



Department of Economic Security

Division of Developmental Disabilities ALTCS Contract

REPORT HIGHLIGHTS

FINANCIAL STATEMENT AUDIT

Our Conclusion

The Department of Economic Security, Division of Developmental Disabilities, is responsible for preparing annual financial statements for its Arizona Long Term Care System (ALTCS) Contract, 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 to the right.

Based on our audit, we issued our opinion on the Division's ALTCS Contract's financial statements and a report on its internal control and compliance. The information in its fiscal year 2015 financial statements is reliable. Our Office identified an internal control deficiency over financial reporting. This finding is summarized on the next page.



2015

Year Ended June 30, 2015

Financial information

The Division is a contractor with the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid agency, to administer a managed-care plan through ALTCS. The Division's plan 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.

Balance sheet—This statement reports all of the assets, liabilities, and fund balance of the Division's ALTCS Contract. The fund balance, or the difference between assets and liabilities, is one way to measure the Division's ALTCS Contract's financial health.

Statement of revenues, expenditures, and changes in fund balance—This statement reports information showing how the fund balance changed during the fiscal year. The change in fund balance indicates whether the Division's ALTCS Contract's financial health has improved or deteriorated as a result of current-year operations. The Division receives capitation revenue based on a fixed rate for each plan enrollee. If the revenue exceeds the cost of care, the Division retains the monies for reserves or for legislatively authorized transfers that are required to be approved by AHCCCS. If costs exceed revenues, the Division absorbs the loss. During fiscal year 2015, the Division's ALTCS Contract's fund balance increased by nearly \$27 million, and transfers to other state funds totaled \$10 million.

Balance sheet

As of June 30, 2015

(In millions)

Assets

Cash and investments held by the State Treasurer	\$ 15.0
Due from other state funds	95.1
Due from providers	1.7
Total assets	<u>\$111.8</u>

Liabilities and fund balance

Liabilities	
Accrued administrative and payroll costs	\$ 3.6
Accrued medical and healthcare claims	70.7
Due to other state funds	2.0
Due to providers	.7
Total liabilities	<u>77.0</u>

Fund balance	
Restricted for health and welfare	<u>34.8</u>
Total liabilities and fund balance	<u>\$111.8</u>

Statement of revenues, expenditures, and changes in fund balance

For the year ended June 30, 2015

(In millions)

Revenues

Capitation	\$1,119.6
Investment earnings	.8
Total revenues	<u>1,120.4</u>

Expenditures

Health and welfare	
Aid to individuals	957.4
Allocated administrative expenditures	49.1
Case management	48.8
Professional and outside services	4.9
Premium tax	23.3
Total expenditures	<u>1,083.5</u>

Excess of revenues over expenditures 36.9

Other financing uses

Transfers to other state funds	<u>(10.0)</u>
Net change in fund balance	26.9
Fund balance—beginning	7.9
Fund balance—ending	<u>\$ 34.8</u>

Summary of audit finding and recommendation

During the financial statement audit, we found an internal control weakness over the Department's financial reporting related to its information technology (IT) resources. Our Report on Internal Control and Compliance over financial reporting contains further details to help ALTCS correct the deficiency summarized below.

Department should update and test its disaster recovery plan over its IT resources

The Department's IT resources process and store information and data that is vital to its daily operation. However, the Department's disaster recovery plan for restoring its IT resources in the event of a disaster, system or equipment failure, or other interruption had not been evaluated, tested, or updated annually.

Recommendation

To help ensure continuity of operations in the event of a disaster, system or equipment failure, or other interruption, the Department should evaluate, test, and update its disaster recovery plan annually and retain documentation of all tests and those tests' results.