

Performance Audit

Arizona Department of Economic Security Division of Developmental Disabilities

Department failed to appropriately classify and subsequently investigate and resolve some reported incidents involving DDD members and did not timely and consistently address some quality-of-care concern investigation violations it identified and those violations could put DDD members' health and safety at risk



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Audit staff

Jeff Gove, Director


Ashley Bjurstrom, Manager

Katie Peairs, Visual Communications Specialist

Brad Hubert

Timmy Sutton

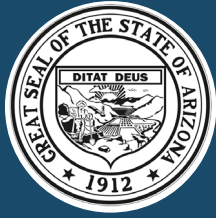
Contact information

 **(602) 553-0333**

 contact@azauditor.gov

 www.azauditor.gov

2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

September 30, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Director Wisehart
Arizona Department of Economic Security

Interim Director Challacombe
Arizona Health Care Cost Containment System

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Department of Economic Security—Division of Developmental Disabilities*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in their responses, the Arizona Department of Economic Security and Arizona Health Care Cost Containment System each agree with the findings directed to them and plan to implement all their respective recommendations. My Office will follow up with the Department of Economic Security and the Arizona Health Care Cost Containment System in 6 months to assess their progress in implementing the recommendations. I express my appreciation to Director Wisehart, Interim Director Challacombe, and Department and AHCCCS staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Department of Economic Security

Performance Audit—Division of Developmental Disabilities (DDD)

Department failed to appropriately classify and subsequently investigate and resolve some reported incidents involving DDD members and did not timely and consistently address some quality-of-care concern investigation violations it identified and those violations could put DDD members' health and safety at risk

Audit purpose

To determine whether the Department classified, investigated, and followed its processes for correcting quality-of-care concerns regarding DDD members, as required by its contract with the Arizona Health Care Cost Containment System (AHCCCS) during fiscal year 2024.¹

Key findings

- ▶ Department is contractually responsible for ensuring that quality-of-care concerns involving vendors providing services to DDD members are investigated and resolved.²
- ▶ Department did not investigate some DDD member quality-of-care concerns we reviewed that it should have because it erroneously considered DDD-vendor-reported information when determining if incidents should be investigated, including an allegation that group home staff had not administered prescribed antipsychotic and antidepressant medication to a DDD member.
- ▶ Department did not follow its procedures for ensuring that DDD vendors corrected or timely corrected violations it identified in 6 of 15 quality-of-care concern investigations we reviewed, and those violations could put DDD members' health and safety at risk.

Key recommendations to the Department

- ▶ Follow AHCCCS policy to ensure it appropriately investigates all quality-of-care concerns.
- ▶ Follow its procedures for ensuring that DDD vendors have corrected violations identified during quality-of-care concern investigations.

¹ The Arizona Auditor General conducted this performance audit of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

² According to AHCCCS policy, any incident involving an aspect of care or treatment that could have caused or exacerbated a medical or psychiatric condition, such as a medication error, should be classified as a quality-of-care concern.

TABLE OF CONTENTS

INTRODUCTION

1

- ▶ Department responsible for providing services to eligible individuals with developmental disabilities
- ▶ DDD members can qualify to receive services in 1 of 3 eligibility categories that impacts how services are paid for
- ▶ Pursuant to its ALTCS contract, Department is required to follow AHCCCS guidelines, including receiving incident reports and resolving quality-of-care concerns
- ▶ Revenues and expenditures

FINDING 1

15

Department failed to appropriately classify and subsequently investigate and resolve some reported incidents involving DDD members, thereby not helping to ensure their safety and welfare

- ▶ Contrary to AHCCCS policy, Department did not classify or investigate some incidents we reviewed as quality-of-care concerns, thereby not helping to ensure the safety and welfare of DDD members and not taking appropriate actions against DDD vendors
- ▶ Department erroneously considered DDD-vendor-reported information, and AHCCCS did not perform adequate oversight of Department practices

Recommendations to the Department

21

Recommendations to AHCCCS

21

FINDING 2

22

Department did not timely and consistently address some quality-of-care concern investigation violations it identified, and those violations could put DDD members' health and safety at risk

- ▶ Contrary to Department procedures and recommended practices, Department did not always ensure DDD vendors corrected or timely corrected substantiated allegations identified during quality-of-care concern investigations that could put DDD members' health and safety at risk

- ▶ Department has not clearly defined oversight roles, used staff resources effectively, or established time frames to enforce corrective actions

Recommendations to the Department **31**

SUMMARY OF RECOMMENDATIONS **32**

The Arizona Auditor General makes 12 recommendations to the Department and 4 recommendations to AHCCCS

APPENDIX A **a-1**

Corrective action plan example

APPENDIX B **b-1**

Scope and methodology

DEPARTMENT RESPONSE

AHCCCS RESPONSE

FIGURES

▶ **Figure 1** **4**

Most DDD members were eligible to receive services through ALTCS
As of June 30, 2024

▶ **Figure 2** **8**

Department receives and triages incoming incidents to determine whether they are quality-of-care concerns and investigates quality-of-care concerns to determine if they are substantiated

▶ **Figure 3** **25**

Department requires vendors to implement corrective action plan to address substantiated allegations and continues to monitor vendors, including followup visits for the most egregious violations

TABLES

| | |
|--|-----------|
| ▶ Table 1 | 11 |
| Statement of revenues, expenditures, and changes in fund balance for the ALTCS contract special revenue fund Contract years 2023 through 2025 | |
| ▶ Table 2 | 13 |
| Schedule of revenues and expenditures for DDD, excluding ALTCS contract Fiscal years 2023 through 2025 (Unaudited) | |
| ▶ Table 3 | 16 |
| Department did not correctly classify 3 of 29 calendar year 2024 incident reports we reviewed as quality-of-care concerns | |
| ▶ Table 4 | 18 |
| Department did not classify 11 medication error incidents at a group home as quality-of-care concerns from December 2023 through December 2024 | |
| ▶ Table 5 | 23 |
| Department did not ensure vendors corrected or timely corrected substantiated allegations through CAP remediation responses for 6 of 15 quality-of-care concerns we reviewed | |

INTRODUCTION

The Arizona Auditor General has released the second in a series of 4 audit reports of the Arizona Department of Economic Security (Department) as part of the Department's sunset review.¹ This performance audit determined whether the Department classified and subsequently investigated incoming incidents regarding Division of Developmental Disabilities (DDD) members as quality-of-care concerns, as required by its contract with the Arizona Health Care Cost Containment System (AHCCCS). It also determined whether the Department followed its processes for receiving and reviewing corrective action plan responses and conducting followup visits to DDD vendors that had egregious substantiated quality-of-care concern investigation allegations during fiscal year 2024.

Department responsible for providing services to eligible individuals with developmental disabilities

The Department is statutorily responsible for establishing, operating, and overseeing State-wide programs and services for individuals with developmental disabilities.² Pursuant to statute, individuals must have 1 of 5 qualifying diagnoses that manifested before the age of 18 and are likely to continue indefinitely and have documented substantial functional limitations in 3 or more of 7 daily life skills to be eligible to receive DDD services (see textbox for a list of qualifying diagnoses and the 7 daily life skills).³ The Department refers to individuals who have applied for and been determined eligible to receive DDD services as "members."

DDD mission

Empowering individuals with developmental disabilities to lead self-directed, healthy, and meaningful lives.

Source: Department's DDD Guide for Members and Families 2024-2025.

Qualifying life diagnoses for DDD eligibility and 7 daily life skills

Qualifying life diagnoses:

- ▶ Autism.
- ▶ Cerebral palsy.
- ▶ Epilepsy.
- ▶ Cognitive/intellectual disability.
- ▶ Down syndrome.

Daily life skills:

- ▶ Receptive and expressive language.
- ▶ Learning.
- ▶ Self-direction.
- ▶ Self-care.
- ▶ Mobility.
- ▶ Capacity for independent living.
- ▶ Economic self-sufficiency.

Source: Auditor General staff review of A.R.S. §36-551 and the Department's April 2025 DDD eligibility packet.

¹ The first performance audit assessed the Department's provision of customer service for accessing its Unemployment Insurance Program in calendar year 2023 (see Arizona Auditor General report 25-101 *A Performance Audit of the Arizona Department of Economic Security—Unemployment Insurance Program*). The third report will assess whether the Department provided sufficient oversight of Arizona's 8 Area Agencies on Aging, consistent with the Department's State Plan; and the final report will provide responses to the 10 statutory sunset factors.

² Arizona Revised Statutes (A.R.S.) §36-554.

³ A.R.S. §§36-559 and 36-551.

The Department provides case management to all members and offers various services to members depending on the severity of their disability, their age, and their financial limitations. All members receive assistance from a DDD support coordinator, similar to a case manager, who assesses the member's needs and, depending on the member's eligibility level, assists the member in obtaining appropriate services (see pages 3 through 4 for more information on member eligibility levels).⁴ As of June 2025, the Department reported it had a network of service providers that included approximately 860 contracted agencies (i.e., vendors) and 377 individual independent providers to deliver services to members.

These services can include:

▶ **Home- and community-based services (HCBS)**

The Department certifies individuals and agencies to provide several services and long-term care support to eligible members in their homes or the community to address their needs. HCBS includes 15 different types of services, such as housekeeping, attendant care, physical therapy, and speech/hearing therapy.⁵ These services are provided by direct care workers, either those employed with an agency or an individual provider with an agreement with the Department.

The Department, through AHCCCS, administers the Parents as Paid Caregivers Program (PPCG) to allow parents of minor DDD children to be paid caregivers for some HCBS. See Arizona Auditor General report 25-116 *A Performance Audit and Sunset Review of the Arizona Department of Economic Security*, Questions and Answers—PPCG, pages 17 through 23, for additional information on the Parents as Paid Caregivers Program for minor children.

▶ **Residential services**

The Department is statutorily required to provide and contract with vendors to provide residential services for DDD members, such as in a group home or a developmental home.⁶ Group homes are residential homes operated by 24-hour paid staff where up to 6 members may live, and child and adult developmental homes are private homes where the homeowner(s) or lessee(s) are licensed to provide 24-hour care for up to 3 members.⁷ According to Department data, as of June 30, 2024, approximately 90% of DDD members lived in their or their families' homes.

▶ **Medical care services**

The Department contracts with health plans to provide medical care services for DDD members, such as immunizations, laboratory services, rehabilitation therapy, and surgery. These services are coordinated by the DDD members' selected primary care providers.

⁴ According to the Department's website, support coordinators have multiple responsibilities, including advocating on behalf of DDD members; developing and updating a service plan for the member; coordinating care; providing information about community resources to meet the member's needs; and identifying and assisting the member with individualized goals to meet their needs, desires, strengths, and preferences.

⁵ Arizona Administrative Code (AAC) R6-6-1501(9).

⁶ A.R.S. §36-554.

⁷ A.R.S. §36-551.

DDD coordinates services and resources through multiple offices located throughout the State and has divided the State into 5 districts to facilitate providing services, including central, north, east, west, and south.

