



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

---

Financial Audit

## **Department of Economic Security**

Division of Developmental  
Disabilities ALTCS Contract  
Year Ended June 30, 2011

---



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

**Office of the Auditor General**

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

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

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Report on Audit of Financial Statements  
Year Ended June 30, 2011

Table of Contents	Page
Independent Auditors' Report	1
Balance Sheet—Special Revenue Fund	3
Statement of Revenues, Expenditures, and Changes in Fund Balance—Special Revenue Fund	4
Notes to Financial Statements	5
Supplementary Schedules	
Medical Claims Payable (RBUCs and IBNRs)	12
Lag Report for Institutional Care Payments	13
Lag Report for Home- and Community-Based Services Payments	14
Lag Report for Acute Care Payments	15
Utilization Data Report	16
Related Party Transactions	17
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

Clarence H. Carter, Director  
Department of Economic Security

We have audited the accompanying financial statements of the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long-Term Care System Contract (ALTCS Contract), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Department and its Division of Developmental Disabilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the ALTCS Contract's financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of Arizona that is attributable to the transactions of the ALTCS Contract. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the ALTCS Contract. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

December 1, 2011

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Balance Sheet—Special Revenue Fund  
 June 30, 2011

**Assets**

Cash on deposit with the State Treasurer	\$ 31,927,532
Due from other state funds	103,119,701
Due from providers	<u>544,356</u>
Total assets	<u>\$135,591,589</u>

**Liabilities and Fund Balance**

Liabilities:	
Accrued administrative and payroll costs	\$ 6,529,223
Accrued medical and healthcare claims	61,053,377
Due to other state funds	<u>1,937,562</u>
Total liabilities	<u>69,520,162</u>
Fund balance:	
Restricted for health and welfare	<u>66,071,427</u>
Total liabilities and fund balance	<u>\$135,591,589</u>

See accompanying notes to financial statements.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance—Special Revenue Fund  
 Year Ended June 30, 2011

Revenues:	
Capitation	\$943,536,379
Investment earnings	<u>859,375</u>
Total revenues	<u>944,395,754</u>
Expenditures:	
Health and welfare:	
Aid to individuals	795,658,395
Allocated administrative expenditures	33,979,108
Case management	39,134,140
Professional and outside services	2,973,989
Premium tax	<u>17,361,785</u>
Total expenditures	<u>889,107,417</u>
Excess of revenues over expenditures	55,288,337
Other financing uses:	
Transfers to other state funds	<u>(30,000,000)</u>
Net change in fund balance	25,288,337
Fund balance, July 1, 2010	<u>40,783,090</u>
Fund balance, June 30, 2011	<u>\$ 66,071,427</u>

See accompanying notes to financial statements.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Economic Security (Department), Division of Developmental Disabilities (Division), Arizona Long-Term Care System Contract (ALTCS Contract), conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board.

For the year ended June 30, 2011, the Division implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. Reporting Entity

For financial reporting purposes, the ALTCS Contract includes only that portion of the State's General Fund that is attributable to the ALTCS Contract's transactions. The Division is responsible for administering the ALTCS Contract. Control by the Division was determined on the basis of accountability. Fiscal responsibility for the Division remains with the Department and, ultimately, with the State. The Division is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide medical and healthcare services to eligible enrollees of the AHCCCS Arizona Long-Term Care System (ALTCS) program for the developmentally disabled. This program provides in-patient and out-patient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to eligible enrollees of the AHCCCS ALTCS program. The Division receives monthly premiums from AHCCCS for all eligible enrollees under the AHCCCS ALTCS program for the developmentally disabled.

B. Fund Accounting

The Division's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Division's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The ALTCS Contract's financial transactions are reported as a special revenue fund since the proceeds are from specific revenue sources that are legally restricted to expenditures for specified purposes.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2011

Although the ALTCS Contract is considered a special revenue fund when reported on individually, it becomes a part of the State's General Fund at the combined state-wide level.

### C. Basis of Accounting

The ALTCS Contract financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers capitation revenues to be available if they are collected within 90 days of the end of the current fiscal year, and considers all other revenues to be available if they are collected within 30 days of the end of the current fiscal year. All ALTCS Contract revenue sources are susceptible to accrual. Expenditures are recognized when the related fund liability is incurred.

### D. Fund Balance Classifications

Fund balance is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. Deficits in fund balance, if any, are reported as unassigned.

