



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

# Department of Economic Security

Division of Developmental  
Disabilities ALTCS Contract  
Year Ended June 30, 2009

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**Debra K. Davenport**  
Auditor General

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Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Report on Audit of Financial Statements  
Year Ended June 30, 2009

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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

## Independent Auditors' Report

Members of the Arizona State Legislature

Neal Young, Director  
Department of Economic Security

We have audited the accompanying financial statements of the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long-Term Care System ALTCS Contract (ALTCS Contract), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Department and its Division of Developmental Disabilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the ALTCS Contract's financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of Arizona that is attributable to the transactions of the ALTCS Contract. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2009, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the ALTCS Contract. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the ALTCS Contract's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

November 23, 2009

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Balance Sheet—Special Revenue Fund  
 June 30, 2009

Assets	
Cash on deposit with the State Treasurer	\$ 8,000,667
Due from other state funds	59,937,875
Due from providers	<u>550,999</u>
Total assets	<u>\$68,489,541</u>
Liabilities and Fund Balance	
Liabilities:	
Accrued administrative and payroll costs	\$ 4,679,429
Accrued medical and healthcare claims	70,493,146
Due to other state funds	<u>920,613</u>
Total liabilities	<u>76,093,188</u>
Fund balance:	
Fund deficit	<u>(7,603,647)</u>
Total liabilities and fund balance	<u>\$68,489,541</u>

See accompanying notes to financial statements.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance—Special Revenue Fund  
 Year Ended June 30, 2009

Revenues:	
Capitation	\$884,420,189
Ventilator dependent	4,780,624
Fee for service	1,008,618
Investment earnings	<u>1,271,116</u>
Total revenues	<u>891,480,547</u>
Expenditures:	
Health and welfare:	
Aid to individuals	787,216,600
Allocated administrative expenditures	29,150,120
Case management	36,965,743
Professional and outside services	6,514,339
Premium tax	<u>18,837,054</u>
Total expenditures	<u>878,683,856</u>
Excess of revenues over expenditures	12,796,691
Other financing uses:	
Transfers to other state funds	<u>(17,000,000)</u>
Net change in fund balance	(4,203,309)
Fund deficit, July 1, 2008	<u>(3,400,338)</u>
Fund deficit, June 30, 2009	<u>\$ (7,603,647)</u>

See accompanying notes to financial statements.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2009

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Economic Security (Department), Division of Developmental Disabilities (Division), Arizona Long-Term Care System ALTCS Contract (ALTCS Contract), conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board. A summary of the Division's more significant accounting policies follows.

A. Reporting Entity

For financial reporting purposes, the ALTCS Contract includes only that portion of the State's General Fund that is attributable to the ALTCS Contract's transactions. The Division is responsible for administering the ALTCS Contract. Fiscal responsibility for the Division remains with the Department and, ultimately, with the State. The 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 in-patient and out-patient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to eligible enrollees of the AHCCCS ALTCS program. The Division receives monthly premiums from AHCCCS for all eligible enrollees under the AHCCCS ALTCS program for the developmentally disabled.

B. Fund Accounting

The Division's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Division's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The ALTCS Contract's financial transactions are reported as a special revenue fund since the proceeds are from specific revenue sources that are legally restricted to expenditures for specified purposes.

Although the ALTCS Contract is considered a special revenue fund when reported on individually, it becomes a part of the State's General Fund at the combined state-wide level.



Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2009

### C. Basis of Accounting

The ALTCS Contract financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers capitation revenues to be available if they are received within 90 days of the end of the current fiscal period, and considers all other revenues to be available if they are collected within 30 days of the end of the current fiscal period. All ALTCS Contract revenue sources are susceptible to accrual. Expenditures are recognized when the related fund liability is incurred.

