

Department of Economic Security Division of Developmental Disabilities ALTCS Contract

CONCLUSION: The Department of Economic Security (Department), Division of Developmental Disabilities (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 Arizona Long Term Care System (ALTCS) Contract and provides medical services and long-term healthcare services to eligible, developmentally disabled enrollees of the AHCCCS program. The Division's ALTCS Contract requires that it provide all covered healthcare services to those enrollees regardless of the cost of care.

The Division is responsible for preparing the ALTCS Contract annual financial report, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the Division's ALTCS Contract's financial statements annually. Since the Division is a component of the State, the information in the financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. A summary of the Division's ALTCS Contract's financial statements is presented below. Based on our audit, we issued an opinion on the Division's ALTCS Contract's financial statements and issued a report on internal control and on compliance over its financial reporting. The information in its fiscal year 2016 financial statements is reliable. Our Office identified internal control weaknesses over financial reporting. These findings are summarized on the next page.

Condensed financial statement information

Balance sheet—This statement reports all of the assets, liabilities, and fund balance of the Division's ALTCS Contract. Fund balance is reported as restricted for health and welfare, which means the resources must be used for purposes specified by AHCCCS.

Statement of revenues, expenditures, and changes in fund balance—This statement reports all revenues, expenditures, and other changes in fund balance. The increase or decrease in fund balance indicates whether the Division's ALTCS Contract's financial health has improved or deteriorated as a result of current-year activities. The Division receives capitation revenue based on a fixed rate for each plan enrollee. Fund balance decreased by approximately \$10.7 million, or 31 percent, in fiscal year 2016.

Balance sheet

As of June 30, 2016 (In thousands)

Assets	
Cash and investments held by the State Treasurer	\$ 54,324
Due from other state funds/providers	105,201
Total assets	159,525
Liabilities and fund balance	
Liabilities	
Accrued administrative and payroll costs	10,781
Accrued medical and healthcare claims	81,781
Due to other state funds	42,910
Total liabilities	135,472
Fund balance	
Restricted for health and welfare	24,053
Total liabilities and fund balance	\$159,525

Statement of revenues, expenditures, and changes in fund balance

Year ended June 30, 2016 (In thousands)

Revenues	
Capitation	\$1,197,343
Other revenues	3,985
Total revenues	1,201,328
Expenditures	
Aid to individuals	1,027,134
Other expenditures	148,141
Total expenditures	1,175,275
Excess of revenues over expenditures	26,053
Transfers to other state funds	(36,815)
Decrease in fund balance	(10,762)
Fund balance—beginning	34,815
Fund balance—ending	\$ 24,053

Summary of audit findings and recommendations

For the Division's financial audit, we found internal control weaknesses over the Division's financial reporting related to financial statement preparation and the Department's and the Division's information technology (IT) resources. Our report on internal control and on compliance over financial reporting contains further details to help the Department and Division correct the internal control weaknesses summarized below.

Inadequate financial statement preparation procedures—The Division lacked adequate internal controls over the preparation of its ALTCS Contract annual financial report. For example, we found that the Division's fiscal year 2016 report draft, composed of financial statements, note disclosures, and other required information, contained misstatements, including mathematical errors and noncompliance with generally accepted accounting principles. For example, the Division understated cash and due to other state funds by \$37 million. The Division made all necessary adjustments to accurately report information in its final fiscal year 2016 ALTCS Contract annual financial report.

Recommendations

To improve controls over the preparation of its ALTCS Contract annual financial report, the Division should develop and implement comprehensive policies and procedures over the financial statement preparation process. The policies and procedures should include detailed instructions for compiling and presenting financial data within the financial statements and note disclosures, including detailed instructions for obtaining necessary information not readily available from the accounting system. In addition, the Division should require that a knowledgeable employee who did not prepare the financial statements and note disclosures review them for accuracy and adequate support, completeness, and compliance with generally accepted accounting principles.

Inadequate policies and procedures over information technology resources—The Department's IT resources, which include its systems, network, infrastructure, and data, are vital to the Division's daily operations. However, the Department lacked effective policies and procedures over IT security, access, configuration management, and disaster recovery. IT security weaknesses included not performing a department-wide IT security-risk assessment, not categorizing and protecting sensitive information, and not keeping all employees trained on security awareness and the Department's IT policies and procedures. IT access weaknesses included not ensuring access was needed and compatible with employees' job responsibilities. IT configuration management weaknesses included not ensuring IT resources were configured appropriately and securely or preventing users with local administrative rights from making changes to their workstations and bypassing the configuration management process. Finally, disaster recovery weaknesses included not having a comprehensive up-to-date disaster recovery plan to provide for the continuity of operations in the event of disaster, system or equipment failure, or other interruption.

Recommendations

The Department should develop and implement policies and procedures over its IT resources that include the following:

- Performing a department-wide security-risk assessment.
- Identifying, categorizing, and protecting sensitive information.
- Training all employees on security awareness and the Department's IT security policies and procedures.
- Performing a periodic and comprehensive review of all existing employee access accounts.
- Limiting the functionality of IT resources to ensure it is performing only essential services.
- Prohibiting users from making changes and bypassing the configuration management process.
- Updating the disaster recovery plan to include all key elements.