

## Department of Economic Security Division of Developmental Disabilities ALTCS Contract

### Annual financial statement audit

The Division's fiscal year 2025 reported financial information is reliable. However, we reported deficiencies and noncompliance over financial reporting, summarized on page 6.

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### Audit's purpose

To express our opinion on the Division's Arizona Long Term Care System (ALTCS) Contract's financial statements and, if applicable, to report findings over noncompliance with certain laws and regulations or other financial deficiencies.

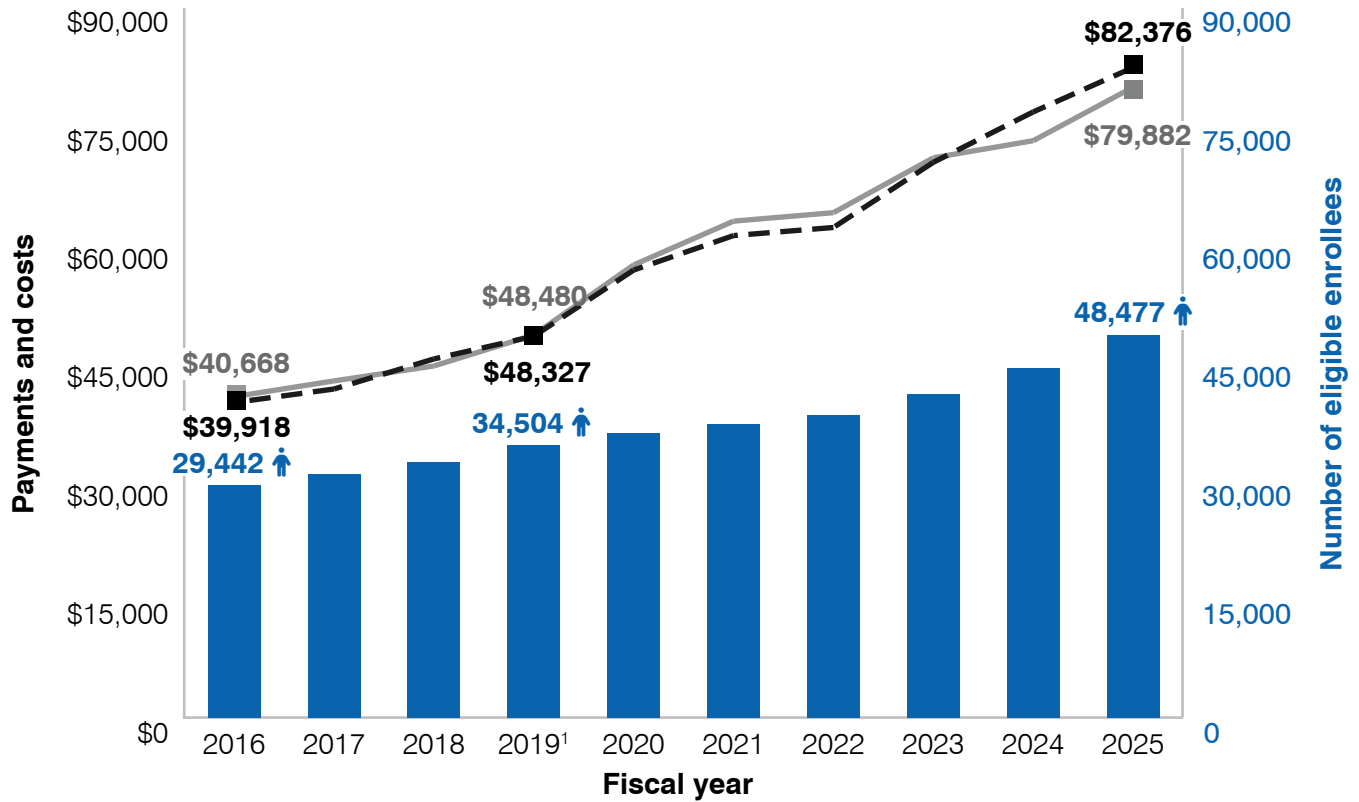
### Division is a contractor with Arizona's Medicaid agency to provide services to eligible enrollees who are developmentally disabled

The Division is a contractor with the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid agency. The Division administers a managed-healthcare plan through the ALTCS Contract and provides medical services and long-term healthcare services to eligible enrollees of the AHCCCS program who are developmentally disabled. The ALTCS Contract requires the Division to provide all covered healthcare services to eligible enrollees regardless of the cost of care. AHCCCS pays the Division premiums based on a set amount for each eligible enrollee, also known as capitation payments.

