



REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

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 units, other major funds, aggregate remaining fund information, and the Fiduciary Funds were fairly presented.



2006

Year Ended June 30, 2006

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

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 third consecutive year, auditors noted 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, 2005, and 2006 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 2006, 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 2006, MMCS made significant overpayments through its automated 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 to 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 in the healthcare programs for the years ended June 30, 2004 and 2005. These deficiencies caused a significant delay in completing each fund's financial statements and in the issuance of the County's CAFRs for each fiscal year.

County Discontinues Healthcare Programs

On August 29, 2005, the Maricopa County Board of Supervisors approved the transfer and assignment of the Acute Health Care program to the Maricopa County Special Health Care District, a separate legal entity, effective October 1, 2005. All liabilities prior to the transfer to the District will remain with Maricopa County. In addition, the County discontinued the Arizona Long-Term Care System program effective September 30, 2005, and all associated liabilities will remain with the County.

As noted above, the MMCS was having significant operating problems regarding claims processing in recent years. As a result, MMCS failed to comply with AHCCCS contract requirements. AHCCCS requires that 90 percent of all approved medical claims be paid within 30 days and paid claims information (encounters) be reported to AHCCCS within 120 days. However, MMCS did not pay claims or report paid claims within required timelines. Auditors noted paid claims of approximately \$7.5 million for the Acute Health Care program that were either rejected or not submitted to AHCCCS as of March 21, 2007. As a result, MMCS may not have received the full amount they were eligible to receive for reinsurance claims. AHCCCS fined MMCS \$6.4 million for untimely encounter submissions and unresolved pending claims for the contract periods ended September 30, 2003 through 2005. Ultimately, this fine was negotiated and the final sanction was reduced to \$3.4 million.

In addition, the Acute Health Care program and the Arizona Long-Term Care System program incurred significant operating losses during fiscal years 2004 through 2006. For the year ended June 30, 2006, Maricopa County reported an operating loss of \$1.4 million for the Acute Health Care program and \$9.6 million for the Arizona Long-Term Care System program.

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, 2006

	<u>Total Governmental and Business-Type Activities</u>
Current and other assets	\$1,253,693,488
Capital assets	<u>2,547,590,456</u>
Total assets	<u>3,801,283,944</u>
Current and other liabilities	193,990,255
Long-term liabilities	<u>260,214,384</u>
Total liabilities	<u>454,204,639</u>
Net assets:	
Invested in capital assets, net of related debt	2,445,159,881
Restricted net assets	345,154,821
Unrestricted net assets	<u>556,764,603</u>
Total net assets	<u>\$3,347,079,305</u>

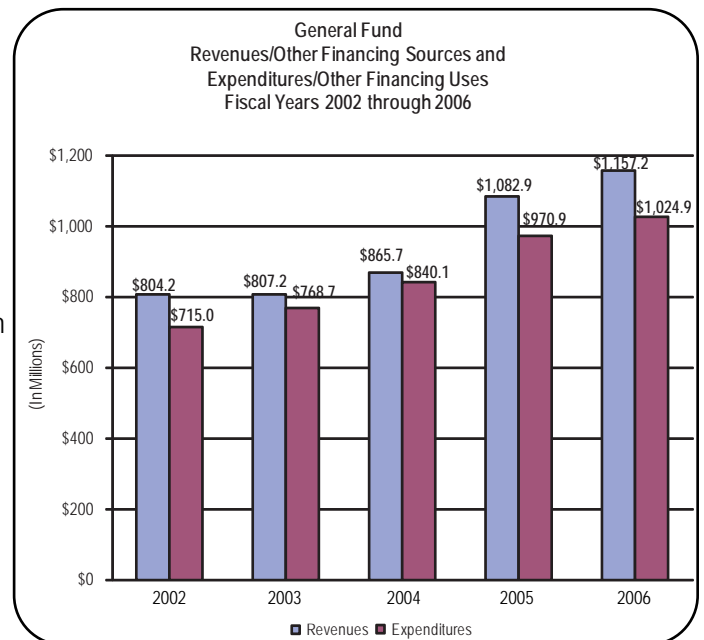
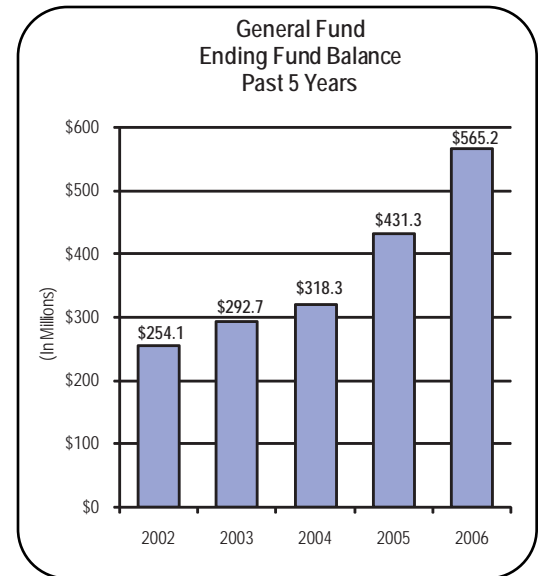
Statement of Activities Year Ended June 30, 2006

	<u>Total Governmental and Business-Type Activities</u>
Program revenues:	
Governmental activities	\$ 639,622,647
Business-type activities	84,004,028
General revenues and transfers:	
Governmental activities	1,186,326,875
Business-type activities	<u>43,903,127</u>
Total revenues and transfers	<u>1,953,856,677</u>
Expenses:	
Governmental activities	1,509,922,666
Business-type activities	<u>99,105,695</u>
Total expenses	<u>1,609,028,361</u>
Change in net assets	344,828,316
Net assets—beginning, as restated	<u>3,002,250,989</u>
Net assets—ending	<u>\$3,347,079,305</u>

The General Fund's Fund Balance Continues to Increase

The General Fund's fund balance, as reported on the County's fiscal year 2006 Comprehensive Annual Financial Report, was \$565.2 million at June 30, 2006, an increase of 31 percent from fiscal year 2005 and 122 percent from fiscal year 2002. This increase is shown in the figure to the right.

Taxes and intergovernmental revenues comprised more than 90 percent of General Fund revenues from fiscal years 2002 through 2006. Tax revenues as reported for fiscal year 2006 increased \$110.4 million, or 41 percent, from fiscal year 2002. Intergovernmental revenues as reported for fiscal year 2006 increased \$263.2 million, or 61 percent, from fiscal year 2002. Fund balance increased \$311.1 million from 2002 to 2006. 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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