relating to Capital Assets during internal control testing of thirty-two items:
- 1) Four assets selected for testing did not have decals. Two of these assets were brought to the attention of the College by the prior year auditor and the records were not corrected. One asset had a decal that did not agree to the number assigned to that asset in PeopleSoft.
  - 2) Two assets were physically located by the auditor but could not be located on the asset listing.
  - 3) One asset selected from the asset listing could not be physically located. Further research by the College revealed that this asset had been sent to surplus during the fiscal year under audit, but had not been removed from the listing.
  - 4) The College did not properly add all small value property items to its small value property listing as required.
- Cause:** College management failed to implement satisfactory controls to properly record and maintain its capital asset records.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Effect:** Without satisfactory accounting controls and procedures in place, the College could place itself in a position where potential misappropriation of assets could occur. In addition, the lack of controls could impact the reporting of its financial position and results of operations.
- Recommendation:** The College should review its internal control policies. It should ensure that these policies are adequate and should then determine whether or not they are placed in operation and operating effectively. In areas where deficiencies exist, the College should design and implement additional control procedures over Capital Assets.

### GEORGIA HIGHER EDUCATION ASSISTANCE CORPORATION (\*\*)

Finding Control Number: **FS-918-06-01**

#### ACCOUNTING CONTROLS (OVERALL)

Failure to provide a reconciliation of the September 30, 2006 ED Form 2000 to the National Student Loan Data System (NSLDS) extract

- Condition:** This is a repeat finding from the year ended June 30, 2005. For fiscal year end June 30, 2006, the Corporation was unable to provide a reconciliation of the September 30, 2005 ED form 2000 to the NSLDS.
- Criteria:** Guaranty agencies are required to submit loan level detail information to the National Student Loan Data System (NSLDS) and are required to submit the U.S. Department of Education's ED Form 2000, Guaranty Agency Financial Report (GAFR), on a monthly, monthly/quarterly, or annual basis. Relevant amounts on the NSLDS must reconcile with the NSLDS Extract submitted by the guaranty agency.
- Context:** The reconciliation of the two reports was not performed by the Corporation as of September 30, 2005 as required.
- Effect:** Loan level detail information is not being reconciled with applicable reports as required by the U.S. Department of Education (DOE).
- Cause:** The Corporation has not been able to prepare the reconciliation due to timing differences and data definition inconsistencies for the two reporting mechanisms.
- Recommendations:** The Corporation should consider reconciling the ED Form 2000 to the NSLDS Extract on a quarterly and annual basis.

Finding Control Number: **FS-918-06-02**

#### REVENUES/RECEIVABLE RECEIPTS

Failure to establish adequate procedures to verify a student's loan status with the lender as well as establish adequate procedures to ensure that lenders report and that the Corporation properly records loans paid in full

- Condition:** This is a repeat finding from the year ended June 30, 2005. For fiscal year end June 30, 2006, several exceptions were noted on federal reinsurance rate confirmations sent to lenders.
- Criteria:** Guaranty agencies are required to submit data to the DOE that is correct and supported by the books and records for the calculation of loans in repayment status.
- Context:** Three exceptions out of a sample of sixty were noted on the federal reinsurance rate confirmations sent to lenders.
- Effect:** Information prepared and presented in the monthly ED Form 2000 could be misclassified and thus create inaccurate calculations of loans paid in full.

**(\*\*) THIS ORGANIZATIONAL UNIT WAS AUDITED BY OTHER AUDITORS**

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** The exceptions were noted to be due to timing differences or non-reporting of status changes by lenders to the Corporation.
- Recommendations:** The Corporation should establish procedures to verify a student's loan status with the current loan holder as well as establish adequate procedures to ensure that the current loan holder reports and that the Corporation properly records loans paid in full.
- Finding Control Number:** **FS-918-06-03**  
**REVENUES/RECEIVABLES/RECEIPTS**  
**Failure to maintain current records**
- Condition:** This is a repeat finding from the year ended June 30, 2005. For fiscal year ended June 30, 2006, one account was noted to not have a complete set of records updated in accordance with the CFR.
- Criteria:** Guaranty agencies are required to maintain current, complete records for each loan that it holds. The records must be maintained in a system that allows ready identification of each loan's current status, updated at least every 10 business days (34 Code of Federal Regulations (CFR) section 682.414(a)).
- Context:** One account was noted as being paid as a bankruptcy claim but did not include current information on the system to show that the claim was paid and transferred to the proper third party agency for collection. At year end, the loan was still reported with a balance in the Corporation's defaulted loan portfolio.
- Effect:** The Corporation failed to maintain current records for this loan and continued to report a loan that was transferred to another agency.
- Cause:** The borrower's loan status was not properly updated and changed to reflect the transfer within the Corporation's system.
- Recommendation:** The Corporation should maintain current and complete records for all loans that it holds.

## GEORGIA AGRIRAMA DEVELOPMENT AUTHORITY

**Finding Control Number:** **FS-940-06-01**  
**CAPITAL ASSETS**  
**Inadequate Capital Asset Records**

- Condition:** Our examination of the accounting records of the Georgia Agrirama Development Authority revealed that the Authority's capital asset inventory records report tracts of land and buildings acquired through donations at an estimated value without adequate documentation of how the estimates were determined.
- Criteria:** The State of Georgia Capital Asset Guide requires that capital assets be reported by category at historical cost or estimated historical cost when actual records are not available. Donated assets should be reported at fair value at the time of donations.
- Cause:** The deficiency is the result of management's failure to implement adequate policies and procedures to ensure that the Authority's capital assets are properly maintained.
- Effect:** The amounts reported on the general ledger for Land and Buildings may contain misstatements; however, the extent of these misstatements could not be determined.
- Recommendation:** Management should develop appropriate policies and procedures to ensure that all of the Authority's capital assets are properly accounted for and reported in accordance with the State of Georgia Capital Asset Guide.

# State of Georgia

## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA

Finding Control Number: **FS-949-06-01**

#### EXPENDITURES/LIABILITIES/DISBURSEMENTS

##### Overpayment of Pension Benefits

- Condition:** During the year under review, it was discovered that the Judges of the Probate Courts Retirement Fund of Georgia (Fund) was overpaying pension benefits to one beneficiary. Of the total of fifteen retirees receiving benefits payments selected for testing, one was identified as not being paid under the benefit payment option plan that was selected by the beneficiary.
- Criteria:** The Official Code of Georgia Annotated, Section 47-11 Article 5, "Retirement Benefits," provides the criteria for determining eligibility, description of different payment options, and methods used to calculate benefit payments.
- Information:** Once a member of the Fund chooses to retire, they must notify the Fund. The Fund then begins a qualification screening to determine if the member meets the eligibility requirements. Next, based on the member's age at retirement, spouse's age, if applicable, length of service, etc., the Fund determines a payment schedule for the different available benefit payment option plans provided by the Fund. A letter detailing these payment option plans is issued to the member. The member indicates which option they want and returns the letter to the Fund. Using the member's choice, the Fund sets up the benefit payment schedule in their computer system. Lastly, this information is forwarded to State Street, the Fund's custodian, who handles the benefit payments for the Fund.
- Questioned Cost:** \$18,434.35
- Cause:** The Fund did not have adequate controls in place to ensure that amounts paid to retirees matched the payment option plan each retiree had chosen.
- Effect:** The retiree has been overpaid a total of \$18,434.35 for fiscal years 2001 through 2006. As a result, the Fund's Deductions account for Benefits has been overstated each year since fiscal year 2001.
- Recommendation:** The Fund should implement controls to ensure that all benefit payments made are in accordance with the benefit payment option plans as chosen by its members, and approved by the Board. In addition, the Fund should seek reimbursement of the overpayment of benefits from the plan member.

### OCONEE REGIONAL EDUCATIONAL SERVICE AGENCY

Finding Control Number: **FS-8664-06-01**

#### EMPLOYEE COMPENSATION

##### Inaccurate Reporting of Senior Management Compensation

- Condition:** Our examination of compensation paid to senior management of the Regional Educational Service Agency (RESA) indicated that the Executive Director's salary was included as salary from a local board of education, rather than paid through the RESA. In addition, our examination revealed an error in the amount reported as salary to the Department of Audits and Accounts.
- Criteria:** O.C.G.A. 50-6-27 states, in part: "Each office, institution, board, department, commission, authority, university, college, and local board of education is required and directed to submit to the state auditor, in a format prescribed by the state auditor, a listing of all personnel of such office, institution, board, department, commission, authority, university, college, or local board of education showing name, title or functional area, salary, and travel expense for each individual..."
- Information:** The Salary and Travel Report lists the Executive Director's salary as paid through Washington County Board of Education rather than from Oconee RESA. Information provided indicates that the Executive Director signed a contract with Washington County Board of Education, when, in fact, he is employed

# State of Georgia

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## Financial Statement Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

by the RESA. The Executive Director reports to the RESA Board of Control and as such, should be reported as an employee of the RESA.

