# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF
# ARIZONA DEPARTMENT OF CHILD SAFETY

## FINANCIAL STATEMENTS
## AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2021

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## FINANCIAL STATEMENTS
## AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2021

INDEX

MHM

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

# INDEPENDENT AUDITORS' REPORT

To the Director of the

**ARIZONA DEPARTMENT OF CHILD SAFETY**
**(Comprehensive Health Plan Fund)**

## Report on the Financial Statements

We have audited the accompanying proprietary fund financial statements of the ***Comprehensive Health Plan*** ("CHP") Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS") as of September 30, 2021 and the related notes to the financial statements, as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the ***Comprehensive Health Plan*** Fund, a proprietary fund of the State of Arizona Department of Child Safety as of September 30, 2021 and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

As discussed in Note 1, the financial statements of the ***Comprehensive Health Plan*** Fund, a proprietary fund of the State of Arizona Department of Child Safety are intended to present the net position, changes in net position and cash flows of only that portion of the governmental activities and general fund and the aggregate remaining fund information of the State of Arizona Department of Child Safety that is applicable to CHP. They do not purport to, and do not, present fairly the financial position of the State of Arizona Department of Child Safety at September 30, 2021, the changes in the financial position, or, where applicable, the cash flows for the year ended September 30, 2021 in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Management has omitted management's discussion and analysis and certain pension required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CHP's financial statements. The Medical Claims Lag Report and Listing of Plan Officers and Directors listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. The Medical Claims Lag Report is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Medical Claims Lag Report is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Listing of Plan Officers and Directors has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2022 on our consideration of CHP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of CHP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHP's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

April 4, 2022

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2021

| | | |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ | 7,785,384 |
| Reconciliation receivable | | 1,220,869 |
| Reinsurance receivables | | 384,452 |
| TOTAL ASSETS | $ | 9,390,705 |
| | | |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Reconciliation settlement payable | $ | 2,978,203 |
| Medical claims payable | | 946,230 |
| Sub-capitation payable | | 481,399 |
| Accrued administrative expenses | | 985,682 |
| TOTAL LIABILITIES | | 5,391,514 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| **NET POSITION** | | |
| Restricted | | 3,999,191 |
| | | |
| TOTAL LIABILITIES AND NET POSITION | $ | 9,390,705 |

See Notes to Financial Statements

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND

Year Ended September 30, 2021

| | |
|---|---|
| REVENUES | |
| Capitation | $ 140,397,567 |
| Reconcilaition settlement | (2,978,203) |
| TOTAL REVENUES | 137,419,364 |
| HEALTH CARE EXPENSES | |
| Sub-capitation | 95,261,325 |
| Hospitalization | 2,971,228 |
| Medical compensation | 5,198,409 |
| Ancillary and other medical services | 11,202,535 |
| Less: reinsurance recoveries | (2,269,369) |
| Less: third-party liability | (81,546) |
| TOTAL HEALTH CARE EXPENSES | 112,282,582 |
| ADMINISTRATIVE EXPENSES | 19,481,684 |
| PREMIUM TAX | 3,027,678 |
| TOTAL EXPENSES | 134,791,944 |
| CHANGE IN NET POSITION | 2,627,420 |
| NET POSITION, BEGINNING OF YEAR | 1,371,771 |
| NET POSITION, END OF YEAR | $ 3,999,191 |

See Notes to Financial Statements

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended September 30, 2021

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from AHCCCS | $ 138,032,927 |
| Payments of health care expenses | (119,281,054) |
| Payments of administrative expenses | (19,344,014) |
| Premium taxes paid | (3,027,678) |
| Net cash used in operating activities | (3,619,819) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (3,619,819) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 11,405,203 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 7,785,384 |

| | |
|---|---|
| RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH USED IN OPERATING ACTIVITIES | |
| Change in net position | $ 2,627,420 |
| Bad debt expense | 1,466,234 |
| Adjustments to reconcile change in net position to net cash used in operating activities: | |
| Changes in operating assets and liabilities: | |
| Capitation and supplement receivables | 1,081 |
| Reconciliation receivable | (1,220,869) |
| Reinsurance receivables | (860,258) |
| Other current assets | 6,506 |
| Accrued administrative expenses | 137,670 |
| Medical claims payable | (9,237,205) |
| Sub-capitation payable | 481,399 |
| Reconcilaition settlement | 2,978,203 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (3,619,819) |

