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Board of Regents
University of Nebraska
Varner Hall
3835 Holdrege
Lincoln, NE 68583

University Dental Associates
UNMC College of Dentistry
40th & Holdrege Streets
PO Box 830740
Lincoln, NE 68583-0740

Dear Regents and Board of Directors:

During the course of the financial statement audit of the University of Nebraska (University), the Auditor of Public Accounts (APA) examined, as provided under Neb. Rev. Stat. § 84-304 (Reissue 2008), the financial records and related activities of the University Dental Associates (UDA), a component unit of the University. The purpose of that examination was primarily to gain an understanding of the billing, collection, and distribution of dental service fees by the UDA for the period July 1, 2008, through June 30, 2011.

University Dental Associates - Background

The UDA is a 501(c)(3) not-for-profit corporation organized in 2006. Created as a mechanism for, among other things, billing, collecting, and distributing dental service fees generated by member faculty employed at the University of Nebraska Medical Center (UNMC) College of Dentistry (COD), the UDA is designated as an “affiliate of the UNMC” in the University of Nebraska Amended and Restated Dental Service Plan (Revised 2006) (Plan). According to its own Articles of Incorporation (Articles), which must be approved by the Board of Regents of the University and may be amended only with the joint approval of that body and the Dean of the COD, the purpose of the UDA is:

“To employ dentists, who will engage in the practice of dentistry at the University of Nebraska Medical Center, Omaha, Nebraska, College of Dentistry, Lincoln, Nebraska, and elsewhere, as an integrated dental practice unit under the University of Nebraska Dental Service Plan . . .”

The Articles state also that the UDA serves the COD by: 1) providing patients “with the services of the best qualified academic practitioners”; 2) offering “teaching services to dental students and other health professionals”; and 3) financing “the acquisition of facilities and equipment”

needed to ensure “accessible, affordable, and high quality care.” The Bylaws of the UDA describe the purpose of the organization as follows:

“UDA is established to provide a vehicle for the faculty of the COD to develop an integrated group practice approach to manage the clinical practice activities. The primary objective of UDA is to assist the COD, UNMC and the Board of Regents in achieving the fulfillment of teaching, research, and patient care missions of the COD by strengthening the administrative infrastructure of the clinical programs.”

The UDA includes more than two dozen general dentists and dental specialists who are full-time faculty and provide comprehensive, high-quality dental care directly to patients at the COD. Because the UDA members are also full-time instructors at the COD, the UDA fees that they receive for providing clinical services are supplementary to their regular salaries as University employees. The clinical service fees received by UDA members are paid and processed through the University’s payroll system. For the fiscal year ended June 30, 2011, this extra compensation ranged from \$293.83 to \$123,664.67. Combined, the twenty-five UDA member practitioners received, over and above their regular University salaries, an additional \$775,787.70 for the fiscal year ended June 30, 2011.

University Dental Associates Member Wages
For the Fiscal Year Ended June 30, 2011

UDA Member	COD Salary	UDA Fees	Total Salary & Fees
1	\$ 162,594.76	\$ 123,664.67	\$ 286,259.43
2	\$ 235,162.92	\$ 1,500.00	\$ 236,662.92
3	\$ 187,785.48	\$ 38,220.51	\$ 226,005.99
4	\$ 132,905.04	\$ 73,661.91	\$ 206,566.95
5	\$ 152,273.36	\$ 18,728.59	\$ 171,001.95
6	\$ 93,278.04	\$ 72,072.49	\$ 165,350.53
7	\$ 110,124.12	\$ 52,566.38	\$ 162,690.50
8	\$ 148,271.25	\$ 9,205.75	\$ 157,477.00
9	\$ 86,949.80	\$ 70,204.20	\$ 157,154.00
10	\$ 95,046.23	\$ 59,596.26	\$ 154,642.49
11	\$ 143,648.88	\$ 6,982.68	\$ 150,631.56
12	\$ 132,834.72	\$ 14,374.12	\$ 147,208.84
13	\$ 135,605.64	\$ 9,411.28	\$ 145,016.92
14	\$ 89,989.68	\$ 51,687.01	\$ 141,676.69
15	\$ 140,000.04	\$ 293.83	\$ 140,293.87
16	\$ 128,812.96	\$ 8,141.40	\$ 136,954.36
17	\$ 104,504.73	\$ 25,095.17	\$ 129,599.90
18	\$ 112,912.59	\$ 15,537.36	\$ 128,449.95
19	\$ 93,971.36	\$ 25,062.47	\$ 119,033.83
20	\$ 86,659.48	\$ 26,345.48	\$ 113,004.96
21	\$ 86,170.52	\$ 26,530.09	\$ 112,700.61
22	\$ 96,476.52	\$ 8,041.82	\$ 104,518.34
23	\$ 84,107.76	\$ 11,490.39	\$ 95,598.15
24	\$ 62,332.72	\$ 26,573.84	\$ 88,906.56
25	\$ 87,930.96	\$ 800.00	\$ 88,730.96
Total	\$ 2,990,349.56	\$ 775,787.70	\$ 3,766,137.26

