



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# Maricopa County AHCCCS and ALTCS Plans

Year Ended June 30, 2003

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**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

October 28, 2003

Board of Supervisors  
Maricopa County  
County Administration Building  
301 West Jefferson Street  
Phoenix, AZ 85003

Members of the Board:

In planning and conducting our audit of the Maricopa County AHCCCS and ALTCS Plans for the year ended June 30, 2003, we performed the following as required by U.S. generally accepted auditing standards and the *Arizona Administrative Code*, Title 9, Chapters 22 and 28, as detailed in the *Reporting Guide for Acute Health Care Contractors with the Arizona Health Care Cost Containment System (AHCCCS)* and the *Reporting Guide for Arizona Long-Term Care System (ALTCS) Program Contractors with the Arizona Health Care Cost Containment System*:

- Considered the AHCCCS and ALTCS Plans' internal controls over financial reporting, and
- Tested their compliance with laws and regulations that could have a direct and material effect on the AHCCCS and ALTCS Plans' financial statements.

We noted no internal control weaknesses or instances of noncompliance that we consider to be material to the financial statements. However, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Maricopa County Board of Supervisors, the Arizona Health Care Cost Containment System, and the Maricopa County AHCCCS and ALTCS Plans and 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.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport  
Auditor General

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# The Plans need to improve timeliness and accuracy of claims processing

The Plans' management is responsible for ensuring that medical claims are timely and accurately processed, paid, and reported to the Arizona Healthcare Cost Containment System (AHCCCS). AHCCCS requires that 90 percent of all approved medical claims be paid within 30 days, and paid claims be reported to AHCCCS within 120 days. However, the Plans were not paying claims or reporting paid claims to AHCCCS within required timelines.

In November 2002, the Plans implemented a new claims processing system. By April 2003, the Plans had a backlog of unpaid claims that were not paid within required AHCCCS timelines. The backlog resulted from system programming problems that would not allow the release of individual claims for payment. Further, the case management system did not update the claims processing system for changes in the status of member accounts, including level of qualifying services, or service authorization dates. As a result, auditors noted an overpayment to a provider of \$3,699 for medical services that a Plan member was not eligible to receive. However, our test work indicated that the paid claims processed through the new system were materially correct. Finally, paid claims were not reported to AHCCCS within required timelines because the Plans' claim processing system did not use the AHCCCS assigned member identification numbers and, therefore, AHCCCS was unable to identify and accept the member information reported.

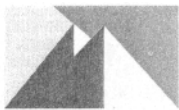
The Plans need to make the appropriate system modifications to ensure that current and accurate information is maintained about the Plans' members. Steps should also be taken to ensure claims are paid within 30 days of approval, and paid claims information is reported to AHCCCS within 120 days of payment. Specifically, the Plans should correct the following programming deficiencies:

- Change the pay status indicator to expedite the claims processing time.
- Modify the claims processing system to reflect the updated service authorization dates in the case management system to ensure proper claim amounts are paid.
- Revise the paid claims record layout to match the AHCCCS system.

## The Plans need to improve their record retention procedures

Payments for medical expenses represent 93 percent of the Plans' total operating expenses. Therefore, it is essential that the Plans maintain complete and accurate records to support medical claims paid. In fact, the *Records Management Manual for Arizona Counties*, issued by the State of Arizona, Department of Library, Archives and Public Records, requires cost documentation to be retained for 3 years. However, the Plans did not have effective control procedures to ensure that all medical claims information supporting amounts paid were retained. Auditors noted 4% of paid claims tested for which the Plans could not locate documentation supporting those paid claims.

The Plans need to improve their record retention procedures to ensure that all medical claims documents are retained for at least 3 years. For example, the Plans should retain medical claims documents such as UB-92 for hospital inpatient services, UB-82 for nursing facilities, and CMS 1500 for other medical services.



**MARICOPA  
INTEGRATED  
HEALTH SYSTEM**

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(602) 344-5011

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570 W. Brown Rd.  
Mesa, AZ 85201  
(480) 344-2000

**MIHS Health Plans**  
• HealthSelect  
• Maricopa Health Plan  
• Maricopa Long Term Care Plan  
• Maricopa Senior Select Plan  
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(602) 344-8700

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Phoenix, AZ 85008  
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Phoenix, AZ 85008  
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Scottsdale  
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Sunnyslope  
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October 21, 2003

Debbie Davenport Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

In response to your management letter for the year ended June 30, 2003, our responses are as follows:

**Recommendation 1**

The Plans re-implemented the claims processing system on October 14, 2003. This included updating covered benefits, loading revised claims processing rules, updating master tables, and a review of all system control records. A formal testing plan is in place and it is anticipated that the testing of processing accuracy will be completed by early November 2003. Immediate improvement of payment timeliness and accuracy will result from these actions.

The historical authorization data has been corrected to reflect the proper authorized services in conjunction with the re-implementation discussed above. To ensure the accuracy of future claims payments, the Plans have revised their authorization procedures so that the proper data is completed in the case management system thus allowing the information to seamlessly and accurately pass into the claims system thereby significantly reducing the potential for overpayment of benefits.

With regard to reporting paid claims (a.k.a encounters) to AHCCCS, the Plans have identified the most costly and frequent errors and are currently working to resolve these errors. The Plans are evaluating the feasibility of instituting claims processing edits that are aligned with AHCCCS' encounter data edits. This will reduce the number of errant claims that are accepted by the Plan's system that are subsequently denied by AHCCCS. Additionally, the Plans have developed an Encounter Data Task Force to meet regularly to strengthen focus on tasks and deliverables related to encounter data submission, validation and error recovery processes with AHCCCS. The Encounter Data Task Force will be co-chaired and represented by leadership and staff from MIHS' Information Technology and Claims Departments.

**Recommendation 2**

The Plans adopted a record retention policy effective October 6, 2003 which provides for retention of all claims and supporting documentation a minimum of three years subsequent to receipt.

Should you have any further questions, please let me know.

Patrick Walz  
Chief Financial Officer