See Notes to Financial Statements

## (1) Description of reporting entity and summary of significant accounting policies

The accounting policies of the ***Comprehensive Health Plan ("CHP")*** Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS"), conform to the accounting principles generally accepted in the United States of America applicable to governmental units. The financial statements of CHP, as a proprietary fund of DCS, are not intended to represent the related financial statement information of the primary government.

In January 2014, the Governor of Arizona signed Executive Order 2014-01 establishing a separate Child Safety and Family Services Division as a standalone, independent department which reports directly to the Governor. This event shifted control and financial responsibility of Comprehensive Medical and Dental Plan ("CMDP") Fund, a proprietary fund of DCS to DCS.

CHP is a health plan established by Arizona Revised Statutes ("ARS") §8-512 to provide comprehensive medical and dental care for children who are (a) placed in a foster home, (b) in the custody of DCS and placed with a relative, in a certified adoptive home prior to the final order of adoption, or in an independent living program as provided in ARS §8-512; and (c) in the custody of the Arizona Department of Juvenile Correction or the Administrative Office of the Courts/Juvenile Probation Office and placed in foster care. These services are provided to eligible children in all 15 Arizona counties through an intergovernmental agreement between DCS and the Arizona Health Care Cost Containment System ("AHCCCS"). CHP has operated as an acute care health plan since 1972. CHP has contracted with AHCCCS to provide health care services to children determined to be eligible enrollees of CHP. These health care services include inpatient, outpatient, dental and other medical services, including pharmacy, laboratory, and physical therapy.

In July 2020, DCS entered into an agreement with Mercy Care, a local, not-for-profit company that has been serving AHCCCS members in Arizona since 1985 to provide physical and behavioral health services for children enrolled with CHP. The agreement has an initial term of three years with the possibility of extensions for two additional (2) two year periods and three additional single year periods, for a total contract length not to exceed ten years. This collaboration creates innovation in child welfare that draws upon CHP's knowledge and experience around the unique needs of children and families involved in foster care and Mercy Care's knowledge and experience in physical and behavioral health care and service delivery. Under the new partnership, the provider network is comprehensive and designed to meet the physical and behavioral health needs of the children in child welfare throughout the state. To reflect this integrated approach to healthcare, CMDP changed its name to CHP as of April 1, 2021.

Effective April 1, 2021, Mercy Care is responsible for the administration and provision of integrated physical health and behavioral health services. Mercy Care, in close collaboration with CHP, provides for the delivery of these integrated services as required by the contract, including but not limited to, Network Development and Management, Claims/Encounter processing, Utilization Management, Care Management, Care Coordination, Member Services, and Grievance and Appeals (both member and provider). In fulfilling its responsibilities, Mercy Care collaborates closely with CHP to create a health care delivery system that provides the highest quality of services for Arizona's children and youth in foster care. Pursuant to the agreement with Mercy Care, CHP pays Mercy Care a per member per month capitation rate as set by AHCCCS, representing a portion of the per member per month funding received from AHCCCS by CHP.

For financial reporting purposes, CHP is considered a proprietary fund of DCS. Control and fiscal accountability of CHP rests with DCS and, ultimately, with the State of Arizona. CHP becomes part of DCS's government-wide financial statements at the combined level. DCS will continue to fund the operations and cash flows of CHP, as necessary.

