STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Department of Economic Security
Division of Developmental Disabilities ALTCS Contract

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 Contract. The Division is responsible for preparing the financial statements, maintaining strong internal controls, and demonstrating compliance with its contractual arrangements with the Arizona Health Care Cost Containment System. As auditors, our job is to determine whether the Division has met its responsibilities.

Our Conclusion

The information in the financial statements is fairly stated in all material respects and the financial statements can be relied on. However, auditors noted five deficiencies in internal control over financial reporting, including three material weakness and three instances of noncompliance with its contractual agreements with AHCCCS.

2008

Year Ended June 30, 2008

Division Improves Controls Over Medical and Healthcare Services Payments

The Department of Economic Security's Division of Developmental Disabilities (Division) is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide medical and healthcare services to eligible enrollees of the AHCCCS Arizona Long-Term Care System (ALTCS) program for the developmentally disabled. This program provides inpatient and outpatient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to the program's eligible enrollees. During fiscal year 2008, the Division spent more than $729 million for medical and long-term care services for program enrollees. Therefore, it is imperative that the Division maintain effective internal control policies and procedures over its claims process to help ensure claims are accurately paid, recorded, and reported. During fiscal years 2007 and 2008, the Division continued to improve internal controls over its claims processing system implemented in fiscal year 2006.

The new claims processing system was necessary in order to meet the federal Health Insurance Portability and Accountability Act (HIPAA) mandates requiring healthcare claims processors to accept provider claims that follow HIPAA electronic claim filing standards. During fiscal years 2006 and 2007, the system did not always identify duplicate claims, did not always apply proper pay rates, made some payments for uncovered services, and rejected some valid claims.

By July 1, 2007, the Division had substantially corrected these system deficiencies. As of June 30, 2008, there was approximately $2 million in unresolved claim payments resulting from prior years' system deficiencies that the Division is continuing to work with providers to resolve and correct.

Financial Information

The Division's ALTCS Contract financial information is presented in a Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

Balance Sheet

The Balance Sheet reports all assets and liabilities using the modified accrual basis of accounting. Fund balance, the difference between assets and liabilities, is one way to measure the Division's financial health. The table on the following page presents the Division's Balance Sheet at June 30, 2008.

Statement of Revenues, Expenditures, and Changes in Fund Balance

The Statement of Revenues, Expenditures, and Changes in Fund Balance presents information showing how fund balance changed during the most recent fiscal year.

As shown in the table, the ALTCS Contract's fund deficit increased by $2.6 million during fiscal year 2008. According to the Division, they estimated a shortfall of $20.0 million and requested and received a supplemental appropriation of $45 million that was reported as capitation revenue. However, pursuant to Laws 2008, Chapter 53, Section 13, the Division was required to transfer $25 million from its long-term care system fund to the State General Fund during fiscal year 2007-2008. Deficits have occurred because annual appropriations have not fully funded the actuarially-determined capitation rate, and the entitlement nature of this program prevents the Division from arbitrarily reducing services to individuals with developmental disabilities. The deficit is expected to be corrected in future years as a result of legislative appropriations.

Balance Sheet
June 30, 2008
(In Millions)

Assets:	
Cash and investments held by State Treasurer	$40.1
Due from other state funds	18.8
Due from providers	5.6
Total assets	$64.5
Liabilities and Fund Balance:	
Accrued administrative and payroll costs	$ 4.0
Accrued medical and healthcare claims	63.4
Due to other state funds	.5
Total liabilities	67.9
Fund deficit	(3.4)
Total liabilities and fund balance	$64.5

Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2008
(In Millions)

Revenues:	
Capitation	$835.2
Ventilator dependent	7.9
Fee for service	.2
Investment earnings	2.7
Total revenues	846.0
Expenditures:	
Health and welfare:	
Aid to individuals	729.3
Allocated administrative expenditures	31.7
Case management	38.1
Professional and outside services	7.3
Premium tax	17.2
Total expenditures	823.6
Excess of revenues over expenditures	22.4
Other financing uses:	
Transfers to State General Fund	(25.0)
Net change in fund deficit	(2.6)
Fund deficit—beginning	(0.8)
Fund deficit—ending	$ (3.4)

Division Needs To Strengthen Internal Controls and Comply with AHCCCS Contractual Requirements

The Division's management is responsible for preparing accurate financial statements and demonstrating compliance with AHCCCS' contractual requirements. However, the Division did not always meet these objectives. To help ensure that the Division's management achieves these objectives, it should strengthen controls to ensure:

- A system is in place that can generate complete and accurate financial statements.
- Computer access controls are strengthened to help prevent or detect unauthorized access to sensitive data.
- Computer program changes are properly authorized, tested, reviewed, and approved.
- The methodology to estimate accrued long-term care costs is reasonable and consistent with methods established by AHCCCS.

TO OBTAIN MORE INFORMATION

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

or by visiting our Web site at:
www.azauditor.gov

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