

**REPORT HIGHLIGHTS**  
FINANCIAL STATEMENT AUDIT

**Subject**

The Department of Economic Security issues financial statements annually for the Division of Developmental Disabilities, Arizona Long-Term Care System (ALTCS) Contract. The Division is responsible for preparing the financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the Division has met its responsibilities.

**Our Conclusion**

The information in the financial statements is reliable. The Division maintained adequate internal controls over its ALTCS Contract financial transactions and substantially complied with the Arizona Health Care Cost Containment System's (AHCCCS) contract requirements. Our management letter describes one internal control weakness and one instance of noncompliance.



**2002**

Year Ended June 30, 2002

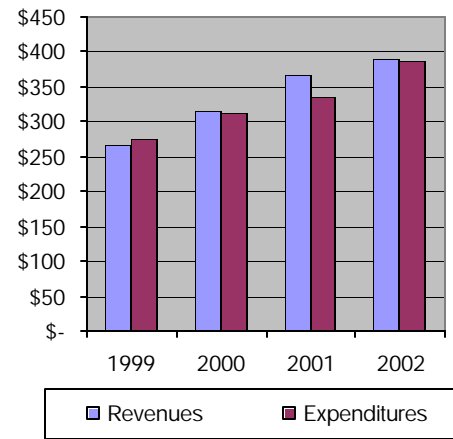
## ALTCS Contract Revenues and Expenditures Increase

The ALTCS Contract experienced increased revenues and expenditures during fiscal year 2002 because of increased enrollment and new support services and system costs.

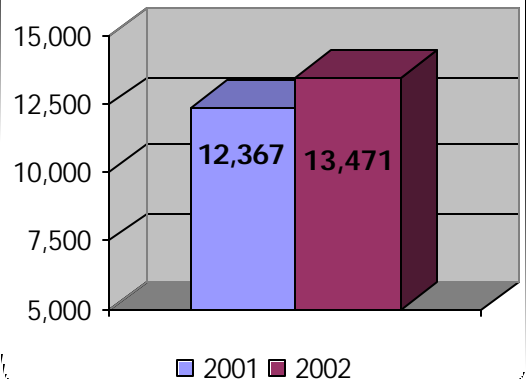
Proposition 204, a November 2000 voter initiative, expanded eligibility for long-term medical care and other healthcare. The increase in ALTCS Contract enrollees represented an increase of 1,104 members or 9 percent over fiscal year 2001. The Division also began including long-term employment services costs provided to members that needed assistance to maintain employment. Finally, the Division incurred costs for its new acute care system's implementation and for capitation rate studies. As a result of the new activities, the ALTCS Contract's expenditures increased \$51.5 million, or over 15 percent, over the previous fiscal year.

Enrollment growth increased capitation revenues; however, AHCCCS reduced the capitation rates it pays for enrollees. As a result, revenues did not increase as significantly. During fiscal year 2002, revenues increased \$22.8 million, or about 6 percent, over the previous year.

**Revenues/Expenditures (In Millions)**



**ALTCS Contract Members**



## Transfers Out Significantly Decrease Fund Balance

During the year, the Division transferred \$12 million to other state funds, which significantly reduced the ALTCS Contract fund balance. The transfers included about \$9.4 million to the State General Fund as part of the State's effort to reduce its budget deficit, and about \$2.6 million in unused matching monies for the AHCCCS Long-Term Care program held by the Division.

### Change in Fund Balance (In Millions)

Fund balance, July 1, 2001	\$19.4
Excess of revenues over expenditures	3.4
Transfers to other state funds	(12.0)
Fund balance, June 30, 2002	\$10.8

### TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling  
**(602) 553-0333**



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Contact person for this report:  
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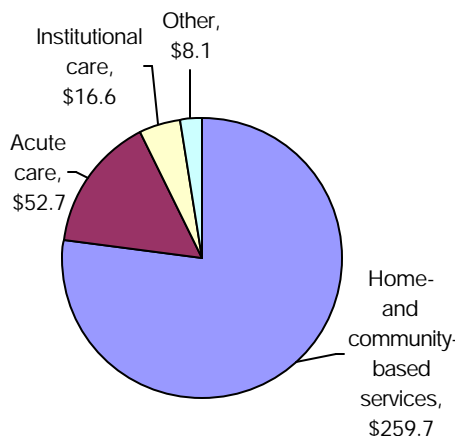
## The ALTCS Contract Provides a Variety of Services

The Department of Economic Security, Division of Developmental Disabilities contracts with the AHCCCS to provide long-term care services to developmentally disabled indigents as part of the ALTCS program. During the year, the ALTCS Contract spent \$337.1 million to provide long-term health and medical care to its enrollees. These costs are reported as aid to individuals in the financial statements and represent approximately 87 percent of the ALTCS Contract's total expenditures of \$386.5 million.

Services Provided:

- Home- and community-based services, including state- and vendor-operated group homes and other home-based services provided where enrollees live.
- Acute care inpatient and outpatient services provided to enrollees as needed.
- Institutional care such as skilled nursing and intermediate care in institutional settings.
- Other care, including mental health and ventilator dependent services.

### ALTCS Contract Healthcare Expenditures by Type of Care (In Millions)



### Other Pertinent Information

During the year ended June 30, 2002, the State of Arizona implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model for state and local governments. The State also implemented GASB Statement No. 38, which prescribes new and revised note disclosures. However, the new reporting model essentially has no impact on the ALTCS Contract financial statements.

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Year Ended June 30, 2002