### D. Capitation

The ALTCS Contract receives from AHCCCS fixed capitation payments based on certain rates for each AHCCCS member enrolled in the Division's ALTCS Contract program. The ALTCS Contract is required to provide all covered healthcare services to its members, regardless of the cost of care. If there are funds remaining, the Contract retains the funds as profit; if the costs are higher than the amount of capitation payments from AHCCCS, the ALTCS Contract absorbs the loss.

### E. Investment Earnings

Investment earnings is composed of interest earned on the ALTCS Contract's portion of monies deposited with the State Treasurer.

### F. Incurred But Not Recorded (IBNR) Methodology

The liability and expenditures reported for accrued medical and healthcare claims includes IBNR medical claims which are estimated using lag data provided by the Division's information systems, with adjustments as necessary for events that are outside the lag patterns. Amounts are based on historical expenditure patterns.

## Note 2 - Cash on Deposit with the State Treasurer

Arizona Revised Statutes requires state agencies' monies to be deposited with the State Treasurer. Cash on deposit with the State Treasurer represents the ALTCS Contract's portion of those monies.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2009

Note 3 - Due from Other State Funds

Amounts due from other state funds at June 30, 2009, include \$221,238 of interest earned, \$59,598,549 of capitation receivables due from AHCCCS, and \$118,088 due from the Department of Economic Securities' General Fund for share of costs.

Note 4 - Due from Providers

The amount due from providers of \$550,999 consists of prior year's overpayments for medical and long-term care service claims.

Note 5 - Accrued Medical and Healthcare Claims

Accrued medical and healthcare claims totaling \$70,493,146 include reported but unpaid claims (RUC) and estimated incurred but not reported (IBNR) medical claims. The Division only identifies RUCs for medical services. RUCs for these services are reported as IBNR medical claims in the Aid to individuals note disclosure.

Note 6 - Fund Deficit

The fund balance deficit at June 30, 2009, was \$7,603,647. Deficits have occurred because 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. It is uncertain if the deficit will be corrected in future years as a result of legislative appropriations.

Note 7 - Acute Care Reinsurance

During the year ended June 30, 2009, the Division received reimbursements totaling \$11,095,297 from AHCCCS for acute care reinsurance expenditures for claims for enrollees incurred in prior fiscal years. These reimbursements are recorded as a reduction of aid to individuals expenditures.

The Division subcontracts with various health plans to provide acute care services to ALTCS enrollees. These health plans must submit clean reinsurance claims to the Division within 12 months from the date of service.

The Division disbursed a total of \$2,825,406 to the health plans during the year ended June 30, 2009, and had estimated accrued claims of \$11,373,207 for total acute care reinsurance expenditures of \$14,198,613, which has been included in aid to individuals expenditures.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Notes to Financial Statements  
 June 30, 2009

Note 8 - Aid to Individuals Expenditures

Aid to individuals expenditures consists of the following expenditures summarized by type of service setting or service provided, as applicable:

Institutional care:	
Skilled nursing	\$ 2,672,874
Institutional care	10,371,771
Intermediate (mentally retarded)	14,145,100
Institutional care IBNR	<u>1,336,192</u>
Total institutional care	<u>28,525,937</u>
Home- and community-based services (HCBS):	
State-operated group home	6,657,948
Vendor-operated group home	223,080,273
Adult developmental home	27,220,254
Home-based services	330,787,672
HCBS IBNR	<u>55,851,808</u>
Total HCBS	<u>643,597,955</u>
Acute care:	
Acute care	109,176,826
Acute care IBNR	1,931,939
Reinsurance	2,825,406
Reinsurance IBNR	11,373,207
Reinsurance reimbursement	(11,095,297)
Fee for service	880,627
Total acute care	<u>115,092,708</u>
Total aid to individuals expenditures	<u>\$787,216,600</u>

During the year ended June 30, 2009, the ALTCS Contract recorded allocated charges of \$25,683,526 as expenditures for direct care services including administrative costs provided to clients by the Division. The expenditures were charged to the ALTCS Contract as aid to individuals expenditures based on a federally approved cost allocation plan.