The UDA is housed and maintained at the COD, which is located at 40th and Holdrege Streets on the University's East Campus property in Lincoln, Nebraska. Both the registered office and the registered agent of the UDA are located at that same street address. Moreover, according to the Articles, the UDA may change its East Campus location only with the consent of, among others, the Dean of the COD. Because the UDA is situated within the COD, its member practitioners avail themselves, at no cost, of COD facilities. The staff and employees working for UDA dentists are reflected as University employees and receive the same benefits as all other University employees, while the UDA fees paid to the University are used to cover these expenses. Non-faculty staff wages and benefits totaled \$553,409.14 in fiscal year 2011.

According to its Bylaws, the UDA is "the single body responsible to the Dean and the Board of Regents for the operation of the [University Dental Service] Plan." Despite playing such an integral role in the operations of the COD, the UDA remains separately incorporated – albeit situated on University property and whose members benefit financially from the use of that public institution's facilities.

Comments and Recommendations

1. Distribution of UDA Member Service Fees

Our analysis revealed that significant adjustments were made to the distribution of fees collected for UDA member services. These adjustments were needed due to problems associated with the new *EagleSoft* financial management software package implemented by the UDA on January 1, 2009.

Fee distribution adjustments were made in March of 2011, when the UDA past president discovered that patient receivables sent to a collection agency were being wrongly treated as collected revenues for UDA members. Moreover, both patient and insurance overpayment refunds were not being deducted from the revenue of UDA members. Both of these problems were found to have begun as early as the fall of 2009. According to the UDA past president, the UDA Board decided to make adjustments back only to July 1, 2010, the beginning of the fiscal year ended June 30, 2011. The adjustments made for this period totaled \$45,522. The agenda from a March 2, 2011, meeting of the UDA Board lists the fee distribution adjustments as a discussion item; however, those same minutes contain no indication that the UDA Board actually discussed or took any formal action regarding the adjustments.

APA testing of the adjustments suggests uncorrected error projections of \$18,964 relating to accounts sent to the collection agency and \$37,921 relating to patient and insurance overpayment refunds. Together, these two separate projections create a total error projection of \$56,885 for the period of July 2009 through June 2010.

Left uncorrected, the effects of the software errors noted above would include: 1) an overstatement of collections for the UDA members involved, resulting in those practitioners being overcompensated; 2) an understatement of the UDA's fund balance; and 3) an overstatement of the COD Development Fund, which receives 5% of UDA collections after distributions.

Following the completion of the UDA's internal analysis of the fee adjustments, the APA intends to perform a subsequent review for the purpose of providing an independent assessment of any action taken by UDA management to correct both the underlying problems with the *EagleSoft* financial management software and the resulting fee distribution errors.

Good accounting procedures require that all errors in fee distributions to UDA members be corrected both completely and timely.

We recommend the UDA review the accuracy of the fee distribution adjustments made by the UDA past president in March of 2011, making any further adjustments needed, including those dating back to 2009. Additionally, we recommend that problems with the *EagleSoft* financial management software responsible for the fee distribution errors be remedied immediately to prevent any future such malfunctions.