DDD members can qualify to receive services in 1 of 3 eligibility categories that impacts how services are paid for

As previously discussed (see page 2), members are eligible to receive services depending on the severity of their disability, age, and their financial limitations. Members can qualify for DDD services in 1 of 3 eligibility categories, and these categories impact the funding for and types of available support and services (see page 2 for more information on the available services DDD members can receive).

Specifically:

▶ Arizona Long Term Care System (ALTCS) pays for services provided to most DDD members

Once the Department determines individuals are eligible for DDD services, they are required by statute to also apply to ALTCS.⁸ ALTCS is part of the State's Medicaid program—administered by AHCCCS and funded by both the State and federal government—to provide long-term care services at little or no cost to eligible Arizona residents, including individuals who are elderly, blind, disabled, or have a developmental disability and require nursing level of care. To be eligible for ALTCS, members must have certain functional limitations, be at risk for institutionalization, and meet income and asset limitation requirements. AHCCCS contracts with the Department to administer ALTCS services to eligible members with a developmental disability (see pages 5 through 9 for more information on the Department's ALTCS contract). ALTCS eligibility is required to receive most services provided by the Department, including HCBS, residential services, and medical care services. ALTCS members who receive residential services may be required to pay some portion of the cost for these services based on their income. The Department is compensated by AHCCCS for ALTCS member services through a monthly per member capitated payment amount that AHCCCS sets annually.

▶ Targeted Support Coordination (TSC) members receive assistance from a DDD support coordinator and medical coverage from AHCCCS

AHCCCS reported that when DDD members are not eligible for ALTCS but are eligible for TSC, this means it determined the member meets the income limitation requirements to be enrolled in the AHCCCS Complete Care health plan but does not meet ALTCS' medical requirements. Medical requirements could include whether they require the level of care required for institutionalization or the level of assistance they need for activities of daily living.⁹ Members enrolled in TSC are assigned a DDD support coordinator who can assist members to connect with community resources, such as with other State agencies/

⁸ A.R.S. §36-559.

⁹ AHCCCS' Complete Care plans are health plans that offer enrolled members access to physical and behavioral healthcare services. See Arizona Auditor General report 22-112 *Arizona Health Care Cost Containment System—Performance Audit and Sunset Review* for more information.

programs or nonprofits, and these members will receive medical services through their AHCCCS Complete Care health plan. According to the Department's Guide for Members and Families, TSC members are not eligible for HCBS, and the Department reported they are only eligible in certain limited circumstances for residential services. For example, the Department reported that minor members under the care of the Arizona Department of Child Safety and who are identified as being likely eligible for ALTCS services may receive residential services to minimize service disruption while their ALTCS eligibility is determined.

► **DDD-only members receive assistance from a DDD support coordinator**

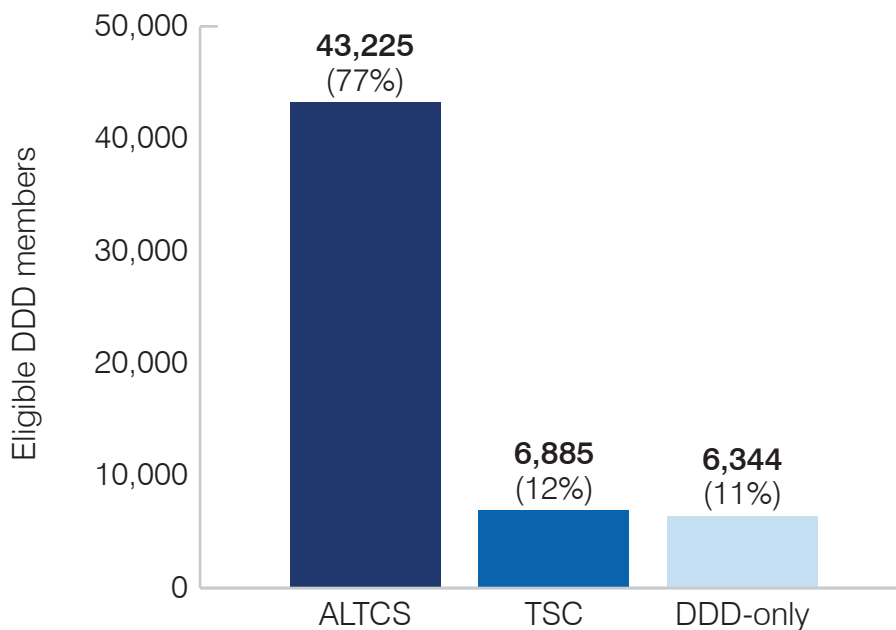
Members who do not qualify for ALTCS or TSC because they do not meet the income limitation or medical requirements but have a qualifying disability are considered DDD-only. According to the Department's website, DDD support coordinators will assist these members in connecting with community resources, such as with other State agencies/programs or nonprofits, but neither AHCCCS nor DDD pay for any services for these members.¹⁰

As shown in Figure 1, as of June 30, 2024, most DDD members were eligible to receive services through ALTCS.

Figure 1

Most DDD members were eligible to receive services through ALTCS

As of June 30, 2024



Source: Auditor General staff review of DDD's fiscal year 2024 Family Support Annual Report.

¹⁰ According to the Department, in the early 2000s, DDD-only members received various services, including HCBS, but after the budget was reduced, the services available to State-only funded members were reduced. The Department reported that members who received HCBS services in a residential setting were grandfathered in and continue to receive HCBS, and as of June 2025, this accounted for 31 members.

Pursuant to its ALTCS contract, Department is required to follow AHCCCS guidelines, including receiving incident reports and resolving quality-of-care concerns

Pursuant to the Department's ALTCS contract with AHCCCS, the Department is required to follow AHCCCS guidelines for administering ALTCS, which are outlined in the AHCCCS Medical Policy Manual (AMPM). The AMPM requires the Department to develop and implement various policies and procedures, including that the Department must require vendors to report incidents to the Department or AHCCCS and that the Department must review incident reports and determine whether they are quality-of-care concerns (see textbox for the definitions of incidents and quality-of-care concerns). Further, the Department is required by the AMPM to ensure that quality-of-care concerns are investigated and resolved.¹¹

DDD's policies and procedures outline its processes for triaging incidents and investigating quality-of-care concerns.

Specifically:

► DDD triage nurses responsible for reviewing and triaging incoming incidents to assess if they are quality-of-care concerns

In accordance with the AMPM, DDD policies and procedures require DDD triage nurses to review incoming incidents to assess whether the incidents meet the definition of a quality-of-care concern (see Figure 2, pages 8 through 9, for more information about the quality-of-care concern triage and investigation process).

In calendar year 2024, according to Department data, it received 41,587 incidents that were triaged by DDD triage nurses, and 3,357, or approximately 8%, were classified as a quality-of-care concern. When an incident is not considered a quality-of-care concern, it

Key terms

Incidents: Events that vendors or individual providers must report to the Department if they cause harm or have the potential to cause harm to a DDD member, including potential abuse, neglect, or exploitation of a member; serious injuries to a member; medication errors; or a member who has gone missing, such as from a residential services setting.¹

Quality-of-care concern: An incident involving any aspect of care, treatment, utilization of behavioral health services, or physical healthcare services that caused or could have caused an acute medical or psychiatric condition or an exacerbation of a chronic medical or psychiatric condition and may ultimately cause the risk of harm to a DDD member.

¹ The Department also receives incidents and referrals from other sources, such as directly from DDD members or their families, as well as reports from AHCCCS, the Department's Adult Protective Services program, or the Arizona Department of Child Safety.

Source: Auditor General staff review of AMPM 961 – Incident, Accident, and Death reporting and the AMPM contract and policy dictionary.

¹¹ As previously discussed (see page 2), the Department contracts with health plans to provide medical services to DDD members. The Department's contracts require the health plans to similarly develop and implement policies and procedures to require individual and organizational providers to report incidents, to assess whether they are quality-of-care concerns, and to ensure that quality-of-care concerns are investigated and resolved. According to AHCCCS, the Department is also responsible for the oversight of these incidents and quality-of-care concerns.

is not investigated.¹² As new incidents are received, DDD staff review them in conjunction with any prior incidents to identify potential trends for further investigation, such as continued incident reports for a specific member or vendor. See Finding 1, pages 15 through 21, for more information on issues we identified with the Department's process for triaging incoming incidents to determine if they are quality-of-care concerns.

► **DDD investigative nurses responsible for investigating quality-of-care concerns to determine if allegations are substantiated**

After DDD triage nurses determine an incident is considered a quality-of-care concern, DDD investigative nurses are then responsible for investigating the quality-of-care concerns and determining whether the allegations against a vendor or individual provider are substantiated. According to the Department, this includes determining whether the vendor or individual provider deviated from requirements outlined in the contract or policy and procedure. In accordance with the AMPM, each substantiated allegation(s) is assigned a severity level (see textbox for more information about the 4 severity levels and examples).

Substantiated allegation(s) severity level classifications

Level 1: A quality issue with minimal potential for significant adverse effects to the member, such as a group home that did not submit an incident report after becoming aware that the incident occurred.

Level 2: A quality issue with significant potential for adverse effects to the member if not resolved timely, such as when a member did not have a winter coat, was sleeping on a urine-stained mattress, had an inadequate supply of bedsheets, and had a seated walker without lockable handles.

Level 3: A quality issue with significant adverse effects on the member that is dangerous and/or life-threatening, such as a member missing a significant number of critical medications due to issues with obtaining an updated insurance card and seeing a specialist.

Level 4: A quality issue exists with significant adverse effects on the member that also have the potential to cause harm to other members, such as the unexpected death of a member or a vendor not seeking medical evaluation after a change in a member's condition.

Source: Auditor General staff review of the AMPM and examples of quality-of-care concern corrective action plans.

¹² According to the Department, if an incident is reported by a DDD member or their parent/guardian or healthcare decision maker and does not turn into a quality-of-care concern, the Department will send an incident closure letter. If the reporting source does not fall under these categories or is not contracted with the Department to provide DDD services, the Department stated the reporting source will receive an initial acknowledgement of receipt but will not receive any further updates.

► **DDD investigative nurses responsible for developing corrective action plans (CAP) to outline specific interventions vendors must implement to prevent reoccurrence**

The AMPM requires the Department to determine, implement, and document all appropriate interventions, including an action plan, to reduce or eliminate the likelihood of the quality-of-care concern reoccurring and to monitor and document success of the interventions. DDD investigative nurses develop a CAP to outline the specific interventions/actions that vendors must follow/implement to address the substantiated allegation(s). For example, the CAP might outline required training for vendor staff or changes vendors need to make to their facility, processes, or documentation. See Appendix A, page a-1, for an example of a CAP for a substantiated allegation classified as level 3. Vendors are required to provide a response to the CAP, and Department procedures require it to monitor whether the CAP is implemented. See Finding 2, pages 22 through 31, for more information about issues we identified with DDD's processes for ensuring CAPs are implemented to reduce or eliminate the likelihood of quality-of-care concerns reoccurring.