Note 9 - Allocated Administrative Expenditures

During the year ended June 30, 2009, the ALTCS Contract recorded allocated administrative charges of \$29,150,120 as expenditures for its share of the administrative and fiscal services provided by the Department.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2009

Note 10 - Premium Tax

Arizona Revised Statutes §§36-2905 and 36-2944.01 require AHCCCS to pay a 2 percent premium tax on all capitation and other reimbursements paid to the ALTCS Contract. These premium taxes are reported as expenditures and are paid to the Arizona Department of Insurance.

Note 11 - Transfers

Transfers to other state funds during the year ended June 30, 2009, included \$8,306,100 to the State General Fund pursuant to Laws 2009, First Special Session Chapter 1, Sections 4 and 5, and \$8,693,900 to the separate state-funded Long-Term Care Program, as authorized by AHCCCS.

Note 12 - Commitments and Contingencies

The State has the ultimate fiscal responsibility for the ALTCS Contract. Accordingly, any claims requiring additional resources require the Legislature's approval. While there is a possibility that claims could be asserted that would require additional resources for the ALTCS Contract, in management's opinion, the possibility is low that valid claims will be asserted and claim amounts cannot reasonably be estimated.

Note 13 - Risk Management

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Department is a participant in the State's self-insurance program, and in the division management's opinion, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for the State's unsettled claims and actions are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*.

Note 14 - Related Party Transactions

During the year ended June 30, 2009, the ALTCS Contract reimbursed the Division for \$25,683,526 of health and rehabilitative services provided to enrollees, including administrative costs, other department divisions for \$29,150,120 of administrative and fiscal services, and the Arizona Department of Insurance for \$18,837,054 of premium taxes due.





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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

Neal Young, Director  
Department of Economic Security

We have audited the financial statements of the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long-Term Care System ALTCS Contract (ALTCS Contract) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Division's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the ALTCS Contract financial statements that is more than inconsequential will not be prevented or detected by the Division's internal control. We consider item 09-01 described in the accompanying Schedule of Findings and Recommendations to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Division's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 09-02.

Division responses to the findings identified in our audit are presented on pages 15 through 18. We did not audit the Division's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona Health Care Cost Containment System, the Director of the Department of Economic Security, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

November 23, 2009

Department of Economic Security  
Division of Developmental Disabilities ALTCS Contract  
Schedule of Findings and Recommendations  
Year Ended June 30, 2009

09-01

**The Division should strengthen computer access controls**

Criteria: Access to computer systems should be limited to those employees authorized to process transactions or maintain a particular system and ensure that no one individual has the ability to modify data without an independent review.

Condition and context: The Division did not always adequately limit logical access to its FOCUS claims payment system during fiscal year 2009. Specifically, 14 of the 39 users tested with administrative access had incompatible responsibilities or capabilities, including the ability to modify service rates, third-party liability waiver information, and payment addresses. In addition, 2 of 32 FOCUS users tested had incompatible responsibilities or capabilities that weren't necessary to fulfill their job responsibilities. Further, auditors noted an account having approval and update privileges that was not assigned to a specific employee.

Effect: Users may have access to unauthorized information and the ability to perform unauthorized functions. Excessive access rights may allow users to perpetrate and conceal errors and irregularities in the normal course of duties, resulting in fraud and the possible misstatement of financial information.

Cause: The Division did not follow its policies and procedures to ensure security over its FOCUS claims payment system.

Recommendation: The Division should monitor and enforce the following policies and procedures that strengthen security over its FOCUS claims payment system.

- Retain access request forms with the Supervisor's approval.
- Eliminate all generic user accounts and assign each user account to an individual employee.
- Limit access rights to those compatible with each employee's job responsibilities.

A similar finding was provided to the Division in the prior year.