The Salary and Travel Report does not include \$7,528 as earned compensation for the Executive Director's deferred annuity paid on his behalf and imputed income for a life and long-term disability policy. In addition, there is no indication in the contract that these amounts should have been paid on his behalf.

The Salary and Travel Report for the period ended June 30, 2006, lists the Executive Director's salary as \$110,948. The actual compensation totaled \$118,476, which includes the \$7,528 compensation referenced above.

- Cause:** The Oconee RESA failed to implement procedures to ensure that all employees' compensation is properly reported to the Department of Audits and Accounts. In addition, the RESA failed to ensure that all compensation is included in the Executive Director's contract.
- Effect:** The failure of the RESA to submit all employees' compensation as well as total compensation paid to the Executive Director leads to inaccurate external reporting of salaries for both the RESA and the Washington County Board of Education.
- Recommendation:** The RESA should implement procedures to ensure that a contract, including all compensation, is signed between the RESA and the Executive Director. The RESA should ensure that all employees' compensation is included in the salary total reported to the Department of Audits and Accounts.

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**Federal Awards  
Findings and Questioned Costs**

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# State of Georgia

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## Federal Awards Findings and Questioned Costs

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# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### DEPARTMENT OF ADMINISTRATIVE SERVICES

Finding Control Number: **FA-403-06-01**  
ALLOWABLE COSTS/COST PRINCIPLES  
Failure to Submit State-Wide Cost Allocation Plan

- Condition:** The Department of Administrative Services (DOAS) failed to prepare and submit a State-Wide Cost Allocation Plan (SWCAP) for the fiscal year to the Department of Health and Human Services (HHS) for approval. As of June 30, 2006, the last SWCAP submitted to and approved by the HHS was the fiscal year 2002 plan. Costs for fiscal year 2006 were calculated based on amounts approved in the fiscal year 2002 SWCAP. DOAS has submitted the fiscal year 2003 SWCAP and it is awaiting HHS' approval.
- Criteria:** Office of Management and Budget (OMB) Circular A-87, Cost Principles Applicable to Grants and Contracts in Attachment C, Paragraph D, requires each State to submit a SWCAP to HHS for each year in which it claims central service costs under Federal awards. It is further required that the SWCAP be prepared and submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposed to claim central service costs.
- Information:** Maximus (the firm DOAS contracts with to prepare the SWCAP) has submitted a letter to the auditors in previous years, documenting their correspondence with HHS. Maximus is aware of the requirements of Circular A-87 and is currently trying to catch up.
- Cause:** Management's failure to implement adequate procedures to ensure that OMB Circular A-87 regulations regarding submission requirements for the SWCAP are met.
- Effect:** The failure to remain current with the submission of SWCAP's could result in significant adjustments between the State of Georgia and the Federal government.
- Recommendation:** The Department of Administrative Services should implement policies and procedures to ensure that the SWCAP is submitted to HHS within six months prior to the beginning of the fiscal years in which it proposes to claim central service costs.

### DEPARTMENT OF EDUCATION

Finding Control Number: **FA-414-06-01**  
SUBRECIPIENT MONITORING  
Subrecipient Audit Reports Not Received Within the Required Time Period

- Condition:** As part of our examination, we reviewed tracking documents used by the Department of Education to determine the status of subrecipient audit reports for the year ended June 30, 2006. Of the two-hundred-forty (240) subrecipients identified on the tracking documents, one-hundred-sixty-three (163) had not submitted their audits within the nine-month period as required by Office of Management and Budget (OMB) Circular A-133.
- Criteria:** OMB Circular A-133 requires that subrecipient audit reports be submitted for review within nine months of the fiscal year end.
- Cause:** The noncompliance is due to subrecipient audits not being performed in a timely manner.
- Effect:** The condition identified above is in violation of OMB Circular A-133.
- Recommendation:** The Department should review and strengthen its in-house monitoring function in an effort to bridge the monitoring gap for those subrecipients whose audit reports fail to meet the nine month deadline.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### Federal Program/Award Affected:

U. S. Department of Agriculture  
Food Distribution (CFDA 10.550)  
School Breakfast Program (CFDA 10.553)  
National School Lunch Program (CFDA 10.555)  
Special Milk Program for Children (CFDA 10.556)

U. S. Department of Education  
Vocational Education – Basic Grant to States (CFDA 84.048)  
Twenty-First Century Community Learning Centers (CFDA 84.287)  
Reading First State Grants (CFDA 84.357)  
Hurricane Education Recovery Act – Impact Aid (CFDA 84.938)

### Federal Agencies With Other Affected Programs

U. S. Department of Agriculture  
U. S. Department of Education  
U. S. Department of Health and Human Services  
Corporation for National and Community Service

## DEPARTMENT OF COMMUNITY HEALTH (\*)

Finding Control Number: **FA-419-06-01**  
ACTIVITIES ALLOWED OR UNALLOWED  
ALLOWABLE COSTS/COST PRINCIPLES  
Payment Accuracy of the Medicaid Management Information System

Information: CFDA Nos. 93.767, 93.777 and 93.778  
State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program)  
U. S. Department of Health and Human Services  
Grant Award Nos. 5-0605GA5021, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM,  
5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC  
Fiscal year 2006

Condition: See Financial Audit Finding FS-419-06-01

Criteria: See Financial Audit Finding FS-419-06-01

Context: See Financial Audit Finding FS-419-06-01

Cause: See Financial Audit Finding FS-419-06-01

Effect: See Financial Audit Finding FS-419-06-01

Recommendation: See Financial Audit Finding FS-419-06-01

Finding Control Number: **FA-419-06-02**  
ACTIVITIES ALLOWED OR UNALLOWED  
ALLOWABLE COSTS/COST PRINCIPLES  
REPORTING  
Accounts Payable and Other Accruals

Information: CFDA Nos. 93.767, 93.777, and 93.778  
State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and

(\*) **THIS ORGANIZATIONAL UNIT WAS AUDITED BY OTHER AUDITORS**

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Certification of Healthcare Providers and Medical Assistance Program)  
U. S. Department of Health and Human Services  
Grant Award Nos. 5-0605GA5021, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM,  
5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC  
Fiscal Year 2006

Condition: See Financial Audit Finding FS-419-06-02  
Criteria: See Financial Audit Finding FS-419-06-02  
Context: See Financial Audit Finding FS-419-06-02  
Cause: See Financial Audit Finding FS-419-06-02  
Effect: See Financial Audit Finding FS-419-06-02  
Recommendation: See Financial Audit Finding FS-419-06-02

Finding Control Number: **FA-419-06-03**  
PROCUREMENT, SUSPENSION AND DEBARMENT  
Contract Procurement, Administration Vendor Management and Fiscal Services

Information: CFDA Nos. 93.767, 93.777, and 93.778  
State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and  
Certification of Healthcare Providers and Medical Assistance Program)  
U. S. Department of Health and Human Services  
Grant Award Nos. 5-0605GA5021, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM,  
5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC  
Fiscal Year 2006

Condition: See Financial Audit Finding FS-419-06-03  
Criteria: See Financial Audit Finding FS-419-06-03  
Context: See Financial Audit Finding FS-419-06-03  
Cause: See Financial Audit Finding FS-419-06-03  
Effect: See Financial Audit Finding FS-419-06-03  
Recommendation: See Financial Audit Finding FS-419-06-03

Finding Control Number: **FA-419-06-04**  
ELIGIBILITY  
Verification and Documentation of Citizenship

Information: CFDA Nos. 93.767, 93.777, and 93.778  
State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and  
Certification of Healthcare Providers and Medical Assistance Program)  
U. S. Department of Health and Human Services  
Grant Award Nos. 5-0605GA5021, 5-0605GA5028, 5-0605GA5048, 5-0605GAKADM,  
5-0605GAKAUC, 5-0605GAKBEN and 5-0605GAKBUC  
Fiscal Year 2006

Condition: The **Department of Community Health** has contracted with the Department of Family and Children  
Services (DFCS) to provide enrollment and monitoring services for Medicaid members. Members

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

ineligible for Medicaid are notified in writing the potential of their eligibility for PeachCare. Policy Studies, Inc. (PSI) is the **Department of Community Health's** Third Party Administrator and responsible for eligibility determination for PeachCare. Currently PSI is responsible for screening for Medicaid eligibility and referring applications electronically to DFCS to complete a determination. Prior to DFCS handling all Medicaid case files, PSI was responsible for maintaining the eligibility case files for children who were enrolled in the Medicaid program after initially applying for enrollment in the PeachCare Program. These Medicaid recipients whose case files were maintained by PSI are referred to as being enrolled in Medicaid's PeachCare Plus Program. Since PeachCare members are not required to provide verification of citizenship, none of the PeachCare Plus recipients being monitored by PSI have documentation of any verification of citizenship maintained in their case files. The PeachCare Plus program was altered to the new referral method, but members who were already enrolled in the program were allowed to continue in the program without documentation of citizenship.

