STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Maricopa County Risk Management and Employee Benefits Trust Funds

REPORT
HIGHLIGHTS
FINANCIAL STATEMENT AUDIT

Subject

Maricopa County issues financial statements annually for its Risk Management and Employee Benefits Trust Funds. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the Risk Management and Employee Benefits Trust Funds' financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors noted a significant internal control deficiency over financial reporting. See page 2 for further information.

2007

Year Ended June 30, 2007

The County Uses the Trust Funds to Manage Its Self-Insurance Activities

The County manages its risk of loss related to liability, property, casualty, workers' compensation, unemployment, and certain employee health benefits coverage through self-insurance. The County accounts for its self-insurance activity in the Risk Management and Employee Benefits Trust Funds. The table to the right lists the types of insurance coverage that each fund provides.

State law requires that annual audited financial statements for all self-insurance activities be made available to interested parties. The Self-Insurance Trust Funds' financial statements were prepared and audited for that purpose.

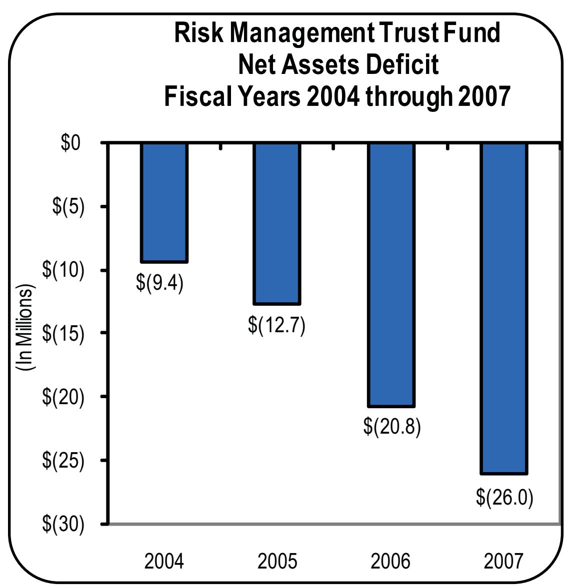
Types of Insurance Coverage

Risk Management Trust Fund
- General liability
- Workers' compensation
- Unemployment
- Medical malpractice
- Auto liability
- Auto physical damage
- Property

Employee Benefits Trust Fund
- Pharmacy
- Medical
- Dental
- Short-term disability

Risk Management Trust Fund's Deficit Grows

Beginning with fiscal year 2005, the expenses of the Risk Management Trust Fund have exceeded revenues each year. During this period, expenses exceeded revenues by approximately $16.6 million. As a result, the Fund's deficit has increased from $(9.4) million in fiscal year 2004 to $(26) million in fiscal year 2007, an increase of 177 percent. The increasing deficit is the result of management's funding plan that does not require the County to charge user departments for an estimate of claims that have been incurred but that will not be paid until future years.



Controls over Incentive Payments To Providers and Vendor Refunds Should Be Improved

Auditors noted that $600,000 in medical incentive payments had been recorded as a liability in the Employee Benefits Trust Fund in prior years. The contract with the provider required the County to make these payments when certain performance measures were met. The Employee Health Initiatives Department recorded a liability even though it had not determined that the provider had earned the incentive. The County restated the July 1, 2006, deficit of the Employee Benefits Trust Fund to correct this error. Auditors also noted that the Risk Management Department classified almost $300,000 of refunds for prior year expenses as reductions of current year operating expenses, rather than as other revenues.

Auditors recommended that the County establish detailed policies and procedures instructing departments as to how to record infrequent or unusual financial transactions. Specifically, the Employee Health Initiatives Department should only record medical incentive payments as expenses and liabilities when providers have met their performance measures. Also, the Risk Management Department should record refunds of current year expenses as reductions of those expenses and refunds of prior year expenses as other operating revenues.

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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