



## REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

### Subject

Pima County's Pima Health System and Services Enterprise Fund issues financial statements annually. The Fund is responsible for preparing 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, for both reporting periods, the auditors identified a deficiency in internal control over financial reporting that resulted in noncompliance with AHCCCS requirements, which is described to the right.



# 2011

Year Ended June 30, 2011  
and Quarter Ended  
September 30, 2011

## County's Contracts with AHCCCS Expired on October 1, 2011

Pima Health System and Services Enterprise Fund administered Pima County's contracts with the Arizona Health Care Cost Containment System (AHCCCS). The Fund operated managed care plans that provided coverage for medical services, such as urgent care and doctors' visits, and long-term care to Pima County and Santa Cruz County plan members. Pima County's contracts with AHCCCS to

provide these services to its plan members expired on October 1, 2011. Therefore, the County will no longer provide these healthcare services. Also, part of the Fund's operations included providing services to residents of the county-owned Posada Del Sol Nursing Home. The County sold its nursing home in January 2012. The Fund is scheduled to close during fiscal year 2012 after all residual activity with AHCCCS is settled.

## Fund Lacks Controls to Ensure Accurate Claims Data was Submitted to AHCCCS

Pima County's management over the Fund is responsible for ensuring that medical claims are timely and accurately processed, paid, and submitted to the AHCCCS. Pima Health System and Services Enterprise Fund lacked sufficient controls over its claims-processing computer systems, causing delays and inaccurate medical and healthcare claims data to be submitted to AHCCCS. Because of these deficiencies, AHCCCS assessed the Fund a potential sanction of \$551,480 as of September 30, 2011. However, AHCCCS acknowledges it may waive these sanctions if the Fund shows continued improvement in submitting complete and accurate claims within the contractual timelines. Based on the most

recent correspondence from AHCCCS, the number of pended transactions had decreased for the quarter ended December 31, 2011, resulting in a reduced potential sanction of \$326,265. To help avoid such sanctions, auditors recommend that the County continue to assign experienced employees to identify all pended claims initially processed by the Fund. Employees should also work with the third-party administrator currently processing claims on behalf of the Fund to analyze pended claims and determine the causes so that employees can make software or procedural changes. This will also help the County successfully close out its contractual obligations.

## Condensed Financial Information

### Condensed Statements of Net Assets

	June 30, 2011	September 30, 2011
<b>Assets:</b>		
Cash and cash equivalents	\$40,622,855	\$41,227,417
Receivables	4,062,582	5,275,286
Capital assets	535,457	490,447
Other assets	429,440	486,295
Total assets	<u>45,650,334</u>	<u>47,479,445</u>
<b>Liabilities:</b>		
Accrued medical and healthcare claims	19,544,470	17,445,782
Accrued employee compensation	1,078,898	875,146
Due to other Pima County funds	599,389	1,972,283
Other liabilities	348,719	414,396
Total liabilities	<u>21,571,476</u>	<u>20,707,607</u>
<b>Net Assets:</b>		
Invested in capital assets	535,457	490,447
Restricted for healthcare	23,561,837	26,415,475
Unrestricted (deficit)	(18,436)	(134,084)
Total net assets	<u>\$24,078,858</u>	<u>\$26,771,838</u>

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30, 2011	Quarter Ended September 30, 2011
<b>Operating revenues:</b>		
Capitation	\$192,790,228	\$47,394,506
Reinsurance claims	13,024,266	2,980,379
Charges for services	1,837,774	1,000,434
Other operating revenues	561,349	100,525
Total operating revenues	<u>208,213,617</u>	<u>51,475,844</u>
<b>Operating expenses:</b>		
Medical and healthcare claims	175,586,596	43,168,718
Case management	7,464,603	1,904,975
General, fiscal, and administrative	4,793,537	1,057,062
Other operating expenses	8,683,641	2,785,855
Total operating expenses	<u>196,528,377</u>	<u>48,916,610</u>
Operating income	11,685,240	2,559,234
<b>Nonoperating revenues and expenses, net</b>	844,062	133,746
Transfer out	(4,596,685)	
Increase in net assets	<u>7,932,617</u>	<u>2,692,980</u>
Net assets—beginning of period	<u>16,146,241</u>	<u>24,078,858</u>
Net assets—end of period	<u>\$ 24,078,858</u>	<u>\$26,771,838</u>

**Statement of Net Assets**—This statement reports all assets, liabilities, and net assets. Net assets, the difference between assets and liabilities, are reported in three major categories:

- Invested in capital assets shows the equity in property, plant, and equipment.
- Restricted net assets shows the net resources that must be used for restricted purposes as specified by AHCCCS and other external entities.
- Unrestricted net assets is negative primarily because the Fund provided services that resulted in losses.

**Statement of Revenues, Expenses, and Changes in Net Assets**—This statement reports all revenues, expenses, and other changes to net assets. Revenues and expenses are reported as either operating or nonoperating. The change in net assets indicates whether financial health has improved or deteriorated as a result of current-year activities. Net assets increased by \$2.7 million, or 11 percent, in the current quarter. Also, there was an increase of \$7.9 million, or 49 percent, for fiscal year 2011.