STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Maricopa County

REPORT HIGHLIGHTS
FINANCIAL STATEMENT AUDIT

Lack of Effective Controls over County Healthcare Programs Resulted in Audit Opinion Disclaimers and a CAFR Issuance Delay

Subject

Maricopa County issues a Comprehensive Annual Financial Report (CAFR). 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

A modification of opinion was expressed on the County's financial statements because we were unable to express opinions on the business-type activities and two major healthcare funds. However, governmental activities, the discretely presented component unit, other major funds, aggregate remaining fund information and the Fiduciary Funds were fairly presented.

2005

Year Ended June 30, 2005

Maricopa County, through the Maricopa Managed Care Systems (MMCS), administered the following programs:

- Arizona Health Care Cost Containment System (AHCCCS)—Acute Health Care program reported in the Maricopa Health Plan Fund.
- AHCCCS—Arizona Long-Term Care System (ALTCS) program reported in the ALTCS Fund.

For the second consecutive year, auditors reported material internal control weaknesses and were unable to determine whether the information reported in each program's financial statements was accurate. This resulted in disclaimers of opinions for the Maricopa Health Plan Fund and the ALTCS Fund, which represented two of Maricopa County's major funds in the County's 2004 and 2005 CAFRs. A disclaimer of opinion was also expressed on the County's business-type activities since these funds were significant to that opinion unit. A disclaimer of opinion states that the auditors do not express an opinion as to whether the financial statements of these two major funds and business-type activities are fairly presented in conformity with U.S. generally accepted accounting principles.

For fiscal year 2005, MMCS' material internal control weaknesses were as follows:

- MMCS contracted with outside service organizations to process and pay all medical, dental, prescription drug, and group home claims. However, MMCS did not require these organizations to have effective systems of internal controls in place to ensure that paid claims were accurate and complete.
- For one of MMCS' largest contractors used for processing acute care claims, MMCS did not take the necessary steps to ensure that this contractor's claims processing system was properly designed and fully tested prior to processing medical claims for MMCS.
- MMCS used its trial balance report to prepare each program's financial statements. However, MMCS did not reconcile paid claims to the trial balance reports to ensure its accounting records were accurately maintained.
- Prior to fiscal year 2005, MMCS made significant overpayments through its OAO claims processing system to medical service providers and did not accurately account for prepayments. During fiscal year 2005, MMCS hired a recovery firm to identify overpayments and outstanding prepayments for 22 percent of the medical providers' claims and entered into written settlement agreements with providers for the remainder; however, MMCS may not have identified all likely amounts due them. Therefore, MMCS should continue to identify and recover all overpayments and outstanding prepayments, which represent gifts of public monies since there was no public purpose served and the amounts paid to medical providers exceeded the value received.

Auditors noted similar internal control weaknesses for the healthcare programs for the year ended June 30, 2004. These deficiencies caused a significant delay in the completion of each fund's financial statements and in the issuance of the County's CAFRs for both fiscal years.

Summary of the County's Government-wide Financial Data

The County's government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements report the financial activities of the overall government, except for fiduciary activities.

The tables below present a summarized version of the County's government-wide Statement of Net Assets and Statement of Activities reported in the current year Comprehensive Annual Financial Report for the primary government.

The Statement of Net Assets presents information on all county assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

Statement of Net Assets
June 30, 2005

	Total Governmental and Business-Type Activities
Current and other assets	$1,135,918,472
Capital assets	2,443,478,792
Total assets	3,579,397,264
Current and other liabilities	269,683,156
Long-term liabilities	271,435,574
Total liabilities	541,118,730
Net assets	
Invested in capital assets, net of related debt	2,347,299,275
Restricted net assets	260,502,317
Unrestricted net assets	430,476,942
Total net assets	$3,038,278,534

Statement of Activities
Year Ended June 30, 2005

	Total Governmental and Business-Type Activities
Program revenues:	
Governmental activities	$ 588,850,893
Business-type activities	520,840,533
General revenues, special items, and transfers:	
Governmental activities	1,046,477,531
Business-type activities	(70,715,016)
Total revenues, special items, and transfers	2,085,453,941
Expenses:	
Governmental activities	1,405,618,226
Business-type activities	583,390,427
Total expenses	1,989,008,653
Change in net assets	96,445,288
Net assets—beginning, as restated	2,941,833,246
Net assets—ending	$3,038,278,534

County Retroactively Reports Infrastructure Assets and Implements New Financial Reporting Standard

On July 1, 2004, the County retroactively reported Flood Control District infrastructure assets owned and acquired from July 1, 1980 to June 30, 2001, to comply with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. As a result, the

County restated beginning capital assets balances for governmental activities by $372.5 million, net of accumulated depreciation.

During fiscal year 2005, the County also implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This reporting standard establishes and modifies the risk disclosures about the County's deposits and investments. Since it requires only additional disclosures, it had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

The County Discontinued Operating Three Healthcare Programs

Maricopa County terminated its contracts for the following healthcare programs:

- Senior Select, a medicare/medicaid program contracted with the federal Center for Medicare and Medicaid Services, was terminated as of December 31, 2004.
- The Acute Health Care program and the Arizona Long-Term Care System program contracted with the Arizona Health Care Cost Containment System were terminated as of September 30, 2005.