- Criteria:** The **Department of Community Health** is tasked with the responsibility of 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 of Medicare and Medicaid Services (CMS). Effective January 1, 2006, for all new applicants, the **Department of Community Health** policy required verification of a potential Medicaid member's or a returning Medicaid member's citizenship status.
- Context:** With the advent of the new citizenship verification requirements, members enrolled in PeachCare Plus may no longer be eligible because citizenship was not verified by the **Department of Community Health** or its enrollment agent at time of re-verification. We noted three specific cases where PeachCare Plus members have not been documented for verification of citizenship. We also noted one instance where a member who enrolled in Medicaid through the local DFCS office was not required to verify citizenship, but was still deemed eligible to participate in the program.
- Cause:** The **Department of Community Health** does not have a federally approved policy exempting PeachCare Plus members from citizenship verification requirements. Further, the **Department of Community Health** lacks controls to ensure PSI determines citizenship verification documentation requirements are met.
- Effect:** 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 are used to provide benefits for members who are not eligible for the program.
- Recommendation:** The Department of Community Health should establish a citizenship verification and documentation policy for PeachCare Plus members and create more stringent controls over the eligibility process.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### DEPARTMENT OF HUMAN RESOURCES

Finding Control Number: FA-427-06-01

#### CASH MANAGEMENT

Failure to Reconcile Cash Management Reports Accurately

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA 10.557)

State Administrative Matching Grants for Food Stamp Program (CFDA 10.561)

Temporary Assistance for Needy Families (TANF) (CFDA 93.558)

Child Support Enforcement (CFDA 93.563)

Child Care and Development Block Grant (CCDF) (CFDA 93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) (CFDA 93.596)

Foster Care - Title IV-E (CFDA 93.658)

Adoption Assistance (CFDA 93.659)

Social Services Block Grant (SSBG) (CFDA 93.667)

HIV Care Formula Grants (CFDA 93.917)

Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959)

Condition: Our examination included a review of the letter of credit reconciliations for cash management performed by the Department of Human Resources (Department) staff for the quarters ending September 30, 2005 and December 31, 2005. Our examination revealed the following deficiencies:

1. Expenditure totals on the reconciliations did not tie to the Funding Source Management-Expense without Encumbrance General Ledger Report (GL4270411) for the following programs: TANF, Child Support Enforcement, CCDF, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care, Adoption Assistance, SSBG, and HIV Care.
2. Documentation was not provided to support that adjustments were made to cash draws for programs identified as having excess or insufficient cash on hand to cover program expenditures.
3. The quarterly reconciliations did not include the following programs: WIC Food, WIC Administration, Food Stamps, and Substance Abuse.
4. The cash draw totals for Child Support Enforcement were not included on the quarterly reconciliations.
5. Reconciliations were not provided to the auditor in a timely manner.

Criteria: In accordance with the Department's policies and procedures for Cash Management, each letter of credit is reconciled to the GL4270411 report within thirty days after the end of each quarter. At this time, all of the expenditures for each fund source code from the GL4270411 report are compared to draws which are captured on the balance sheet. The balance sheet is then compared to the difference between cash drawn and expenditures as shown on the Payment Management System report.

Cause: These deficiencies occurred as a result of the Department's failure to accurately and consistently follow the established policies and procedures for reconciling estimated to actual expenditures for each letter of credit, and to maintain supporting documentation of any adjustments made to cash draws based on the differences identified on the reconciliations.

Effect: Failure to accurately and consistently reconcile the difference between estimated and actual expenditures and to make any necessary adjustments to subsequent cash draws based on the differences identified on the reconciliations could result in non-compliance with Federal regulations, interest liability being incurred, and the use of State funds to subsidize Federal program expenditures.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Recommendation:** The Department of Human Resources should implement additional policies and procedures to ensure that the process for reconciling estimated to actual expenditures is accurately and consistently performed throughout the year, and that the resulting adjustments to cash draws are made and are properly documented in the accounting records.

**Finding Control Number:** FA-427-06-02

### CASH MANAGEMENT

#### Inadequate Documentation for Cash Draws

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA 10.557)

State Administrative Matching Grants for Food Stamp Program (CFDA 10.561)

WIC Farmers' Market Nutrition Program (FMNP) (CFDA 10.572)

Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA 93.283)

Temporary Assistance for Needy Families (TANF) (CFDA 93.558)

Community Services Block Grant (CFDA 93.569)

Child Care and Development Block Grant (CCDF) (CFDA 93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) (CFDA 93.596)

Child Welfare Services - State Grants (CFDA 93.645)

Foster Care - Title IV-E (CFDA 93.658)

Social Services Block Grant (CFDA 93.667)

**Condition:** Our examination included tracing sixteen (16) cash draws to the corresponding Cash Management System (CMS) reports that provide the fund requirement calculations. We found that twelve (12) of the cash draws did not agree with the fund requirement amounts calculated by the CMS and that documentation was not maintained to support the differences.

**Criteria:** The Accounting Procedures Manual for the State of Georgia (Manual), Section Five, Page 5-4-3, states that documentation of transactions should be maintained, which "...should enable managers to trace each transaction from its inception through its completion. This means the entire life cycle of the transaction should be recorded, including initiation and authorization, processing, and final classification."

**Cause:** The Department of Human Resources failed to maintain adequate documentation to support differences between the cash draw amounts and the CMS fund requirement calculations.

**Effect:** Failure to maintain adequate supporting documentation for cash draw calculations increases the risk of material misstatements in the financial statements including misstatement due to fraud.

**Recommendation:** The Department of Human Resources should implement additional policies and procedures to ensure that adequate supporting documentation is properly maintained for all cash draw calculations.

**Finding Control Number:** FA-427-06-03

### CASH MANAGEMENT

#### Inadequate Procedures Over Cash Draws of Federal Grants

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA 10.557)

Temporary Assistance for Needy Families (TANF) (CFDA 93.558)

Child Support Enforcement (CFDA 93.563)

Child Care and Development Block Grant (CCDF) (CFDA 93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) (CFDA 93.596)

Foster Care - Title IV-E (CFDA 93.658)

Social Services Block Grant (CFDA 93.667)

HIV Care Formula Grants (CFDA 93.917)

**Condition:** Our examination of Cash Management over Federal Financial Assistance Programs disclosed that the Department of Human Resources (Department) requested Federal funds in excess of program expenditures. The following table identifies the programs and the number of months with requests in excess of expenditures:

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Name</u>	<u>Number of Months Reimbursements Exceeded Expenditures</u>	<u>Average Monthly Balance of Excess Funds on Hand</u>
10.557	WIC Administration	9	1,500,000.00
	WIC Food Supplement	11	8,500,000.00
93.558	TANF	8	15,200,000.00
93.563	CSE	8	7,600,000.00
93.575 &			
93.596	CCDF	4	7,400,000.00
93.658	Foster Care	4	13,200,000.00
93.667	SSBG	6	4,100,000.00
93.917	HIV	9	3,400,000.00

**Criteria:** Code of Federal Regulations Title 31, Chapter II, Part 205, Subpart A and B indicates that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A State and Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.

**Cause:** The Department's policies and procedures for requesting Federal funds to reimburse program costs were inadequate.

**Effect:** Failure to drawdown Federal funds on an as-needed basis could result in an interest liability being incurred.

**Recommendation:** The Department should review their policies and procedures for requesting Federal funds to ensure that they are adequate to meet cash management objectives. The Department should also review the clearance patterns used for drawing Federal funds to ensure that they are still relevant to current trends.

**Finding Control Number:** FA-427-06-04

### ELIGIBILITY

Deficiencies in File Maintenance

Temporary Assistance for Needy Families (CFDA 93.558)

**Condition:** Our examination included a review of one hundred forty (140) client case files from the Temporary Assistance for Needy Families (TANF) Program at certain Division of Family and Children Services (DFCS) offices to determine if benefit payments were made within program guidelines. These sample items had a value of \$240,611.00 out of a sample population of 44,097 cases totaling \$48,635,243.00. The following deficiencies were noted:

1. Five (5) client files totaling \$6,486.00 did not contain Form 138 - Child Support Enforcement.
2. Five (5) client files totaling \$8,138.00 did not contain a child immunization form.

**Criteria:** Section 1105 - Application Processing of the "Economic Support Services Manual" states that certain forms must be completed when processing a TANF application. Form 138, Child Support Enforcement, is included in this section as one of the forms that, when necessary, must be completed to process an application.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Section 1360 - Immunization Requirements of the "Economic Support Services Manual" states that the Assistance Unit must provide verification that a preschool age child has begun the immunization series and that the series continues. An original, photocopy, or computer-generated version of DHR Form 3231, Child Care Immunization Certificate, is an acceptable initial verification. Alternate methods of verification are acceptable if they include the same information found on the Form 3231, including a provider signature.

Questioned Cost: \$14,624.00

Cause: These errors were caused by DFCS management's failure to ensure that information required by the Department of Human Resources "Economic Support Services Manual" were included and maintained in client files at the Division of Family and Children Services offices.