As shown in Figure 1 on page 2, the number of eligible enrollees, average covered service costs for an eligible enrollee, and average capitation payments for an eligible enrollee have all increased during the past 10 years, with the average capitation payment being less than the average cost of covered services in fiscal year 2025. Specifically, the number of eligible enrollees who are developmentally disabled and received services from the Division has increased from approximately 29,000 to 48,000 during the 10-year period from fiscal year 2016 through fiscal year 2025. During this same time, both the average costs of covered services for an eligible enrollee and the average capitation payments the Division received from AHCCCS for an eligible enrollee increased. Specifically, average capitation payments increased from approximately \$40,700 to \$79,900, and average service costs more than doubled from approximately \$39,900 to \$82,400. The ALTCS Contract's *Annual Financial Report* should be read to fully understand its financial information.

**Figure 1**

**Number of eligible enrollees and average capitation payments and costs for covered services for an eligible enrollee have increased between fiscal years 2016 and 2025**



- Average costs of covered services provided to an eligible enrollee
- Average capitation payments received for an eligible enrollee
- Number of eligible enrollees

<sup>1</sup> The ALTCS Contract's financial statements fiscal year-end changed from June 30 to September 30 beginning with the 2019 report as directed by AHCCCS. This resulted in the fiscal year 2019 financial statements including 15 months of financial activity. Therefore, we averaged the figure's data for fiscal year 2019 so that it would be comparable with all other fiscal years representing 12 months' financial activity.

Source: Auditor General staff summary of information obtained from the Division's ALTCS Contract's *Annual Financial Report* and the Division's enrollee data.

### **ALTCS Contract reported a \$79.1 million fund deficit in fiscal year 2025, a decrease from the prior year's \$94.1 million deficit**

For the fiscal year ended September 30, 2024 (fiscal year 2024), the ALTCS Contract's costs of covered services and transfers to other State funds exceeded capitation payments and other revenues, resulting in a fund deficit of \$94.1 million. Pursuant to 42 Code of Federal Regulations (CFR) §438.4(a), capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract. However, the capitation revenues the Division received from AHCCCS were not sufficient to cover all the Division's costs

to provide required medical and long-term healthcare services to eligible enrollees who have developmental disabilities. As previously mentioned, the Division must provide the services regardless of their cost. Specifically, the capitation revenue the Division received in fiscal year 2024 increased 10.9% from the prior year, while the cost of covered services (i.e., total expenses) increased by 17.3%. The majority of the cost increase for covered services was in the aid to individuals service category, which consists of 3 types of aid: home and community-based services, physical and behavioral health services, and institutional care. Home and community-based services, which are for enrollees in State- and vendor-operated group homes and adult developmental homes and home-based enrollees and include Parents as Paid Caregiver (PPCG) program costs, saw the most substantial increase of \$380.6 million from the prior fiscal year.

For the fiscal year ended September 30, 2025 (fiscal year 2025), the ALTCS Contract's revenues were \$15.0 million more than its expenditures, decreasing its fund deficit to \$79.1 million at September 30, 2025, see Figure 3 on page 5. We identified 2 factors that contributed to this reduction in the fund deficit.

First, AHCCCS amended its contract with the Division on April 1, 2025, halfway through the fiscal year, to increase the regular capitation rate by 12.9% due to higher than expected utilization trends for home- and community-based services (HCBS) and applied behavioral analysis (ABA) services.<sup>1</sup> During fiscal year 2025, HCBS expenditures increased by \$396.6 million from the prior fiscal year. Also, during fiscal year 2025, contracted physical and behavioral health care expenditures, including expenditures for ABA services provided by contracted health plans, increased by \$158.5 million from the prior year.<sup>2</sup> Capitation revenues received from AHCCCS during the same period increased by \$650.3 million from the prior year, and it was sufficient to cover all of the Division's costs to provide required medical and long-term healthcare services to eligible enrollees who have developmental disabilities.