09-02

**The Division should maintain required case file documentation**

Criteria: Case management is the process in which services are identified, planned, obtained, and monitored for individuals eligible for ALTCS services. The ALTCS Contract and *AHCCCS Medical Policy Manual* for case management require periodic on-site reviews within every 90 days or 180 days based on the applicable ALTCS member placement and service provided. The *AHCCCS Medical Policy Manual* requires that all contact attempted and made with, or regarding an ALTCS member be documented in the member's case file.



Department of Economic Security  
Division of Developmental Disabilities ALTCS Contract  
Schedule of Findings and Recommendations  
Year Ended June 30, 2009

Condition and context: The Division did not ensure the required information was included in the member case files and that reviews occurred within specific time frames. Specifically, auditors noted that for 8 of 15 cases tested, reviews were not performed or were performed later than the required 90 or 180 days, and documentation for all contact attempts were not included in the case file.

Effect: This deficiency resulted in material noncompliance with the ALTCS Contract case management requirements.

Cause: The Division did not always follow its policies and procedures for case management.

Recommendation: The Division should monitor and enforce the following policies and procedures over case management.

- Perform the required on-site reviews within the required time frames.
- Document all contact attempted and made with, or regarding an ALTCS member.



DEPARTMENT OF ECONOMIC SECURITY

*Your Partner For A Stronger Arizona*

Janice K. Brewer  
Governor

Neal Young  
Director

NOV 20 2009

Ms. Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

Thank you for the opportunity to respond to the Department of Economic Security, Division of Developmental Disabilities' (DDD) Arizona Long-Term Care System Financial Audit for SFY 2009. We appreciate the professional approach the auditors displayed during the course of this review. The purpose of this letter is to forward the Department's written responses to the report.

The Department agrees with the findings in the report and has identified and initiated work to implement the recommendations.

If you have any questions, please contact Barbara Brent, Assistant Director for the Division of Developmental Disabilities at (602) 542-6857.

Sincerely,

Neal Young  
Director

Enclosure

**DES Response – Arizona Long-Term Care System (ALTCS)  
Fiscal Year 2009 Contract Financial Audit Report on Internal Controls**

**09-01**

**The Division should strengthen computer access controls**

**Recommendation**

The Division should monitor and enforce the following policies and procedures that strengthen security over its FOCUS claims payment system.

- Retain access request forms with the Supervisor's approval.
- Eliminate all generic user accounts and assign each user account to an individual employee.
- Limit access rights to those compatible with each employee's job responsibilities.

**DES Response**

The Department concurs with the finding and will implement the audit recommendation. Specifically, the following actions have been taken to:

- Retain access request forms with the supervisor's approval.
  - Access for the FOCUS system is granted only through the use of the J-125 process, which includes retention (hard copy or electronic) of the supervisory approval document. On September 17, 2009 internal retention of the access request forms was changed to follow the process flow of the request. This internal change strengthens security over the FOCUS claims payment system and enforces policies and procedures.
- Eliminate all generic user accounts and assign each user account to an individual employee.
  - Use of all FOCUS generic user accounts were eliminated, effective April 24, 2008 with the exception of one generic user account. This last generic user account was disabled on the FOCUS system November 11, 2009.
- Limit logical access to as few employees as possible and ensure access is compatible with each employee's job responsibilities.
  - The Division implemented policies and procedures in January 2008 to ensure that only authorized users have logical access. Such logical access is limited to essential employees, and that access is compatible with each employee's job responsibilities. The Division will implement a new process that will review user access by job description during the first quarter of each fiscal year. The first review for this new process will be completed by December 15, 2009. In each future fiscal year, July 31<sup>st</sup> will be the completion date for this process.

**09-02**

**The Division should maintain required case file documentation**

**Recommendation**

The Division should monitor and enforce the following policies and procedures over case management.

- Perform the required on-site reviews within the required time frames.
- Document all contact attempted and made with, or regarding an ALTCS member.

***DES Response***

The Department concurs that case file documentation should be monitored to ensure that policies and procedures are being maintained.

