



Maricopa Managed Care Systems MHP and ALTCS Funds

(Formerly titled Maricopa County AHCCCS and
ALTCS Health Plans)

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Subject

Maricopa Managed Care Systems contract with the Arizona Health Care Cost Containment System (AHCCCS) Administration to provide medical and long-term care services to indigents through the AHCCCS Acute Health Care and Arizona Long-Term Care System programs. The Systems are responsible for preparing financial statements, maintaining strong internal controls, and demonstrating compliance with their contractual arrangements with AHCCCS. As the auditors, our job is to determine whether the Systems met their responsibilities.

Our Conclusion

The Systems did not meet their responsibilities to maintain strong internal controls and did not comply with their contractual arrangements with AHCCCS. As a result, the auditors were unable to express an opinion on the MHP and ALTCS Funds' financial statements.



2004

Year Ended June 30, 2004

Auditors Unable to Opine on MHP and ALTCS Funds' Financial Statements

Maricopa Managed Care Systems (Systems) administer two AHCCCS programs, Acute Health Care (MHP Fund) and Arizona Long-Term Care System (ALTCS Fund) and two Maricopa County Health Plans, Senior Select and Health Select. AHCCCS requires an annual financial statement audit of the MHP and ALTCS Funds. This report highlights the audit results of these Funds.

The Maricopa Managed Care Systems had inadequate internal controls for processing medical claims and accounting for prepayments made to medical providers. As a result, the Systems' financial reporting system was unable to generate accurate and complete financial information for reporting in the MHP and ALTCS Funds' financial statements. Consequently, the auditors were unable to determine whether the information reported in the MHP and ALTCS Funds' financial statements was accurate. As a result, the auditors were unable to opine on the MHP and ALTCS Funds' financial statements for the year ended June 30, 2004.

The Systems' significant internal control deficiencies are as follows:

- The Systems did not implement an effective claims processing system to evaluate medical claims for propriety and determine the amounts to be paid. Accordingly, the Systems did not always identify duplicate claims, apply proper pay rates, or adjust payments for enrollees' shares of cost during the adjudication process. As a result, the Systems overpaid the Maricopa Medical

Center by approximately \$7.7 million and more than 60 nursing homes by a total of approximately \$10.6 million. However, the Systems were not aware of these overpayments until these providers notified the Systems. Similar overpayments were made to other providers; however, the Systems were unable to identify and correct the amounts of those overpayments.

- The Systems are required to pay claims to providers in a timely manner; however, because of the claims processing deficiencies identified above, the Systems were unable to do so. Since providers requested payment for past due amounts and considered denying services to enrollees, the Systems made prepayments to providers until the related claims could be processed. Such prepayments were recorded as prepaid expenses. However, the Systems did not have a procedure in place to ensure that all prepayments were accounted for and that claims were properly applied against prepayments after they were processed. Auditors noted approximately \$20 million in unresolved prepayments for which the Systems were unable to provide supporting documentation.
- The Systems use medical claims payment history to calculate the monthly medical claims payable balance. However, the Systems did not adjust the medical claims payment history for all underpayments and overpayments. Further, paid dates for claims that were applied to prepayments were not accurate. As a result, the Systems were unable to determine an accurate medical claims payable balance at June 30, 2004.

Systems 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, the Systems did not pay claims or report paid claims to AHCCCS within required timelines. As a result, AHCCCS fined the Systems \$625,000. Also, the Systems may not have received the full amount they were eligible to receive for reinsurance claims. Auditors noted paid claims of approximately \$44.8 million for the ALTCS program and \$10.5 million for the Acute Health Care program that were either rejected or not submitted to AHCCCS at June 30, 2004.

The Systems need to take immediate action to ensure that claims are paid within 30 days of approval and that paid claims information is reported to AHCCCS within 120 days of payment. Specifically, the Systems should investigate and resolve all pending encounters and resubmit them to AHCCCS. Further, the Systems need to prescribe specific timelines for its contracted claims processing organizations to send the Systems their paid claims information. These deficiencies are considered material internal control weaknesses and material noncompliance with AHCCCS laws and regulations. A similar recommendation was previously provided in our Management Letter to the Systems dated October 28, 2003.

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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County Discontinued AHCCCS Programs

On August 29, 2005, the Maricopa County Board of Supervisors approved the transfer and assignment of the AHCCCS Acute Health Care program to the Maricopa County Special Health Care District effective October 1, 2005. All liabilities prior to the transfer to the

District will remain with the County. In addition, the County discontinued the AHCCCS ALTCS program effective September 30, 2005, and all associated liabilities will remain with the County.

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Year Ended June 30, 2004