Second, the ALTCS Contract's fund deficit was not impacted by any transfers to other State funds during fiscal year 2025, as shown in Figure 2 on page 4. While the Division is required, pursuant to Arizona Revised Statutes §36-2953, to transfer all monies from capitated payments that are unexpended and unencumbered at the end of the fiscal year to the State General Fund, no such monies were available since the ALTCS Contract began the year with a deficit. Further, while the ALTCS contract with AHCCCS permits the transfer of equity distributions, including interest earnings, upon AHCCCS' prior written approval, Division management reported it did not request a transfer of the ALTCS Contract's accumulated interest earnings since doing so would have increased the fund deficit.<sup>3</sup>

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<sup>1</sup> Contract #YH6-0014, Amendment #83.

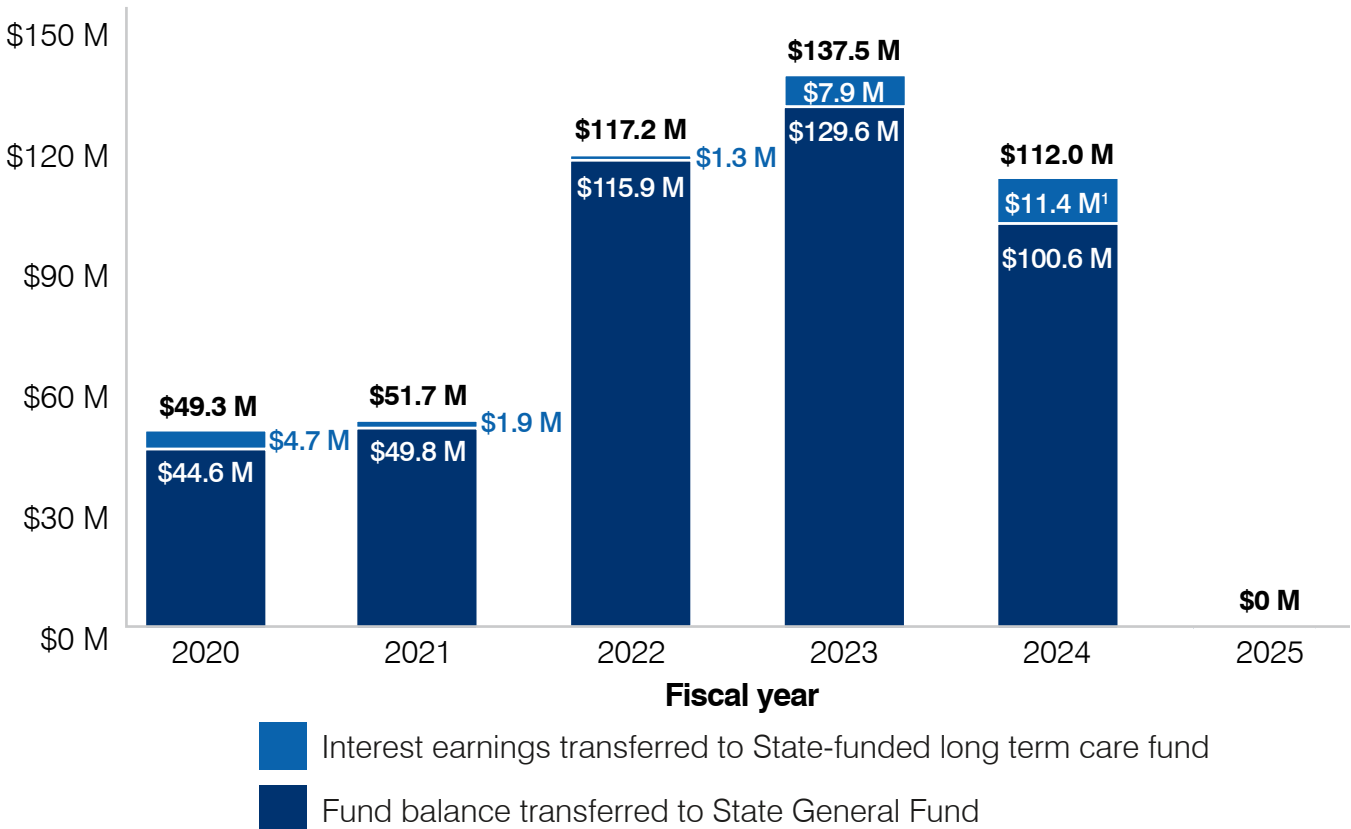
<sup>2</sup> ABA is empirically supported, research-driven and based on scientific principles of human behavior. ABA therapy is overseen by a qualified and trained behavior analyst, typically a Board-Certified Behavior Analyst, who designs and directs the ABA service. CA Department of Developmental Services. (2024, April 11). Applied Behavior Analysis. Retrieved 3/19/2026 from [https://www.dds.ca.gov/services/crisis-safety-net-services/applied-behavioral-analysis/#:~:text=Applied%20Behavior%20Analysis%20\(ABA\)%20focuses,and%20directs%20the%20ABA%20service.](https://www.dds.ca.gov/services/crisis-safety-net-services/applied-behavioral-analysis/#:~:text=Applied%20Behavior%20Analysis%20(ABA)%20focuses,and%20directs%20the%20ABA%20service.)