Management's Response: It is our understanding that the adjustments were not significant, but rather were "numerous." Put differently, these adjustments were related to different amounts that should have been paid between practitioners and did not call into question the appropriateness of the patient billings or collections, or the distributions in total. This resulted from problems in the software used for this purpose.

As we have observed to the auditor, the errors in the software have already been corrected.

2. Internal Control Weaknesses

The APA noted certain internal control weaknesses in the UDA's financial management. To start, there was a lack of segregation of duties in the billing and collection of service fees. The same person could open the mail containing payment for services, record that payment, create a billing, prepare the billing for mailing, and make subsequent entries in the account receivables. To compensate for this lack of segregation of duties, the UDA past president was said to have performed a review of reports and transactions in the accounting system; however, no such review was documented.

Similarly, although bank reconciliations were performed on a regular basis, there was no documented review of these reconciliations. The UDA past president was said to have performed reviews of these reconciliations; however, no such reviews were documented.

A good internal control plan requires a proper segregation of duties to ensure that no one person is able both to perpetrate and/or to conceal errors and/or irregularities, including possible fraud and abuse. Any review of reports and transactions undertaken in an effort to compensate for a failure to segregate duties should be adequately documented. Additionally, it is necessary to document reviews of bank reconciliations to ensure the proper performance of those procedures.

We recommend the UDA take action to segregate duties related to the handling of service fees, thereby preventing one person from being able both to perpetrate and/or to conceal errors and/or irregularities, including possible fraud and abuse. If, due to limited staffing, a proper segregation of duties is not feasible, strong

compensating controls should be implemented, including a supervisory review of transactions and bank reconciliations. All such reviews and reconciliations should be adequately documented.

Management's Response: The small budget at UDA does not allow ideal segregation, which would necessitate additional staff to be hired. In fact, this is acknowledged in the recommendation as drafted. We understand why the Auditor may have made this comment, as it has become commonplace for firms to make segregation a standing management letter comment for organizations of our size as a protective measure.

We will continue to seek ways to redistribute duties so that the maximum feasible segregation is achieved in a cost beneficial manner.

3. COD Development Fund Reporting

Article III, Section III, of the Plan states:

“The COD Development Fund shall be used for the purposes of UNMC in such a manner as the Dean of the COD shall determine, subject to established University regulations. The Dean shall furnish annually a statement of receipts and disbursements from the Fund to the Board of Directors, the Chancellor, the University President and the Board of Regents.”

The APA requested copies of the annual statement of receipts and disbursements furnished, as directed above, to the Board of Regents for the fiscal years ended June 30, 2009, 2010, and 2011. Management indicated that the last such statement provided was for the fiscal year ended June 30, 2009. As of the issuance of this letter, statements for the fiscal years ended June 30, 2010, and 2011, have yet to be filed with the Board of Regents, pursuant to the express requirements of the Plan.

We recommend the Dean of the COD file the necessary statement of receipts and disbursements, as required by the Plan.

Management's Response: We understand the Auditor's observation. This reporting requirement is under review and will likely be reconsidered going forward as it no longer represents best practices for organizations of our size and function.

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The UDA's responses to the audit findings contained herein are included above. The APA did not audit the UDA's responses and, accordingly, expresses no opinion regarding those responses.

Our procedures were not designed for the purpose of expressing an opinion on the effectiveness of the UDA's internal control over the billing, collecting, and distribution of dental service fees. Accordingly, we do not express such an opinion. The procedures performed may not, therefore, bring to light all weaknesses in UDA policies and procedures that may exist.

This letter is intended solely for the information and use of management of the UNMC and the COD, the Board of Regents of the University, the UDA Board of Directors, and others within the University. This letter is not intended to be, and should not be, used by anyone other than those specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Sincerely,

Signed Original on File

Don Dunlap, CPA
Assistant Deputy Auditor

cc: Dr. John W. Reinhardt, Dean of UNMC COD
Keith Lauber, Director of University-wide Accounting
Carol Kirchner, UNMC Controller