Figure 2

Department receives and triages incoming incidents to determine whether they are quality-of-care concerns and investigates quality-of-care concerns to determine if they are substantiated

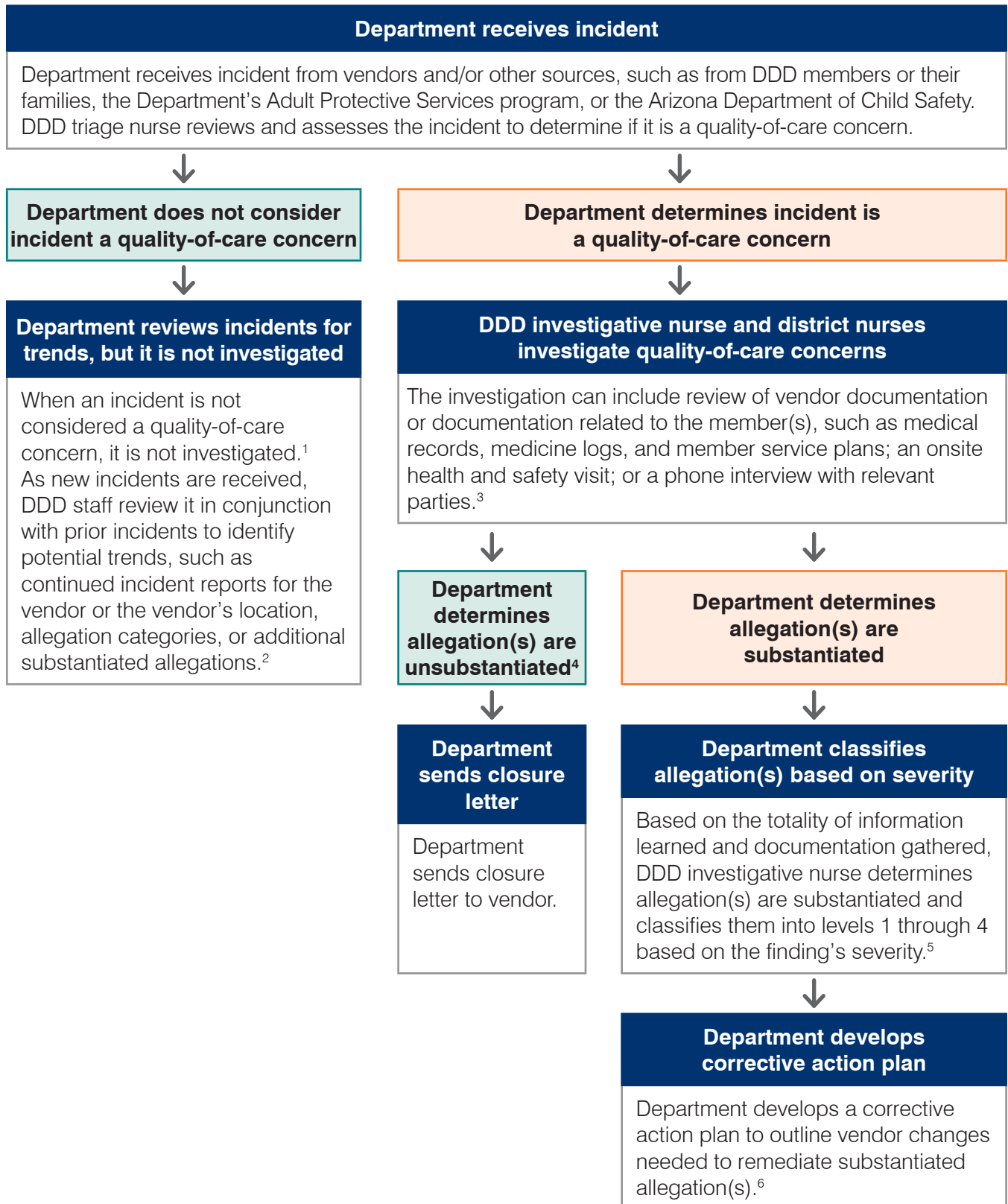


Figure 2 continued

- ¹ As previously discussed (see footnote 12, page 6), according to the Department, if an incident is reported by a DDD member or their parent/guardian or healthcare decision maker, the Department will send an incident closure letter if the incident does not turn into a quality-of-care concern.
- ² If trends are identified, the AMPM requires the Department to consider developing performance improvement activities and make improvements to address the identified issues. Further, the AHCCCS Contractor Operations Manual outlines administrative actions that AHCCCS can take if it identifies trends.
- ³ DDD district nurses located in the district where the incident took place conduct the on-site health and safety visits or phone interviews during quality-of-care concern investigations.
- ⁴ According to Department procedures, an investigation can also result in being unable to substantiate the allegation(s). Department procedures outline 3 circumstances in which this may occur: (1) it identifies no evidence or there are conflicting accounts of what occurred; (2) it cannot identify enough evidence to support substantiation; or (3) a nonpaid provider was the alleged perpetrator. Similar to allegations that are unsubstantiated, the Department sends a closure letter to the vendor when it is unable to substantiate allegations.
- ⁵ See textbox, page 6, for more information on the 4 severity levels in which substantiated allegation(s) are classified.
- ⁶ See Finding 2, pages 22 through 31, for more information on the CAP process and see Appendix A, page a-1, for an example CAP.

Source: Auditor General staff review of the AMPM, Department policies and procedures, and quality-of-care concern case files.

Revenues and expenditures

DDD is primarily funded through capitation payments from AHCCCS as part of the ALTCS contract. Specifically, as previously discussed (see page 3), the Department is compensated by AHCCCS for ALTCS member services through a monthly per member capitated payment amount that AHCCCS sets annually, which includes both federal and State matching monies. As shown in Table 1 (see pages 11 through 12), the Department estimated that it received more than \$3.9 billion in ALTCS capitation payments for contract year 2025.¹³ The Department estimated that for contract year 2025, it spent more than \$3.6 billion for ALTCS member services. The Department also receives other revenues for DDD, including State General Fund monies. As shown in Table 2 (see pages 13 through 14), in fiscal year 2025, the Department's fiscal year 2025 estimated revenues from other sources were more than \$123 million, such as State General Fund appropriations and monies from AHCCCS to pay for case management salaries. The Department's estimated fiscal year 2025 expenditures from these other sources were more than \$110 million and primarily consisted of paying for DDD member services that are not covered by ALTCS and case management for TSC and DDD-only members.

During our audit in January 2025, the Department notified the Arizona House of Representatives' Appropriations Committee of a \$122 million shortfall in its DDD budget for fiscal year 2025. Additionally, in January 2025, the Governor's Office of Strategic Planning and Budgeting published the fiscal year 2026 executive budget request, which included a request for \$109.2 million in supplemental funding to address a higher-than-budgeted DDD caseload and capitation growth.

¹³ In contract year 2025, the federal government matched State contributions at a rate of 65.65%. However, AHCCCS reported it also used some federal monies to offset State match monies to cover a portion of capitation payments during contract year 2025 attributable to the Parents as Paid Caregivers program based on its actuaries' estimates (see Arizona Auditor General report 25-116 *A Performance Audit and Sunset Review of the Arizona Department of Economic Security*, Questions and Answers—PPCG, pages 17 through 23, for additional information on the Parents as Paid Caregivers Program for minor children). Therefore, federal government contributions accounted for more than \$2.6 billion in contract year 2025.

In April 2025, the Legislature provided the Department a supplemental appropriation of over \$122 million through an emergency measure from the Prescription Drug Rebate Fund administered by AHCCCS, consisting of:

- ▶ \$109.2 million to the Department for fiscal year 2025 to address developmental disabilities Medicaid program expenses.
- ▶ \$13.1 million to the Department for a developmental disabilities cost-effectiveness study and client services.¹⁴

According to the Department, the \$109.2 million appropriation authorized AHCCCS to use monies from the Prescription Drug Rebate Fund to pay for the State's matching portion of capitation payments to the Department.¹⁵ See Arizona Auditor General report 25-116 *A Performance Audit and Sunset Review of the Arizona Department of Economic Security*, Questions and Answers—PPCG, pages 17 through 23, for additional information on the shortfall and the supplemental appropriation.

¹⁴ The Legislature approved the appropriation through Laws 2025, Ch. 93.

¹⁵ As discussed in Table 2, footnote 2 (see page 14), although the Legislature appropriated \$13.1 million to the Department in Laws 2025, Ch. 93, for a developmental disabilities cost-effectiveness study and client services from the Prescription Drug Rebate Fund, the Department reported this appropriation under its estimated fiscal year 2025 State General Fund appropriations.

Table 1**Statement of revenues, expenditures, and changes in fund balance for the ALTCS contract special revenue fund**

Contract years 2023 through 2025

| | 2023 audited (Actual) | 2024 audited (Actual) | 2025 unaudited (Estimate) |
|---|--------------------------|--------------------------|------------------------------|
| Beginning fund balance | \$129,587,494 | \$100,575,552 | \$(94,058,356) |
| Revenues | | | |
| Arizona Long Term Care System (ALTCS) capitation ¹ | \$2,906,406,294 | \$3,222,141,174 | \$3,975,000,000 |
| Tiered reconciliation settlement ² | 12,670,886 | - | - |
| Investment earnings | 11,493,602 | 10,183,110 | 4,000,000 |
| Miscellaneous ³ | 60,821,064 | 67,914,914 | 4,000,000 |
| Total revenues | \$2,991,391,846 | \$3,300,239,198 | \$3,983,000,000 |
| Expenditures and transfers | | | |
| Health and welfare expenditures | | | |
| Aid to individuals ¹ | \$2,588,750,234 | \$3,055,605,175 | \$3,639,000,000 |
| Allocated administrative expenditures | 103,370,270 | 109,327,876 | 113,000,000 |
| Case management | 88,030,858 | 100,308,754 | 89,000,000 |
| Professional and outside services | 15,306,555 | 13,847,486 | 13,000,000 |
| Sub-capitation block administrative ⁴ | 28,073,010 | 38,662,791 | 43,000,000 |
| Premium Tax ⁵ | 59,347,653 | 65,190,882 | 80,000,000 |
| Total expenditures | \$2,882,878,580 | \$3,382,942,964 | \$3,977,000,000 |
| Excess (deficiency) of revenues over expenditures | +\$108,513,266 | -\$82,703,766 | +\$6,000,000 |
| Transfers | | | |
| Transfers to other State funds ⁶ | \$137,526,208 | \$111,929,142 | \$4,000,000 |
| Total transfers | \$137,526,208 | \$111,929,142 | \$4,000,000 |
| Total expenditures and transfers | \$3,020,404,788 | \$3,494,872,106 | \$3,981,000,000 |
| Ending fund balance | \$100,574,552 | \$(94,058,356) | \$(92,058,356) |
| Net change in fund balance | - \$29,012,942 | - \$194,632,908 | +\$2,000,000 |

Table 1 continued

- ¹ ALTCS capitation consists of the contract payments from AHCCCS for providing healthcare services to eligible enrollees in the ALTCS program for the developmentally disabled. As previously discussed (see pages 9 through 10), the Legislature provided the Department a supplemental appropriation of more than \$122 million in April 2025. According to the Department, the supplemental appropriation authorized AHCCCS to use \$109.2 of the \$122 million appropriated from the Prescription Drug Rebate Fund to pay for the portion of State match needed for receiving federal monies (see Table 2, footnote 2, for more information on the other appropriation provided).
- ² Tiered reconciliation settlement revenue includes revenue from AHCCCS as part of the provider contract settlement process. AHCCCS' risk-mitigation strategies within the managed care programs are designed to protect the State against excessive contractor profits and contractors from excessive losses. The provider contract settlement process may result in amounts due from providers and due to other State funds or amounts due to providers.
- ³ Miscellaneous revenues includes revenue from AHCCCS for hospital reimbursement rate increases and provider cost increases.
- ⁴ Sub-capitation block administrative expenses are expenditures for the Division's share of the administrative payments to the Mercy Care and United Healthcare plans.
- ⁵ A.R.S. §§36-2905 and 36-2944.01 require the ALTCS contract to pay a 2% premium tax on all capitation and other reimbursements received. These premium taxes are reported as expenditures and are paid to the Arizona Department of Insurance and Financial Institutions.
- ⁶ Transfers to other State funds include monies transferred to the State General Fund as a result of A.R.S. §36-2953, as well as interest transferred to the State-funded long-term care fund, as authorized by AHCCCS.