Effect: Failure to properly maintain client files can result in direct material effects on the financial statements.

Recommendation: The Department of Human Resources should ensure that procedures are in place to provide for proper maintenance of client files and that all required data for eligibility determination is included in the files.

Finding Control Number: FA-427-06-05

ELIGIBILITY

SPECIAL TESTS AND PROVISIONS

Deficiencies in Internal Controls

Child Support Enforcement (CFDA 93.563)

Condition: Our examination included a review of one hundred twenty- seven (127) client case files out of a sample population of 5,752,124 cases from the Child Support Enforcement (CSE) program to determine if the Department of Human Resources (Department) complied with applicable Federal laws, regulations, and other program compliance requirements. The following deficiencies were noted:

1. Case file information was not accurately input/updated in the Support Tracking, Accounting, and Reporting System (\$TARS).
  - a. Case/case subtype in \$TARS was not consistent with information in the case file for five (5) client files.
  - b. Status of child was not updated in a timely manner for four (4) client files.
  - c. Case "function" was not properly updated to reflect the current status for three (3) client files.
  - d. Non-custodial parent (NCP) information was not properly updated for three (3) client files.
  - e. Support order deduction information was not properly recorded and/or updated for three (3) client files.
  - f. \$TARS panels were not populated with health insurance information for four (4) client files.
  - g. Arrears were incorrectly applied to current support payments for one (1) client file.
2. Child support obligation was not correctly calculated/charged.
  - a. Child support obligation was incorrectly charged after emancipation of child for four (4) client files.
  - b. Support, arrears, and/or interest payments were incorrectly charged/calculated for eleven (11) client files.
3. Supporting documentation was not properly maintained.
  - a. No verification/documentation that health insurance was obtained/affordable for twenty (20) client files.
  - b. No documentation was provided for enforcement action taken for eight (8) client files.
  - c. Application on file was incomplete for one (1) client file.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- d. Paternity affidavit was not properly completed and/or maintained for one (1) client file.
- e. No documentation of the application fee being paid was provided for thirteen (13) client files.
- f. No documentation was provided for the support order calculation for nine (9) client files.

- Criteria:** An adequate system of internal controls calls for: (1) transactions to be properly recorded and accounted for in order to properly prepare reliable financial statements and Federal reports, (2) the proper calculation of benefit payments paid to or on behalf of eligible clients in accordance with program requirements, (3) sufficient documentation to be present in order to demonstrate compliance with laws, regulations, and other program compliance requirements. In addition, in order to provide for an adequate audit trail, documentation must be maintained and made available for inspection when requested.
- Cause:** The deficiencies noted above were the result of the Department's failure to implement adequate internal control policies and procedures to ensure that benefit payments were correctly calculated, supporting documentation was maintained, and all transactions and related case data were properly recorded in the accounting records.
- Effect:** Failure to maintain an adequate system of internal controls increases the risk that the Department will not comply with the applicable Federal laws, regulations, and other program compliance requirements.
- Recommendation:** The Department of Human Resources should develop and implement additional policies and procedures to ensure that benefit payments are correctly calculated, supporting documentation is maintained, and all transactions and related case data are properly recorded in the accounting records.

Finding Control Number: **FA-427-06-06**

### ELIGIBILITY

#### Deficiencies in Monitoring Procedures

Child Care and Development Block Grant (CCDF) (CFDA 93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) (CFDA 93.596)

**Condition:** Our examination included a review of one hundred (100) client case files from the Child Care and Development Fund (CCDF) Cluster program at certain Division of Family and Children Services (DFCS) offices to determine if benefit payments were made within program guidelines. These sample items had a value of \$155,799.00 out of a sample population of \$144,696,072.00. The following deficiencies were noted:

- The family fee was incorrectly assessed for one (1) client case file, which resulted in an overpayment of \$10.00.
- Benefit payments for one (1) client case file exceeded the maximum reimbursement rate for the type of care provided, which resulted in an overpayment of \$828.00.
- Benefits payments for thirteen (13) client case files were found to exceed the full time care rate for a continuous period of time. Providers were receiving benefit payments on occasional/part-time care certificates for each day during a service week, in addition to payments on before/after school care certificates. This resulted in overpayments totaling \$17,590.00.

- Criteria:**
- Section 306.1 – Assessing Family Fees of the “Childcare and Parent Services Program Guidance Manual” states that the family fee assessment is based on the family size and yearly gross income. The case manager is responsible for verifying the income level and the family size when calculating the family fee.
  - Section 307.3 – Child Care Reimbursement Rates of the “Childcare and Parent Services Program Guidance Manual” states that the “rates paid to child care providers must not exceed the state's maximum reimbursable rate based on the county where the provider is located”.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Section 307.4 - Purchasing Child Care Services of the "Childcare and Parent Services Program Guidance Manual" states that the negotiated rate for four (4) to five (5) days of child care should not exceed the full time care rate per week.

Questioned Cost: \$18,428.00

Cause: The deficiencies noted above were caused by DFCS management's failure to adequately monitor child care cases and certificates to ensure that providers continue to meet the conditions of the certificates and that the negotiated rates for care are appropriate based on the needs of the client.

Effect: Failure to adequately monitor child care cases and certificates can result in erroneous payments to child care providers.

Recommendation: The Department of Human Resources (Department) should adhere to prescribed policies and procedures included in the Childcare and Parent Services Program Guidance Manual regarding responsibilities for monitoring child care cases and certificates.

Finding Control Number: **FA-427-06-07**

### SPECIAL TESTS AND PROVISIONS

Failure to Terminate Ineligible Benefit Payments

Temporary Assistance for Needy Families (CFDA 93.558)

Condition: Our examination included a review of eighty (80) client case files out of a population of 1,504 case files from the Temporary Assistance for Needy Families (TANF) program to determine if benefit payments were denied where the client had not cooperated with Child Support Enforcement (CSE) and good cause did not exist. Our examination revealed that two (2) clients continued to receive benefit payments after ineligibility had been determined, resulting in \$1,050.00 of claims being paid in error.

Criteria: Section 1320 - Child Support Enforcement of the "Economic Support Services Manual" states that if a client fails to cooperate with CSE without good cause, the client is ineligible for cash assistance.

Questioned Cost: \$1,050.00

Cause: The Department of Human Resources failed to adhere to prescribed policies and procedures for termination of benefit payments when a client fails to cooperate with CSE without good cause.

Effect: OMB Circular A-133 states that the Department of Health and Human Services may penalize a State for up to five percent of the grant for failure to substantially comply with the required State child support program.

Recommendation: The Department of Human Resources should adhere to prescribed policies and procedures for the termination of benefit payments when a client fails to cooperate with CSE without good cause.

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### DEPARTMENT OF COMMUNITY AFFAIRS

Finding Control Number: **FA-428-06-01**  
ACTIVITIES ALLOWED OR UNALLOWED  
ALLOWABLE COSTS AND COST PRINCIPLES  
ELIGIBILITY  
SPECIAL REPORTING  
System Control Deficiencies  
Section 8 Housing Choice Vouchers (CFDA 14.871)

- Condition:** Numerous system control deficiencies existed in regards to the AS400 server which hosts the programs used for the Section 8 Housing Choice Voucher Program. The server controls found to not be operating effectively are:
- (1) Password controls
  - (2) Access controls – For the program itself and for the physical location of the server. Individuals were found to still have access even though they were no longer employed by the Department
  - (3) Many software control functions are not set high enough to satisfy the software provider's standards
  - (4) Authority controls – Numerous personnel have too much authority over the computer programs
  - (5) Change control procedures
  - (6) Security controls
- Criteria:** An adequate computer security management program involves: (1) the assessment of risk, (2) the development and implementation of policies and controls to minimize risk, (3) the promotion of awareness toward those policies and controls, and (4) ensuring the policies and controls are in place and operating effectively.
- Information:** All data for the Section 8 Housing Choice Voucher Program is processed through the Modern Software Technologies (MST) application. The Housing Assistance Payments (HAP) are processed by the application and it is also used in eligibility determinations.
- Cause:** Failure on behalf of the Department's management and IT personnel to implement adequate system controls relating to the AS400 server and the MST software.
- Effect:** Since adequate controls were not in place over the AS400 server and the MST software, the application overall was operating at an increased level of risk due to fraud. In addition, access control deficiencies provide the opportunity for individuals to commit fraud.
- Recommendation:** The Department of Community Affairs should review their policies and system controls over their application. Additional system controls should be implemented, as needed, to correct the deficiencies identified. Also, all security and audit functions of the software should be set to the software provider's recommended settings and limits placed on physical access to the server room to ensure a minimal amount of risk to the application's operation.

