

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 compliance with its contractual arrangements with AHCCCS. 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 upon. Our audit also determined that the internal control system was adequate and the Division substantially complied with AHCCCS contract requirements. However, we made recommendations in our management letter for improving the Division's internal controls over financial reporting and compliance with AHCCCS' accounting and reporting requirements.



2003

Year Ended June 2003

About the ALTCS Contract

The Department of Economic Security, Division of Developmental Disabilities (DDD) contracts with the AHCCCS to provide long-term medical and health care services to the developmentally disabled under the ALTCS program. Such services include the following:

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

During the year, the ALTCS Contract spent \$394.7 million to provide medical and health care services to its enrollees. These costs are reported as aid to individuals expenditures in the financial statements and represent nearly 89% of total ALTCS Contract expenditures of \$445.8 million.

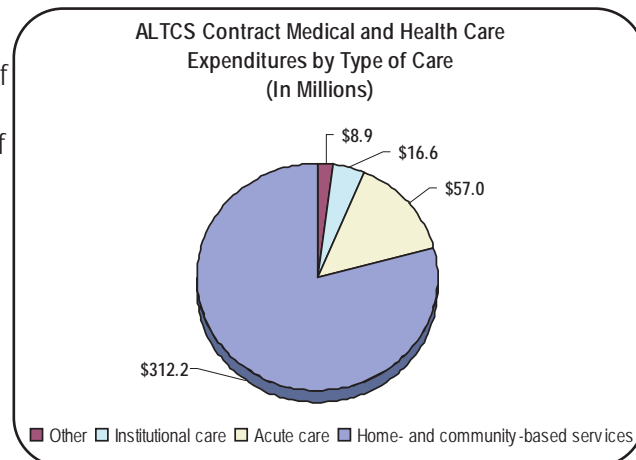
The tables to the right present a summary of the Contract's Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, and a breakdown of the ALTCS Contract's medical and health care expenditures by type of medical and healthcare services provided.

Balance Sheet
 June 30, 2003
 (In Millions)

Assets:	
Cash and investments held by State Treasurer	\$28.1
Due from other state funds	21.0
Total assets	<u>49.1</u>
Liabilities and Fund Balance:	
Accrued administrative and payroll costs	1.8
Accrued medical and health care claims	39.1
Due to other state funds	1.2
Total liabilities	<u>42.1</u>
Unreserved fund balance	7.0
Total liabilities and fund balance	<u>\$49.1</u>

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Year Ended June 30, 2003
 (In Millions)

Revenues:	
Capitation	\$433.8
Other	8.2
Total revenues	<u>442.0</u>
Expenditures:	
Health and welfare:	
Aid to individuals	394.7
Allocated administrative expenditures	25.2
Case management	20.4
Professional and outside services	5.5
Total expenditures	<u>445.8</u>
Deficiency of revenues under expenditures	(3.8)
Other financing uses:	
Transfers to other state funds	(1.1)
Net change in fund balance	<u>(4.9)</u>
Fund balance—beginning, as restated	11.9
Fund balance—ending	<u>\$ 7.0</u>



Fund Balance Decreases for the ALTCS Contract

During the year, the ALTCS Contract's fund balance decreased by \$3.8 million. The decrease was primarily attributable to the following:

- Fund balance at July 1, 2002, was restated by \$1.1 million to correct for misstatements of revenues, expenditures, and transfers to other state funds in prior years.
- Average monthly membership of the Contract's enrollees increased approximately 9.7% from the prior year. This increase in membership was responsible for nearly all of the increase in revenues and expenditures of 13% and 15%, respectively.

- Transfers of \$1.1 million of interest earnings to the State-Fund Long-Term Care Program as authorized by AHCCCS.

Change in Fund Balance (In Millions)	
Fund balance, June 30, 2002, prior to restatement	\$10.8
Correction of misstatements of revenues, expenditures, and transfers to other state funds in prior years	<u>1.1</u>
Fund balance, July 1, 2002, as restated	11.9
Deficiency of revenues under expenditures	(3.8)
Transfers to other state funds	<u>(1.1)</u>
Fund balance, June 30, 2003	<u>\$ 7.0</u>

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Division Needs to Accurately Record and Report Financial Information

The Division's management is responsible for preparing accurate financial statements, demonstrating compliance with the accounting and reporting requirements of the AHCCCS, and reporting accurate information to the AHCCCS and public. However, these objectives were not fully achieved, as the financial statements contained numerous errors. Ultimately, the Division made adjustments to its financial statements for all significant errors noted by the auditors.

To ensure that the Division's management achieves these objectives, it should establish procedures to ensure the following:

- All financial statement amounts are accurately recorded and classified, and supported by or reconciled to the Division's accounting records.
- All accounting estimates reported in the financial statements are prepared in accordance with the AHCCCS' requirements.