Source: Audited financial statements from the Arizona Auditor General *Division of Developmental Disabilities ALTCS contract annual financial reports* for fiscal years 2023 and 2024, and unaudited Department estimates for contract year 2025.

Table 2**Schedule of revenues and expenditures for DDD, excluding ALTCS contract**

Fiscal years 2023 through 2025

(Unaudited)

| | 2023 (Actual) | 2024 (Actual) | 2025 (Estimate) |
|---|-----------------------|----------------------|----------------------|
| Revenues | | | |
| Grants and reimbursements | | | |
| Division of developmental disabilities ¹ | \$220,083,775 | \$146,906,011 | \$22,675,000 |
| State and local monies | 48,775 | 45,400 | 57,000 |
| State General Fund appropriations ² | 30,548,098 | 40,354,797 | 68,034,000 |
| Residential room and board ³ | 30,112,319 | 31,961,613 | 32,261,000 |
| Interest income | 1,004 | 1,436 | 1,000 |
| Other revenues ⁴ | 102,383 | 94,902 | 75,000 |
| Total revenues | \$280,896,354 | \$219,364,159 | \$123,103,000 |
| Expenditures and transfers | | | |
| Expenditures | | | |
| Aid to individuals ¹ | \$373,977,835 | \$192,332,893 | \$77,187,000 |
| Payroll and related benefits ⁶ | 1,381,823 | 1,300,754 | 3,906,000 |
| Professional and outside services ⁷ | 323,712 | 966,422 | 614,000 |
| Computer and software purchases and licenses | 123,948 | 93,910 | 147,000 |
| Premium tax ⁸ | 297,785 | 7,309,947 | 404,000 |
| Rent and building maintenance | 172,406 | 70,915 | 115,000 |
| Cost allocation and indirect costs ⁹ | 22,574,232 | 24,652,355 | 28,180,000 |
| Other expenditures ¹⁰ | 372,797 | 630,824 | 220,000 |
| Total expenditures | \$399,224,538 | \$227,358,020 | \$110,773,000 |
| Transfers | | | |
| Transfers out | \$(26,336) | \$518,695 | \$37,000 |
| Total transfers | \$(26,336) | \$518,695 | \$37,000 |
| Total expenditures and transfers | \$399,198,202 | \$227,876,715 | \$110,810,000 |
| Net change | -\$118,301,848 | -\$8,512,556 | +\$12,293,000 |

(Difference between **revenues**
and **expenditures and transfers**)

Table 2 continued

- 1 According to the Department, it receives monies from AHCCCS to pay for case-management salaries and associated costs that could include occupancy for these positions. The Department reported that the decrease in revenues from fiscal year 2023 to fiscal year 2025 is due to a reduction in temporary federal monies that were provided during the COVID-19 pandemic.
- 2 Although the Legislature appropriated \$13.1 million to the Department in Laws 2025, Ch. 93, for a developmental disabilities cost-effectiveness study and client services from the Prescription Drug Rebate Fund, the Department reported this appropriation is included under its estimated fiscal year 2025 State General Fund appropriations.
- 3 According to the Department, residential room and board revenues include various sources such as revenues from DDD members enrolled in ALTCS who paid the Department for noncovered residential services.
- 4 Other revenues includes collections of accounts receivable for overpayments, such as insurance overpayments that were collected from medical providers.
- 5 According to the Department, its expenditures cover additional non-ALTCS services provided to DDD members, including room/board and non-Medicaid costs. Additionally, as reported in footnote 1 above, the Department reported that its estimated decrease in expenditures is due to a reduction in temporary federal monies that were provided during the COVID-19 pandemic.
- 6 According to the Department, it estimated an increase in payroll and related benefits in fiscal year 2025 primarily due to the increase in TSC and DDD-only members and the associated expenses for case management, as well as the increased costs associated with the cost-effectiveness study.
- 7 Professional and outside services include audit, investment, and consulting services, as well as various office updating projects and medical services provided to clients.
- 8 The premium tax on social program-related insurance payments includes payments to the Arizona Department of Insurance and Financial Institutions for the Arizona Long Term Care System and developmentally disabled services. A.R.S. §§36-2905 and 36-2944.01 require the ALTCS contract to pay a 2% premium tax on all capitation and other reimbursements received.
- 9 According to the Department, these expenditures are allocated based on the Department's cost-allocation plan and case-management costs for TSC and DDD-only case management.
- 10 Other expenditures include travel, food, office supplies, and vehicle repair maintenance.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2023 and 2024 and the State's annual financial reports for fiscal years 2023 and 2024, and Department-provided estimates for fiscal year 2025.

Department failed to appropriately classify and subsequently investigate and resolve some reported incidents involving DDD members, thereby not helping to ensure their safety and welfare

Contrary to AHCCCS policy, Department did not classify or investigate some incidents we reviewed as quality-of-care concerns, thereby not helping to ensure the safety and welfare of DDD members and not taking appropriate actions against DDD vendors

The Department did not classify some quality-of-care incidents appropriately, according to AHCCCS policy, and therefore did not investigate or ensure the remediation of these incidents to help ensure the safety and welfare of DDD members. As discussed in the Introduction, pages 5 through 6, the Department is required to review incident reports it receives related to care provided to DDD members and determine whether these incidents are quality-of-care concerns.¹ According to AHCCCS policy, any incident involving an aspect of care or treatment that could have caused or exacerbated a medical or psychiatric condition, such as a medication error, should be classified as a quality-of-care concern (see Introduction, pages 5 through 9, for information on quality-of-care concerns).

If the Department determines an incident is a quality-of-care concern, AHCCCS policy requires it to investigate the incident, as well as develop and monitor a corrective action plan to reduce or eliminate the likelihood of the quality-of-care concern reoccurring. Specifically, according to the Department, corrective action plans issued after quality-of-care concern incidents are investigated are not punitive and are instead intended to remediate and prevent future occurrences of vendor deviations from contract, policy, and procedure requirements. However, our review of a sample of 50 incident reports the Department received and triaged in calendar year 2024, including 21 incident reports the Department classified as quality-of-care concerns and a random sample of 29 incident reports the Department did not classify as quality-of-care concerns, found the Department did not classify some incidents as quality-of-care concerns and thus did not subsequently investigate or put a corrective action plan in place to ensure the resolution of these incidents, inconsistent with AHCCCS policy.² Specifically, our review found that 3 of 29 incidents the Department did not classify as quality-of-care concerns should have been classified as such, according to AHCCCS policy.³ AHCCCS staff confirmed that these

¹ This requirement is established by the Department's ALTCS contract with AHCCCS, which requires the Department to follow guidelines established in the AMPM, including developing and implementing policies and procedures for the review of incident reports to determine whether they are quality-of-care concerns as defined by AHCCCS and ensuring that quality-of-care concerns are investigated and resolved. See Introduction, pages 5 through 9, for more information on the Department's requirements.

² Some incidents may have multiple associated reports in the Department's data. We reviewed a sample of 50 of 41,033 incident reports the Department triaged in calendar year 2024 for review. This sample consisted of 21 of 3,315 incident reports the Department classified as quality-of-care concerns, including 17 randomly selected incidents and 4 judgmentally selected incidents that the Department had classified as high-profile incidents. Additionally, the sample included a random sample of 29 of 37,718 incident reports the Department did not classify as quality-of-care concerns. See Appendix B, page b-1, for more information about our methodology for reviewing the Department's classification of incident reports.

³ We contracted with an experienced healthcare management firm to conduct this review. The contractor's staff who conducted this review had clinical backgrounds with experience in nursing and mental health assessment. Specifically, we provided the contractor's staff with incident documentation and requested that they triage the incidents based on AHCCCS and Department policies and procedures without knowing how the Department had classified the cases. Finally, we provided our contractor's conclusions and all associated incident information to AHCCCS to confirm the accuracy of our contractor's classifications. See Appendix B, page b-1, for more information about this process.

incidents should have been considered quality-of-care concerns and therefore should have been investigated by the Department.

The 3 incidents we reviewed that the Department should have classified as quality-of-care concerns included events such as physical altercations between members resulting in injuries, members consuming medications not prescribed to them, and members not receiving prescribed medications (see Table 3 for more information on incidents the Department failed to classify as quality-of-care concerns).

Table 3
Department did not correctly classify 3 of 29 calendar year 2024 incident reports we reviewed as quality-of-care concerns

| Incident number | Department rationale for not classifying incident report as quality-of-care concern | Incident description ¹ |
|-----------------|---|---|
| 1 | Medication error with appropriate intervention | <p>Vendor staff failed to provide 2 prescribed doses of medication to a member. Additionally, due to improper change of shift, vendor staff did not notice the error until the following day.</p> <p>The vendor reported that staff contacted poison control to determine the proper administration of the missed medication. Additionally, the vendor reported it would retrain its staff on medication policies and procedures.</p> |
| 2 | Behavior with appropriate intervention | <p>Vendor staff failed to prevent an altercation between 2 members in which 1 member was struck multiple times.</p> <p>The vendor reported that staff verbally redirected the members and guided them back to their rooms.</p> |
| 3 | Medication error with appropriate intervention | <p>Vendor staff left a member's medication unattended, allowing a different member to take medication that was not prescribed to them.</p> <p>The vendor reported that staff contacted poison control to determine how to proceed and monitored the member for adverse effects.</p> |

¹ We have omitted specific details from these incident descriptions, including dates, locations, and members' diagnoses and genders, to protect the members' confidentiality. The incident reports we reviewed involving medication errors included medications such as antipsychotics, antidepressants, and medication used for diabetes management.

Source: Auditor General staff review of Department incident-tracking data.