### E. Capitation

The ALTCS Contract receives fixed capitation payments from AHCCCS based on certain rates for each AHCCCS member enrolled in the Division's ALTCS Contract program. The ALTCS Contract is required to provide all covered healthcare services to its members, regardless of the cost of care. If there are monies remaining, the Contract retains the monies as profit; if the costs are higher than the amount of capitation payments from AHCCCS, the ALTCS Contract absorbs the loss.

### F. Investment Earnings

Investment earnings is composed of interest earned on the ALTCS Contract's portion of monies deposited with the State Treasurer.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2011

G. Incurred But Not Recorded (IBNR) Methodology

The liability and expenditures reported for accrued medical and healthcare claims includes IBNR medical claims, which are estimated using lag data provided by the Division's information systems, with adjustments as necessary for events that are outside the lag patterns. Amounts are based on historical expenditure patterns.

Note 2 - Cash on Deposit with the State Treasurer

Arizona Revised Statutes requires state agencies' monies to be deposited with the State Treasurer. Cash on deposit with the State Treasurer represents the ALTCS Contract's portion of those monies.

Note 3 - Due from Other State Funds

Amounts due from other state funds at June 30, 2011, include \$39,629 of interest earned, \$102,993,029 of capitation receivables due from AHCCCS, and \$87,043 due from the Department of Economic Security's General Fund for share of costs.

Note 4 - Accrued Medical and Healthcare Claims

Accrued medical and healthcare claims totaling \$61,053,377 include estimated incurred but not reported (IBNR) medical claims.

Note 5 - Acute Care Reinsurance

During the year ended June 30, 2011, the Division received reimbursements totaling \$4,467,660 from AHCCCS for acute care reinsurance expenditures for claims for enrollees incurred in prior fiscal years. These reimbursements are recorded as a reduction of aid to individuals expenditures.

The Division subcontracts with various health plans to provide acute care services to ALTCS enrollees. These health plans must submit clean reinsurance claims to the Division within 12 months from the date of service.

The Division disbursed a total of \$5,821,003 to the health plans during the year ended June 30, 2011.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2011

Note 6 - Aid to Individuals Expenditures

Aid to individuals expenditures consists of the following expenditures summarized by type of service setting or service provided, as applicable:

Institutional care:	
Skilled nursing	\$ 1,920,384
Institutional care	9,727,896
Intermediate (mentally retarded)	15,916,572
Institutional care IBNR	<u>1,228,622</u>
Total institutional care	<u>28,793,474</u>
Home- and community-based services (HCBS):	
State-operated group home	6,559,486
Vendor-operated group home	210,663,169
Adult developmental home	36,884,602
Home-based services	334,982,153
HCBS IBNR	<u>57,958,709</u>
Total HCBS	<u>647,048,119</u>
Acute care:	
Acute care	116,597,413
Acute care IBNR	1,866,046
Reinsurance	5,821,003
Reinsurance reimbursement	<u>(4,467,660)</u>
Total acute care	<u>119,816,802</u>
Total aid to individuals expenditures	<u>\$795,658,395</u>

During the year ended June 30, 2011, the ALTCS Contract recorded allocated charges of \$25,856,419 as expenditures for direct care services including administrative costs provided to clients by the Division. The expenditures were charged to the ALTCS Contract as aid to individuals expenditures based on a federally approved cost allocation plan.

Note 7 - Allocated Administrative Expenditures

During the year ended June 30, 2011, the ALTCS Contract recorded allocated administrative charges of \$33,979,108 as expenditures for its share of the administrative and fiscal services provided by the Department.

Note 8 - Premium Tax

Arizona Revised Statutes §§36-2905 and 36-2944.01 require AHCCCS to pay a 2 percent premium tax on all capitation and other reimbursements paid to the ALTCS Contract. These premium taxes are reported as expenditures and are paid to the Arizona Department of Insurance.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2011

Note 9 - Transfers

Transfers to other state funds during the year ended June 30, 2011, consisted of \$30 million to the State General Fund as a result of Laws 2011, First Regular Session, Chapter 24, Section 108, as authorized by AHCCCS.

Note 10 - Commitments and Contingencies

The State has the ultimate fiscal responsibility for the ALTCS Contract. Accordingly, any claims requiring additional resources require the Legislature's approval. While there is a possibility that claims could be asserted that would require additional resources for the ALTCS Contract, in management's opinion, the possibility is low that valid claims will be asserted and claim amounts cannot reasonably be estimated.

Note 11 - Risk Management

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Department is a participant in the State's self-insurance program, and in the Division management's opinion, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for the State's unsettled claims and actions are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*.

