

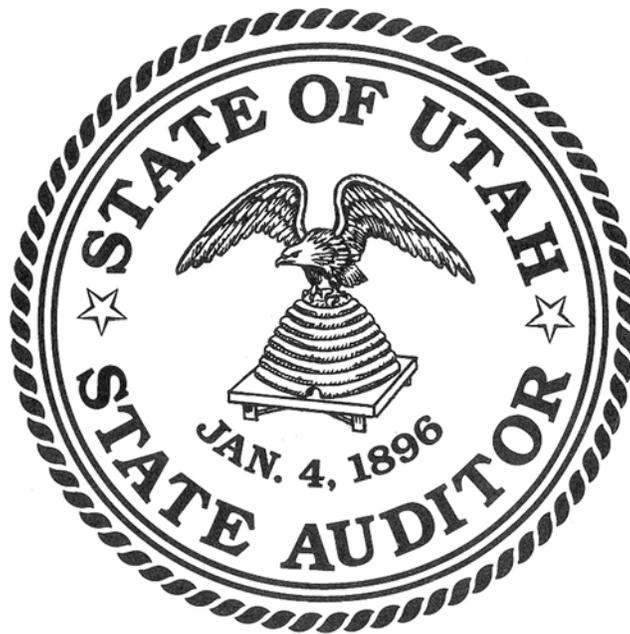
# **OFFICE OF THE ATTORNEY GENERAL and its Medicaid Fraud Control Unit**

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Departmental Audit  
For the Period July 2017 through February 2018

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Report No. DEP-18-FP-c



**OFFICE OF THE  
STATE AUDITOR**

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**OFFICE OF THE ATTORNEY GENERAL**

FOR THE PERIOD JULY 1, 2017 THROUGH FEBRUARY 2018

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OFFICE OF THE  
**STATE AUDITOR**

May 11, 2018

The Honorable Sean D. Reyes  
Attorney General – State of Utah  
Utah State Capitol Building  
350 North State Street, Suite 230  
SLC, Utah 84114

Dear Attorney General Reyes:

In accordance with *Utah Code 67-3-1(4)*, we have performed the procedures described below to certain aspects of the internal control within the Office of the Attorney General (OAG) for the period July 2017 through February 2018. The primary focus of our review was the general financial internal control of the Medicaid Fraud Control Unit (MFCU) within the OAG as well as internal control over any federal programs overseen by the MFCU.

The procedures performed were as follows:

1. We completed a review of the separation of accounting duties related to cash receipts at the MFCU.
2. We obtained a list of all MFCU bank accounts and reviewed the activity of the accounts. For each bank account with high activity, we reviewed 2 bank reconciliations. We also agreed the reconciliation balances to FINET.
3. We reviewed a sample of 9 cash receipts associated with the MFCU to verify the OAG is following its established processes and controls.
4. We reviewed a sample of 25 cash disbursements associated with the MFCU to verify the OAG is following its established processes and controls.
5. We reviewed 8 payroll samples associated with the MFCU to verify the supervisor listed in the State's E-Guide system is the same as that listed in the State's payroll entry system and the supervisor would have adequate knowledge of the employee's time and efforts.
6. We reviewed the cash management and reporting internal controls associated with the MFCU's Medicaid federal grant to verify the MFCU had established appropriate controls.
7. We reviewed the OAG's monitoring of nonprofit corporations and its reporting to the Office of the State Auditor in accordance with *Utah Code 51-2a-201.5*.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the internal control at the OAG or any part thereof. Accordingly, we do not express such an opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we conducted an audit of the effectiveness of the internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the OAG during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, CPA  
Audit Director  
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801-808-0467

cc: Ric Cantrell, Chief of Staff  
Kimberley Schmeling, Chief Financial Officer  
Robert Steed, Director, Medicaid Fraud Control Unit  
Sam Battaglia, Chief Auditor, Medicaid Fraud Control Unit

## FINDINGS AND RECOMMENDATIONS

### 1. INADEQUATE SEPARATION OF DUTIES OVER CASH RECEIPTS

The Office of the Attorney General (OAG) lacks adequate separation of duties related to cash receipts at its Medicaid Fraud Control Unit (MFCU). The MFCU accepts and logs receipts at its office in Murray, after which a courier transports the receipts to the OAG in Salt Lake City for final processing. We noted the following separation of duties weaknesses:

- a. The Paralegal at the MFCU has access to cash receipts and performs a review of expected receipts. There is no independent reconciliation of the initial log of receipts created by the MFCU to the receipts recorded in FINET by the OAG in Salt Lake.
- b. The Finance Director at the OAG in Salt Lake has access to cash receipts, reconciles receipt records to validated deposits, performs a review of expected receipts, and prepares the bank reconciliation.

Inadequate separation of duties exists when the same individual has custody of assets, initiates the receipt of funds, records transactions in the accounting records, and/or reconciles the general ledger to the bank statement. An inadequate separation of duties might allow misappropriation, errors, and/or fraud to occur without detection.

#### Recommendation:

We recommend the OAG strengthen internal controls, as follows:

- a. **Separate duties related to custody of assets, reviewing expected receipts, and initiating transactions for the entity's receipt of funds or establish an independent reconciliation of the receipts recorded in FINET to the initial log of cash receipts; and**
- b. **Remove the Finance Director's access to cash receipts.**

#### OAG's Response:

*We concur with this finding and have taken steps to separate duties related to cash receipting in this program. Effective immediately:*

1. *All cash receipts received by the Medicaid Fraud Control Unit (MFCU) will be opened in the presence of the unit director or his designee and the paralegal, or in her absence, the lead administrative assistant.*
2. *The receipt of the cash will be logged on a form which identifies the date of the receipt, the amount of the receipt, and other identifying information.*
3. *The log will be initialed by both witnesses who received the cash.*
4. *The cash will be forwarded by courier to the OAG for deposit.*
5. *The financial analyst will make the bank deposit.*

6. *The financial technician will enter the cash receipt in the FINET system.*
7. *Verification of the deposit will be sent to the MFCU chief auditor or designee.*
8. *The verification will be logged into the cash tracking form and initialed by the chief auditor or designees who verifies the deposit. The verification will not be conducted by either of the individuals who witnessed the receipt of the cash.*
9. *The OAG finance director will reconcile the bank statement and conduct periodic reviews of the MFCU cash log to ensure that the process is being executed in compliance with agreed terms.*
10. *The OAG Chief Financial Officer will review the bank reconciliation.*

2. **OPPORTUNITY TO IMPROVE MONITORING OF NONPROFIT CORPORATION REPORTING**

*Utah Code 51-2a-201.5* requires state agencies that disburse federal pass-through money or state money to nonprofit corporations to notify the Office of the State Auditor (OSA) of any of these nonprofit corporations whose revenues or expenditures of grant money exceed \$25,000 and who, therefore, must submit a financial report to the OSA. While OAG is not a state agency, OAG could establish procedures to annually identify nonprofit corporations with whom the OAG contracts that are subject to reporting to the OSA.

**Recommendation:**

**We recommend the OAG:**

- a. **Establish procedures to annually identify nonprofit corporations with whom the OAG contracts that are subject to reporting to the OSA; and**
- b. **Notify the OSA annually of those nonprofit corporations required to submit a financial report.**

**OAG's Response:**

*While the OAG is not a state agency and currently only passes-through state funds to one nonprofit organization, we agree to the OSA recommendation to report this information in accordance with UCA 51-2a-201.5.*