



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pima Health Care System
Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 28, 2002

Board of Supervisors
Pima County
130 West Congress Street, 11th Floor
Tucson, AZ 85701-1317

Members of the Board:

In planning and conducting our audit of the Pima Health Care System for the year ended June 30, 2002, we performed the following as required by U.S. generally accepted auditing standards and the *Arizona Administrative Code*, Title 9, Chapters 22 and 28, as detailed in the *Reporting Guide for Acute Health Care Contractors with the Arizona Health Care Cost Containment System (AHCCCS)* and the *Reporting Guide for Arizona Long-Term Care System (ALTCS) Program Contractors with the Arizona Health Care Cost Containment System*:

- Considered the System's internal controls over financial reporting, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements.

We noted no internal control weaknesses or instances of noncompliance that we consider to be material to the financial statements. However, our audit disclosed other matters involving internal control weaknesses. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations are described below.

Kino Community Hospital should improve its internal control procedures for patient services revenue

Most of the Hospital's revenues consist of charges for patient services; therefore, it is essential that these charges be billed both accurately and in a timely manner so that these revenues are collected. However, our audit revealed some deficiencies in the Hospital's billing and collection procedures. For example, amounts received were not compared to the amounts the hospital should have received according to the related contracts, and they were not always applied to the proper patient account in a timely manner.

Board of Supervisors
October 28, 2002
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The Hospital should develop and enforce written internal control policies to improve its billing and collection procedures. These policies should require that amounts received are compared to what should have been paid, and the amounts are applied to the proper patient account in a timely manner.

This letter is intended solely for the information of the Pima County Board of Supervisors and the System's management and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General



PIMA COUNTY
FINANCIAL & INFORMATION SERVICES DEPARTMENT
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Carol M. Bonchalk, Director

October 23, 2002

Ms. Debbie Davenport
Auditor General
2910 N. 44th St., Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The following is Pima County's response to the Pima Health Care Systems' Management Letter for Fiscal Year 2001/2002. If you have any questions, please feel free to call.

Sincerely,

Paul J. Guerrero, Manager
Financial and Information Services

Kino Community Hospital
Management Letter Responses
For FY 2001 - 2002

Kino Community Hospital should improve its internal control procedures for patient services revenue.

The areas of concerns relate mainly to validating the actual payment received against the contractually expected payment. Over the course of the last fiscal year, the Hospital has implemented numerous policies and procedures along with a new information system, which has improved the billing and collection function. There are still a few areas where improvements need to occur. The Hospital has finalized the purchase of the managed care module, which will address this issue. This module will allow the Hospital to calculate the expected reimbursement from all payors and provide the Hospital with the necessary information to perform the applicable reconciliations. Until this system is installed and operational, the Hospital has begun a systematic review of all postings to patient accounts. Currently the Hospital has numerous Policies & Procedures related to Cash Application posting.