



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Department of Economic Security

Division of Developmental
Disabilities ALTCS Contract
Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 24, 2002

John L. Clayton, Director
Department of Economic Security
1717 West Jefferson Street, Site Code 010A
Phoenix, AZ 85007

Dear Mr. Clayton:

In planning and conducting our audit of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract for the year ended June 30, 2002, we performed the following as required by U.S. generally accepted auditing standards and the *Arizona Administrative Code*, Title 9, Chapter 28, as detailed in the *Reporting Guide for Arizona Long-Term Care System (ALTCS) Program Contractors with the Arizona Health Care Cost Containment System*:

- Considered the Division's internal controls over financial reporting and
- Tested its compliance with laws and regulations that could have a direct and material effect on the ALTCS Contract's financial statements.

Our audit disclosed an internal control weakness and an instance of noncompliance with laws and regulations. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

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

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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Background

The Department of Economic Security, Division of Developmental Disabilities contracts with the Arizona Health Care Cost Containment System (AHCCCS) to provide healthcare services to eligible enrollees of the AHCCCS Arizona Long-Term Care System (ALTCS) program for the developmentally disabled. The ALTCS program provides inpatient and outpatient medical and nursing services in addition to managed institutional and home- and community-based long-term care services.

The Division should properly account for contract liabilities

The Division is responsible for complying with provisions in the ALTCS Contract and the *Reporting Guide for ALTCS Program Contractors with the AHCCCS* regarding the age of claims payable by type of service provided. However, the new medical and healthcare claims system implemented by the Division in fiscal year 2001-2002 could not calculate some information required by the AHCCCS.

The Division did not modify its new system to calculate the required information but instead continued to use its old claims system. As a result, the Division's system could not calculate the number of days following the receipt of claims to the date paid for any reported but unpaid claims (RBUC). In addition, the old system was unable to distinguish between RBUCs and incurred but not reported (IBNR) claims for the home- and community-based and institutional care medical claims payable. Therefore, RBUC claims for these two payable categories have been reported as IBNR in the ALTCS Contract supplementary schedules submitted with its quarterly and annual financial statements for the year ended June 30, 2002.

Further, the Division did not modify the new system to generate medical and healthcare claims lag information. As a result, the Division did not present lag reports for acute care and other medical payments in the supplementary schedules to its quarterly and annual financial statements.

The Division should modify its claims processing system to provide the information necessary to prepare the required supplementary schedules accurately. Doing so will help the Division comply with provisions in the ALTCS Contract and the *Reporting Guide for ALTCS Program Contractors with the AHCCCS*.

The Division should comply with contract performance measures

The Division is responsible for complying with the ALTCS Contract provisions regarding performance measures. The provisions help ensure that ALTCS monies are primarily used to provide medical services to eligible individuals.

During fiscal year 2001-2002, the Division had a 13 percent total administrative cost percentage even though the ALTCS Contract provisions require a 10 percent or less total administrative cost percentage.

The Division should monitor performance measure ratios at least quarterly and make adjustments to help ensure that ALTCS monies are primarily used to provide medical services to eligible individuals as required by the ALTCS Contract provisions.



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Jane Dee Hull
Governor

John L. Clayton
Director

OCT 22 2002

Debbie Davenport, CPA
Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Division of Developmental Disabilities concurs with the findings in the Management Letter for the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long Term Care System (ALTOS) Contract audit for the fiscal year ended June 30, 2002.

The Division Should Properly Account for Contract Liabilities

The Division concurs. The Division does not have an automated system capable of calculating payables for home and community based and institutional claims. To remedy this situation, the Division needs additional funding for the replacement of Arizona Social Services Information and Statistical Tracking System (ASSISTS). The Department has identified the need for additional automation support in previous and current appropriation requests.

The medical and health care claims system's capability to generate lag information is in the final testing stage. Lag reports will be available for quarter ended September 30, 2002.

The Division Should Comply with Performance Measures

The Division concurs that, under the current administrative equation that includes case management expenditures, the administrative cost percentage exceeds the 10% ceiling. If case management expenditures continue to be included in the administrative cost percentage, it will be difficult for the Division to meet the standard. Additionally, as the Division implements automation projects, the administrative cost percentage will increase.

Ms. Debbie Davenport

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The Division's administrative cost, excluding case management expenses for SFY 2002 was 7.9%. It should also be noted that the Division has requested a change to this ratio in the new contract.

If you or your staff have any questions or require additional information please contact Ed Rapoport, Business Administrator, at (602) 542-6893.

Sincerely,

John L. Clayton

c: Nancy Mendoza
Ric Zaharia
Ed Rapoport
Jack Wagner