Further, after determining that the Department failed to classify medication error incidents as quality-of-care concerns when it should have, we reviewed incident reports from calendar year 2024 that the Department classified as “medication errors with appropriate intervention” for the vendors from our sample associated with similar incidents that the Department inappropriately triaged. According to Department data, the Department did not elevate any of the 121 incident reports it received alleging medication errors at these 2 vendors in calendar year 2024 to quality-of-care concerns, and thus did not subsequently investigate and ensure the resolution of these incidents (see textbox, page 18, for an example of incidents reoccurring after the Department failed to properly classify an incident as a quality-of-care concern).⁴

Without investigating these incidents, the Department did not help ensure the safety and welfare of DDD members and did not develop and monitor corrective action plans to resolve any deficiencies that led to these incidents occurring as required by AHCCCS policy, which may have contributed to continued reports of similar incidents, such as at the 2 vendors described above.

⁴ The 2 vendors we reviewed had 35 and 86 incident reports alleging medication errors respectively in calendar year 2024.

Example of incident that was not investigated

In February 2024, the Department received an incident report indicating that group home staff had not administered prescribed antipsychotic and antidepressant medication to a DDD member. According to AHCCCS policy, any incident involving an aspect of care or treatment that could have caused or exacerbated a medical or psychiatric condition, such as a medication error, should be classified as a quality-of-care concern and investigated (see Introduction, pages 5 through 9, for information on quality-of-care concerns). However, the Department failed to classify this incident as a quality-of-care concern during its triage process and therefore failed to investigate and resolve the incident (see Introduction, page 5, for information on the Department's triage process). The Department reported that it did not classify this February 2024 incident as a quality-of-care concern because the group home reported it had remediated the incident by calling poison control and retraining staff (see Incident 1 in Table 3, page 16, for more information on this incident report).

In total, from December 2023 through December 2024, the Department received 11 reports detailing medication error incidents at this group home, 4 of which involved the same DDD member (see Table 4 for more information). These incidents included medication errors such as staff failing to administer antipsychotic, anticonvulsant, and antidepressant medications. The Department did not classify any of these incidents as quality-of-care concerns and therefore did not investigate any of these incidents or develop and monitor remediation performed by group home staff.

Table 4

Department did not classify 11 medication error incidents at a group home as quality-of-care concerns from December 2023 through December 2024

| Month incident occurred | Number of incidents reported | Members involved in incidents |
|-------------------------|------------------------------|-------------------------------|
| December 2023 | 2 | Members 1 and 2 |
| January 2024 | 1 | Member 1 |
| February 2024 | 1 | Member 3 |
| August 2024 | 1 | Member 3 |
| September 2024 | 3 | Members 1 and 3 |
| October 2024 | 1 | Member 2 |
| November 2024 | 1 | Member 3 |
| December 2024 | 1 | Member 4 |
| Total | 11 | 4 |

Source: Auditor General staff review of Department incident-tracking data.

Department erroneously considered DDD-vendor-reported information, and AHCCCS did not perform adequate oversight of Department practices

The Department's practice erroneously considered DDD-vendor-reported information, and AHCCCS did not perform adequate oversight to resolve this misunderstanding.

Specifically:

▶ **Department erroneously considered DDD-vendor-reported information regarding incident remediation when triaging incidents**

The Department reported that it uses clinical judgement to consider vendor-reported remediation efforts when determining if incidents should be considered quality-of-care concerns. Although Department procedures allow for clinical judgment to be used when triaging incidents, these procedures do not provide any specific guidance regarding DDD-vendor-reported remediation efforts. Additionally, AHCCCS policy does not indicate whether vendor-reported remediation should be considered when determining whether an incident should be classified as a quality-of-care concern. Finally, AHCCCS reported it would expect Department staff to investigate any DDD-vendor-reported remediation efforts. As a result, the Department should not use DDD-vendor-reported information as justification for not conducting an investigation.

According to Department data, all 3 of the incidents described above involved appropriate intervention by the vendor, based on vendor-reported information regarding remediation efforts. However, because none of these incidents were classified as quality-of-care concerns, they were not subsequently investigated by the Department. According to Department data, 34,272 of 41,033 incident reports it triaged in calendar year 2024 were determined to have involved appropriate intervention by the vendor but were not classified as quality-of-care concerns or investigated by the Department.⁵ Incident reports that the Department determined to have appropriate intervention based on vendor-reported intervention included incidents such as medication errors, member injuries, and members who had gone missing under vendor care. Our review did not determine that all 34,272 incident reports the Department determined to have appropriate intervention and did not classify as quality-of-concerns should have been classified as such. However, the Department's determination that vendors had performed appropriate intervention in these incidents was based on vendor-reported information.

As demonstrated by the incidents described on page 18, vendor-reported remediation efforts, such as staff training, may not reduce the likelihood of similar events occurring in the future. By relying on vendor-reported information regarding remediation efforts, the Department risks being unable to ensure that incidents impacting member health, safety, and welfare have been fully resolved. For example, after receiving an incident report indicating that group home staff had not administered prescribed medication to a DDD member in February 2024, the Department received an additional 7 reported incidents detailing medication error incidents involving the same member and 3 more members.

⁵ Incidents determined by the Department to have involved appropriate intervention included various vendor-reported efforts to respond to the incident, such as calling poison control after a medication error or redirecting members after a physical altercation (see Table 3, page 16, for incident report examples, including vendor-reported remediation efforts).

Alternatively, when the Department classifies an incident as a quality-of-care concern, it is required to investigate the incident and develop and monitor a corrective action plan, helping to ensure the vendor's remediation of issues impacting member health, safety, and welfare.

► **Although AHCCCS has conducted some oversight of the Department, it did not adequately oversee the Department's assessment and triage of quality-of-care concerns to ensure the Department classified, investigated, and resolved incidents in accordance with policy**

AHCCCS performs various forms of contractor oversight, such as periodic operational reviews, examining whether the contractor follows various contract and policy requirements related to the ALTCS program, and weekly reviews of incidents triaged by the contractor. AHCCCS oversees the Department using these measures.

However, AHCCCS did not include all incidents that the Department failed to classify as quality-of-care concerns in its review processes for overseeing the Department's work. As explained in the Introduction, page 5, the Department performs this work pursuant to the ALTCS contract with AHCCCS. AHCCCS performs weekly reviews of a sample of 5 incidents triaged by the Department as a part of this contract to ensure incidents are being triaged appropriately. AHCCCS reported that it established a policy in calendar year 2021 requiring that the Department provide triaged incidents to AHCCCS for review, including those it had not determined to be quality-of-care concerns. However, AHCCCS became aware during an operational review finalized in October 2024 that the Department was not submitting all triaged incidents for AHCCCS' review and was instead generally only submitting incidents the Department had determined to be quality-of-care concerns.⁶ AHCCCS further clarified its policy in September 2024 to explicitly require that the Department submit all incident reports for AHCCCS' review.

Despite this policy update, as of our audit in June 2025, the Department continued to fail to provide all triaged incidents to AHCCCS. AHCCCS had not verified whether the Department had complied with the expectations of its 2021 policy until October 2024 and still had not ensured that all incidents were submitted as of June 2025. Therefore, for at least 3 years, AHCCCS' weekly review of 5 incidents did not include all incidents that the Department did not classify as quality-of-care concerns, and thus, AHCCCS was not fully assessing whether the Department was following AHCCCS' triage policy. Specifically, AHCCCS' weekly reviews did not determine if the Department had erroneously failed to investigate and resolve incidents that should have been elevated to quality-of-care concerns.⁷ AHCCCS' lack of oversight allowed the Department to continue to not properly classify or investigate certain incidents as quality-of-care concerns as required by AHCCCS policy and instead take DDD vendors' word for having addressed them.

⁶ The Department had submitted some incidents it did not classify as quality-of-care concerns for AHCCCS' review, but according to the Department, these incidents were generally referred to the Department by AHCCCS. Only 89 of 37,807 incidents the Department determined to not be quality-of-care concerns in calendar year 2024 were submitted to AHCCCS for review.

⁷ Further, although AHCCCS' operational review of the Department in 2024 did include the review of some incidents the Department had not triaged as quality-of-care concerns, the reviewed incidents were selected from the small subset of incidents the Department had submitted to AHCCCS for its review, as mentioned in footnote 6 above.

Recommendations to the Department

1. Follow AHCCCS policy to ensure it appropriately classifies and investigates all incidents that are quality-of-care concerns.
2. Work with AHCCCS to determine whether it should perform a risk-based review of prior incidents that it did not determine were quality-of-care concerns, including those identified as medication errors with appropriate intervention.
3. Immediately report all incidents to AHCCCS, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Recommendations to AHCCCS

1. Provide training and additional guidance to the Department to ensure it understands AHCCCS policy requirements related to classifying and investigating quality-of-care concerns, including providing the Department with its review of incident classifications from our sample.
2. Ensure the Department provides all incidents, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy.
3. Ensure its weekly review sample includes incidents that the Department did not classify as quality-of-care concerns, as required by AHCCCS policy.
4. Ensure operational reviews include analysis of Department's policies and procedures compared to AHCCCS requirements and expectations.

AHCCCS response: As outlined in its [response](#), AHCCCS agrees with the finding and will implement the recommendations.

Department did not timely and consistently address some quality-of-care concern investigation violations it identified, and those violations could put DDD members’ health and safety at risk

Contrary to Department procedures and recommended practices, Department did not always ensure DDD vendors corrected or timely corrected substantiated allegations identified during quality-of-care concern investigations that could put DDD members’ health and safety at risk

Our review of a random sample of 15 of 570 quality-of-care concerns the Department investigated in fiscal year 2024 with substantiated allegations classified as level 3 or 4—which involve the most significant adverse effects that can harm members if not addressed—found that the Department did not consistently or timely verify that vendors addressed substantiated allegations for 6 we reviewed, contrary to its procedures and recommended practices.¹ As shown in Table 5, page 23, in all 6 cases, we identified at least 1 instance of the Department not ensuring that vendors took and sustained corrective actions to address substantiated violations that could put members at risk as required by its own procedures and/or recommended practices.

¹ See Introduction, textbox on page 6, for more information on levels of substantiated allegations.

Key terms

Corrective action plan (CAP): Developed by DDD investigative nurse to outline the specific interventions/ changes the DDD vendor needs to make or implement to remediate substantiated allegations identified during the quality-of-care concern investigation.

CAP remediation response: Developed by the DDD vendor and sent to the Department, in response to the CAP, describing the actions taken and providing associated documentation.

DDD investigative nurse: Investigates quality-of-care concerns, including reviewing documentation to determine whether allegations are substantiated; develops CAPs; and reviews and accepts vendors’ CAP remediation responses.¹

DDD district nurse: Assists with quality-of-care investigations, including performing onsite health and safety visits or phone interviews, and conducts the 30-day followup visits after remediation responses are received.¹

¹ DDD investigative nurses work remotely and are assigned to a central Phoenix location, and DDD district nurses also work remotely but are assigned to locations within their district—north, south, east, west, central. The DDD district nurses assist DDD investigative nurses by performing the onsite visits for the vendors located within their district.