Note 12 - Related Party Transactions

During the year ended June 30, 2011, the ALTCS Contract reimbursed the Division for \$25,856,419 of health and rehabilitative services provided to enrollees, including administrative costs. The ALTCS Contract also reimbursed the Division as well as other Department divisions for \$33,979,108 of administrative and fiscal services, and the Arizona Department of Insurance for \$17,361,785 of premium taxes due.

(This page is left intentionally blank)

## Supplementary Schedules

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Medical Claims Payable (RBUCs and IBNRs)  
 June 30, 2011

Account	Reported But Unpaid Claims (RBUCs)				Total RBUCs (1)	IBNR (1)	Total RBUCs and IBNRs
	1-30 days	31-60 days	61-90 days	Over 90 days			
Institutional care						\$ 1,228,622	\$ 1,228,622
HCBS						57,958,709	57,958,709
Acute care						<u>1,866,046</u>	<u>1,866,046</u>
Total claims payable						<u>\$61,053,377</u>	<u>\$61,053,377</u>

- (1) Due to the timeliness of claims submission by providers as well as the immediate payment of billings by the Division's claims processing systems, RBUCs are not separately presented from the IBNR amount since any amount would be immaterial.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Institutional Care Payments  
Year Ended June 30, 2011

Quarter in Which Service Was Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$6,848,728	\$1,229,626	\$ 33,857	\$ 13,975				\$ 8,126,186
1 <sup>st</sup> Prior		5,731,845	1,176,810	39,668				6,948,323
2 <sup>nd</sup> Prior			5,815,812	1,158,028	\$ 26,111			6,999,951
3 <sup>rd</sup> Prior				5,477,730	1,201,929	\$ 3,882		6,683,541
4 <sup>th</sup> Prior					5,212,213	1,176,967	\$ 2,786	6,391,966
5 <sup>th</sup> Prior						5,173,922	1,267,557	6,441,479
6 <sup>th</sup> Prior							<u>5,923,762</u>	<u>5,923,762</u>
Total	<u>6,848,728</u>	<u>6,961,471</u>	<u>7,026,479</u>	<u>6,689,401</u>	<u>6,440,253</u>	<u>6,354,771</u>	<u>7,194,105</u>	<u>47,515,208</u>
Expenses reported	8,354,017	7,003,834	6,504,478	6,931,145	6,153,738	6,295,910	6,733,912	47,977,034
Adjustment (1)	<u>(360,439)</u>	<u>25,192</u>	<u>529,885</u>	<u>(233,411)</u>	<u>286,515</u>	<u>58,861</u>	<u>460,193</u>	<u>766,796</u>
Remaining liability	<u>\$1,144,850</u>	<u>\$ 67,555</u>	<u>\$ 7,884</u>	<u>\$ 8,333</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,228,622</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that affect the business cycle.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Home- and Community-Based Services Payments  
Year Ended June 30, 2011

Quarter in Which Service Was Provided

Quarter of Payment	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$108,331,307	\$ 55,710,501	\$ 823,592	\$ 905,362	\$ 143,580	\$ (3,721)	\$ (6,893)	\$ 165,903,728
1 <sup>st</sup> Prior		100,987,003	53,614,609	982,431	216,649	106,057	(2,032)	155,904,717
2 <sup>nd</sup> Prior			105,071,140	51,939,357	741,013	168,539	44,464	157,964,513
3 <sup>rd</sup> Prior				107,658,039	53,897,661	779,213	218,964	162,553,877
4 <sup>th</sup> Prior					102,752,121	54,362,828	645,732	157,760,681
5 <sup>th</sup> Prior						95,962,007	52,910,875	148,872,882
6 <sup>th</sup> Prior							<u>99,118,935</u>	<u>99,118,935</u>
Total	<u>108,331,307</u>	<u>156,697,504</u>	<u>159,509,341</u>	<u>161,485,189</u>	<u>157,751,024</u>	<u>151,374,923</u>	<u>152,930,045</u>	<u>1,048,079,333</u>
Expenses reported	165,298,376	157,145,072	162,314,617	162,290,054	156,876,455	151,154,661	154,207,222	1,109,286,457
Adjustment (1)	<u>(1,628,945)</u>	<u>1,362,082</u>	<u>(2,211,549)</u>	<u>(587,657)</u>	<u>874,569</u>	<u>220,262</u>	<u>(1,277,177)</u>	<u>(3,248,415)</u>
Remaining liability	<u>\$ 55,338,124</u>	<u>\$ 1,809,650</u>	<u>\$ 593,727</u>	<u>\$ 217,208</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 57,958,709</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that affect the business cycle.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Acute Care Payments  
Year Ended June 30, 2011