## (1) Description of reporting entity and summary of significant accounting policies (continued)

**Fund accounting** - CHP's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on CHP's available resources are observed. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net position, revenues, and expenses, as appropriate.

**Measurement focus and basis of accounting** - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of CHP include capitation revenues net of risk share settlements. Operating expenses for CHP include the costs of medical services, net of reinsurance recoveries and third-party liability, sub-capitated expenses paid to Mercy Care, administrative expenses and premium taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. CHP has no non-operating revenues and expenses for the year ended September 30, 2021.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. CHP's financial transactions are recorded and reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund revenues are recognized when they are earned, and expenses are recognized when they are incurred.

CHP has neither adopted a minimum fund balance policy nor any agency specific policy for the order of spending fund balances; rather, CHP follows the policies of DCS and adheres to the purpose of legislative appropriations or Federal grant regulations.

**Management's use of estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates potentially susceptible to change in the near term relate to the medical claims payable liability, the prospective tiered reconciliation settlement, and the reconciliation settlement with Mercy Care.

**Cash and cash equivalents** - All of the cash and cash equivalents maintained by CHP are held by the State of Arizona Office of the Treasurer ("Treasurer") with other State monies in an internal cash and investment pool. Amounts held by the Treasurer are recorded at fair value and totaled $7,785,384 at September 30, 2021.

The State is statutorily limited (by ARS §35-312 and §35-313) to certain investment types. Additionally, State statutes require investments made to be in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. The Treasurer issues a separately published Annual Financial Report that provides additional information relative to the Treasurer's total investment activities.

## (1) Description of reporting entity and summary of significant accounting policies (continued)

**Capitation premiums** - CHP receives from AHCCCS fixed capitation payments, generally in advance, based on certain rates for each member enrolled with CHP. CHP is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, CHP retains the funds as profit; if the costs are higher than the amount of capitation payments, CHP absorbs the loss. Capitation premiums are recognized in the month that enrollees are entitled to health care services. CHP may recover certain losses for those cases eligible for reinsurance payments.

CHP receives all of its revenue from its contract with AHCCCS. Revenue is derived in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, CHP is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services.

Capitation receivables, if any, are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation and supplement receivables. At September 30, 2021 there were no capitation or supplement receivables.

Capitation is paid prospectively as well as for prior period coverage ("PPC") under the AHCCCS contract. The PPC period is the period of time prior to the member's enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a contractor.

**Reconciliation settlements** - AHCCCS has a risk sharing program which includes reconciliation settlements, which impact revenue and are due to, or from, AHCCCS based on predetermined profit/loss thresholds. If the profit or loss is less than or equal to 2% of the prospective capitation revenues, then CHP's share is 100%. If the profit is less than or equal to 6%, then CHP's share is 100% of the amount less than or equal to 6%. If the profit is over 6%, then CHP's share of the profits over 6% is 0%, for a maximum share of 6% of total profits. If the losses are in excess of 2%, then CHP's share over 2% of the losses is 0%, for a maximum share of 2% of total losses. Profits in excess of the percentages set forth by the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth by the contract will be paid to CHP. As of September 30, 2021, CHP has recorded an estimated payable to AHCCCS of $2,978,203 for the contract year ended September 30, 2020, which is recorded as reconciliation settlement in the accompanying statement of revenues, expenses, and changes in net position – proprietary fund. CHP does not expect to have a risk share settlement for contract year 2021 and as a result, has not recorded a risk share settlement amount for contract year 2021 as of September 30, 2021.

Effective with the commencement of the CHP contract with Mercy Care, the sharing of risk commenced between CHP and Mercy Care based on Mercy Care's contract performance. CHP and Mercy Care will reconcile Mercy Care's prospective and PPC service cost expenses to prospective and PPC net capitation paid to Mercy Care for each contract year. If the profit under the Mercy Care contract is over 4%, then CHP's share of the profits over 4% is 100%. If the losses are in excess of 1%, then CHP's share over 1% of the losses is 100%. As of September 30, 2021, CHP estimates a risk share settlement with Mercy Care of $1,220,869 resulting from Mercy Care exceeding the maximum profit for the contract year. The estimated risk share settlement is recorded as reconciliation receivable as of September 30, 2021 in the accompanying statement of net position – proprietary fund and as a reduction of health care expenses for the year ended September 30, 2021 in the accompanying statement of revenues, expenses and changes in net position – proprietary fund.