Source: Auditor General staff review of Department policies and procedures, CAPs, and CAP remediation responses.

Table 5

Department did not ensure vendors corrected or timely corrected substantiated allegations through CAP remediation responses for 6 of 15 quality-of-care concerns we reviewed¹

| Sampled cases¹ | Timely followed up on late CAP responses? | Timely reviewed CAP responses? | Timely performed followup visits? | Ensured vendors implemented/sustained corrective actions? |
|----------------------------------|--|---------------------------------------|--|--|
| Case 1 | N/A ² | No | Yes | Yes |
| Case 2 | No | Yes | No | No³ |
| Case 3 | No | Yes | Yes | Yes |
| Case 4 | N/A ² | Yes | Yes | No |
| Case 5 | N/A ² | Yes | No | Yes |
| Case 6 | No | Yes | No | Yes |

¹ We did not identify any issues in these key areas for the other 9 quality-of-care concerns that we reviewed.

² The vendors in these 3 cases submitted their CAP remediation responses by the deadline, and therefore, followup was not needed.

³ Department documentation does not indicate that a followup visit occurred for this vendor (see page 27 for more information). As such, the Department was unable to ensure the vendor implemented/sustained the corrective actions.

Source: Auditor General staff review of quality-of-care concern case files and Department procedures.

Specifically, we found that the Department:

► **Did not timely follow up with 3 vendors that failed to provide CAP remediation responses within 30 days, as required by its procedures, potentially leaving health and safety issues uncorrected for longer than necessary**

As seen in Figure 3, pages 25 through 26, after the Department sends a CAP, its procedures require it to give vendors up to 30 days to provide their CAP remediation response, and if it is not received by the due date, Department procedures require DDD investigative nurses to follow up with the vendor by email the following day. However, in 3 of 15 cases we reviewed, the vendors did not provide their CAP remediation responses by the required deadline, and the Department did not send a followup email the next day. In 2 of these cases, the Department did not follow up with the vendor until 18 and 49 days after the due dates, respectively (see Case 1 in textbox, page 28, for a case example).²

² In the third case where the vendor did not respond by the deadline, the vendor provided its response 3 days after the deadline but before the Department identified that it needed to send a followup email.

Failing to timely follow up with vendors that do not provide CAP remediation responses by the required due date could leave health and safety deficiencies potentially uncorrected for longer than necessary if vendors have not completed and implemented the corrective actions required by the CAP. For example, in Case 1 described in the textbox on page 28, where the Department did not follow up until 49 days after the CAP response deadline, the vendor provided a training log 2 days after the Department followed up. However, the log was not dated, and it is unclear whether the training occurred before or after the original CAP remediation due date. As a result, the deficiencies the Department identified, which included group home staff's failure to seek medical attention for a member due to lack of training, may have gone uncorrected for more than 80 days and impacted other vulnerable members.

Figure 3

Department requires vendors to implement corrective action plan to address substantiated allegations and continues to monitor vendors, including followup visits for the most egregious violations

Department creates CAP and sends to vendor to outline required changes and vendor is required to provide remediation response

DDD investigative nurse develops CAP outlining vendor interventions/changes needed to remediate substantiated issues identified in quality-of-care concern. For example, CAP might outline required vendor staff training or needed changes to vendor facility, processes, or documentation. Department procedures indicate vendors should be given up to 30 days to provide their remediation response outlining changes they have made and supporting documentation.



If vendor does not respond by due date, Department sends reminder to vendor

If vendor does not respond by remediation response due date, Department procedures require DDD investigative nurses to remind vendor the next day that their response is due.¹



Department receives and reviews vendor's CAP remediation response

After receipt, DDD investigative nurse reviews vendor's CAP remediation response to determine if all requested information is received and sufficient before accepting it. If insufficient, Department procedures require DDD investigative nurse to request new or updated documents.



Quality-of-care concerns with most egregious substantiated allegations are required to receive followup visit in 30 days

Department procedures require quality-of-care concerns with level 3 or 4 substantiated allegation(s) to receive followup visit by DDD district nurse within 30 days of CAP remediation response acceptance.² The visit's purpose is to determine if changes were implemented and CAP is being followed. If changes were not implemented or CAP is not being followed, the Department reported that DDD district nurses can perform second followup visit.³



Department monitors quality-of-care concerns for trends for up to 90 days

Department procedures require it to continue monitoring vendors for trends for up to 90 days after vendor's remediation response is accepted to assess success of remediation interventions, such as reviewing trends for continued allegations for vendor and location, allegation categories, and outcomes of additional quality-of-care concerns. If after 90 days post-implementation no additional and/or new occurrences happen, CAP remediation response monitoring efforts are closed.

Figure 3 continued

- ¹ If a vendor has not complied after 3 attempts to get a CAP remediation response, Department procedures require DDD investigative nurses to elevate the case to their supervisor. The supervisor is required to elevate it to the unit charged with taking action against the vendor's contract with DDD. In all 3 cases we reviewed where a vendor did not respond by their due date, it did not take more than 1 attempt by the Department to receive a response.
- ² According to Department procedures, CAP remediation responses that are clinical in nature, such as medication errors, neglect of members' needs, or lack of coordination of care, are assigned to DDD district nurses. Nonclinical issues are assigned to a district incident management specialist to perform, which according to the Department can include incidents involving environmental concerns, staffing concerns, or members' rights.
- ³ According to Department procedures, if a new issue is identified during the onsite visit, DDD district staff should verify that an incident report has been submitted, and if one has not, submit a new form.

Source: Auditor General staff review of Department procedures and quality-of-care concern documentation.

► Took 4 months to review and accept a vendor's timely remediation response, resulting in a delayed followup visit to verify that the vendor corrected the substantiated allegations

The National State Auditors Association (NSAA) has identified recommended practices for carrying out a State regulatory program and recommends that regulatory agencies take timely enforcement actions to address identified violations, and track and oversee enforcement actions to ensure violations are being addressed appropriately (see textbox for examples of NSAA recommended practices).

However, in 1 case we reviewed, the Department took 113 days, or approximately 4 months, to review and accept a vendor's CAP remediation response, despite the vendor timely submitting its response 8 days after receiving the CAP from the Department (see Case 2 in textbox, page 28, for more information on this quality-of-care concern investigation). Department records also lack any indication that Department staff reviewed the response or communicated with the vendor about its response during these 113 days.

Additionally, because Department procedures require Department staff to accept a CAP before performing a followup visit to a vendor location, the delay in accepting the CAP

Examples of NSAA recommended enforcement practices for state regulatory agencies

- Track people/entities that have not come into compliance after problems or violations are identified.
- Take appropriate, consistent, and timely enforcement actions that address the violations cited against these people/entities.
- Track and oversee enforcement actions taken to ensure that they are being addressed appropriately and that things don't slip through the cracks.
- Follow up as needed to determine whether the problem has been corrected or whether additional enforcement action is needed.

Source: Auditor General staff review of National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/27/2025 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

resulted in the Department not performing the followup visit until nearly 5 months after it substantiated the allegations. Although Department staff determined during the followup visit that the vendor had completed all required corrective actions, the Department's failure to timely review the vendor's CAP remediation response could have put DDD members' health and safety at risk if the vendor had not done so.

▶ **Did not conduct or timely conduct 3 followup visits to ensure vendors implemented CAPs intended to correct substantiated allegations that put DDD members' health and safety at risk**

As seen in Figure 3, pages 25 through 26, Department procedures require it to conduct follow-up visits within 30 days of a CAP remediation response acceptance for quality-of-care concerns with substantiated allegation(s) classified as level 3 or 4. However, in 3 of 15 cases we reviewed, the onsite followup visits did not occur within 30 days of the CAP remediation response being accepted, including 1 visit not occurring at all and the other 2 occurring 26 and 32 days late (see Case 3 in textbox, page 28, for a case example for 1 of these cases). These delays in performing and failure to perform the required 30-day followup visits increase the risk that deficiencies that could impact DDD members' health and safety are not corrected or timely corrected.

▶ **Did not continue to follow up and/or take additional enforcement actions after 2 followup visits found a vendor failed to implement required corrective actions, leaving group home residents' safety at risk**

As discussed in the textbox on page 26, the NSAA recommends that State regulatory agencies follow up as needed to determine whether problems identified during compliance monitoring have been corrected or whether additional enforcement action is needed.³ Contrary to this recommendation, in 1 case, although the Department conducted 2 followup visits and found that the vendor failed to implement some actions required in its CAP, the Department did not take any further enforcement action after its second site visit (see Case 4 in textbox, page 28, for more information on the case). The vendor's failure to follow the CAP and the Department's lack of further enforcement action against the vendor created an ongoing risk of recurrence of the original incident that occurred, which involved lack of adequate supervision of members that put DDD member safety at risk.

³ NSAA, 2004.

Case examples in which the Department did not ensure DDD vendors corrected or timely corrected substantiated allegations¹

- ▶ **Case 1:** The Department substantiated a level 3 allegation related to an incident involving a DDD member who attempted to run out of their group home, kicked staff members, and harmed themselves. The Department's determination was based in part on group home staff's failure to seek medical attention for the member. The vendor did not send its CAP remediation response by the required 30-day deadline, and the Department did not follow up until 49 days later. Although the vendor responded to its CAP by providing a training log to indicate its staff attended the CAP-required training 2 days after the Department followed up, the training log was not dated, and it is unclear whether the training occurred before or after the original CAP remediation due date. As a result, the Department's identified deficiency may have gone uncorrected during the time frame that elapsed after the deadline, potentially putting residents' health and safety at risk for up to 51 additional days.
- ▶ **Case 2:** The Department substantiated level 3 allegations related to inadequate prescription medication documentation, including that a member's medication record did not include key details such as the correct medication amounts or records of previous doses. Additionally, the Department found that only 1 staff member was present for 4 DDD members at the group home, 3 of whom required 1:1 staffing ratios. Although the Department received the vendor's CAP remediation response 8 days after sending the CAP, the Department did not review and accept the CAP until 113 days later, thereby delaying the in-person followup visit to nearly 5 months after the Department substantiated the allegations.
- ▶ **Case 3:** The Department substantiated a level 3 allegation when a vendor administered incorrect medications to a DDD member, resulting in the member being hospitalized overnight. However, the DDD district nurse did not perform the onsite followup visit until 56 days after the Department accepted the vendor's CAP remediation response instead of the 30 days required by Department procedures, leaving the Department unaware for an additional 26 days of whether the CAP had been implemented and changes were sustained.
- ▶ **Case 4:** The Department substantiated level 3 allegations against a vendor when its staff left a DDD member unattended to use the restroom, despite this member requiring 1:1 staffing, resulting in the member leaving the group home unsupervised. The Department's CAP required the vendor to complete various actions, including hiring a floating staff member to cover staff for breaks or absences. During the onsite followup visit, the DDD district nurse found that vendor was still not complying with the DDD member's required staffing ratios. The DDD district nurse performed a second followup visit 43 days later and found that the vendor continued to be noncompliant with the CAP because although the vendor complied with the 1:1 staffing ratios its members required, no floating staff member was at the group home as required by the CAP. The vendor staff reported to the DDD district nurse that a floating staff member was not needed. The Department took no further action against this vendor.