The Division audits for timeliness of Support Coordinator visits in both its case file audit process and in a separate, focused timeliness audit (100% of the caseload for 10% of the Support Coordinators in each District). The results of these audits are compiled and analyzed at both the District and Statewide level. Corrective action plans are developed as needed. In addition, one component of the FOCUS application, alerts the Support Coordinator when member visits are due and overdue. This automated process allows supervisors to better monitor when timeliness issues are present.

In order to implement FY 2009 budget reductions for Senate Bill 1001, the Department initiated staff reductions and furloughs which impacted caseloads and adjustments in workload. The Department continues to monitor caseloads, timeliness and requires corrective action plans at the individual and district level as needed. The Department continues to identify critical support coordination positions to fill and hires promptly when approved.



## Supplementary Schedules

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Medical Claims Payable (RBUCs and IBNRs)  
 June 30, 2009

Account	Reported But Unpaid Claims (RBUCs)				Total RBUCs (1)	IBNR (1)	Total RBUCs and IBNRs
	1-30 days	31-60 days	61-90 days	Over 90 days			
Institutional care						\$ 1,336,192	\$ 1,336,192
HCBS						55,851,808	55,851,808
Acute care	<u>\$423,797</u>	<u>\$11,964</u>	<u>\$4,273</u>	<u>\$7,908,905</u>	<u>\$8,348,939</u>	<u>4,956,207</u>	<u>13,305,146</u>
Total claims payable	<u>\$423,797</u>	<u>\$11,964</u>	<u>\$4,273</u>	<u>\$7,908,905</u>	<u>\$8,348,939</u>	<u>\$62,144,207</u>	<u>\$70,493,146</u>

(1) The Division's claims processing system only identifies RBUCs for medical services. The RBUCs amount represents claims received but not paid by the Division as of June 30, 2009. The remaining estimated medical claims payable are considered incurred but not reported (IBNR) claims.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Institutional Care Payments  
Year Ended June 30, 2009

Quarter in Which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$5,314,028	\$1,398,971	\$ 52,265	\$ 17,612	\$ 6,185	\$ 5,548		\$ 6,794,609
1 <sup>st</sup> Prior		6,083,587	1,339,287	122,529	51,047	9,269		7,605,719
2 <sup>nd</sup> Prior			5,823,035	1,273,808	16,713	11,261	\$ 255	7,125,072
3 <sup>rd</sup> Prior				6,255,497	1,180,133	15,460	154	7,451,244
4 <sup>th</sup> Prior					5,497,259	1,171,408	38,409	6,707,076
5 <sup>th</sup> Prior						5,934,275	1,342,073	7,276,348
6 <sup>th</sup> Prior							<u>5,710,611</u>	<u>5,710,611</u>
Total	<u>5,314,028</u>	<u>7,482,558</u>	<u>7,214,587</u>	<u>7,669,446</u>	<u>6,751,337</u>	<u>7,147,221</u>	<u>7,091,502</u>	<u>48,670,679</u>
Expenses reported	7,633,208	6,029,486	7,235,136	7,628,110	7,343,552	6,498,727	6,521,324	48,889,543
Adjustment (1)	<u>(1,022,979)</u>	<u>1,493,063</u>	<u>(20,549)</u>	<u>41,336</u>	<u>(592,215)</u>	<u>648,494</u>	<u>570,178</u>	<u>1,117,328</u>
Remaining liability	<u>\$1,296,201</u>	<u>\$ 39,991</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,336,192</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that impact the business cycle.



Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Home- and Community-Based Services Payments  
Year Ended June 30, 2009

Quarter in Which Service Provided

Quarter of Payment	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$ 105,131,020	\$ 58,514,129	\$ 621,983	\$ 333,872	\$ 166,240	\$ (5,186)	\$ (4,331)	\$ 164,757,727
1 <sup>st</sup> Prior		100,429,802	54,734,408	907,629	398,603	130,975	(11,440)	156,589,977
2 <sup>nd</sup> Prior			103,355,884	54,426,351	1,330,789	545,647	126,113	159,784,784
3 <sup>rd</sup> Prior				103,896,651	55,037,577	1,271,373	304,433	160,510,034
4 <sup>th</sup> Prior					98,113,830	52,791,390	963,048	151,868,268
5 <sup>th</sup> Prior						93,681,241	49,974,925	143,656,166
6 <sup>th</sup> Prior							<u>94,944,766</u>	<u>94,944,766</u>
Total	<u>105,131,020</u>	<u>158,943,931</u>	<u>158,712,275</u>	<u>159,564,503</u>	<u>155,047,039</u>	<u>148,415,440</u>	<u>146,297,514</u>	<u>1,032,111,722</u>
Expenses reported	164,034,083	163,589,730	156,463,919	159,510,220	146,887,405	140,539,314	140,680,245	1,071,704,916
Adjustment (1)	<u>(3,962,328)</u>	<u>(3,734,726)</u>	<u>2,248,356</u>	<u>54,283</u>	<u>8,159,634</u>	<u>7,876,126</u>	<u>5,617,269</u>	<u>16,258,614</u>
Remaining liability	<u>\$ 54,940,735</u>	<u>\$ 911,073</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 55,851,808</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that impact the business cycle.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Acute Care Payments  
Year Ended June 30, 2009

Quarter in Which Service Provided

Quarter of Payment	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$ 25,252,211	\$ 760,061	\$ 161,675	\$ 35,226	\$ 32,985	\$ 4,457		\$ 26,246,615
1 <sup>st</sup> Prior		24,706,995	430,077	154,468	69,845	14,701		25,376,086
2 <sup>nd</sup> Prior			24,669,357	556,769	185,815	104,746	\$ 44,052	25,560,739
3 <sup>rd</sup> Prior				24,226,795	885,178	670,444	90,451	25,872,868
4 <sup>th</sup> Prior					23,279,738	602,157	135,195	24,017,090
5 <sup>th</sup> Prior						22,590,275	506,931	23,097,206
6 <sup>th</sup> Prior							<u>22,513,414</u>	<u>22,513,414</u>
Total	<u>25,252,211</u>	<u>25,467,056</u>	<u>25,261,109</u>	<u>24,973,258</u>	<u>24,453,561</u>	<u>23,986,780</u>	<u>23,290,043</u>	<u>172,684,018</u>
Expenses reported	39,677,424	29,412,114	28,446,727	27,643,122	29,615,885	26,044,481	21,195,840	202,035,593
Adjustment (1)	<u>(11,420,043)</u>	<u>(2,576,623)</u>	<u>(1,330,380)</u>	<u>(1,635,221)</u>	<u>(5,162,324)</u>	<u>(2,057,701)</u>	<u>8,135,863</u>	<u>(16,046,429)</u>
Remaining liability	<u>\$ 3,005,170</u>	<u>\$ 1,368,435</u>	<u>\$ 1,855,238</u>	<u>\$ 1,034,643</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,041,660</u>	<u>\$ 13,305,146</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that impact the business cycle.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Analysis of Profitability by Major Rate Code Classification  
Year Ended June 30, 2009

