



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 28, 2016

Courtney Phillips, Chief Executive Officer
Department of Health and Human Services
301 Centennial Mall South
Lincoln, NE 68509

Dear Ms. Phillips:

This letter is provided pursuant to AICPA Auditing Standards AU-C Section 265, which permits the early communication of audit findings due to their significance and the need for corrective action. The audit work addressed herein was performed as part of the fiscal year 2016 Comprehensive Annual Financial Report (CAFR) and Statewide Single (Single) audits. This communication is based on our audit procedures and related activity through September 1, 2016. Because we have not completed our audits of the fiscal year 2016 CAFR or Single, additional matters may be identified and communicated in our final reports.

In planning and performing our audits of the financial statements and Federal compliance, we considered the State's internal control over financial reporting and compliance with the applicable types of compliance requirements described in the *OMB Compliance Supplement* (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

We noted certain internal control or compliance matters related to the activities of the Nebraska Department of Health and Human Services (DHHS) or other operational matters that are presented below for your consideration. The following comment and recommendation, which has been discussed with the appropriate members of DHHS and its management, is intended to improve internal control or result in other operating efficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number #1 (Checks Not Deposited Timely) to be a significant deficiency.

Comments required to be reported per Title 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, will be reported in the State of Nebraska's Statewide Single Audit Report – Schedule of Findings and Questioned Costs.

Draft copies of this letter were furnished to DHHS to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

Overall Summary

We performed a cash count on September 1, 2016, of Medicaid Drug Rebate (MDR) checks on hand at DHHS. We found 192 undeposited checks, totaling over \$13 million, dated as far back as June 1, 2016. Of these, 57 checks, totaling approximately \$6.8 million, were not restrictively endorsed.

1. Checks Not Deposited Timely

Neb. Rev. Stat. Section 84-710 (Reissue 2014) requires any money belonging to the State to be deposited to the State Treasury within three business days of receipt when the amount is \$500 or more and within seven days of receipt when the amount is less than \$500.

Furthermore, good internal control requires procedures to ensure that checks are restrictively endorsed immediately upon receipt, and all monies received are deposited to the State Treasury timely.

45 CFR § 75.302(a) (October 1, 2015), "Financial management and standards for financial management systems," states the following:

Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non- Federal [sic] entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

During our testing of quarterly reports submitted for the Medicaid program, we found that \$1,540 in receipts were noted as having been deposited on June 24, 2016; however, as of August 18, 2016, those funds had yet to be recorded in the State's accounting system. In response to our inquiry as to the reason for the almost two-month delay in depositing those monies, DHHS staff explained, "We do not have any MDR accountants at this time. The other staff (with no MDR training) are doing their best to process the checks."

On September 1, 2016, we met with DHHS staff to determine the extent of the problem with delayed check deposits. During that meeting, we discovered numerous undeposited checks in a small safe beneath an employee's desk. According to DHHS staff, the deposit backlog was the result of a personnel shortage caused by one accountant's retirement in April of this year and another accountant having been on medical leave since June.

Our subsequent cash count of the safe's contents revealed the following:

- One hundred and ninety-two (192) checks, totaling \$13,146,281, had not been deposited to the State Treasury as of September 1, 2016. Per DHHS, \$17,740,623 was undeposited at August 22, 2016. Following the APA's prior inquiry about undeposited checks, however, DHHS deposited approximately \$4.5 million between August 22 and August 31.

The following table lists all of the undeposited checks worth more than \$400,000 that were found during the APA's cash count:

Check Date	Amount	Endorsed
6/24/2016	\$ 2,357,922	No
6/16/2016	\$ 1,728,809	No
6/16/2016	\$ 1,312,756	Yes
6/17/2016	\$ 981,638	Yes
6/21/2016	\$ 979,563	Yes
6/23/2016	\$ 648,568	No
6/17/2016	\$ 514,119	No
7/1/2016	\$ 452,158	Yes
6/30/2016	\$ 445,510	Yes

- Fifty-seven (57) checks, totaling approximately \$6.8 million, were not restrictively endorsed. These checks had been received as early as June 14, 2016.
- One (1) envelope postmarked August 2, 2016, remained unopened. When DHHS opened the envelope upon our request, the contents were found to include a check for \$229,225.
- The receipt date stamped on the accompanying support did not always coincide with when DHHS appears to have actually received the check. In some cases, the envelope attached to the check contained a postmark. We noted seven such envelopes that were date stamped by DHHS more than two weeks after their respective postmark dates. Additionally, several checks were not supported with a date-received stamp.

- The checks were kept in a safe under a DHHS employee's desk. See **EXHIBIT A** for a photograph of the safe and its contents. That employee, along with her supervisor, had access to the safe's combination. Per discussion with the employee, she locked the safe at night. The safe was unlocked during the day, but she claimed to have kept the door closed. If the employee left her desk, she would try to remember to lock the safe; however, she admitted that it was not always locked during her absence.
- The majority of the checks were between 61-90 days old based upon the check date. The table below displays how old the checks were on the day of the cash count:

Number of Days Old Note 1	Number of Checks	Total Amount of Checks
9 to 30 days	30	\$ 600,162
31 days to 60 days	49	584,931
61 days to 90 days	112	11,959,663
Greater than 90 days	1	1,525
Total	192	\$ 13,146,281

Note 1: The "Number of Days Old" column was calculated based upon the check date compared to the day the cash count was performed. The APA did not use the date stamp to calculate the number of days due to issues noted previously.

Without adequate procedures to safeguard and deposit receipts to the State Treasury in a timely manner, there is an increased risk for not only the loss or theft of funds but also the violation of relevant State law and accompanying Federal regulation. Additionally, delayed deposits may result in the loss of interest earnings and inaccurate Federal Medicaid reports.

We recommend DHHS take immediate steps to ensure all monies received are promptly deposited to the State Treasury in accordance with statute.

DHHS Response: The Agency agrees with the CAFR and Statewide Single audit finding of checks not deposited timely per Neb. Rev. Stat. Section 84-710 (Reissued 2014). In our current environment, it is difficult for Medicaid & Long Term Care (MLTC) to meet the 3-day requirement due to the current manual process involved of reconciling checks against invoices. If the checks do not reconcile, it takes a period of time to research and identify corrections. Invoices are submitted quarterly, thereby causing a large influx of checks being received in a relatively short period of time. However, MLTC is in the process of a review of the MDR program that includes process documentation, identification of internal controls, and recommendations for immediate process improvements that will address timely deposits to the State Treasury upon receipt of checks. Neb. Rev. Stat. Section 84-710 allows for the State Treasurer to grant exceptions to depositing checks within 3 business days upon written request. The Agency may seek such exception after a thorough analysis and review of the current MDR program has concluded. Obtaining an exemption would be for situations where MLTC would want to avoid the potential for a payer to claim the Agency accepted payment as full settlement of a claim.

APA Response: As noted above, there was approximately \$12 million in undeposited checks held over 60 days. Due to the significance of the dollars and risks involved, the Agency needs to take immediate action to remedy the situation.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of DHHS and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to DHHS.

This interim communication is intended solely for the information and use of DHHS, its management, the Governor and the State Legislature, and others within these State agencies. It is not intended to be, and should not be, used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Sincerely,



Pat Reding, CPA, CFE
Assistant Deputy Auditor



Philip J. Olsen, CPA, CISA
Audit Manager

EXHIBIT A

DHHS SAFE FOR MDR CHECKS

September 1, 2016

