



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Pima Health Care System

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 22, 2004

Board of Supervisors
Pima County
130 West Congress Street, 11th Floor
Tucson, AZ 85701-1317

Members of the Board:

In planning and conducting our audit of the Pima Health Care System for the year ended June 30, 2004, we performed the following as required by U.S. generally accepted auditing standards and the *Arizona Administrative Code*, Title 9, Chapters 22 and 28, as detailed in the *Reporting Guide for Acute Health Care Contractors with the Arizona Health Care Cost Containment System (AHCCCS)* and the *Reporting Guide for Arizona Long-Term Care System (ALTCS) Program Contractors with the Arizona Health Care Cost Containment System*:

- Considered the System's internal controls over financial reporting and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements.

Our audit disclosed an instance of noncompliance with laws and regulations. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendation is described below.

The County should increase its
health plans' financial reserves
to comply with AHCCCS requirements

The County's contractual agreements with the AHCCCS require that the County maintain certain financial reserves in its AHCCCS and long-term care (ALTCS) health plans. During the fiscal year, the County requested reduced reserve requirements and AHCCCS approved that request. However, at June 30, 2004, the health plans' total financial reserves were \$4.1 million below the amended total required reserves. Individually, the ALTCS plan reserves were \$4.3 million below and the AHCCCS plan reserves were \$0.2 million above the required reserves.

The ALTCS plan's financial reserves have declined below the required level because of the loss of over \$8.3 million incurred by the plan in fiscal year 2004. Further, both plans' financial reserves have been reduced because the County has transferred monies out of the plans to the General Fund to help finance other healthcare services. During the past 5 fiscal years, the County transferred over \$30 million from the plans to the General Fund, including \$3.5 million at the end of the current fiscal year.

Board of Supervisors
October 22, 2004
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The County must monitor and ensure that the health plans maintain the financial reserve levels required by AHCCCS. Specifically, the County should project the plans' future operating results and transfer monies into its health plans as necessary.

This letter is intended solely for the information of the Pima County Board of Supervisors and the System's management and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport
Auditor General



PIMA COUNTY
FINANCE DEPARTMENT
130 WEST CONGRESS STREET
TUCSON, ARIZONA 85701-1317
(520) 740-8041 FAX (520) 624-9178

Carol M. Bonchalk, Director

October 18, 2004

Ms. Debbie Davenport
Auditor General
2910 N. 44th St., Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The following are Pima County's response to the Management Letter comments for Fiscal Year 2003/2004. If you have any questions, please feel free to call.

Sincerely,

Carol M. Bonchalk, Director
Finance Department

CMB:phs

Attachment

The County should increase its health plans' financial reserves

As noted, the ALTCS plan had a loss of \$8.3 million this past year. That loss is due in large part to the fact that capitation rates based on projected service mix were not adequate to support the actual service mix provided. The County will work with the Departments to increase the efficiency of its operations and will work with AHCCCS and ALTCS to improve the capitation rates to reflect the actual mix more accurately in order to improve the financial position of the Department.