<sup>3</sup> Contract #YH6-0014, Section D: Program Requirements, 45. Advances, Equity Distributions, Loans, and Investments.

**Figure 2**

**\$467.6 million of ALTCS Contracts monies were transferred to other State funds as required by statute and permitted by contract in FYs 2020 through 2025**

Fiscal years 2020 through 2025



<sup>1</sup> The Division inappropriately transferred \$5.5 million of ALTCS fund monies to the State General Fund in fiscal year 2024. For more information, see the Auditor findings and recommendations on page 4 and Finding 2024-03 included in the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract *Annual Financial Report*, year-ended September 30, 2024.

Source: Auditor General staff summary of information obtained from the Division’s ALTCS Contract’s *Annual Financial Report*.

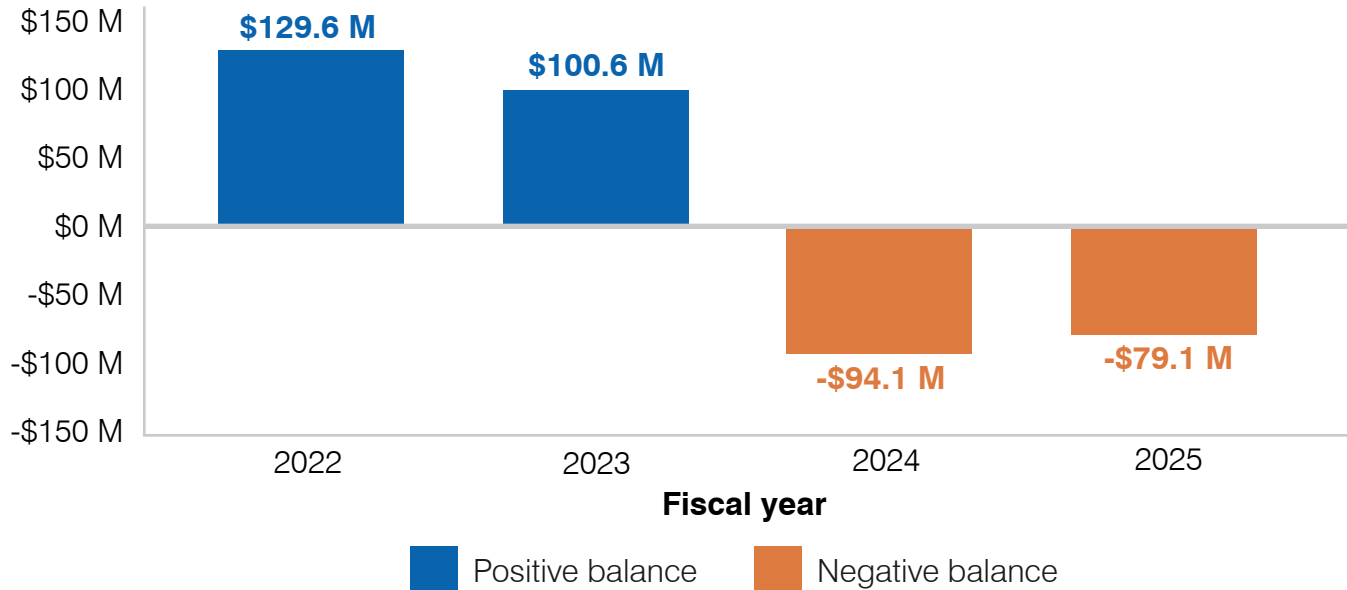
Figure 3 on page 5 presents the ALTCS Contract’s fund balance/deficit over the most recent fiscal years. The ALTCS Contract reported a fund balance of \$100.6 million at September 30, 2023. This amount was transferred to the State’s General Fund during fiscal year 2024, and it, combined with the ALTCS Contract’s fiscal year 2024 losses, resulted in the ALTCS Contract reporting a fund deficit of \$94.1 million at September 30, 2024. The Division’s contract with AHCCCS contains a risk corridor that limits the Division’s losses to 1% and its profits to 6%.<sup>4</sup> The Division reported it will receive an estimated reconciliation payment of \$122.6 million from AHCCCS to offset the ALTCS Contract’s fiscal year 2024 losses.<sup>5</sup> This additional revenue is expected to eliminate the Division’s fund deficit for the fiscal year ending September 30, 2026.