## (1) Description of reporting entity and summary of significant accounting policies (continued)

**Premium deficiency reserve** - CHP assesses the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Losses are determined by comparing anticipated premiums to the total of estimated health care related costs, less reinsurance recoveries, if any, and the cost of maintaining the contract. Losses, if any, would be recognized in the period the loss is determined and classified as health care services expenses. At September 30, 2021, CHP did not report a premium deficiency reserve for its AHCCCS contract.

**Health care services** - The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services that have been incurred but not yet reported. Such costs include payments to primary care physicians, specialists, hospitals, outpatient care facilities, pharmaceuticals, and other medical services and the costs associated with managing the extent of such care. CHP's health care costs can also include, from time to time, remediation of certain claims as a result of periodic reviews by various regulatory agencies.

CHP estimates the amount of the provision for health care service costs incurred but not reported and the unpaid loss adjustment expenses using standard actuarial methodologies based upon historical data, including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership. The estimates for service costs incurred but not reported are made on an accrual basis and are adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amounts of claims and losses paid are dependent on future economic developments, management is of the opinion that the recorded medical claims payable is adequate to cover such costs.

CHP contracts with various providers for the provision of a full range of health care services to eligible members. Health care services are purchased under fee-for-service arrangements. Fee-for-service contract expenses are accrued as incurred. From time to time, CHP amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

Pursuant to the agreement with Mercy Care, CHP pays Mercy Care a per member per month sub-capitation rate as set by AHCCCS, representing a portion of the per member per month funding received from AHCCCS by CHP. Under its agreement with Mercy Care, Mercy Care provides for the delivery of these integrated services as required by the contract, including but not limited to, Network Development and Management, Claims/Encounter processing, Utilization Management, Care Management, Care Coordination, Member Services, and Grievance and Appeals (both member and provider), regardless of the cost of care. Sub-capitation expense is recorded as health care expenses in accordance with the terms of the Mercy Care agreement. As of September 30, 2021, CHP owed Mercy Care $481,399 for sub-capitation payments which is included in sub-capitation payable in the accompanying statement of net position – proprietary fund

**Reinsurance** - AHCCCS provides a stop-loss reinsurance program for CHP for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible of $35,000. AHCCCS reimburses CHP based on a coinsurance percent of 75% for reinsurable covered services incurred above the deductible. Reinsurance recoveries are stated at the actual and estimated amounts due to CHP pursuant to the AHCCCS contract. Reinsurance recoveries have been offset against health care expenses in the accompanying statement of revenues, expenses and changes in net position – proprietary fund.

**(1) Description of reporting entity and summary of significant accounting policies (continued)**

To be eligible for reinsurance billing, qualified health care expenses must be incurred during the contract year. Reinsurance is recorded based on actual billed reinsurance claims adjusted for medical cost completion factors and historical collection experience. Reinsurance is subject to review by AHCCCS, and as a result, there is at least a reasonable possibility that recorded reinsurance will change by a material amount in the near future.

For the year ended September 30, 2021, CHP reported reinsurance recoveries in the amount of $2,269,369 from AHCCCS for costs incurred in excess of a stated deductible per member per contract year.