### DEPARTMENT OF LABOR

Finding Control Number: **FA-440-06-01**  
REPORTING  
Deficiencies in Reporting  
Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126)

- Condition:** The Department of Labor's (Department) internal control procedures were not sufficient to provide for the timely submission of required SF-269 and SF-269A financial reports to the Federal awarding agency in accordance with the Code of Federal Regulations. None of the 14 reports examined for submission dates were submitted in a timely manner to the Federal awarding agency.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Criteria:** The Code of Federal Regulations, Title 2, Part 215.52(a)(1)(iv), Subpart C, states: "The Federal awarding agency shall require recipients to submit the SF-269 or SC-269A no later than 30 days after the end of each specified reporting period..."
- Cause:** The Department failed to establish policies and procedures to ensure that the required financial reports are submitted in a timely manner to the Federal awarding agency in accordance with the Code of Federal Regulations.
- Effect:** The failure to submit the required financial reports to the Federal awarding agency is not in compliance with the Code of Federal Regulations.
- Recommendation:** The Department should establish internal control procedures to ensure that the required financial reports are submitted in a timely manner to the Federal awarding agency in accordance with the Code of Federal Regulations.

### **GEORGIA INSTITUTE OF TECHNOLOGY (\*\*\*)**

Finding Control Number: **FA-503-06-01**  
**REPORTING**  
Failure to Timely Submit Financial Reports  
Research and Development Cluster

See exhibit below for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

- Condition:** Certain financial reports required by grant and contractual agreements entered into by the Organization with various Federal agencies were not submitted on time or were inaccurate as to the information presented.
- Criteria:** The OMB Circular A-133 Compliance Supplement Section 3.L suggests that recipients use the standard financial reporting forms or such other forms as may be authorized by OMB. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. These financial reports should agree to the general ledger and be traceable to source documentation without exception in order to assure accurate accounting and billing procedures.
- Cause:** The cause of inaccurate or untimely reports, as stated to us, was the unavailability of data at the report due date necessary for the completion of the required reports.
- Effect:** The submission of inaccurate or untimely reports could result in the possible delay of grant funding or affect other projects from the Federal sponsoring agency.
- Recommendation:** Efforts should continue to be made by the Organization to institute policies and procedures to ensure that all contractual deliverables include the required components, are authorized by the proper personnel, and are submitted to the contracting agencies by the specified due dates.

**(\*\*\*) CERTAIN FEDERAL COMPLIANCE REQUIREMENTS FOR THE RESEARCH AND DEVELOPMENT CLUSTER OF THIS ORGANIZATIONAL UNIT WERE AUDITED BY OTHER AUDITORS**

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

<u>Agency</u>	<u>CFDA Number</u>	<u>Cluster/ Major Program</u>	<u>Pass-Through Grantor/ Program Title</u>	<u>Contract Number</u>	<u>Reference Number</u>	<u>Report Type</u>	<u>Date Due</u>	<u>Delivery Date</u>	<u>Reason for Finding</u>
1. Air Force	12.800	R&D	Research in Science and Engineering	21066T4	R4530	SF 272	10/15/05	10/13/06	Errors in Report
2. Air Force	12.800	R&D	Research in Science and Engineering	1606V91	R4686	SF 272	01/15/06	01/25/06	Late Submission
3. Army	12.431	R&D	Basic Scientific Research	1606X20	R5711	SF 272	01/15/06	01/31/06	Late Submission

Finding Control Number: **FA-503-06-02**

### REPORTING

Inadequate Performance Reporting

Research and Development Cluster

Education and Human Resources (CFDA 47.076)

See exhibit below for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

**Condition:** Numerous progress/special performance reports required by grant and contractual agreements entered into by the Organization with various Federal agencies were not submitted, not submitted on time, or were not authorized by a proper official as specified in the grant and contractual agreements.

**Criteria:** The OMB Circular A-133 Compliance Supplement Section 3.L requires recipients to submit performance reports at least annually. In addition, the grant award may stipulate additional performance reporting requirements. Performance reports generally contain, for each award, brief information on each of the following:

- A comparison of actual accomplishments with the goals and objectives established for the period.
- Reasons why established goals were not met, if appropriate.
- Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

**Cause:** The cause of untimely reports, as stated to us, was the unavailability of data at the report due date necessary for the completion of the required reports.

**Effect:** The submission of inaccurate or untimely reports could result in the possible delay of grant funding or affect other projects from the Federal sponsoring agency.

**Recommendation:** Efforts should continue to be made by the Organization to institute policies and procedures to ensure required reports are submitted to the contracting agencies by the specified due dates and authorized by proper personnel.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Agency	CFDA Number	Cluster/ Major Program	Pass-Through Grantor/ Program Title	Contract Number	Reference Number	Report Type	Date Due	Delivery Date
1. Air Force	12.800	R&D	SSAI/Melbourne, FL	OA7574000	A7574	Monthly Status Report	08/15/05	08/19/05
2. U. S. Army	2.431	R&D	Aquatic Plant Control	OA7722000	A7722	Quarterly Status Report	05/11/06	05/26/06
3. DOD	12.OFA	R&D		OA7755000	A7755	Progress Status Report	02/20/06	02/21/06
4. U. S. Navy	12.300	R&D	Basic and Applied Scientific Research	OA79160000	A7916	Monthly Status Report	04/20/06	04/21/06
5. DOE	81.OFA	R&D		2106F60	R2315	Quarterly Progress Report	01/30/06	02/28/06
6. DOE	81.OFA	R&D	Southeastern University Research Association	6526610	R3017	Final Process Report	12/31/05	Not Submitted
7. NIH	93.859	R&D	Discovery and Applied Research for Technological Innovations to Improve Human Health	21066JT	R4065	Annual Progress Report	06/01/06	07/12/06
8. NSF	47.076	R&D	Education and Human Resources	3606A98	R4289	Annual Progress Report	10/15/05	12/14/05
9. Air Force	12.800	R&D	Basic, Applied, and Advanced Research in Science and Engineering	21066T4	R4530	Annual Performance Rpt	09/01/05	Not Submitted
10. Cornell University	47.041	R&D	Engineering Grants	1306648	R5472	Annual Report	03/01/06	Not Submitted
11. Army	12.431	R&D	Basic Scientific Research	1606X20	R5711	Interim Progress Report	12/31/05	Not Submitted
12. Air Force	12.800	R&D	Air Force Defense Research Sciences Program	36166CY	R5878	Quarterly Tech. Status Rpt	04/15/06	Not Submitted
13. Army	12.100	R&D	Raytheon	21066YU	R6290	Monthly Summary Report	09/15/05	09/26/05
14. NSF	47.076	NSF	Education and Human Resources	12566B4	R4855	Annual Progress Report	05/12/06	08/28/06
15. NSF	47.076	NSF	Education and Human Resources	5006691	R4254	Annual Progress Report	08/30/05	Not Submitted
16. NSF	47.076	NSF	Education and Human Resources	9986871D0	N71D0	Annual Progress Report	09/30/05 09/28/06	
17. NSF	47.076	NSF	Education and Human Resources	3626602	R3772	Annual Progress Report	05/31/05	06/28/06

**Finding Control Number: FA-503-06-03**  
**SUBRECIPIENT MONITORING**  
**Inadequate Monitoring of Subrecipients**  
**Research and Development Cluster**

See exhibit below for a listing of agency names, contract numbers and CFDA numbers associated with this finding.

**Condition:** The Organization did obtain OMB Circular A-133 audit certification letters which indicate the subrecipient met the audit requirements from their subrecipients selected for testing. However, the Organization, as the subgrantor agency, did not evaluate the impact of certain subrecipients findings identified in their OMB Circular A-133 audits.

**Criteria:** Pursuant to OMB Circular A-133 Compliance Supplement Section 3.M a pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

- *Subrecipient Audits* - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

**Cause:** The Organization did not evaluate the audit certification letters received from subrecipients in a timely manner to ascertain whether or not additional follow-up actions were warranted.

**Effect:** The Organization's failure to adequately monitor subrecipients with findings identified could result in potential unallowable activities or unallowable costs or other noncompliance with Federal grant regulations.

**Recommendation:** The Organization should perform a documented review of the audit certification letters received from subrecipients in a timely manner. The Organization should evaluate the impact of any findings identified and determine whether or not follow-up action is required. For subrecipients with findings identified that may impact the Organization's pass-through awards, Management should ensure the subrecipient takes timely and suitable corrective actions for findings identified.

Agency	CFDA Number	Cluster/ Major Program	Pass-Through Grantor/ Program Title	Contract Number	Reference Number	Subrecipient	Audit Report Received	Results
1. NIH	93.837	R&D	Heart and Vascular Diseases Research	12566C2	R4946	Baylor College of Medicine	04/18/06	Corrective action plan was not requested or obtained in a timely manner.
2. Air Force	12.63	R&D	Basic, Applied, and Advanced Research in Science and Engineering	1606V91	R4686	The Regents of the University of California	04/03/06	Corrective action plan was not requested or obtained in a timely manner.