<sup>4</sup> Contract #YH6-0014, Section D: Program Requirements, 51. Compensation.

<sup>5</sup> The Division reported in its fiscal year 2024 financial statements that it would receive an estimated reconciliation payment of \$115.3 million from AHCCCS. Division management reported it revised its estimate for the current fiscal year to \$122.6 million using actual cost data that was not available when the prior year’s financial statements were issued. The Division performs its ALTCS Contract’s reconciliation process no sooner than 15 months after the contract year end and Division management reported it expects to complete the reconciliation process for the contract year ended September 30, 2024, by June 30, 2026. For more information on the fund deficit and estimated reconciliation payment, see Note 8 of the Notes to the Financial Statements in the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract *Annual Financial Report*, year ended September 30, 2024 and Note 7 of the Notes to the Financial Statements included in the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract *Annual Financial Report*, year ended September 30, 2025.

### Figure 3 ALTCS Contract fund balance

Fiscal years 2022 through 2025



Source: Auditor General staff summary of information obtained from the Division's ALTCS Contract's *Annual Financial Report*.

### Parents as Paid Caregiver (PPCG) program changes

Arizona House Bill 2945, which was signed into law on April 24, 2025, established regulations for the PPCG program.<sup>6</sup> The bill's key provisions included: (1) a 40 hour per child, per week limit on PPCG program services, which took effect on July 1, 2025; (2) the implementation of an electronic visit verification system that delineates whether a parent or non-parent provided the direct care services, which took effect on October 1, 2025 (start of fiscal year 2026); and (3) the implementation of a strengthened, standard assessment tool to determine the need for extraordinary care for minor children under the PPCG program, which also took effect on October 1, 2025.<sup>7,8</sup> Division management reported it could not track PPCG program service costs during fiscal year 2025 because Medicaid claims did not identify whether a parent or non-parent provided the direct care services, and therefore, the Division could not determine the effect the 40 hours per child, per week limit had on the ALTCS Contract's financial statements for the year

<sup>6</sup> On April 6, 2020, AHCCCS received temporary authority from the Centers for Medicare and Medicaid Services (CMS) to permit parents of minor children with disabilities to be paid caregivers during the federal COVID-19 Public Health Emergency. This temporary authority allowed parents and caregivers a way to ensure their children continued to receive healthcare services during the pandemic and to have a choice in whether or not to allow direct care workers into their homes. It also ensured continuity of services in the event direct care workers became ill or decided not to work as the result of COVID-19. On February 16, 2024, AHCCCS received approval from CMS to make the PPCG program a permanent service model option of the ALTCS program. AHCCCS. (May 2025). *Parents as Paid Caregivers of Minor Children Frequently Asked Questions*. Retrieved 3/2/2026 from [https://www.azahcccs.gov/AHCCCS/Downloads/COVID19/FAQ\\_ParentsAsPaidCaregivers.pdf](https://www.azahcccs.gov/AHCCCS/Downloads/COVID19/FAQ_ParentsAsPaidCaregivers.pdf)