Reinsurance receivables represent the expected payment from AHCCCS for certain enrollees whose qualifying medical expenses paid by CHP were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. During fiscal year 2021, CHP identified approximately $1,466,000 of reinsurance receivables which were not deemed to be collectable. Accordingly, CHP wrote off this amount which is included in the accompanying statement of revenues, expenses and changes in net position – proprietary fund as bad debt expense within administrative expenses. At September 30, 2021, reinsurance receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Effective with the commencement of the Mercy Care contract on April 1, 2021, Mercy Care is responsible for the administration and provision of integrated physical health and behavioral health services and thus is the party eligible for recoupment of medical expenses through reinsurance recoveries from AHCCCS. CHP no longer incurs medical claims eligible for reinsurance.

**Third-party liability** - In cases such as motor vehicle accidents and worker's compensation claims, a third-party insurer may be liable for a claim. When CHP pays claims on behalf of its members and determines a third-party insurance company is ultimately responsible for that claim, it estimates a receivable and recoups the claim cost from the third-party insurer. During the year ended September 30, 2021, CHP received settlements from other third-party resources totaling $81,546. These amounts are reported as offsets to health care expenses in the accompanying statement of revenues, expenses and changes in net position – proprietary fund. At September 30, 2021, there were no third-party liability receivables.

**Premium taxes** - CHP is subject to a 2% tax on all payments received from AHCCCS for premiums, reinsurance and reconciliations which are remitted directly to the Arizona Department of Insurance and Finance Institutions ("AZDIFI").

**Fund balance classifications** - Fund balances for proprietary funds require the difference between the proprietary fund's assets and deferred outflows of resources and its liabilities and deferred inflows of resources be reported in the statement of net position to be labeled net position and to be displayed in three components: net investment in capital assets, restricted, and unrestricted. Restricted assets are those assets with restrictions on their use that are externally imposed (by creditors, grantors, contributors, or the laws or regulations of other governments) or that are imposed by the government's own constitutional provisions or enabling legislation. At September 30, 2021, CHP's net position was restricted by the grantor (AHCCCS) for the provision of health care services. Accordingly CHP has reported its net position as restricted at September 30, 2021. The fund balance is in its own sub-fund classification and is considered proprietary as funds cannot be used for any other purpose other than cost related to Medicaid services as outlined in the contract between CHP and AHCCCS. For the funds to be used for any other purpose, approval by AHCCCS or the State Legislature is required. The net positon is restricted at 100% of the balance.

## (1) Description of reporting entity and summary of significant accounting policies (continued)

**Subsequent events** - CHP has evaluated subsequent events through April 4, 2022, which is the date the financial statements were available to be issued.

## (2) Administrative services

Certain direct, indirect and administrative expenses are incurred at DCS, which benefit CHP. Such common expenses are allocated based upon an Arizona Department of Health Services approved cost allocation plan, which is primarily based on enrollment, claims and costs by fund. CHP recorded as administrative expenses $19,481,684 for the fiscal year ended September 30, 2021, and of this amount $10,141,921 represents CHP's allocated share of services provided by DCS and $815,234 represents bad debt expense related to reinsurance receivable balances determined to be uncollectible. The remaining amount of $8,524,529 represents Care Management/Care Coordination fees at $4,766,363 and Sub Capitation Block Administration Fees at $3,758,166 paid to Mercy Care. Administrative services expenses for the year ended September 30, 2021 includes direct CHP costs as well as certain allocated costs which are paid to DCS for shared expenses such and information technology, support services, legislative affairs, general counsel, quality improvement, field operations and office administration.

## (3) Retirement plan

**Plan description** - CHP contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System ("ASRS"). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. As CHP's financial statements are fund based statements, net pension liability is not reported. The net pension liability rests with DCS.

ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing ASRS at, 3300 North Central Avenue, PO Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding policy** - The Arizona State Legislature establishes and may amend active plan members' and CHP's contribution rates. For the nine months ended June 30, 2021, active plan members and CHP were each required by statute to contribute at the actuarially determined rate of 12.22 percent (12.04 percent retirement and 0.18 percent long-term disability) of the member's annual covered payroll. As of July 1, 2021, the total contribution rate of the ASRS Retirement Pension & Health Insurance Benefit for both the employer and the employee increased slightly from 12.04% to 12.22% for fiscal year 2022. The Long Term Disability Income Plan increased slightly from .18% to .19% for both the employer and the employee for fiscal year 2022. The combined total contribution rates total 12.41% for fiscal year 2022. CHP's contributions to ASRS for the year ended September 30, 2021 totaled $453,301 which was equal to the required contributions for the period. These expenses are included in administrative expenses in the accompanying statement of revenues, expenses and changes in net position – proprietary fund.

## (4) Commitments and contingencies

**Risk management** - CHP is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. DCS is a participant in the State of Arizona's ("State") self-insurance program, and in the opinion of CHP's management, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, DCS has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*.

**Healthcare regulation** - The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that CHP is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future reviews and interpretation as well as regulatory actions unknown or unasserted at this time.

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way CHP does business, restrict revenue and enrollment growth in certain products and market segments, restrict revenue growth rates for certain products and market segments, increase medical, administrative and capital costs, and expose CHP to increase risk of loss or further liabilities. CHP's operating results, financial position and cash flows could be adversely impacted by such changes.

**COVID-19** - On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals in the U.S. and worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations. The extent of the impact of COVID-19 on CHP's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact of members, employees and vendors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could significantly impact the number of enrollees, health care expenses and reinsurance recoveries, as well as future capitation amounts.

As of the date the financial statements were available to be issued, CHP's operations have not been significantly negatively impacted. However, CHP continues to closely monitor the situation. Depending on the severity and duration of the pandemic, CHP could experience a material negative impact to operations, cash flows and financial condition. However, the impact cannot be reasonably estimated at this time.

## (5) Contract requirements

In accordance with its contract with AHCCCS, CHP is required to maintain certain minimum financial reporting and viability measures. Financial measures include the maintenance of a current ratio of at least 1.0, a medical expense ratio of at least 85% and an administrative cost percentage of no more than 15%. CHP must also meet various quarterly financial viability standards and performance guidelines. As of September 30, 2021, CHP was in compliance with the medical expense ratio and the administrative cost percentage.

## (5) Contract requirements (continued)

During the year ended June 30, 2018, CHP was notified by AHCCCS that CHP was not in compliance with their contract. As a result, AHCCCS required CHP to operate under a Corrective Action Plan ("CAP") where CHP is subject to strict reporting requirements to describe CHP's actions taken toward demonstrating contract compliance. These actions included (a) reconciliation of cash to the general ledger daily and monthly, (b) reconciliation of claims to the general ledger, (c) creation of a reinsurance receivable account, (d) identification of the correct payroll allocation, (e) procurement of a new financial statement auditor, (f) hiring of a Chief Financial Officer for CHP, and (g) the procurement of a consultant to review the medical claims payable. AHCCCS released the CAP in December 2020.

Should CHP be in default of any material obligations under the AHCCCS contract, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payments or withhold future payment until satisfactory resolution of the default or exception. Further, if monies are not appropriated by the State or are not otherwise available, the AHCCCS contract may be cancelled upon written notice until such monies are so appropriated or available.

AHCCCS has a right to sanction CHP for matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. For the year ended September 30, 2021, AHCCCS levied sanctions against CHP totaling approximately $3,001,000, all of which was waived by AHCCCS. No sanctions against CHP remain.

## (6) Concentration of credit risk

CHP's future contract awards are contingent upon the continuation of the AHCCCS program by the State of Arizona and CHP's ability and desire to retain its status as a Contractor under the AHCCCS program. The initial term of the AHCCCS contract was through September 30, 2021. Effective October 1, 2021, CHP has commenced the first of two (2) two-year options to extend. The contract is not to exceed a total contracting period of seven years. Failure to renew this contract could have a significant impact on operations.

