

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Financial Statement Audit Summary

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 over financial reporting, and demonstrating accountability for its use of public monies. 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 one deficiency in internal control over financial reporting, and one instance of noncompliance with its contractual agreements with AHCCCS.



2009

Year Ended June 30, 2009

Arizona Health Care Cost Containment System (AHCCCS) Arizona Long-Term Care System (ALTCS) program—

The Department of Economic Security's Division of Developmental Disabilities (Division) is a contractor with AHCCCS to provide medical and healthcare services to eligible enrollees of the 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.

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 as the Division did not always adequately limit computer access to its claims payment system and did not always perform or document its case management reviews during fiscal year 2009. Our recommendations are in the summary to the right.

Auditor recommendations to improve internal control and compliance—

- To help ensure computer system access controls prevent or detect unauthorized use, damage, loss, or modifications, and misuse of sensitive information, the Division should monitor and enforce the following policies and procedures.
 - Retain computer 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.
- To comply with the ALTCS Contract case management requirements, the Division should monitor and enforce its policies and procedures to ensure required information is included in the member case files and that periodic on-site reviews occur within specific time frames.

Condensed 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—This statement 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 summary to the right presents the Division's Balance Sheet at June 30, 2009.

Statement of Revenues, Expenditures, and Changes in Fund Balance—This statement presents information showing how fund balance changed during the most recent fiscal year. The change in fund balance indicates whether the Contract's financial health has improved or deteriorated as a result of current-year operation. For the current year, the Contract's fund deficit increased by \$4.2 million. The Contract is required to provide all covered healthcare services to its members regardless of the cost of care. The ALTCS Contract receives fixed capitation payments based on certain rates for each member enrolled in the Division's ALTCS Contract program. 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 Contract absorbs the loss. The summary to the right presents revenues and expenditures for the year ended June 30, 2009.

| | |
|-------------------------------------------|---------------|
| Assets: | |
| Cash on deposit with the State Treasurer | \$ 8.0 |
| Due from other state funds | 59.9 |
| Due from providers | 0.6 |
| Total assets | \$68.5 |
| Liabilities and Fund Balance: | |
| Accrued administrative and payroll costs | \$ 4.7 |
| Accrued medical and healthcare claims | 70.5 |
| Due to other state funds | 0.9 |
| Total liabilities | 76.1 |
| Fund balance-deficit | (7.6) |
| Total liabilities and fund balance | \$68.5 |

| | |
|---------------------------------------|-----------------|
| Revenues: | |
| Capitation | \$884.4 |
| Ventilator dependent | 4.8 |
| Fee for service | 1.0 |
| Investment earnings | 1.3 |
| Total revenues | 891.5 |
| Expenditures: | |
| Health and welfare: | |
| Aid to individuals | 787.2 |
| Allocated administrative expenditures | 29.2 |
| Case management | 37.0 |
| Professional and outside services | 6.5 |
| Premium tax | 18.8 |
| Total expenditures | 878.7 |
| Excess of revenues over expenditures | 12.8 |
| Other financing uses: | |
| Transfer to other state funds | (17.0) |
| Net change in fund balance | (4.2) |
| Fund deficit—beginning | (3.4) |
| Fund deficit—ending | \$ (7.6) |

TO OBTAIN MORE INFORMATION

A copy of the full report is available at:
www.azauditor.gov

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REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Year Ended June 30, 2009