



OMB CIRCULAR A-133 REPORT

Magellan Health Services of Arizona, Inc.
For the Year Ended June 30, 2009
With Report of Independent Auditors

Ernst & Young LLP

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Magellan Health Services of Arizona, Inc.

OMB Circular A-133 Report

For the Year Ended June 30, 2009

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Magellan Health Services of Arizona, Inc.

We have audited the financial statements of Magellan Health Services of Arizona, Inc. (the Company) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

In planning and performing our audit, we considered the Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Company's 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 management, board of directors, others within the entity, 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.

Ernst & Young LLP

October 8, 2009

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Magellan Health Services of Arizona, Inc.

Compliance

We have audited the compliance of Magellan Health Services of Arizona, Inc. (the Company) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the Company's major federal programs for the year ended June 30, 2009. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Company's compliance with those requirements.

As described in items **2009-1, 2009-2, and 2009-3** in the accompanying schedule of findings and questioned costs, the Company did not comply with requirements regarding subrecipient monitoring for the Block Grants for Prevention and Treatment of Substance Abuse Program and Block Grants for Community Mental Health Services. Compliance with such requirements is necessary, in our opinion, for the Company to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item **2009-4**.



Internal Control Over Compliance

The management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Company's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2009-1, 2009-2, 2009-3, and 2009-4** to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items **2009-1, 2009-2, and 2009-3** to be material weaknesses.



Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Company as of and for the year ended June 30, 2009, and have issued our report thereon dated October 8, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Company's management, the board of directors, 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.

Ernst & Young LLP

October 8, 2009

Magellan Health Services of Arizona, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
<i>Passed through the Arizona Department of Economic Security:</i>		
Medical Assistance Program	93.778	\$ 8,449,735
<i>Passed through the Arizona Department of Health Services:</i>		
Medical Assistance Program	93.778	<u>352,427,713</u>
		360,877,448
<i>Passed through the Arizona Department of Health Services:</i>		
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	77,555
State Children’s Insurance Program	93.767	7,073,210
Block Grant for Community Mental Health Services	93.958	3,498,296
Block Grant for Prevention and Treatment of Substance Abuse	93.959	<u>15,748,445</u>
Total U.S. Department of Health and Human Services		<u>387,274,954</u>
Total expenditures of federal awards		<u><u>\$ 387,274,954</u></u>

See accompanying notes.

Magellan Health Services of Arizona, Inc.

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes all federal grants administered by Magellan Health Services of Arizona, Inc. (the Company) for the year ended June 30, 2009. These federal grants are subject to the accounting policies and procedures used by the Company. Expenditures are recognized under the cash basis of accounting in accordance with the contractual terms of the purchase of service agreements with governmental agencies.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards for the year ended June 30, 2009, the Company provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Block Grant for Community Mental Health Services	93.958	\$ 3,249,188
Block Grant for Prevention and Treatment of Substance Abuse	93.959	\$ 14,641,081

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part I—Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued: **Unqualified auditor’s report issued**

- Material weakness identified? Yes No
- Significant deficiency identified that are not considered to be material weakness? Yes reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards Section

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiency identified that is not considered to be material weakness? Yes reported

Type of auditor’s report issued on compliance for major programs: **Qualified for CFDA #93.958 and #93.959, and Unqualified for CFDA #93.767 and #93.778**

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? Yes No

Identification of major programs:

CDEA Number	Name of Federal Program
93.767	State Children’s Insurance Program
93.778	Medical Assistance Program
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

Auditee qualified as low-risk auditee? Yes No

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part II—Financial Statement Finding Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

There were no significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example: significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Item 2009-1:

Federal program information:	CFDA # 93.958 Block Grants for Community Mental Health Services
	CFDA # 93.959 Block Grants for Prevention and Treatment of Substance Abuse
	Pass through the Arizona Department of Health Services
Criteria or specific requirement (including statutory, regulatory, or other citation):	Subpart D, § __.400(d)(3) of OMB Circular A-133 states pass-through entities shall “Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-1: (continued)

Condition:

Of the 3 subrecipients selected for testing out of a universe of 5 subrecipients in CFDA 93.958 the Company failed to monitor the activities of each of them to ensure the Federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved. The Company disbursed \$2,969,922 to subrecipients for CFDA 93.958 in the sample and disbursed \$3,249,188 to subrecipients for CFDA 93.958 in the universe for the related audit period.

Of the 13 subrecipients selected for testing out of a universe of 37 subrecipients in CFDA 93.959 the Company failed to monitor the activities of each of them to ensure the Federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved. The Company disbursed \$12,732,300 to subrecipients for CFDA 93.959 in the sample and disbursed \$14,641,081 to subrecipients for CFDA 93.959 in the universe for the related audit period.

Cause:

Procedures developed to monitor the award subrecipients were not implemented in FY 2009.

Effect:

The Company has not ensured that its subrecipients are in compliance with Federal regulations.

