



November 18, 2022

FORMAL APPEAL

AHCCCS Administration  
Office of General Counsel  
801 E. Jefferson  
Phoenix, AZ 85034

To Whom It May Concern:

Please accept this letter as formal notification of Care1st Health Plan Arizona, Inc.'s appeal of the \$25,000 October 12, 2022 sanction for non-compliance with the CY21 administrative cost percentage. Care1st believes that this action is excessive given the plan's historical compliance. In addition, there were several extenuating circumstances outside of the plan's control which contributed to the higher percentage.

Data from the Care1st quarterly financials reported administrative expense of 10.36%. There were two factors that caused the higher administrative expense; excluding these items, Care1st would have been compliant with the ratio at 9.99%.

- Retroactive decision by AHCCCS to remove the 1% withhold from the CY20 profit corridor
  - This change was communicated to health plans following closure of the September 2020 financial reporting cycle
  - The impact to the Care1st financials was to increase the prospective revenue offset in CY21 from \$63.3m to \$70.4m, an increase of \$7.1m
  - Had the plan been able to record the adjustment during CY20, it would not have placed Care1st in non-compliance for the contract year
- Addition of the pass through administrative expense for the HIE of \$2.5m for CY21
  - Since the amount added to revenue is the same as the administrative expense, it has the net effect of increasing the ratio by from 10.08% to 10.36%. On the Care1st final audit report, which takes into consideration the audit adjustments, the administrative expense percentage calculated to 10.52%.

Removal of the above items would decrease it to 10.14%. However, there were also audit reclasses that were completed for simplicity in the final audit report that did not impact the actual incurred administrative costs. The three items are as follows:

- Netting of the APM settlement revenue and medical expense accounts, which reduced revenue by \$6.9m

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- Reclass of community reinvestment expense of \$1.8m from account 990105-01 to other administrative expense (account 83005-01)
- Offsetting the two items above is presentation of PBM fees (\$1.3m) which are reclassified from account 81305-01 (administrative expense) to 50310-01 (medical expense)

Removing the three presentation only adjustments in conjunction with the 1% withhold and HIE adjustment would also reflect with compliance of the administrative cost percentage at less than 10%.

Care1st respectfully requests that AHCCCS take the above factors into consideration for the calculation of the administrative percentage for this appeal and going forward.

If any additional information is required, please let me know. We appreciate your consideration of this request.

Sincerely,



Scott Cummings  
Chief Executive Officer

c:     Meggan LaPorte, AHCCCS  
        Christina Quast, AHCCCS  
        Michelle Holmes, AHCCCS  
        Maureen Sharp, AHCCCS  
        Cynthia Layne, AHCCCS  
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