<sup>7</sup> AHCCCS defines "extraordinary care" as care for the member that exceeds the range of activities a parent would ordinarily perform in the household on the member's behalf if they did not have a disability or chronic illness, and care that is necessary to assist the member's health and welfare to avoid institutionalization. Arizona Department of Economic Security, Division of Developmental Disabilities. (January 25, 2025). *Parents as Paid Caregivers (PPCG) Program Update Public Forums*. Retrieved 3/2/2026 from [https://des.az.gov/sites/default/files/media/PPCG\\_Public\\_Forum\\_Announcement\\_012225.pdf](https://des.az.gov/sites/default/files/media/PPCG_Public_Forum_Announcement_012225.pdf)

<sup>8</sup> AHCCCS created the home and community-based services (HCBS) Needs Assessment Tool to evaluate the functional and support needs of ALTCS members who may benefit from receiving certain HCBS to support activities of daily living (ADLs) and instrumental activities of daily living (IADLs). AHCCCS. (October 16, 2025). *ALTCS Emergency Rule and Policy For Minor Children Frequently Asked Questions*. Retrieved 3/2/2026 from [https://www.azahcccs.gov/Members/Downloads/ALTCS\\_EmergencyRule\\_PolicyforMinorChildrenFAQ.pdf](https://www.azahcccs.gov/Members/Downloads/ALTCS_EmergencyRule_PolicyforMinorChildrenFAQ.pdf)

ended September 30, 2025. Furthermore, on October 15, 2025, the Arizona Governor paused the implementation of the new strengthened standard assessment tool begun on October 1, 2025, to allow for emergency rule making and have clinicians re-evaluate and make any appropriate changes to the tool. The pause was in effect as of April 17, 2026. Due to unforeseen delays in the implementation of the tool, AHCCCS has determined that a mid-year capitation rate adjustment is needed to adequately fund DDD member costs.<sup>9</sup>

## Audit findings and recommendations

Summarized below are our findings and recommendations included in the ALTCS Contract's Annual Financial Report and Report on Internal Control and Compliance where there is further information and the Division's responses.

- ▶ The Division needs to establish timelines for procuring third-party actuarial services that allow enough time for the Division to meet the agreed-upon deadlines for providing accurate and key financial information to us by the agreed-upon deadlines established at the beginning of the audit. We found that the Division failed to provide key financial information to us timely, which delayed by over 1 month the issuance of the ALTCS Contract's fiscal year 2025 *Annual Financial Report*. As a result, the Division did not provide timely financial information to AHCCCS, State legislators, federal grantors, and other stakeholders who rely on it to make important decisions about ALTCS' operations and financial position. We initially reported a similar finding in fiscal year 2022. See Finding 2025-01.
- ▶ The Department of Economic Security, which manages the information technology (IT) systems and data the Division uses, needs to continue to develop, document, and implement effective policies and procedures over its IT systems and data to identify and respond to risks and to prevent, detect, and respond to unauthorized or inappropriate access or use, manipulation, damage, or loss of IT systems and data, including financial and sensitive information. We found that the Department of Economic Security's control procedures over IT systems and data were not sufficient, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data. We initially reported similar findings in fiscal year 2015. See Findings 2025-02 and 2025-03.

## Auditor General website report links

- ▶ **September 30, 2025, [Department of Economic Security Division of Developmental Disabilities ALTCS Contract Annual Financial Report and Report on Internal Control and Compliance](#)**

These highlights summarize the report above. The full report explains the Division's ALTCS Contract's overall financial picture and our reporting responsibilities.

- ▶ The [Division's reports from prior years.](#)

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<sup>9</sup> Arizona Governor's Office of Strategic Planning & Budgeting. (January 2026) *State of Arizona Executive Budget State Agency Budgets Fiscal Year 2027*. Retrieved 4/6/2026 from <https://ospb.az.gov/sites/default/files/2026-01/state-agency-detail-fy-2027.pdf>