### ALBANY STATE UNIVERSITY

Finding Control Number: **FA-521-06-01**

#### ELIGIBILITY

Overpayment of Student Financial Aid  
Student Financial Aid Cluster Program

**Condition:** The Student Financial Aid (SFA) Office improperly determined the financial need of eligible students.

**Criteria:** Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Aid (SFA) programs, 34 CFR 685 provide eligibility and other related program requirements that are specific to the Federal Direct Student Loan Program, and 34 CFR 690 provide eligibility and other related program requirements that are specific to the Federal Pell Grant Program.

**Questioned Cost:** Questioned Costs of \$43,830.00 were identified for students who received student financial aid in excess of their eligible need. The projection of Questioned Costs was \$3,311,599.08 for students who received student financial aid in excess of their eligible need.

# State of Georgia

## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Information: A sample of fifty-two financial aid files was selected to determine if financial aid was properly calculated and disbursed to eligible students. The items sampled contained financial aid disbursements of \$436,437.29 out of a population of \$32,975,252.74. The following deficiencies were noted:

- 1.) Four students were not in compliance with the University's published satisfactory academic progress policies. Federal regulations (34 CFR 668.32 and 668.34) state that a student must maintain satisfactory academic progress to be eligible to receive financial assistance under the Title IV programs. The noncompliance with established published standards of satisfactory progress is as follows:
  - (a) The University's policy states that an undergraduate student must maintain a 2.00 grade point average. If the student falls below the minimum grade point average, they will be put on probation for one academic year. If the student does not bring his grade point average above a 2.00, he will be put on financial aid suspension and will have to pay out of pocket until he can meet the requirements to come off financial aid suspension. A student may reapply for financial aid if the student takes at least 6 or more hours and receives a grade point average of 2.50 or higher. The student will be checked again at the next evaluation period to make sure they are meeting the requirements.
  - (b) The University's policy states that a student is required to earn a minimum number of hours each academic year depending upon their enrollment status. Undergraduate, post baccalaureate, and graduate students who enroll for full-time, three-quarter time or part-time course work throughout each academic year should successfully complete 67% of all attempted hours registered for during each academic year.
  - (c) The University's policy states that the maximum number of hours (time frame) allowed is 150% of the number of semester hours required for a student to earn a degree. At Albany State University, the average undergraduate degree requires 120 to 127 semester hours for completion; therefore, students may not receive financial aid after they have attempted 190 semester hours. Students who have earned enough hours to complete degree requirements are no longer eligible to receive financial aid.

One undergraduate student was not meeting satisfactory academic progress due to her grade point average for the second year in a row. This noncompliance resulted in over-disbursements of Federal Direct Student Loan funds in the amount of \$8,305.00, and Pell Grant Program funds in the amount of \$4,050.00. One undergraduate student was not meeting satisfactory academic progress due to incremental measurement. This noncompliance resulted in over-disbursements of Federal Direct Student Loan funds in the amount of \$7,318.00, and Pell Grant Program funds in the amount of \$3,900.00. One undergraduate student was not meeting satisfactory academic progress due to maximum time frame requirements. This noncompliance resulted in over-disbursements of Pell Grant Program funds in the amount of \$4,050.00. One undergraduate student was not meeting satisfactory academic progress due to his grade point average and due to incremental measurement. This noncompliance resulted in over-disbursements of Federal Direct Student Loan funds in the amount of \$9,657.00, and Pell Grant Program funds in the amount of \$4,050.00.

- 2.) One student was disbursed Federal Direct Student Loan funds in excess of allowable limits. Federal regulations (34 CFR 668.20) state that only thirty semester hours of remedial course work may be included in a student's enrollment status and cost of attendance determination. The University's published policy states that if courses must be taken beyond 30 hours of academic credit, students must enroll at their own expense. The student in question exceeded the thirty hour limit Summer Semester 2006. This noncompliance resulted in an over-disbursement of \$2,500.00.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause:** SFA office had not performed a risk assessment of its procedures to identify areas subject to nonconformity with eligibility requirements, and thus there were insufficient controls in place to assure that SFA funds were awarded in correct amounts to students based on their financial need.
- Effect:** SFA office was not in compliance with Federal regulations concerning the awarding of SFA funds to students. For five students, a total of \$43,830.00 was disbursed in excess of their eligibility.
- Recommendation:** The University should perform a risk assessment of its procedures to assure that a proper eligibility determination of a student's financial aid is made in line with regulations. Where vulnerable, the University should develop and/or modify its policies and procedures to ensure that correct amounts will be awarded to students in conformity with financial need requirements. Additionally, the University should develop and implement a monitoring process to ensure that controls are properly implemented.

**Finding Control Number: FA-521-06-02**  
**REPORTING**  
Reports Not Reconciled  
Student Financial Aid Cluster Program

**Condition:** The Fiscal Operations and Application to Participate (FISAP) Report had amounts reported for various Student Financial Aid Cluster programs that did not reconcile to the accounting records and supporting documentation.

**Criteria:** Provisions included in 34 CFR 674, 675, 676 and 690 provide reporting requirements specific to the Federal Work-Study Program and the Federal Perkins Loan Program.

**Information:** The FISAP Report had amounts reported for the Federal Work-Study Program that did not reconcile to the Grants Administration and Payments System (GAPS) Reports maintained by the University. The FISAP Report also had amounts reported for the Perkins Loan Program and the Federal Work-Study Program that did not reconcile to the accounting records. Federal regulations (34 CFR 674.19, 675.19, 676.19 and 690.18) require that the University ensure that reported information is accurate and reconciled as necessary.

**Cause:** The deficiencies were a result of management's failure to adequately reconcile reports submitted to the accounting records and supporting documentation.

**Effect:** The Student Financial Aid office incorrectly reported amounts to the U.S. Department of Education.

**Recommendation:** The University should implement adequate controls to ensure that all reports submitted to the U. S. Department of Education are accurately completed and supported by the accounting records. Detailed reconciliations should be prepared for any variances and maintained as part of the supporting documentation.

**Finding Control Number: FA-521-06-03**  
**SPECIAL TESTS AND PROVISIONS**  
Inadequate Control Procedures  
Student Financial Aid Cluster Program

**Condition:** The internal control procedures over the timesheet system for the Federal Work-Study Program (FWS) were inadequate.

**Criteria:** Provisions included in 34 CFR 675 provide reporting requirements specific to the Federal Work-Study Program.

**Information:** Procedures were not in place to ensure that time sheets were always approved and/or approved only after the last date indicated as worked on the time sheet. Federal regulations (34 CFR 675.19b) state that "the Institution shall also establish and maintain program and fiscal records that include a certification that each student has worked and earned the amount being paid. The student's supervisor, an official of the Institution or off-campus agency shall sign the certification."

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Cause:** The deficiencies were a result of management's failure to implement and monitor the proper procedures to ensure that timesheets were approved on or after the last date indicated as worked to provide an adequate audit trail.

**Effect:** Without adequate control procedures in place, the University could place itself in a position where FWS wages are paid to students who have not earned the funds.

**Recommendation:** The University should establish appropriate procedures and controls to ensure that timesheets are reviewed and approved after FWS wages are earned to ensure compliance with Federal regulations. Additionally, the University should develop and implement a monitoring process to ensure that controls are adhered to.

**Finding Control Number:** FA-521-06-04  
**SPECIAL TESTS AND PROVISIONS**  
**Failure to Return Funds in a Timely Manner**  
**Student Financial Aid Cluster**

**Condition:** The Student Financial Aid Office failed to ensure that money was returned to the appropriate Title IV program within the required timeframe.

**Criteria:** Provisions included in 34 CFR 668 provides general provisions for administering Student Financial Aid (SFA) programs; provisions included in 34 CFR 682 provide requirements specific to the Federal Family Education Loan Program.

**Information:** An examination of fifty-two students receiving Federal financial aid revealed that two students' refunds were not returned within the required timeframe as required by Federal regulations. One student who withdrew during Fall Semester 2005 received Federal Direct Student Loan Funds and Federal PLUS Loan Funds, and the University returned the required funds 215 days after the student's official withdrawal from the University. One student who withdrew during Fall Semester 2005 and Spring Semester 2006 received Federal Direct Student Loan Funds, and the University returned the required funds 101 days and 38 days, respectively, after the student's official withdrawal from the University. Federal regulation (34 CFR 668.22(h) 2iv) states that "The amount of the Title VI, HEA program portion of the refund allocated to the Title IV, HEA programs other than the FWS, Federal Stafford Loan, Federal PLUS, and Federal SLS programs must be returned to the appropriate program account or accounts by the institution within 30 days of the date that the student officially withdraws." In addition, Federal regulation (34 CFR 682.607(c)1) states that "A school shall pay a refund that is due within 60 days of the date that the student officially withdraws."

**Cause:** The Student Financial Aid Office failed to return the Federal funds in the timeframe required by the Federal guidelines.

**Effect:** The Student Financial Aid Office was not in compliance with Federal regulations concerning the return of funds upon withdrawal.