## SUPPLEMENTARY INFORMATION

## COMPREHENSIVE HEALTH PLAN FUND
## A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
### SUPPLEMENTARY INFORMATION
### MEDICAL CLAIMS LAG REPORT

**Paragraph 4.07**
**CHP**
**Quarter Ended: 9/30/2021**
**Claims Lag Report**
**Expense Type: Hospital, Medical and Other (PPC and Prospective)**

| Payment Qtr | Current | 1st Prior | 2nd Prior | 3rd Prior | 4th Prior | 5th Prior | 6th Prior | Total |
|---|---|---|---|---|---|---|---|---|
| Current | 48,074,533 | | 3,028,253 | 552,838 | 367,425 | 1,674 | 13,859 | 52,038,581 |
| 1st Prior | | 46,673,785 | 3,254,940 | 2,293,145 | 288,147 | 188,986 | 26,137 | 52,725,139 |
| 2nd Prior | | | 3,681,695 | 4,566,229 | 1,074,339 | 316,481 | 129,401 | 9,768,144 |
| 3rd Prior | | | | 2,818,050 | 5,653,973 | 950,380 | 321,173 | 9,743,576 |
| 4th Prior | | | | | 3,155,326 | 3,690,696 | 735,170 | 7,581,192 |
| 5th Prior | | | | | | 3,236,502 | 6,932,960 | 10,169,462 |
| 6th Prior | | | | | | | 64,827,778 | 64,827,778 |
| Total Paid | 48,074,533 | 46,673,785 | 9,964,888 | 10,230,261 | 10,539,210 | 8,384,718 | 72,986,477 | 206,853,872 |
| Expense | 47,607,955 | 46,324,598 | 9,945,948 | 10,754,996 | 8,892,927 | 10,311,574 | 24,333,414 | 158,171,412 |
| Adjustment | 1,250,945 | (365,558) | (63,615) | (191,271) | (645,138) | 377,598 | 49,747,127 | 50,110,089 |
| Remaining | 784,366 | (714,744) | (82,554) | 333,464 | (2,291,420) | 2,304,454 | 1,094,064 | 1,427,629 |

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## SUPPLEMENTARY INFORMATION

## LISTING OF PLAN OFFICERS AND DIRECTORS

### Year Ended September 30, 2021

| Name | Title | Other Relationship to Program | Type of Compensation |
|---|---|---|---|
| Mouw, Karla | Comprehensive Health Plan – Chief Executive Officer | None | Salary |
| Park, Sara, M.D. | Comprehensive Health Plan – Chief Medical Officer | None | Salary |
| Webb, Sala, M.D. | Comprehensive Health Plan – Chief Medical Officer, Behavioral Health | None | Salary |
| Provencio, Monica | Comprehensive Health Plan – Chief Quality Officer | None | Salary |
| Winfrey, Jason | Comprehensive Health Plan – Chief Operations Officer | None | Salary |
| Harri, Theresa | Comprehensive Health Plan – Chief Financial Officer | None | Salary |
| Soble, Michelle | Comprehensive Health Plan – Pharmacy Director | None | Salary |
| Keck, Christopher | Comprehensive Health Plan – System of Care Administrator | None | Salary |
| Piper, Audra | Comprehensive Health Plan – Plan Operations Administrator | None | Salary |
| Seeger, Sean | Comprehensive Health Plan – Network Administrator | None | Salary |

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Director of the

***ARIZONA DEPARTMENT OF CHILD SAFETY***
***(Comprehensive Health Plan Fund),***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the ***Comprehensive Health Plan*** ("CHP") Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS") as of September 30, 2021 and for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ***CHP's*** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***CHP's*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***CHP's*** internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ***CHP's*** financial statements are free from 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 financial statements. 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ***CHP's*** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***CHP's*** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

April 4, 2022

# COMPREHENSIVE HEALTH PLAN FUND
# A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY

## SCHEDULE OF FINDINGS AND RESPONSES

### Year Ended September 30, 2021

None noted