DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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December 5, 2013

Clarence H. Carter, Director
Arizona Department of Economic Security
1717 W. Jefferson St., 010A
Phoenix, AZ 85007

We have completed the audit of State of Arizona, Department of Economic Security, Division of Developmental Disabilities (Division), Arizona Long Term Care System Contract (ALTCS Contract), as of and for the year ended June 30, 2013, which was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. As required by those auditing standards, we are providing you the following information related to our audit to assist you in overseeing the financial reporting and disclosure process for which management is responsible.

Auditors' Reports Issued and Auditors' Results

The results of our audit have been reported in our auditors' report on the Division's ALTCS Contract financial statement report. In addition, the ALTCS Contract's financial statement report includes our report on the Division's internal controls over financial reporting. 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 and compliance. That report is an integral part of our audit of the ALTCS Contract's financial statements. You should have already received a copy of the ALTCS Contract's financial statement report.

Based on the audit, auditors found that the information in the ALTCS Contract's financial statements is fairly presented in all material respects and the financial statements can be relied on. Also, the Division generally maintained adequate internal controls over financial reporting.

Qualitative Aspects of Significant Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies, accounting estimates, and financial statement disclosures. The significant accounting policies the Division used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of other existing policies was not changed during the year ended June 30, 2013. We noted no transactions the Division entered into during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the accrued medical and healthcare claims balance is based on different methods according to expenditure type. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following list summarizes uncorrected likely misstatements of the financial statements, including the notes thereto. Management of the Division has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements, including the notes thereto and therefore there is no effect on our opinion.

Understatement of due from providers and an overstatement of aid to individuals totaling $567,767.

Material Misstatements

There were no material misstatements that came to our attention during the audit that required correction by management.

Management Representations

We obtained certain representations from management that are included in the management representation letter dated November 13, 2013.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the ALTCS Contract's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This letter is intended solely for the information of those charged with the governance of State of Arizona, Department of Economic Security, Division of Disabilities, ALTCS Contract and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

If you would like to discuss this letter or have any questions, please contact Victoria Fisher, Financial Audit Manager, at (602) 553-0333.

Sincerely,

Debbie Davenport
Auditor General

cc: Jim Hillyard, Deputy Director, Arizona Department of Economic Security
Sharon E. Sergent, Deputy Director, Arizona Department of Economic Security
Marcus Hambrick, Chief Accountability Officer, Arizona Department of Economic Security
Dr. Larry L. Latham, Assistant Director, Division of Developmental Disabilities
Lisa Foti, Deputy Assistant Director, Division of Developmental Disabilities
Sherrie Wince, ALTCS Program Manager, Division of Developmental Disabilities
Dr. Laura Love, Business Operations Administrator, Division of Developmental Disabilities
Barbara Neagle, Assistant Director, Division of Business and Finance
Brian C. McNeil, Director, Arizona Department of Administration
D. Clark Partridge, State Comptroller, Arizona Department of Administration