

JOINT APPROPRIATIONS COMMITTEE ON HEALTH AND HUMAN SERVICES



Department of Health and Human Services Financial Audit Overview

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Office of the Controller**

April 15, 2015

Two clean financial audits validated our results



Comprehensive Annual Financial Report Dec. 2014

**Annual financial audit
of DHHS and other
state departments**

**Provides look at overall
financial health of
all state departments**

DHHS Financial Statement Audit April 2015

**First detailed financial
audit
in 20 years**

**Provides look at overall
financial health of
one department**

Actual Year End Results - Cash Basis



- Record revenue when received and expenditures when paid
- General Assembly budgets on a cash basis
- State operates on a cash basis
- DHHS ended last fiscal year with a positive cash balance
 - \$104M cash not spent by DHHS includes \$64M cash not spent on Medicaid (Page 38 of April Audit Report)
- \$104M reverted to state general fund at the end of the fiscal year
- These results were confirmed by both audits

Accrual Basis Accounting



- Accruals recognize revenues when earned and expenditures when obligated. As an example...

The diagram illustrates a hypothetical example of accrual accounting. It features two stylized figures: a man on the left and a doctor on the right. The man is represented by a blue outline, and the doctor is represented by a green outline with a stethoscope. Two text boxes are positioned above the figures. The left box, with a blue border, contains the text: "On June 29, 2014, John Smith, a Medicaid beneficiary went to the doctor and the visit cost \$300." The right box, with a green border, contains the text: "The doctor has up to 12 months to submit the claim – and the state has 30 days to pay the claim from when it is submitted." Below the figures is a dark gray horizontal bar with the text "HYPOTHETICAL EXAMPLE" in white capital letters. Underneath this bar, there are three paragraphs of text explaining the scenario.

On June 29, 2014, John Smith, a Medicaid beneficiary went to the doctor and the visit cost \$300.

The doctor has up to 12 months to submit the claim – and the state has 30 days to pay the claim from when it is submitted.

HYPOTHETICAL EXAMPLE

On June 30, the claim has not yet been submitted, therefore the Medicaid program has no reason to know this specific claim exists.

The General Assembly appropriated funds to Medicaid on a cash basis and Medicaid pays on a cash basis, so the \$300 claim for John Smith's claim is not counted against the cash basis.

However, accrual accounting tries to estimate all the costs incurred by "John Smith" prior to June 30, 2014.

Year End Results – Accrual Basis



Medicaid 2014 Financial Statement

Assets	
Cash, Cash Equivalents, and Pooled Cash	\$42,369,114
Receivables, net	
Accounts Receivable	84,959,343
Intergovernmental Receivables	800,088,158
	<u>\$927,416,615</u>
Liabilities	
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$10,167,693
Intergovernmental Payables	159,776,964
Medical Claims Payables	984,582,106
Due to Other State Agencies and Funds	181,191
Due to UNC Hospitals	116,143,907
Other Liabilities	6,589,406
	<u>\$1,277,441,267</u>
Total Deferred Inflows of Resources	<u>606</u>
Fund Balance	<u>(\$350,025,258)</u>

Year End Results – Accrual Basis



Medicaid 2014 Financial Statement

Assets	
Cash, Cash Equivalents, and Pooled Cash	\$42,369,114
Receivables, net	
Accounts Receivable	84,959,343
Intergovernmental Receivables	800,088,158
	<u>\$927,416,615</u>
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Accounts Payable and Accrued Liabilities	
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Fund Balance	
	<u>(\$350,025,258)</u>

Year End Results – Accrual Basis



Medicaid 2014 Financial Statement

Assets	
Cash, Cash Equivalents, and Pooled Cash	\$42,369,114
Receivables, net	
Accounts Receivable	84,959,343
State Receivable	0
Intergovernmental Receivables	800,088,158
	<u>\$927,416,615</u>
Liabilities	
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$10,167,693
Intergovernmental Payables	159,776,964
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	<u>\$1,277,441,267</u>
Total Deferred Inflows of Resources	<u>606</u>
Fund Balance	<u>(\$350,025,258)</u>

Our financial statements and the audits correctly do not include the state appropriation required to match the federal share of the estimated Medicaid claims and other Medicaid payables.

If the state appropriations were included...

Year End Results – Accrual Basis



	Medicaid w/ Required State Appropriations
Assets	
Cash, Cash Equivalents, and Pooled Cash	\$42,369,114
Receivables, net	
Accounts Receivable	84,959,343
State Receivable	381,285,238
Intergovernmental Receivables	800,088,158
	<u>\$1,308,701,853</u>
Liabilities	
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$10,167,693
Intergovernmental Payables	159,776,964
Medical Claims Payables	984,582,106
Due to Other State Agencies and Funds	181,191
Due to UNC Hospitals	116,143,907
Other Liabilities	6,589,406
	<u>\$1,277,441,267</u>
Total Deferred Inflows of Resources	<u>606</u>
Fund Balance	<u>\$31,259,980</u>

The financial statement includes \$800M in Intergovernmental Receivables. This amount represents the federal matching funds for Medicaid claims and other payables; however, to receive the federal funds the state must provide matching funds.

The required state match is \$381M. This amount is included in the current fiscal year budget.

Year End Results – Accrual Basis



	Medicaid 2014 Financial Statement	Medicaid w/ Required State Appropriations
Assets		
Cash, Cash Equivalents, and Pooled Cash	\$42,369,114	\$42,369,114
Receivables, net		
Accounts Receivable	84,959,343	84,959,343
State Receivable	0	381,285,238
Intergovernmental Receivables	800,088,158	800,088,158
	<u>\$927,416,615</u>	<u>\$1,308,701,853</u>
Liabilities		
Accounts Payable and Accrued Liabilities		
Accounts Payable	\$10,167,693	\$10,167,693
Intergovernmental Payables	159,776,964	159,776,964
Medical Claims Payables	984,582,106	984,582,106
Due to Other State Agencies and Funds	181,191	181,191
Due to UNC Hospitals	116,143,907	116,143,907
Other Liabilities	6,589,406	6,589,406
	<u>\$1,277,441,267</u>	<u>\$1,277,441,267</u>
Total Deferred Inflows of Resources	<u>606</u>	<u>606</u>
Fund Balance	<u>(\$350,025,258)</u>	<u>\$31,259,980</u>