



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Pima County

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

Pima County
Report on Internal Control and Compliance
Year Ended June 30, 2011

Table of Contents	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Recommendations	3
County Response	5
Report Issued Separately	
Comprehensive Annual Financial Report	



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 Basic Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Pima County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 19, 2011. Our report was modified to include a reference to our reliance on other auditors. 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. Other auditors audited the financial statements of the Stadium District, School Reserve Fund, Self-Insurance Trust, Regional Wastewater Reclamation Department, Development Services, Sports & Tourism Authority, and Southwestern Fair Commission, as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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 County's basic 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 and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 11-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 11-01.

Pima County's response to the finding identified in our audit is presented on pages 5 through 6. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, others within the County, federal awarding agencies, and pass-through entities 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.

Jay Zsorey, CPA
Financial Audit Director

December 19, 2011

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2011

11-01

The County's Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing

Criteria: Pima County's management over the Fund is responsible for ensuring that medical claims are timely and accurately processed, paid, and submitted to the Arizona Health Care Cost Containment System (AHCCCS). Also, medical claims submitted to AHCCCS must include the appropriate pay rates, medical service and procedure codes, and other information AHCCCS requires, or AHCCCS will pend rather than accept those claims as valid.

Condition and context: During fiscal year 2011, the County, with the assistance of a third-party administrator, processed approximately 49,000 medical claims each month averaging approximately \$13 million. While testing a sample of the County's medical and healthcare claims, auditors noted claims that had not been submitted to AHCCCS and claims that were submitted with missing information or other errors that the County had not corrected. Based on data provided by AHCCCS, at June 30, 2011, the County had 58,889 medical claim transactions in pended status with AHCCCS for more than 4 months, including 34,584 for more than a year.

Effect: Because of these deficiencies, AHCCCS has assessed the County potential sanctions. As of September 30, 2011, AHCCCS assessed the County a potential sanction of \$551,480. However, AHCCCS acknowledges it may waive these sanctions if the County shows continued improvement in submitting complete and accurate claims within the contractual timelines. Based on the most recent estimates from December 2011, the number of pended transactions had decreased resulting in a reduced potential sanction of \$326,265. In addition, until complete and accurate claims information is submitted to AHCCCS, it is difficult for the County to accurately estimate the amount of reinsurance revenues to report in its financial statements. Further, AHCCCS evaluates the Fund's profit margins by comparing capitation revenues to medical claims expenses submitted to AHCCCS. If the profit margins exceed specified contractual thresholds, AHCCCS requires the County to pay back the excess profits. This analysis is based on the total dollar value of only those claims accurately submitted to AHCCCS. A high number of pended claims could result in larger perceived profits and thus, larger amounts to be paid back to AHCCCS.

This finding is a significant deficiency in the County's internal controls over claims processing and noncompliance with AHCCCS contractual requirements.

Cause: The County stated that it did not have sufficient resources to fully implement procedures over the County's claims-processing systems to ensure that all medical and healthcare claims were submitted to AHCCCS in a timely manner and that the claims information submitted was accurate and complete. Software purchased and implemented to help correct deficiencies did not always properly interface with AHCCCS' system resulting in discrepancies. Also, the third party administrator hired to process medical claims during the fiscal year in an effort to help alleviate pended transactions experienced similar difficulties.

Pima County
Schedule of Findings and Recommendations
Year Ended June 30, 2011

Recommendation: To help ensure that the County submits accurate and complete medical and healthcare claims to AHCCCS in a timely manner and thereby minimizes sanctions and repayments, the County should continue to assign experienced employees to identify all pended claims initially processed by the County, as well as claims never submitted, and to also work with the third party administrator currently processing claims on behalf of the County to analyze pended claims and determine the causes so that software or procedural changes can be made to help ensure that those claims are successfully submitted to AHCCCS as soon as possible. This will also help the County successfully close out its contractual obligations.

This finding is similar to a prior-year finding.

COUNTY RESPONSE

COUNTY RESPONSE



**PIMA COUNTY
DEPARTMENT OF FINANCE & RISK MANAGEMENT**

130 WEST CONGRESS STREET
TUCSON, ARIZONA 85701-1317
(520) 740-8041 FAX (520) 243-2329

Thomas E. Burke, Director

February 14, 2012

Ms. Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The following corrective action plan has been prepared as recommended by Government Auditing Standards. Specifically, we are providing you with the name of the contact person responsive for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Thomas E. Burke
Director

11-01

Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing.

Contact Person – Paul Guerrero, Finance & Risk Management Department

Anticipated Completion Date – June 30, 2012

The County agrees that there were deficiencies in the processing of claims, however, all of the recommended actions are currently in place. Staff is actively working the pended encounters on a daily basis and is working to correct issues that have prevented successful encountering of some claims. While AHCCCS has assessed a potential sanction, similar to prior years, the County does not believe the sanction will result in an actual payout.



Pima County

Report on Internal Control and Compliance
Year Ended June 30, 2011

State of Arizona
Office of the Auditor General