Quarter in Which Service Was Provided

Quarter of Payment	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$28,483,992	\$ 1,240,265	\$ 109,571	\$ 114,907	\$ 12,424	\$ 9	\$ 1,244	\$ 29,962,412
1 <sup>st</sup> Prior		29,053,992	1,302,522	171,187	21,882	3,538	1,742	30,554,863
2 <sup>nd</sup> Prior			28,458,915	1,214,225	128,864	62,878	32,635	29,897,517
3 <sup>rd</sup> Prior				28,079,683	1,696,398	175,039	60,458	30,011,578
4 <sup>th</sup> Prior					27,434,124	1,268,533	211,638	28,914,295
5 <sup>th</sup> Prior						26,219,713	1,381,528	27,601,241
6 <sup>th</sup> Prior							<u>33,282,865</u>	<u>33,282,865</u>
Total	<u>28,483,992</u>	<u>30,294,257</u>	<u>29,871,008</u>	<u>29,580,002</u>	<u>29,293,692</u>	<u>27,729,710</u>	<u>34,972,110</u>	<u>210,224,771</u>
Expenses reported	33,568,576	30,326,727	29,983,183	30,405,976	28,448,360	30,908,529	30,779,213	214,420,564
Adjustment (1)	<u>(3,498,445)</u>	<u>116,814</u>	<u>(18,873)</u>	<u>(788,653)</u>	<u>845,332</u>	<u>(3,178,819)</u>	<u>4,192,897</u>	<u>(2,329,747)</u>
Remaining liability	<u>\$ 1,586,139</u>	<u>\$ 149,284</u>	<u>\$ 93,302</u>	<u>\$ 37,321</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,866,046</u>

(1) Adjustment amounts each quarter fluctuate due to unpredictable variables that affect the business cycle.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Utilization Data Report  
Year Ended June 30, 2011

	<u>Medicare</u>		<u>Non-Medicare</u>		<u>Total</u>	
	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>
A. Enrollees	5,266	5,266	18,484	18,484	23,750	23,750
B. Member months (unduplicated)	15,728	61,593	55,213	216,715	70,941	278,308
Institutional total	426	1,689	158	608	584	2,297
1. Level 2	96	386	27	89	123	475
2. Level 3	330	1,303	131	519	461	1,822
Home- and community-based services total	15,302	59,904	55,055	216,107	70,357	276,011
1. Group Home (DD)	4,600	17,910	3,085	12,186	7,685	30,096
2. Individual Home	8,163	31,274	44,258	169,459	52,421	200,733
3. Assisted Living Centers						
4. Other Adult Development Homes	1,604	6,048	1,104	4,108	2,708	10,156
5. Other Case Management Only	935	4,672	6,608	30,354	7,543	35,026
C. Acute patient day information (1)						
1. Admissions	-	23	18	445	18	468
2. Patient days	-	94	34	944	34	1,038
3. Discharges	-	23	18	445	18	468
4. Discharge days	-	94	34	944	34	1,038
5. Average length of stay (days)	-	4.09	1.89	2.12	1.89	2.22

(1) Beginning fiscal year 2011, the acute patient day information includes only the Indian Health Services membership.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Related Party Transactions  
Year Ended June 30, 2011

<u>Related Party and Relationship</u>	<u>Service Provided</u>	<u>Description of Transactions or Payment Terms Agreement</u>	<u>Amount</u>
Department of Economic Security, Division of Developmental Disabilities, Intermediate Care Facility/Mentally Retarded, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting, member days count, and modified total direct costs	\$15,916,572
Department of Economic Security, Division of Developmental Disabilities, State-Operated Group Homes, Home-Based Services, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting, member days count, and modified total direct costs	9,939,847
Department of Economic Security, Division of Developmental Disabilities and all other divisions	Administrative and fiscal services	Allocated departmental overhead costs	33,979,108
Department of Insurance	Compliance with Arizona Revised Statutes §§36-2905 and 36-2944.01	Premium tax payments	17,361,785

(This page is left intentionally blank)



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

Clarence H. Carter, Director  
Department of Economic Security

We have audited the financial statements of the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long-Term Care System Contract (ALTCS Contract) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

The Department's and its Division of Developmental Disabilities' management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Division's ALTCS Contract financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's ALTCS Contract financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona Health Care Cost Containment System, the Director of the Department of Economic Security, management, and others within the Department and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

December 1, 2011