¹ We have omitted specific details from these incident descriptions, including dates, locations, and members' diagnoses and genders, to protect the members' confidentiality.

Source: Auditor General staff review of quality-of-care concern investigation case files.

Department has not clearly defined oversight roles, used staff resources effectively, or established time frames to enforce corrective actions

We identified various factors that may have contributed to the issues we identified above.

Specifically:

- ▶ **Department had not assigned important administrative tasks to others to help DDD investigative nurses focus on conducting critical investigations, but after becoming aware, immediately hired an administrative assistant to do so**

According to Department procedures, DDD investigative nurses have various responsibilities including conducting investigations to determine if allegations are substantiated, preparing CAPs, reviewing vendors' CAP remediation responses, monitoring for the timely receipt of CAP remediation responses, and contacting those vendors that have not timely submitted CAP remediation responses to notify them of the missed deadlines. Our interviews with DDD investigative nurses and supervisors indicated that DDD investigative nurses prioritize working on investigations, which may have led to the cases we identified in which the Department did not timely follow up with vendors that missed the CAP remediation response deadline. However, although these tasks related to monitoring and contacting vendors do not require the specific skills of a licensed DDD investigative nurse, no other Department staff had been assigned to help ensure these administrative tasks are timely completed and DDD investigative nurses can focus on tasks that require their clinical judgment, such as conducting investigations. In May 2025, after we brought this issue to the Department's attention, the Department posted an opening for an administrative assistant and stated that this position would be expected to perform administrative tasks that have been assigned to DDD investigative nurses, including sending and following up on CAPs and vendor CAP remediation responses. According to the Department, an administrative assistant was hired in July 2025.

- ▶ **Department has not established time frames for reviewing and accepting vendor CAP remediation responses**

The Department's procedures do not include a required time frame for DDD investigative nurses to review and accept vendors' CAP remediation responses once they are received. Additionally, the Department lacks a process for tracking and monitoring when it receives vendor responses to identify when responses require review. The absence of a defined time frame and the lack of tracking and monitoring likely contributed to the case we identified in which a DDD investigative nurse took 113 days to accept a vendor's CAP response. As a result of our audit, in April 2025, the Department began piloting a 14-day requirement for DDD investigative nurses to review and accept vendor responses after they are received. The Department reported it plans to review and assess the results of this requirement through calendar year 2025 before making changes to its procedures.

► **Department believes 30-day followup visits were delayed or did not occur because of its complicated tracking sheet, but it has also not developed procedures for tracking and monitoring**

During the audit, DDD district nurses used a tracking sheet for monitoring all quality-of-care concerns, including whether allegations were substantiated, the classification level, the date the CAP remediation response was accepted, and the date onsite followup visits were completed. The Department reported this tracking sheet was overwhelming to follow and maintain, including that it contained quality-of-care concerns going back to 2022, which may have led to missed and delayed 30-day followup visits by DDD district nurses. Additionally, our review of the tracking sheet found that each district's tracking sheet had multiple quality-of-care concerns that were listed as having substantiated allegations classified as level 3 or 4 that were missing key dates or information that would be needed to track and monitor the 30-day followup visits, such as the date the CAP remediation response was accepted, the assigned staff member to perform the visit, and the date the followup visit was performed. Further, the Department's procedures do not specify who is responsible for tracking and monitoring the 30-day followup visits. During the audit, in May 2025, the Department developed a new DDD district tracking sheet that it reported would make tracking and monitoring more efficient. For example, the tracking sheet contains multiple tabs, including the ability to track the quality-of-care concerns that require a followup visit—those with substantiated allegations classified as level 3 or 4—separately from those that do not.

► **Department lacks procedures for reviewing followup visit reports and handling continued noncompliance identified during followup visits**

The Department's procedures require DDD district nurses to inform the DDD investigative nurse, nursing supervisors, and other staff when they have completed a 30-day followup visit and the associated report. However, the procedures do not indicate how DDD district nurses should handle followup visits that find a vendor has failed to take corrective actions, such as in Case 4 previously discussed on page 28.

For example, the Department's procedures:

- Do not require DDD district nurses to inform anyone if a corrective action has not been implemented and/or sustained.
- Do not assign responsibility for reviewing inspection reports involving corrective actions that have not been implemented/sustained.
- Do not outline any further actions that should be taken when followup visits identify continued noncompliance, such as conducting additional monitoring and/or recommending the vendor be subject to additional enforcement actions.

Further, although Department procedures state that vendors that remain out of compliance will be emailed a reminder of their contractual obligations, the procedures do not assign responsibility or include guidance for determining when to send a warning email, who will send the email, when to elevate a case to DDD leadership, and what additional enforcement actions Department leadership may take to address the continued noncompliance.

Recommendations to the Department

4. Follow up with DDD vendors the day after their CAP remediation response is due if no response has been received, as required by Department procedures.
5. Conduct followup visits within 30 days of approving DDD vendors' CAP remediation responses, as required by Department procedures.
6. Identify and reassign administrative tasks to support staff, such as tracking due dates of CAP remediation responses, logging vendor responses, and sending routine communications.
7. Continue implementing the pilot project requiring DDD investigative nurses to review and accept CAP remediation responses within 14 days of being received, evaluate the pilot project to determine its effectiveness and identify any needed changes, and update and implement procedures accordingly to help ensure timely CAP response review and acceptance.
8. Develop and implement procedures for tracking and monitoring the 30-day followup visits using the DDD district tracker.

Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including:

9. Identifying who DDD district nurses should inform if corrective actions have not been implemented and/or sustained.
10. Assigning responsibility for reviewing inspection reports involving corrective actions that have not been implemented/sustained.
11. Outlining any further actions that should be taken when followup visits identify continued noncompliance, such as conducting additional monitoring and/or recommending the vendor be subject to additional enforcement actions.
12. Providing guidance and outlining responsibility for who should send warning emails to vendors that remain out of compliance and when cases should be elevated to DDD leadership.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

The Arizona Auditor General makes 12 recommendations to the Department and 4 recommendations to AHCCCS

Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

Recommendations to the Department

| | |
|---|-----------|
| FINDING 1 | 15 |
| 1. Follow AHCCCS policy to ensure it appropriately classifies and investigates all incidents that are quality-of-care concerns. | 21 |
| 2. Work with AHCCCS to determine whether it should perform a risk-based review of prior incidents that it did not determine were quality-of-care concerns, including those identified as medication errors with appropriate intervention. | 21 |
| 3. Immediately report all incidents to AHCCCS, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy. | 21 |
| FINDING 2 | 22 |
| 4. Follow up with DDD vendors the day after their CAP remediation response is due if no response has been received, as required by Department procedures. | 31 |
| 5. Conduct followup visits within 30 days of approving DDD vendors' CAP remediation responses, as required by Department procedures. | 31 |
| 6. Identify and reassign administrative tasks to support staff, such as tracking due dates of CAP remediation responses, logging vendor responses, and sending routine communications. | 31 |
| 7. Continue implementing the pilot project requiring DDD investigative nurses to review and accept CAP remediation responses within 14 days of being received, evaluate the pilot project to determine its effectiveness and identify any needed changes, and update and implement procedures accordingly to help ensure timely CAP response review and acceptance. | 31 |
| 8. Develop and implement procedures for tracking and monitoring the 30-day followup visits using the DDD district tracker. | 31 |

Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including:

- 9. Identifying who DDD district nurses should inform if corrective actions have not been implemented and/or sustained. 31
- 10. Assigning responsibility for reviewing inspection reports involving corrective actions that have not been implemented/sustained. 31
- 11. Outlining any further actions that should be taken when followup visits identify continued noncompliance, such as conducting additional monitoring and/or recommending the vendor be subject to additional enforcement actions. 31
- 12. Providing guidance and outlining responsibility for who should send warning emails to vendors that remain out of compliance and when cases should be elevated to DDD leadership. 31

Recommendations to AHCCCS

FINDING 1 15

- 1. Provide training and additional guidance to the Department to ensure it understands AHCCCS policy requirements related to classifying and investigating quality-of-care concerns, including providing the Department with its review of incident classifications from our sample. 21
- 2. Ensure the Department provides all incidents, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy. 21
- 3. Ensure its weekly review sample includes incidents that the Department did not classify as quality-of-care concerns, as required by AHCCCS policy. 21
- 4. Ensure operational reviews include analysis of Department’s policies and procedures compared to AHCCCS requirements and expectations. 21

Corrective action plan example

Corrective action plans outline the quality-of-care concern issue(s) that is substantiated and the Department's rationale, as well as the corrective actions necessary to address the root causes that led to the substantiated allegation. See the textbox below for an example of a corrective action plan for a quality-of-care concern with substantiated allegations classified as level 3.

Example of corrective action plan and vendor's remediation response

Quality-of-care issue 1: Medication error is substantiated.

Severity level assigned: Level 3—Quality issue exists with significant adverse effects on the patient/recipient, is dangerous and/or life-threatening.

Rationale: The member missed a significant number of critical medications due to issues with having the member seen by a specialist.

Quality-of-care issue 2: Medication error is substantiated.

Severity level assigned: Level 3—Quality issue exists with significant adverse effects on the patient/recipient, is dangerous and/or life-threatening.

Rationale: The member's medication log does not have a place to record dosage administered.

The following remediation/corrective action is required to address the root cause for the reason the issue occurred:

- ▶ Provide training to all staff on (1) the importance of immediately reaching out to the member's support coordinator when issues arise, including if the member is unable to obtain medications and (2) medication administration and documentation. Provide attestations from all staff confirming their understanding.
- ▶ Fix the member's medication log to include an area for staff to document the medication dosage administered.

The vendor's CAP remediation response included the following documents:

- ▶ A training log indicating the training topics covered, when the training was provided, and the staff who attended, as well as signed attestations from all staff confirming their understanding.
- ▶ A copy of the member's medication log that is now in use that includes a column for staff to document the medication dosage administered.

Source: Auditor General staff-created example based on review of quality-of-care concern case files.

Scope and methodology

The Arizona Auditor General has conducted this performance audit of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing applicable State statutes and rules; the Department's website, policies, procedures, handbooks, guides, and annual reports; the ALTCS contract; and the AMPM. We also interviewed Department and AHCCCS staff.

Additionally, we used the following specific methods to meet the audit objectives:

- ▶ To determine whether the Department followed its contractual requirements with AHCCCS for receiving and triaging incoming incidents regarding DDD members to determine if they are quality-of-care concerns and require investigation, we contracted with an experienced healthcare management firm to perform an initial assessment of the incoming incidents. The contractor's staff who conducted this review are Surveyor Minimum Qualifications Test (SMQT) certified. The SMQT addresses the knowledge, skills, and abilities needed to conduct surveys in long-term care facilities, including prioritizing, investigating, and resolving complaints. Additionally, the contractor's staff have clinical training/backgrounds in clinical psychology and nursing and experience working with individuals with intellectual disabilities. The contractor's staff reviewed a sample of 50 of 41,033 incidents the Department received and triaged in calendar year 2024.¹ This sample included:
 - A stratified random sample of 17 of 3,306 incidents that were triaged and turned into a quality-of-care concern and 29 of 37,718 incidents that were triaged and not turned into a quality-of-care concern.
 - A judgmental sample of 4 of 9 incidents that were triaged and determined to be a quality-of-care concern and identified by the Department as being high profile.

