

Department of Economic Security Division of Developmental Disabilities ALTCS Contract

CONCLUSION: The Department of Economic Security (Department), Division of Developmental Disabilities (Division), is a contractor with the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid agency. The Division administers a managed-healthcare plan through the Arizona Long Term Care System (ALTCS) Contract and provides medical services and long-term healthcare services to eligible, developmentally disabled enrollees of the AHCCCS program. The Division's ALTCS Contract requires that it provide all covered healthcare services to those enrollees regardless of the cost of care.

The Division is responsible for preparing the ALTCS Contract annual financial report, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the Division's ALTCS Contract's financial statements annually. Since the Division is a component of the State, the information in the financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. A summary of the Division's ALTCS Contract's financial statements is presented below.

Based on our audit, we issued an opinion on the Division's ALTCS Contract's financial statements and issued a report on internal control and on compliance over its financial reporting. The information in its fiscal year 2017 financial statements is reliable. Our Office identified internal control weaknesses over financial reporting. These findings are summarized on the next page.

Condensed financial information

Balance sheet—This statement reports all of the Division's ALTCS Contract's assets, liabilities, and fund balance. Fund balance is reported as restricted for health and welfare, which means the resources must be used for purposes AHCCCS specifies.

Statement of revenues, expenditures, and changes in fund balance—This statement reports all revenues, expenditures, and other changes in fund balance. The increase or decrease in fund balance indicates whether the Division's ALTCS Contract's financial health has improved or deteriorated as a result of current-year activities. The Division receives capitation revenue based on a fixed rate for each plan enrollee. Fund balance decreased by approximately \$6.5 million, or 26.9 percent, in fiscal year 2017.

Balance sheet

As of June 30, 2017 (In thousands)

Assets	
Cash and investments held by the State Treasurer	\$ 1,501
Due from other state funds/providers	116,401
Total assets	117,902
Liabilities and fund balance	
Liabilities	
Accrued administrative and payroll costs	10,338
Accrued medical and healthcare claims	87,521
Due to other state funds	2,449
Total liabilities	100,308
Fund balance	
Restricted for health and welfare	17,594
Total liabilities and fund balance	\$117,902

Statement of revenues, expenditures, and changes in fund balance

Year ended June 30, 2017 (In thousands)

Revenues	
Capitation	\$1,315,754
Other revenues	2,547
Total revenues	1,318,301
Expenditures	
Aid to individuals	1,136,670
Other expenditures	147,399
Total expenditures	1,284,069
Excess of revenues over expenditures	34,232
Transfers to other state funds	(40,690)
Decrease in fund balance	(6,458)
Fund balance—beginning	24,052
Fund balance—ending	\$ 17,594

Summary of audit findings and recommendations

We found internal control weaknesses over the Department's information technology (IT) resources. Our report on internal control and on compliance over financial reporting contains further details to help the Department correct the internal control weaknesses summarized below.

Department should improve internal controls over its information technology resources—The Department's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. The Department is correcting IT control weaknesses that we reported in the prior year. However, the Department needs to further develop its procedures to effectively identify, analyze, and respond to risks that may impact its IT resources and to sufficiently manage logical and physical access over its IT resources, including preventing and detecting unauthorized or inappropriate access or use, manipulation, damage, or loss. In addition, the Department needs to further develop procedures for managing changes to its IT resources and ensuring IT resources are configured securely. The Department also needs to further develop comprehensive contingency plans to provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

Recommendations

To help ensure the Department has adequate internal controls over its IT resources to identify, analyze, and respond to risks; prevent and detect unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources; protect and detect unauthorized, inappropriate, and untended changes to its resources; and ensure its operations can continue in the event of a disaster, system or equipment failure, or other interruption, the Department needs to update its procedures over its IT resources to ensure they address the following:

- **Risk-assessment process**—The risk-assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation.
- **Sensitive information**—Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **Logging and log monitoring**—Key user activity should be logged and monitored, particularly for users with administrative access privileges and remote access.
- **User access**—A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that access to IT resources is needed and compatible with job responsibilities.
- **Configuration settings**—Maintain appropriate and secure configurations for all systems.
- **Contingency planning**—The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.
- **IT standards and best practices**—IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented department-wide, as appropriate. Further, the Department should train staff on the policies and procedures.