All three programs were administered by the Maricopa Managed Care Systems (MMCS), and the County will be responsible for claims pertaining to services performed prior to each program's termination date. MMCS was having significant operating problems regarding claims processing in recent years as described on page 1. In addition, these programs had significant operating losses during fiscal years 2004 and 2005.

The County Discontinued Operating the Maricopa Medical Center

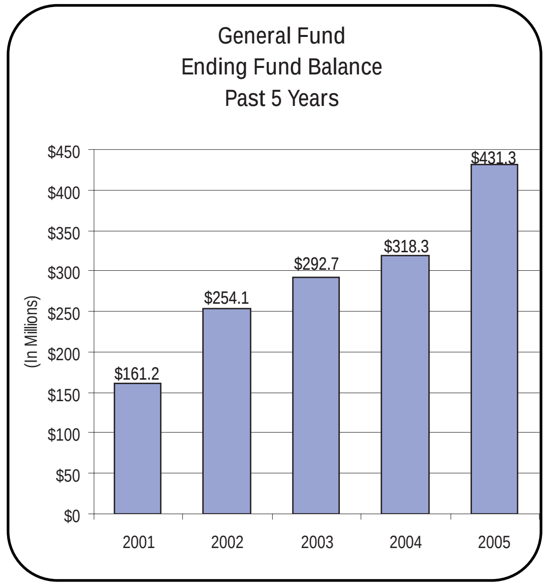
The Maricopa Medical Center provides quality health care and professional education to the community. However, for more than a decade, the Medical Center has experienced significant operating losses and cash deficits, which the County has subsidized from the County General Fund since fiscal year 1994. During fiscal year 2005, the County discontinued its operation of the Medical Center.

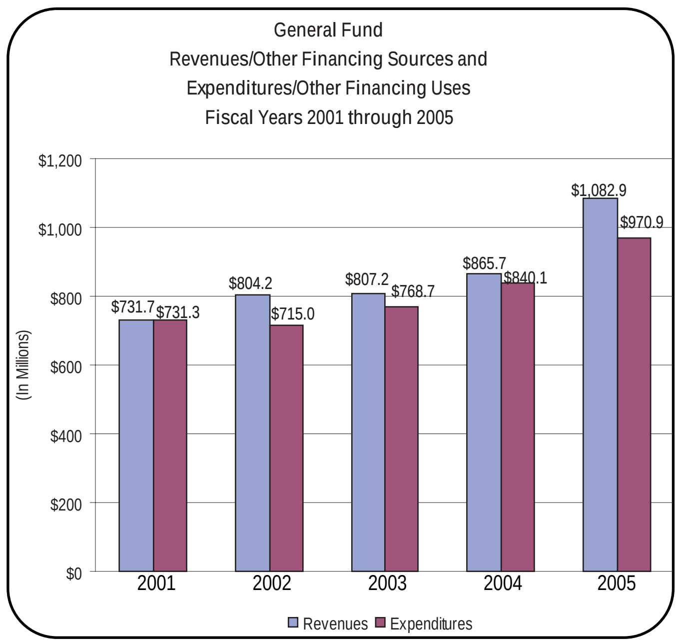
In November 2003, county voters approved the Maricopa County Special Health Care District and, in November 2004, county voters elected the District's Board of Directors, who took office on January 1, 2005. As of that date, the Medical Center became part of the Maricopa County Special Health Care District, which is a separate legal, tax-levying entity that is not part of the County's reporting entity. Certain capital assets and long-term liabilities, which were reported in the Medical Center Fund, a major enterprise fund, remained with the County and were transferred to governmental activities on January 1, 2005. The remaining assets and liabilities of the Medical Center were transitioned to the Maricopa County Special Health Care District. As a result, the County recognized a loss of $108,765,405 for the closure of this business activity. In addition, on June 8, 2005, the County entered into an intergovernmental agreement with the District to assist with certain financing and to help assure the District's fiscal viability.

The General Fund's Fund Balance Continues to Increase

The General Fund's fund balance, as reported on the County's fiscal year 2005 Comprehensive Annual Financial Report, was $431.3 million at June 30, 2005, an increase of 36 percent from fiscal year 2004 and 168 percent from fiscal year 2001. This increase is shown in the figure to the right.

Property taxes and intergovernmental revenues, consisting of state-shared sales taxes and vehicle license taxes, representing more than 90 percent of General Fund revenues from fiscal year 2001 through 2005, have contributed to the increasing fund balance. Property tax revenues, as reported for fiscal year 2005, increased 50 percent from fiscal year 2001, and intergovernmental revenues, as reported for fiscal year 2005, increased 46 percent from fiscal year 2001. Fund balance increased $270.1 million from 2001 to 2005. This resulted from revenues and other financing sources exceeding expenditures and other financing uses in each of the 5 fiscal years, as illustrated in the figure to the right.





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