The contractor's staff reviewed and assessed these incidents independently prior to reviewing the Department's determination, including reviewing the incident reports, referral documentation from the Department's Adult Protective Services program, member service plans, member behavior plans, and information from the Department's incident tracker to identify any trends in incident reports submitted related to the specific members and/or vendors. Following this review, we provided the contractor staff's findings and all associated incident information to AHCCCS quality management staff for their review and determination as to whether the incidents were triaged in accordance with its requirements.

¹ After review and analysis, we judgmentally excluded 1,071 incidents from our sampling population because they were outside the scope of our test work.

- ▶ To determine whether the Department followed its processes for receiving and reviewing corrective action plan responses and conducting followup visits to DDD vendors that had substantiated quality-of-care concern investigation allegations classified as level 3 or 4 during fiscal year 2024, we reviewed a random sample of 15 of 570 quality-of-care concerns reported to the Department in fiscal year 2024 with substantiated allegations classified as level 3 or 4.

Our work included reviewing the Department's quality-of-care concern case documentation, such as CAP and vendor remediation responses and Department correspondence with vendors. We also reviewed National State Auditors Association (NSAA)-recommended practices for carrying out a state regulatory program and compared the Department's processes to these recommended practices.²

- ▶ To obtain additional information for the Introduction, we:
 - Reviewed the Department's DDD eligibility packet and its 2023-2024 qualified vendor application.
 - Reviewed AHCCCS's website on its Complete Care health plans and ALTCS requirements.
 - Compiled and analyzed unaudited information from the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona annual financial reports for fiscal years 2023 and 2024, and Department-prepared estimates for fiscal year 2025.
 - Reviewed audited financial statements from the Arizona Auditor General's *Department of Economic Security, Division of Developmental Disabilities ALTCS Contract Annual Financial Report* for fiscal years 2023 and 2024, and unaudited Department estimates for contract year 2025.

Our work on internal controls, including information system controls, included, where applicable, reviewing the Department's policies and procedures and testing Department compliance with these policies and procedures, and assessing compliance with the AMPM. We reported our conclusions on applicable internal controls in Findings 1 and 2.

We selected our audit sample(s) to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

When relying on Department-provided data to support our findings and conclusions, we performed certain tests to ensure the data was sufficiently valid, reliable, and complete to meet the audit objectives. Unless otherwise noted, we determined the Department-provided data was sufficiently valid, reliable, and complete for audit purposes.

² National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/27/2025 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

We conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to Director Wisehart, Interim Director Challacombe, and Department and AHCCCS staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

The subsequent pages were written by the Department to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.

ARIZONA
— DEPARTMENT OF —
ECONOMIC SECURITY

Katie Hobbs
Governor

Michael Wisehart
Director

September 25, 2025

Ms. Lindsey Perry, CPA, CFE
Auditor General
Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Auditor General's Report, Division of Developmental Disabilities, Sunset Review

Dear Ms. Perry:

The Arizona Department of Economic Security (Department) has reviewed the Auditor General's report and plans to implement the recommendations contained herein.

The Department is dedicated to cultivating a culture of excellence, accountability, and innovation. Our commitment to continuous improvement is integral to our operations, guiding us in the refinement of internal processes and the enhancement of service quality. The Department will persist in evaluating its performance, soliciting feedback, and implementing modifications that advance our mission to better serve the citizens of Arizona.

The Department acknowledges and appreciates the diligence and collaboration demonstrated by the staff of the Office of the Auditor General throughout the Sunset Review process.

If you have any questions, please contact Zane Garcia Ramadan, Assistant Director, Division of Developmental Disabilities, at (602) 542-0068 or zramadan@azdes.gov.

Sincerely,



Michael Wisehart
Director

Attachment

Finding 1: Department failed to appropriately classify and subsequently investigate and resolve some reported incidents involving DDD members, thereby not helping to ensure their safety and welfare.

Department response: The Auditor General's finding is agreed to.

Recommendation 1: Follow AHCCCS policy to ensure it appropriately classifies and investigates all incidents that are quality-of-care concerns.

Department response: The audit recommendation will be implemented.

Response explanation: The Arizona Department of Economic Security (DES/Department) will request clarity from Arizona Health Care Cost Containment System (AHCCCS) for the determination of quality of care concerns in current AHCCCS policy in order to update DES/Division of Developmental Disabilities (DDD) processes to ensure alignment.

Recommendation 2: Work with AHCCCS to determine whether it should perform a risk-based review of prior incidents that it did not determine were quality-of-care concerns, including those identified as medication errors with appropriate intervention.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will request guidance from AHCCCS.

Recommendation 3: Immediately report all incidents to AHCCCS, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy.

Department response: The audit recommendation will be implemented.

Response explanation: The Department implemented direct entry of all incidents into the AHCCCS Quality Management (QM) Portal in June 2025. On November 1, 2025, all Division contracted Qualified Vendors and Providers are required to submit reportable incidents per AHCCCS Medical Policy Manual (AMPM) and Division policy directly into the AHCCCS QM Portal.

Finding 2: Department did not timely and consistently address some quality-of-care concern investigation violations it identified, and those violations could put DDD members' health and safety at risk.

Department response: The Auditor General's finding is agreed to.

Recommendation 8: Follow up with DDD vendors the day after their CAP remediation response is due if no response has been received, as required by Department procedures.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will review current policies and standard work to ensure oversight of required actions and add resources where required to meet these timelines.

Recommendation 9: Conduct followup visits within 30 days of approving DDD vendors' CAP remediation responses, as required by Department procedures.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will review current policies and standard work to ensure oversight of required actions and add resources where required to meet these timelines.

Recommendation 10: Identify and reassign administrative tasks to support staff, such as tracking due dates of CAP remediation responses, logging vendor responses, and sending routine communications.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will review current policies and standard work for opportunities and availability of resources and add resources where required to meet these timelines.

Recommendation 11: Continue implementing the pilot project requiring DDD investigative nurses to review and accept CAP remediation responses within 14 days of being received, evaluate the pilot project to determine its effectiveness and identify any needed changes, and update and implement procedures accordingly to help ensure timely CAP response review and acceptance.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement this into current standard work.

Recommendation 12: Develop and implement procedures for tracking and monitoring the 30-day followup visits using the DDD district tracker.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has initiated process improvements to update standard work to clarify responsibilities and timelines for follow-up. In addition, the current tracking mechanism was updated in May 2025 to provide real-time visual display of upcoming due dates.

Recommendation 13: Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including identifying who DDD district nurses should inform if corrective actions have not been implemented and/or sustained.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has updated the standard work to include how to elevate Vendor non-compliance or sustained compliance for further review and other actions, including referral to the Contract Actions Unit.

Recommendation 14: Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including assigning responsibility for reviewing inspection reports involving corrective actions that have not been implemented/sustained.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has updated the standard work to include how to elevate Vendor non-compliance or sustained compliance for further review and other actions, including referral to the Contract Actions Unit.

Recommendation 15: Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including outlining any further actions that should be taken when followup visits identify continued noncompliance, such as conducting additional monitoring and/or recommending the vendor be subject to additional enforcement actions.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has updated the standard work to define the steps for monitoring at 30-, 60- and 90- day intervals; elevating continued noncompliance to Quality Management Unit leadership; and elevation to the Contract Action Unit for further contract action, up to termination.

Recommendation 16: Develop and implement procedures for handling DDD vendors that do not implement or sustain required corrective actions, including providing guidance and outlining responsibility for who should send warning emails to vendors that remain out of compliance and when cases should be elevated to DDD leadership.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has updated standard work on the process to elevate Vendor non-compliance to Quality Management leadership.

The subsequent pages were written by AHCCCS to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.

September 25, 2025

Lindsey A. Perry, Auditor General
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Auditor General Perry:

Enclosed is the Arizona Health Care Cost Containment System's (AHCCCS) response to the Auditor General's performance audit of the Arizona Department of Economic Security's Division of Developmental Disabilities (Report 25-114).

We appreciate the professionalism and collaborative approach demonstrated by your office throughout the audit process. AHCCCS is committed to addressing the audit finding and implementing the recommendations outlined in the report. Our response details our planned actions and strategies to ensure continued compliance and improvement that will further support our efforts to serve Arizona residents effectively.

Thank you for the opportunity to review and respond to the audit report. We value your office's continued partnership and oversight.

Sincerely,



Kristen Challacombe
Interim Director

Finding 1: Although AHCCCS has conducted some oversight of the Department, it did not adequately oversee the Department's assessment and triage of quality-of-care concerns to ensure the Department classified, investigated, and resolved incidents in accordance with policy.

AHCCCS response: The Auditor General's finding is agreed to.

Response explanation: As indicated in the explanations below, AHCCCS is committed to reviewing and updating its processes to ensure effective oversight.

Recommendation 4: Provide training and additional guidance to the Department to ensure it understands AHCCCS policy requirements related to classifying and investigating quality-of-care concerns, including providing the Department with its review of incident classifications from our sample.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: As part of the Corrective Action Plan (CAP) review process, AHCCCS regularly meets with the Department to ensure its understanding of policy requirements related to classifying and investigating quality-of-care concerns. AHCCCS is currently reviewing its training and guidance processes to make enhancements, which includes providing the Department with its review of incident classifications from the Auditor General's sample.

Recommendation 5: Ensure the Department provides all incidents, including both quality-of-care and non-quality-of-care incidents, as required by AHCCCS policy.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS has been working with the Department to ensure all incidents, including both quality-of-care and non-quality-of-care, are submitted to the QM Portal since it was discovered that this was not being done. AHCCCS will continue to collaborate with the Department to verify that all incidents are reported. AHCCCS is also evaluating its current review process to proactively detect when incidents are not being reported.

Recommendation 6: Ensure its weekly review sample includes incidents that the Department did not classify as quality-of-care concerns, as required by AHCCCS policy.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS agrees with the intent and content of the recommendation. With the Department now submitting all incidents into the QM Portal, AHCCCS will have a full population to be able to sample from, including incidents that the Department did not classify as quality-of-care concerns, in accordance with its established weekly review process. Additionally, as indicated in Recommendation 5, AHCCCS is also evaluating its review process to identify ways to proactively detect when incidents are not being reported.

Recommendation 7: Ensure operational reviews include analysis of Department's policies and procedures compared to AHCCCS requirements and expectations.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS agrees with the intent and content of the recommendation and will review its current practices to ensure its operational review process includes a thorough comparison of the Department's policies and procedures to AHCCCS' requirements and expectations.