	Medicare	Non-Medicare	Total
Revenues:			
Capitation	\$ 94,911,273	\$794,289,540	\$889,200,813
Fee for service	1,008,618		1,008,618
Interest	<u>                    </u>	<u>1,271,116</u>	<u>1,271,116</u>
Total revenues	<u>95,919,891</u>	<u>795,560,656</u>	<u>891,480,547</u>
Expenditures:			
Institutional care expenditures:			
Skilled nursing		2,980,198	2,980,198
Intermediate (mentally retarded)		<u>25,545,739</u>	<u>25,545,739</u>
Total institutional care expenditures		<u>28,525,937</u>	<u>28,525,937</u>
Home- and community-based services (HCBS) expenditures:			
Group homes—state-operated		7,154,948	7,154,948
Group homes—vendor-operated		243,760,300	243,760,300
Assisted living center		29,661,274	29,661,274
Other		<u>363,021,433</u>	<u>363,021,433</u>
Total HCBS expenditures		<u>643,597,955</u>	<u>643,597,955</u>
Acute care expenditures	<u>126,188,005</u>		<u>126,188,005</u>
Reduction to medical expenditures:			
Reinsurance	<u>1,013,069</u>	<u>10,082,228</u>	<u>11,095,297</u>
Total aid to individuals (medical expenditures)	<u>125,174,936</u>	<u>662,041,664</u>	<u>787,216,600</u>

(Continued)

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Analysis of Profitability by Major Rate Code Classification  
 Year Ended June 30, 2009  
 (Continued)

	Medicare	Non-Medicare	Total
Administrative expenditures:			
Allocated administrative expenditures	\$ 5,114,945	\$ 24,035,175	\$ 29,150,120
Case management	6,486,346	30,479,397	36,965,743
Professional and outside services	1,143,065	5,371,274	6,514,339
Premium tax	<u>3,305,321</u>	<u>15,531,733</u>	<u>18,837,054</u>
Total administrative expenditures	<u>16,049,677</u>	<u>75,417,579</u>	<u>91,467,256</u>
Transfers out	<u>2,982,975</u>	<u>14,017,025</u>	<u>17,000,000</u>
Total expenditures and transfers	<u>144,207,588</u>	<u>751,476,268</u>	<u>895,683,856</u>
Gain (loss) from operations	<u>\$ (48,287,697)</u>	<u>\$ 44,084,388</u>	<u>\$ (4,203,309)</u>

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Utilization Data Report  
Year Ended June 30, 2009

	<u>Medicare</u>		<u>Non-Medicare</u>		<u>Total</u>	
	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>
A. Enrollees	4,739		17,106		21,845	
B. Member months (unduplicated)	14,136	44,400	50,912	208,636	65,048	253,036
Institutional total	497	1,493	177	1,281	674	2,774
1. Level 2	141	404	27	326	168	730
2. Level 3	356	1,089	150	955	506	2,044
Home- and community-based services total	13,621	42,831	50,397	205,946	64,018	248,777
1. Group Home (DD)	4,405	15,146	3,149	14,957	7,554	30,103
2. Individual Home	7,289	22,009	40,197	159,505	47,486	181,514
3. Assisted Living Centers						
4. Other Adult Development Homes	1,127	3,483	725	3,343	1,852	6,826
5. Other Case Management Only	800	2,193	6,326	28,141	7,126	30,334
C. Ventilator dependent	18	76	338	1,409	356	1,485
D. Acute patient day information						
1. Admissions	26	89	300	1,188	326	1,277
2. Patient days	103	439	1,202	4,369	1,305	4,808
3. Discharges	26	89	300	1,188	326	1,277
4. Discharge days	103	439	1,202	4,369	1,305	4,808
5. Average length of stay	3.96	4.93	4.01	3.68	4.00	3.77

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Related Party Transactions  
 Year Ended June 30, 2009

<u>Related Party and Relationship</u>	<u>Service Provided</u>	<u>Description of Transactions or Payment Terms Agreement</u>	<u>Amount</u>
Department of Economic Security, Division of Developmental Disabilities, Intermediate Care Facility/Mentally Retarded, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting and member days count	\$14,127,108
Department of Economic Security, Division of Developmental Disabilities, State-Operated Group Homes, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting and member days count	11,556,418
Department of Economic Security, all other divisions	Administrative and fiscal services	Allocated departmental overhead costs	29,150,120
Department of Insurance	Compliance with Arizona Revised Statutes §§36-2905 and 36-2944.01	Premium tax payments	18,837,054