



## REPORT HIGHLIGHTS

### FINANCIAL STATEMENT AUDIT

#### Subject

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

#### Our Conclusion

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



# 2005

Year Ended June 30, 2005

## Auditors Unable to Opine on MHP and ALTCS Funds' Financial Statements for 2 Consecutive Years

In the prior year's report for the year ended June 30, 2004, auditors reported material internal control weaknesses and were unable to determine whether the information reported in the MHP and ALTCS Funds' financial statements were accurate. Therefore, auditors were unable to opine on those financial statements. Auditors noted similar internal control weaknesses for the MHP and ALTCS Funds for the year ended June 30, 2005, and again, we were unable to opine on those financial statements.

For the year ended June 30, 2005, the Systems' material internal control weaknesses were as follows:

- The Systems contracted with outside service organizations to process and pay all medical, dental, prescription drug, and group home claims that represented approximately \$193.4 million in fiscal year 2005. However, the Systems did not require their contracted service organizations to have an effective system of internal controls in place to ensure that paid claims were accurate and complete. Auditors noted only one of six outside service organizations received an independent audit of its claims processing system because the Systems did not include contractual provisions in their service organizations' contracts requiring them. Further, the Systems failed to review and evaluate the report of the outside service organization that received an audit.
- For one of the Systems' largest contractors used for processing acute care claims, the Systems did not take the necessary steps to ensure that this contractor's claims processing system was properly configured and fully tested prior to processing medical claims for the Systems. Auditors noted that the Systems' quality control audit reports revealed that the claims processed during the first 8 months of the contract period did not pass their statistical claim accuracy standard. The Systems paid approximately \$82.4 million during that period and, therefore, medical expenses could be misstated on the MHP and ALTCS Funds' financial statements.
- The Systems used their trial balance report to prepare the MHP and ALTCS Funds' financial statements. However, the Systems did not reconcile paid claims to the trial balance report monthly to ensure their accounting records were accurately maintained. Auditors noted unreconcilable differences of \$18.6 million for the ALTCS Fund and \$5 million for the MHP Fund between the paid claims and the financial statements. Also, the Systems did not reconcile prepayments to claims paid for each provider monthly to ensure that providers were paid the proper amounts and that prepayments were properly accounted for.
- The Systems did not identify and recover all overpayments. For further detail, see page 2.

## Systems Should Continue to Identify and Recover all Overpayments

Prior to fiscal year 2005, the Systems made significant overpayments through their OAO claims processing system to their medical service providers and did not account for all outstanding prepayments. During fiscal year 2005, the Systems hired a consulting firm that developed a recovery methodology to identify overpayments and outstanding prepayments. However, both the Systems and the firm only analyzed \$130 million (22 percent) of \$586 million in medical providers' claims paid through the OAO system. The remaining 78 percent represents claims that were previously settled with the providers through a written agreement that stated neither party would seek recovery from the other. Further, the Systems did not analyze payments to providers between the OAO and the prior claims processing systems for possible duplicate payments.

Because of the failure to analyze and pursue collection efforts for all potential overpayments and outstanding prepayments, the Systems may not have identified all likely amounts due them. These overpayments and outstanding prepayments represent a gift of public monies since there was no public purpose served and the amounts paid to medical providers exceeded the value received. The Systems need to consult with their attorneys regarding the written agreements' validity. If these agreements are void or voidable because they constitute a gift of public monies, the Systems should then continue to seek recovery. In addition, the Systems should analyze payments to providers between the OAO and the prior claims processing systems for duplicate payments and seek to recover any overpayments found.

### TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling

**(602) 553-0333**



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[www.azauditor.gov](http://www.azauditor.gov)

Contact person for this report:  
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## Systems Failed to Comply with AHCCCS Contract Requirements

AHCCCS requires that 90 percent of all approved medical claims be paid within 30 days and paid claims information (encounters) be reported to AHCCCS within 120 days. However, the Systems did not pay claims or report paid claims to AHCCCS within required timelines. Also, auditors noted paid claims of approximately \$24 million for the MHP Fund and \$6 million for the ALTCS Fund that were either rejected or not submitted

to AHCCCS as of June 19, 2006. As a result, the Systems may not have received the full amount they were eligible to receive for reinsurance claims. So far, AHCCCS has fined the Systems \$125,000 for untimely encounter submissions for the contract period ended September 30, 2004. To date, AHCCCS has not completed the Systems' encounter measurements for the contract period ended September 30, 2005.

## County Discontinued AHCCCS Programs

The Maricopa County Board of Supervisors transferred the AHCCCS Acute Health Care program to the Maricopa County Special Health Care District and discontinued the AHCCCS ALTCS program effective October 1, 2005.

Consequently, Maricopa County terminated the Systems on October 1, 2005, and appointed the Maricopa Managed Care Systems Run-Out Team to close the Systems' operations. All the Systems' liabilities incurred prior to October 1, 2005, remain with the County.

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