**Recommendation:** The University should review internal controls in place and implement a monitoring process to ensure that controls are effective and working properly to return funds by the required deadlines.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### CLAYTON STATE UNIVERSITY

Finding Control Number: **FA-528-06-01**

#### REPORTING

Reports Not Reconciled

Federal Work-Study Program (CFDA 84.033)

Federal Perkins Loan Program (CFDA 84.038)

Federal Pell Grant Program (CFDA 84.063)

- Condition:** Amounts reported on required reports for Federal Financial Assistance programs submitted by the University to the U. S. Department of Education were not properly reconciled.
- Criteria:** Federal regulations (34 CFR 674.19, 675.19 and 690.83) require the University to ensure that reported information is accurate and reconciled as necessary.
- Information:** The following reports were not properly reconciled:
- 1) The Pell Year to Date Report and the Statement of Account, which reports Federal Pell Grant Program expenditures for the year, were not reconciled to the accounting records.
  - 2) The Fiscal Operations and Application to Participate (FISAP) report had amounts reported for the Federal Work-Study Program and the Perkins Loan Program that did not reconcile to the accounting records.
- Effect:** Information submitted to the U. S. Department of Education was not accurate and not supported by the accounting records.
- Cause:** The deficiencies identified were a result of management's failure to adequately reconcile reports submitted to the accounting records.
- Recommendation:** The University should implement adequate controls to ensure that all reports submitted to the U. S. Department of Education are accurately completed and supported by the accounting records.

Finding Control Number: **FA-528-06-02**

#### SPECIAL TESTS AND PROVISIONS

Inadequate Controls Over Timesheets

Federal Work-Study Program (CFDA 84.033)

- Condition:** The University did not have adequate internal controls in place over timesheets for the Federal Work-Study Program.
- Criteria:** Federal regulation (34 CFR 675.19) requires the University to ensure that the student has worked and earned the amount being paid. The student's supervisor shall sign the certification.
- Information:** The University had numerous Federal Work-Study timesheets which were signed by students prior to the end of the work period, some much later than the end of the work period, and others were not signed by the student at all. In addition, the signature of the Supervisor did not appear on several time sheets; rather, a signature stamp was used.
- Effect:** The accuracy of information reported on the timesheets could not be substantiated.
- Cause:** The University did not have adequate internal controls in place over timesheets for the Federal Work-Study Program.
- Recommendation:** The University should implement procedures to ensure that time sheets are submitted after work is performed, and that they are submitted in a timely manner. The University should also insist that Supervisors sign timesheets manually to avoid falsification of signatures.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

### FORT VALLEY STATE UNIVERSITY

Finding Control Number: FA-533-06-01

#### REPORTING

Reports Not Reconciled

Federal Work-Study Program (CFDA 84.033)

Federal Perkins Loan Program (CFDA 84.038)

Federal Pell Grant Program (CFDA 84.063)

- Condition:** Amounts reported on the Fiscal Operations and Application to Participate (FISAP) report submitted by the University to the U. S. Department of Education was not properly reconciled.
- Criteria:** Federal regulations (34 CFR 674.19, 675.19, 690.81 and 690.83) require the University to ensure that reported information is accurate and reconciled as necessary.
- Information:** The FISAP report had amounts reported for State Grant and Scholarships made to Undergraduates, the Pell Grant Program, the Federal Work-Study Program and the Perkins Loan Program that did not tie to the accounting records and no reconciliations were provided.
- Cause:** The deficiencies identified were a result of management's failure to adequately reconcile reports submitted to the accounting records.
- Effect:** Information submitted to the U. S. Department of Education was inaccurate and could not be supported by the accounting records.
- Recommendation:** The University should implement adequate controls to ensure that all reports submitted to the U. S. Department of Education are accurately completed and supported by the accounting records.

### SAVANNAH STATE UNIVERSITY

Finding Control Number: FA-548-06-01

#### ELIGIBILITY

Inadequate Satisfactory Academic Progress Procedures

Student Financial Aid Cluster Program

- Condition:** The Student Financial Aid (SFA) Office improperly applied satisfactory academic progress standards to SFA recipients. The University has not included in its written satisfactory academic progress policy the handling of course repetitions.
- Criteria:** Provisions included in 34 CFR 668 provide general guidelines for administering Student Financial Aid (SFA) programs.
- Information:** An examination of the University's procedures revealed that satisfactory academic progress standards were evaluated on students enrolled for Spring semester only. The University allows for course repetitions where only the highest grade is counted. However, the University failed to include the method of handling course repetitions in its written policy.
- Cause:** The University did not properly monitor satisfactory academic progress as required by the Federal guidelines.
- Effect:** Students not enrolled for Spring semester failed to be evaluated for satisfactory academic progress standards and ineligible students may have been awarded SFA funds. The University's written policy regarding course repetitions did not meet Federal guidelines.
- Recommendation:** Procedures should be implemented to ensure satisfactory academic progress is reviewed for all SFA students enrolled in any semester during the academic year under review. The written policy for satisfactory academic progress should be revised to include how course repetitions are processed.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: **FA-548-06-02**

### ELIGIBILITY

Inadequate Control Procedures for Determining Enrollment Status  
Student Financial Aid Cluster Program

**Condition:** The University does not have adequate procedures in place to determine a student's enrollment status prior to disbursing Federal financial aid. In addition, procedures are not in place to determine if a student's award should be recalculated due to a change in enrollment status.

**Criteria:** Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Aid (SFA) programs. Provisions included in 34 CFR 685 and 34 CFR 690 provide eligibility and other related program requirements that are specific to William D. Ford Direct Student Loan Program and Federal Pell Grant Program, respectively.

**Information:** Procedures utilized to determine a student's enrollment status prior to disbursing Federal financial aid are inadequate. The University's grading policy requires instructors to report those students who never attended class to the Registrar's office. However, the enrollment hours utilized in disbursing student financial aid is determined prior to the reporting deadline for instructors noted above. In addition, once the instructors have identified students on the class roster that have never attended, the University does not reevaluate to determine if Federal financial aid was adequately distributed.

**Cause:** The Registrar's office does not have effective procedures in place to determine a student's enrollment status prior to the disbursement of financial aid.

**Effect:** The Student Financial Aid Office disbursed funds without regard to enrollment status. The SFA Office has failed to implement procedures to identify Pell recipients who drop below half time status.

**Recommendation:** The University should review internal controls in place and implement procedures to properly monitor and update a student's enrollment status. Recalculations should be performed, if necessary, prior to disbursement of financial aid.

Finding Control Number: **FA-548-06-03**

### ELIGIBILITY

Overpayment of Student Financial Aid  
Student Financial Aid Cluster Program

**Condition:** The Student Financial Aid (SFA) Office improperly determined the financial need of eligible students.

**Criteria:** Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Aid (SFA) programs. Provisions included in 34 CFR 685 and 34 CFR 690 provide eligibility and other related program requirements that are specific to William D. Ford Direct Student Loan Program and Federal Pell Grant Award Program, respectively.

**Questioned Cost:** Questioned Costs of \$16,611.00 were identified for students who received student financial aid in excess of their eligible need. The projection of Questioned Costs was \$1,430,884.26 for students who received student financial aid in excess of their eligible need.

**Information:** A sample of thirty five financial aid files was selected to determine if financial aid was properly calculated and disbursed to eligible students. The items sampled contained financial aid disbursements of \$266,585.00 out of a population of \$22,963,836.00. The following deficiencies were noted:

- (1) Two students were not in compliance with the University's published satisfactory academic progress policies. Federal regulations (34 CFR 668.32 and 668.34) state that a student must maintain satisfactory academic progress to be eligible to receive financial assistance under Title IV programs. The University's policy states that students are required to earn a minimum number of hours each academic year depending upon their enrollment status. The two students

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

failed to meet the quantitative requirements of satisfactory academic progress and this noncompliance resulted in over-disbursements of \$12,611.00.

- (2) One student was not in compliance with the annual loan limit provisions set forth in 34 CFR 685.203 for the Federal Direct Student Loan Program. The student exceeded the annual loan limit and received an over-disbursement of \$4,000.00.

**Cause:** SFA office had not performed a risk assessment of its procedures to identify areas subject to nonconformity with eligibility requirements and thus there were insufficient controls in place to assure that SFA funds were awarded in correct amounts to students based on their financial need.

**Effect:** SFA office was not in compliance with Federal regulations concerning the awarding of SFA funds to students. For three students, a total of \$16,611.00 was disbursed in excess of their eligibility.

**Recommendation:** The University should perform a risk assessment of its procedures to assure that a proper eligibility determination of a student's financial aid is made in line with regulations. Where vulnerable, the University should develop and/or modify its policies and procedures to ensure that correct amounts are awarded to students in conformity with financial need requirements. Additionally, the University should develop and implement a monitoring process to ensure that controls are properly implemented. The University should also contact the U. S. Department of Education regarding resolution of this finding.

**Finding Control Number: FA-548-06-04**

### SPECIAL TESTS AND PROVISIONS

#### Inadequate Control Procedures over Unofficial Withdrawals Student Financial Aid Cluster Program

**Condition:** The internal control procedures to determine whether a student completed the academic period or unofficially withdrew were inadequate.

