



# Pima Health System and Services Enterprise Fund

## REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

### Subject

Pima Health System and Services Enterprise Fund is responsible for preparing annual financial statements, maintaining strong internal controls over financial reporting, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the Fund has met its responsibilities.

### Our Conclusion

The information in the Fund's financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors identified a deficiency in internal control over financial reporting that resulted in noncompliance with AHCCCS requirements, which is described to the right.



# 2009

Year Ended June 30, 2009

## Financial Statement Audit Summary

### Pima Health System and Services Enterprise Fund administers Pima County's AHCCCS contracts—

The Fund operates managed care plans under Pima County's contracts with the Arizona Health Care Cost Containment System (AHCCCS). The plans provide medical services, such as urgent care and doctor's visits, and long-term care to Pima County and Santa Cruz County plan members.

### Lack of controls to ensure accurate claims data was submitted—

Pima Health System and Services Enterprise Fund lacked sufficient controls over its claims processing computer systems causing delays and inaccurate medical and health care claims data to be submitted to AHCCCS. During fiscal year 2009, this was primarily caused from problems with implementing new software. The problems with this software were not discovered until after its implementation, and the problems and causes were not immediately detected and identified. Our recommendations are in the summary to the right.

### Auditor recommendations to improve claims data processing—

- Assign experienced staff to accurately identify and correct all pended claims as well as claims never submitted to AHCCCS as soon as possible to reduce or avoid possible sanctions and liabilities.
- Assign experienced staff to analyze pended claims to determine the cause of such pends so that software or procedural modifications can be made to correct and prevent future errors.
- Ensure all software modifications are accurately documented, reviewed by appropriate supervisors, and approved by independent users.
- Ensure that all new software is adequately tested for accurate results prior to being placed into operation.
- Assign staff to monitor claims held in AHCCCS's Transaction Insight system due to errors and ensure they are corrected within 90 days of submittal.
- Implement the available software program to migrate successfully submitted claims data into the Fund's claims processing system to help with additional analysis of pended claims and to aid in the preparation of the required financial reports.

# Condensed Financial Information

**Statement of Net Assets**—The Statement of Net Assets reports all of Pima Health System and Services Enterprise Fund assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most nonprofit systems use. Net assets, which is the difference between assets and liabilities, includes three major categories. The first category, invested in capital assets, net of related debt, shows the Fund's equity in capital assets, such as equipment or buildings. The next category, restricted net assets, shows the amount of net resources available for purposes restricted by AHCCCS contract requirements or grantors. The third category, unrestricted net assets, is deficit primarily because providing services for certain state and federal grants resulted in losses. The summary to the right presents a condensed Statement of Net Assets as of June 30, 2009.

**Statement of Revenues, Expenses, and Changes in Net Assets**—The Statement of Revenues, Expenses, and Changes in Net Assets presents the Fund's operating and nonoperating revenues and expenses, and the resulting change in net assets. Operating revenues and expenses are those that generally result from exchange transactions generated from providing health care services. All other revenues and expenses, such as nonexchange grants and interest income and expense are considered nonoperating. The change in net assets indicates whether the Fund's financial health has improved or deteriorated as a result of current-year operations. For the current year, the Fund's net assets showed a decrease of \$4.6 million. The summary to the right presents revenues and expenses for the year ended June 30, 2009.

Condensed Statement of Net Assets June 30, 2009	
<b>Assets:</b>	
Cash and cash equivalents	\$25,234,463
Receivables	8,768,330
Capital assets	754,561
Other assets	242,987
<b>Total assets</b>	<b>35,000,341</b>
<b>Liabilities:</b>	
Accrued medical and health care claims	18,078,469
Due to other governments	3,643,441
Accrued employee compensation	2,345,552
Due to other Pima County funds	1,002,687
Other liabilities	680,704
<b>Total liabilities</b>	<b>25,750,853</b>
<b>Net assets:</b>	
Invested in capital assets	754,561
Restricted for health care	9,017,042
Unrestricted (deficit)	(522,115)
<b>Total net assets</b>	<b>\$ 9,249,488</b>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2009	
<b>Operating revenues:</b>	
Capitation	\$211,235,426
Reinsurance claims	2,749,742
Charges for services	2,122,367
Other operating revenues	2,136,039
<b>Total operating revenues</b>	<b>218,243,574</b>
<b>Operating expenses:</b>	
Medical and health care claims	199,621,448
Case management	6,797,848
General, fiscal, and administrative	5,667,477
Other operating expenses	8,300,473
<b>Total operating expenses</b>	<b>220,387,246</b>
Operating loss	(2,143,672)
Nonoperating revenues and expenses, net	924,030
Transfer out	(3,400,000)
Decrease in net assets	(4,619,642)
Net assets—beginning of year	13,869,130
<b>Net assets—end of year</b>	<b>\$ 9,249,488</b>

**Loss of Ambulatory Contract with AHCCCS**—On October 1, 2008, Pima Health System and Services Enterprise Fund's non long-term care medical services (ambulatory) contract with AHCCCS was not renewed as a result of a competitive bidding process. However, its long-term care AHCCCS contract is in effect until October 1, 2011. The Fund serves over 4,000 long-term care members, and it retained approximately 2,700 ambulatory members who were either dual-eligible (Medicaid and Medicare) or family of long-term care members. Because of the loss of the ambulatory contract, capitation revenues decreased by approximately \$61 million, or 22 percent, from the prior fiscal year.

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Year Ended June 30, 2009