



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Scott Frakes, Director
Nebraska Department of Correctional Services
PO Box 94661
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Dear Mr. Frakes:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated December 15, 2016. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Correctional Services (Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in the Agency's internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Draft copies of this letter were furnished to the Agency 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.

The following are our comments and recommendations for the year ended June 30, 2016.

1. Blue Cross Blue Shield (BCBS) Payments

The Agency provides medical services to inmates through a variety of methods. In addition to employing its own medical professionals, the Agency contracts with vendors for inmate medical care within its facilities. Inmates whose medical needs cannot be met within the confines of a correctional facility are transported by the Agency to an outside medical facility for the appropriate treatment. Such outside procedures are billed through the Agency's third-party insurance administrator, Blue Cross Blue Shield (BCBS).

BCBS also utilized its own service provider, CoreLink, to help process the medical service provider claims for members covered by BCBS. To process medical claims, the Agency sent a daily file of eligible inmates to BCBS from the Agency's Corrections Information and Tracking application. This file contained the pertinent information for each inmate, including name, identification number, date of birth, gender, facility location, and dates eligible for services. Weekly, BCBS sent the Agency a billing of the claims processed and paid. At the end of each month, BCBS sent a final billing for any services provided but not previously billed to the Agency and for the administrative fee charged for processing medical claims.

The Agency failed to review BCBS claims to ensure that medical procedures took place and were appropriate. The Auditor of Public Accounts (APA) tested 10 BCBS claims during the State of Nebraska Comprehensive Annual Financial Report (CAFR) Audit for the period July 1, 2015, through June 30, 2016, and noted the following:

- None of the 10 claims tested had documentation to support that the Agency had reviewed them to determine if they were proper to pay.
- Six of 10 claims tested lacked documentation to support that the Medical Director had approved the inmates' visits to off-site medical providers. For four of those claims, the Medical Director's name was typed on the front of an Internal Consultation Form, but there was no indication that the document was actually approved by him. Additionally, two of those claims did not have emergency referral forms on file.

A similar finding was noted during the previous audit.

According to the Agency's Administrative Regulation (AR) 115.06(VII), "Emergency Medical Care," "Facility Operational Memorandums shall specify the procedures for documentation and review of all medical and other emergency events."

Additionally, the Agency's Medical Protocol 43, "Internal Consult Review Process," states the following:

Staff will email completed Internal Consultation Request Form to the Medical Director or designee for review. Medical Director or designee will make a determination and email the consult form back to the appropriate facility email distribution group.

The Agency's process is for an Internal Consultation Request Form to be completed and approved by the Medical Director prior to the inmate receiving care at an outside facility.

A good internal control plan requires procedures for reviewing payments to ensure that only proper medical expenses are paid.

Failure to review the BCBS invoices increases the risk that the Agency will pay for improper billings.

We recommend the Agency implement procedures for reviewing the BCBS invoices to ensure that those billing documents are correct. These procedures should include tracing the BCBS claim to the inmate's medical file to ensure the procedure billed is proper. We also recommend the Agency maintain the Internal Consult Forms and the Emergency Referral Forms signed or initialed by the Medical Director.

Agency Response: First Utilization Review (UR) Nurse began employment on December 28, 2015. After completing three weeks of Pre-Service Training, this UR Nurse resigned on January 22, 2016. In April 2016, NDCS Director of Nursing initiated a review of BCBS claims paid greater than \$10,000 for the time period of January 2015 through September 2015. Additionally NDCS hired a Contractor to review coding on those same hospital claims. The second (and current) UR Nurse began employment on May 23, 2016. The initial audit of January 2015 through September 2015 BCBS claims was completed on June 8, 2016. An audit of October 2015 through April 2016 BCBS claims over \$10,000 was completed on December 27, 2016. In July 2016 a UR Protocol was approved and initiated. Monthly audits of BCBS claims paid in May 2016 through October 2016 have been completed per the Protocol. Health Services provided to inmate patients are audited to monitor appropriate treatment, Medical Director notification and authorization, billing and payment practices. This process is also on-going.

2. Bank Signature Card Not Updated

The APA identified one bank account that lacked an updated authorized signature card. The Agency had one account for the Omaha Correctional Center that still listed employees who had terminated as far back as 2010. The APA also noted the Agency did not have a written policy to ensure the authorized signers on bank accounts were current employees.

A good internal control plan and sound business practices require authorized signature cards for bank accounts containing public funds to be updated in a timely manner after a designated signer terminates employment with the State to ensure only current employees are authorized to access the bank account.

When signature cards for State bank accounts are not updated in a timely manner, there is an increased risk for the loss or misuse of State funds.

We recommend the Agency develop a written policy to ensure all State bank account signature cards are updated regularly, using the names of current officers and employees only, including updating the information upon employee termination.

Agency Response: Upon notification by the auditors that a bank signature card was not updated for the Omaha Correctional Center, staff contacted the bank. The bank could not locate a copy of the signature card. Subsequently, staff completed a signature card in December 2016. The Administrative Regulation is being revised to include that all state bank account signature cards are updated regularly.

3. Timesheets

The Agency's overtime-exempt employees were not required to maintain timesheets or other similar supporting documentation; rather, they were required only to record leave used. As a result of the Agency's policy, there was no support that full-time employees rendered at least 40 hours of labor each week, as required by Neb. Rev. Stat. § 84-1001(1) (Reissue 2014), or part-time employees rendered the hours required each week.

A similar finding was noted during the previous audit.

Section 84-1001(1) states, in relevant part, the following:

All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees . . . not required to render full-time service, shall render not less than forty hours of labor each week in which a paid holiday may occur.

In addition, a good internal control plan requires that hours worked be adequately documented, via timesheets or time logs, etc., and that such documentation be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan also requires the maintenance of adequate documentation to support that accrued employee sick and vacation leave was actually earned.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate payment of regular hours and accumulation of leave.

We recommend the Agency establish a policy requiring all employees to maintain adequate documentation, such as timesheets or certifications, to support hours worked.

Agency Response: Based on the Fair Labor Standards Act, exempt employees must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked, unless certain exceptions are met. The exception reporting of leave is an appropriate process for exempt employees. They are expected to work 40 hours per week, except when taking leave, and they often work more than 40 hours per week.

APA Response: As noted, State statute 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.

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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 the Agency 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 the Agency.

This communication is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



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