**Criteria:** Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Aid (SFA) programs.

**Information:** The University failed to perform refund calculations for students who unofficially withdrew in accordance with the University's grading policy. Based on the grading policy, a student with all IW grades denotes an unofficial withdrawal. For the year under review, the Bursar's office calculated refunds for students who earned F grades and did not calculate a refund for students with all IW grades.

**Cause:** These conditions occurred because the University did not follow its established procedures to identify unofficial withdrawals.

**Effect:** The University has not properly identified students who unofficially withdrew and students who have earned all F grades. Unearned Title IV funds are not being returned as required and earned Title IV funds are being returned in error. Due to the condition and lack of supporting documentation, the number of students who unofficially withdrew or earned failing grades could not be determined.

**Recommendation:** The University should establish appropriate controls to ensure that the procedures in place are utilized and properly applied to determine whether a SFA recipient who began attendance during a semester completed the academic period or unofficially withdrew.

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FA-548-06-05

### SPECIAL TESTS AND PROVISIONS

Deficiencies in Student Financial Aid Refund Process  
Student Financial Aid Cluster Program

**Condition:** The Student Financial Aid office failed to properly perform the refund process and to ensure that unearned Title IV funds were returned in a timely manner.

**Criteria:** Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Aid (SFA) programs. Provisions included in 34 CFR 685 and 34 CFR 690 provide eligibility and other related program requirements that are specific to William D. Ford Direct Student Loan Program and Federal Pell Grant Program, respectively.

**Information:** Eighteen students that received Federal financial aid and officially withdrew from the University were randomly selected to determine if refunds were calculated and returned in the correct amount to the proper funding agency and/or student. Our examination revealed the following deficiencies:

- (1) Unearned Title IV funds were not applied by the University to the appropriate student financial aid programs within 30 days as required by the Higher Education Amendments of 1998, Public Law 105-244 for nine students.
- (2) Four student refunds were not calculated correctly. The charges for housing and meals were excluded from the refund calculation and removed from the students' accounts. The University failed to pro-rate housing and meals charges for the portion earned by the University. Funds were returned to SFA program that were earned by the University. All the students received a post-withdrawal disbursement. However, the University assessed the pro-rated amount to one student's account after the disbursement was issued and created a balance due from the student.
- (3) The University established accounts receivable for two students totaling \$6,380.00 after post-withdrawal disbursements were issued. The University discovered that one student was suspended in the prior semester and was not eligible to receive any SFA funds and one student's effective withdrawal date was changed to the notification date of military deployment. The withdrawal date for each student was disregarded and the University removed all charges and payments from the students' accounts and all Title IV funds were returned.
- (4) The University applied the second disbursement of SFA funds to three students' accounts in error after receiving notification of their official withdrawal. Each student was issued a refund check because the University failed to "drop" the students from their classes in the student information system (BANNER) before the refund was disbursed. All Title IV funds were returned. However, the University reflects accounts receivables of \$4,499.00 on the students' accounts. In addition, the University has created accounts receivable for one of the students for a salary overpayment of \$3,182.21 for two direct deposits made in error.
- (5) The University failed to properly calculate a withdrawal refund for one student who received an institutional basketball scholarship. Initially, the University removed all charges for meals and issued a refund to the student for \$1,289.99. Subsequently, the student's account was further adjusted and the entire scholarship was removed and an accounts receivable of the entire scholarship award of \$4,200.00 was setup on the student's account. The University failed to consider and prorate the portion of the scholarship earned by the student in either the refund calculation or the establishing of the student accounts receivable.

**Cause:** These deficiencies were the result of management's failure to properly process student financial aid refunds in accordance with Federal regulations.

**Effect:** The SFA Office refunded SFA funds to students incorrectly and unearned funds were not returned in a timely manner.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

**Recommendation:** The University should develop and implement procedures to ensure that student financial aid refunds are properly calculated and that unearned funds are correctly returned to the appropriate accounts in a timely manner in accordance with the Higher Education Amendments of 1998, Public Law 105-244. The University should contact the U. S. Department of Education regarding resolution of this finding.

### GEORGIA PERIMETER COLLEGE

Finding Control Number: **FA-571-06-01**

#### ELIGIBILITY

Students Failed to Maintain Satisfactory Academic Progress  
Student Financial Aid Cluster Program

**Condition:** Two students tested received Title IV funds and did not maintain satisfactory academic progress in accordance with Federal requirements.

**Criteria:** Provision included in 34 CFR sections 668.32 and 668.34 provide the compliance requirements for maintaining satisfactory academic progress in order to receive student financial aid.

**Questioned Cost:** Questioned Costs of \$10,923.02 were identified for students who received student financial aid and did not maintain satisfactory academic progress. The projection of questioned costs was \$1,928,795.98 for students who received student financial aid and did not maintain satisfactory academic progress.

**Information:** A test of forty one students who received student financial aid was performed to determine if they had met satisfactory academic progress. Our examination revealed that two students received student financial aid and did not maintain satisfactory academic progress in accordance with Federal requirements.

**Cause:** The College student financial aid personnel did not properly monitor the satisfactory academic progress of these two students to ensure that proper academic progress was made in order to be eligible to receive student financial aid funds.

**Effect:** Without properly monitoring the satisfactory academic progress of all students receiving financial aid, the College places itself in a position they are not in compliance with the Federal requirements.

**Recommendation:** The College student financial aid personnel must at the end of each academic year monitor the academic progress of each student receiving student financial aid to ensure that Federal requirements are met. The College should contact the grantor agencies regarding resolution of this finding.

Finding Control Number: **FA-571-06-02**

#### SPECIAL TESTS AND PROVISIONS

Students Failed to Provide Adequate Documentation  
Student Financial Aid Cluster Program

**Condition:** The student financial aid files for five students that were selected for verification testing did not contain evidence that a signed tax return by the filer or preparer was submitted to the Financial Aid Office for review.

**Criteria:** Provision included in 34 CFR sections 668.51, 668.54, 668.56 and 668.57 provide the compliance requirements for verifying information by Institutions for students who receive financial aid and what documentation is acceptable.

**Information:** Fourteen student files were selected that were verified by the College to determine if the College properly verified the information that was submitted to them. Our examination revealed that five student files did not contain the proper tax return documentation for verification purposes.

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

- Cause: The College student financial aid personnel did not properly examine the tax return documentation to ensure that all signatures were on the document as required.
- Effect: Without properly verifying the information in the selected student files the College places itself in a position they are not in compliance with the Federal requirements.
- Recommendation: The College student financial aid personnel must properly verify that the information in the selected student files is accurate and complete to ensure that Federal requirement

### **GEORGIA HIGHER EDUCATION ASSISTANCE CORPORATION (\*)**

Finding Control Number: **FA-918-05-01**

#### REPORTING

Failure to provide a reconciliation of the September 30, 2005 ED Form 2000 to the National Student Loan Data System (NSLDS) extract.

Federal Program Information: CFDA No. 84.032  
Federal Family Education Loan Program  
U. S. Department of Education  
Fiscal Year 2006

- Condition: See Financial Statement Finding FS-918-06-01
- Criteria: See Financial Statement Finding FS-918-06-01
- Information: See Financial Statement Finding FS-918-06-01
- Cause: See Financial Statement Finding FS-918-06-01
- Effect: See Financial Statement Finding FS-918-06-01
- Recommendation: See Financial Statement Finding FS-918-06-01

Finding Control Number: **FA-918-06-02**

#### REPORTING

Failure to establish adequate procedures to verify a student's loan status with the lender as well as establish adequate procedures to ensure that lenders report and that the Corporation properly records loans paid in full.

Federal Program Information: CFDA No. 84.032  
Federal Family Education Loan Program  
U. S. Department of Education  
Fiscal Year 2006

- Condition: See Financial Statement Finding FS-918-06-02
- Criteria: See Financial Statement Finding FS-918-06-02
- Information: See Financial Statement Finding FS-918-06-02
- Cause: See Financial Statement Finding FS-918-06-02
- Effect: See Financial Statement Finding FS-918-06-02
- Recommendation: See Financial Statement Finding FS-918-06-02

**(\*) THIS ORGANIZATIONAL UNIT WAS AUDITED BY OTHER AUDITORS**

# State of Georgia

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## Federal Awards Findings and Questioned Costs For the Fiscal Year Ended June 30, 2006

Finding Control Number: FA-918-06-03

### REPORTING

Failure to maintain current records

Federal Program Information:      CFDA No. 84.032  
   Federal Family Education Loan Program  
   U. S. Department of Education  
   Fiscal Year 2006

Condition:                      See Financial Statement Finding FS-918-06-03

Criteria:                        See Financial Statement Finding FS-918-06-03

Information:                    See Financial Statement Finding FS-918-06-03

Cause:                         See Financial Statement Finding FS-918-06-03

Effect:                         See Financial Statement Finding FS-918-06-03

Recommendation:            See Financial Statement Finding FS-918-06-03