Recommendation:

The Company should implement its designed procedures for subrecipient monitoring.

**Views of Responsible Officials
and Planned Corrective
Actions:**

The Company developed and implemented additional procedures during 2009 which strengthen and formalize the federal award notification and subrecipient monitoring process. Final procedures were submitted to the Arizona Department of Behavioral Health Services and implemented effective May 2009. Such procedures were not retroactively applied but are in place to prevent this issue on a go-forward basis.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-2:

Federal program information:	CFDA # 93.958 Block Grants for Community Mental Health Services Passed through the Arizona Department of Health Services
Criteria or specific requirement (including statutory, regulatory, or other citation):	Subpart D, § ____.400(d)(4) of OMB Circular A-133 states pass-through entities shall “Ensure that subrecipients expending \$300,000 (<i>\$500,000 for fiscal years ending after December 31, 2003</i>) or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.”
Condition:	Of the 2 subrecipients selected expending \$500,000 or more of a universe of 5 subrecipients in CFDA 93.958, one subrecipient (Quality Network Care) did not complete an OMB Circular A-133 Report for fiscal year 2008. The subrecipient received \$1,669,980 of a universe of \$3,249,188 disbursed for CFDA 93.958. The Company has not followed up with the subrecipient to ensure they have met the audit requirements for fiscal year 2008.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-2: (continued)

Cause:	The Company misinforming the subrecipient of its receipt of Federal expenditures.
Effect:	The Company did not receive an OMB Circular A-133 report from the subrecipient for review in FY 2008, impeding its ability to issue a management decision and follow up on corrective actions the subrecipient is taking if applicable.
Recommendation:	The Company should inform the subrecipient of its requirements for fiscal year 2008, and obtain and review the subrecipient's OMB Circular A-133 report.
Views of Responsible Officials and Planned Corrective Actions:	The Company developed and implemented additional procedures during 2009 which strengthen and formalize the federal award notification and subrecipient monitoring process. Final procedures were submitted to the Arizona Department of Behavioral Health Services and implemented effective May 2009. Such procedures were not retroactively applied but are in place to prevent this issue on a go-forward basis.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-3:

Federal program information: CFDA # 93.958 Block Grants for Community Mental Health Services

CFDA # 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Passed through the Arizona Department of Health Services

Criteria or specific requirement (including statutory, regulatory, or other citation): Subpart D, §___400(d)(5) of OMB Circular A-133 states pass-through entities shall “Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.”

Condition: The Company did not issue management decisions over subrecipient audit findings related to 2008 and, where applicable, did not ensure that the subrecipient took appropriate and timely corrective action.

Of the 3 subrecipients selected for testing out of a universe of 5 subrecipients in CFDA 93.958 the Company failed to issue a management decision and follow up, where applicable, on audit findings, for each of the subrecipients within 6 months of the subrecipient audit date. The Company disbursed \$2,969,922 to subrecipients for CFDA 93.958 in the sample and disbursed \$3,249,188 to subrecipients for CFDA 93.958 in the universe for the related audit period.

Of the 13 subrecipients selected for testing out of a universe of 37 subrecipients in CFDA 93.959 the Company failed to issue a management decision and follow up, where applicable, on audit findings, for each of the subrecipients within 6 months of the subrecipient audit date. The Company disbursed \$12,732,300 to subrecipients for CFDA 93.959 in the sample and disbursed \$14,641,081 to subrecipients for CFDA 93.959 in the universe for the related audit period.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-3: (continued)

Cause: The Company's policy is not implemented and does not specify that a management decision is to be compiled after the review of a subrecipient's OMB Circular A-133 Report

Effect: The Company is out of compliance with Federal regulations.

Recommendation: Modify the policy to include the compilation of a management decision and implement the policies and procedures.

Views of Responsible Officials and Planned Corrective Actions: The Company developed and implemented additional procedures during 2009 which strengthen and formalize the federal award notification and subrecipient monitoring process. Final procedures were submitted to the Arizona Department of Behavioral Health Services and implemented effective May 2009. Such procedures were not retroactively applied but are in place to prevent this issue on a go-forward basis.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-4:

Federal program information:	CFDA # 93.958 Block Grants for Community Mental Health Services CFDA # 93.959 Block Grants for Prevention and Treatment of Substance Abuse CFDA # 93.778 Medical Assistance Program CFDA # 93.243 State Children’s Insurance Program Passed through the Arizona Department of Health Services
Criteria or specific requirement (including statutory, regulatory, or other citation):	Subpart D, §___.300(d) of OMB Circular A-133 states “Auditees shall prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.”
Condition:	The Company did not properly prepare the schedule of expenditures of Federal awards in accordance with OMB Circular A-133. There were several adjustments to the schedule of expenditures to accurately report the expenditures of each program on a cash basis, for the year ended June 30, 2009. The Company provided several versions of the schedule of expenditures which required additional adjustments to be reported on a cash basis.
Cause:	The Company does not have a process in place to review the schedule of expenditures of federal awards, primarily due to recent turnover within the organization.

Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Item 2009-4: (continued)

Effect:	The Company's schedule of expenditures of federal awards contained errors that required revisions.
Recommendation:	We recommend that the Company strengthen the internal controls over the reporting and review process, to ensure the proper presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133.
Views of Responsible Officials and Planned Corrective Actions:	Management is implementing additional review procedures which will ensure that the Statement of Federal Awards is prepared and reported accurately and without revisions.

Magellan Health Services of Arizona, Inc.

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2009

Single Audit Findings for the Period September 1, 2007 through June 30, 2008

Program: Block Grants for Prevention and Treatment of Substance Abuse

CFDA Number: 93.959

Finding Number 2008-1: Subpart D, § ___.400 (d)(1) of OMB Circular A-133 states that the pass through entity must “Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.”

The Company’s subrecipients were not fully informed of the nature of the federal program for which they were awarded funds as well as compliance requirements for the program because the Company was not aware of the requirement to inform them.

Management’s Response: The Company’s standard provider agreement documents explain the subrecipient reporting and auditing requirements under OMB Circular A-133, however management agrees that communication to the subrecipients regarding federal grant activity can be improved. In that regard, at the time of the sub-award, the Company will inform each subrecipient of appropriate CFDA title and number, award name and number, and the name of awarding federal agency.

Update as of June 30, 2009: The Company notified each subrecipient of the pertinent award information.

Magellan Health Services of Arizona, Inc.

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for the Period September 1, 2007 through June 30, 2008 (continued)

Program: Block Grants for Prevention and Treatment of Substance Abuse

CFDA Number: 93.959

Finding Number 2008-2: Subpart B, § ___.210 of OMB Circular A-133 states, “in making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement”.

Subpart D, § ___.400 (d)(4) of OMB Circular A-133 states that the pass through entity must “Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.”

The Company failed to advise subrecipients of their subrecipient status and the fact that they are subject to the OMB Circular A-133 audit requirements.

Management’s Response: The Company’s standard provider agreement documents explain the subrecipient reporting and auditing requirements under OMB Circular A-133, however management agrees that communication to subrecipients regarding federal grant activity can be improved. In that regard, at the time of the sub-award, the Company will inform each subrecipient of the nature of their relationship as subrecipients and the federal laws, provisions, and requirements imposed on them, in accordance with OMB Circular A-133

Update as of June 30, 2009: The Company notified each subrecipient of their status and resulting requirements.

Magellan Health Services of Arizona, Inc.

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for the Period September 1, 2007 through June 30, 2008 (continued)

Program: Block Grants for Prevention and Treatment of Substance Abuse

CFDA Number: 93.959

Finding Number 2008-3: Subpart D, § ____.400(d)(3) of OMB Circular A-133 states pass-through entities “Must monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grants agreements and that performance goals are achieved”.

The Company has not set up standard review procedures to monitor subrecipient activities for all subrecipients to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and that performance goals are achieved. The Company currently only monitors inpatient residential activities during the award and does not have procedures in place to monitor outpatient activities. The Company does not have retrospective contract compliance review procedures in place.

Management’s Response: The Company agrees that changes should be made to strengthen and formalize the control process in accordance with OMB Circular A-133. Management will design a monitoring program that formally documents the procedures to be performed by the Company both before and after the award of federal funds to subrecipients. Further, the Company will ensure that personnel responsible for the performance of these monitoring activities receive additional training in this area.

Update as of June 30, 2009: The Company has implemented additional procedures which strengthen the monitoring process. See finding 2009-1 for additional information.

Magellan Health Services of Arizona, Inc.

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for the Period September 1, 2007 through June 30, 2008 (continued)

Program: State Children’s Insurance Program
CFDA Number: 93.767
Program: Medical Assistance Program
CFDA Number: 93.778
Program: Block Grants for Prevention and Treatment of Substance Abuse
CFDA Number: 93.959

Finding Number 2008-4: Subpart D, §___.300(d) of OMB Circular A-133 states “Auditees shall prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.”

The Company did not properly prepare the schedule of expenditures of Federal awards in accordance with OMB Circular A-133. Numerous audit adjustments to the schedule of expenditures of federal awards were made to correct the initial comingling of federal funds with state funds and to accurately report the expenditures of each program on a cash basis, for the period September 1, 2007 (date of inception) through June 30, 2008.

Management’s Response: Management will ensure that the schedule of federal awards is prepared on a cash basis. Also, the Company initially prepared the schedule of federal awards prior to receiving from the state the split of Federal funds and state funds that were paid to the Company. For future periods, Management will ensure that the schedule of Federal awards is not prepared until such a time that the Company has received the schedule of the split of Federal funds and state funds that were paid to the Company.

Update as of June 30, 2009: The Company is implementing additional review procedures. See finding 2009-4 for additional information.

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