

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND UNIFORM GUIDANCE REPORT

Year Ended September 30, 2023

HEALTH CHOICE ARIZONA, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND UNIFORM GUIDANCE REPORT**

Year Ended September 30, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

HEALTH CHOICE ARIZONA, INC.

Report on the Audit of the Schedule of Expenditures of Federal Awards

Opinion

We have audited the accompanying Schedule of Expenditures of Federal Awards of **Health Choice Arizona, Inc.** (the "Company") for the year ended September 30, 2023, and the related notes (the "Schedule").

In our opinion, the accompanying schedule of expenditures of federal awards presents fairly, in all material respects, the expenditures of federal awards of **Health Choice Arizona, Inc.** for the year ended September 30, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of the Schedule section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Schedule

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

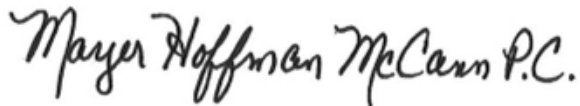
Auditors' Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material misstatement when it exists. This risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive style.

June 3, 2024

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2023

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Assistance Listing Number	Contract Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services Pass-through Programs From:					
Substance Abuse and Mental Health Services Administration (SAMHSA)/Arizona Health Care Cost Containment System:					
COVID-19 - Block Grants for Community Mental Health Services (MHBG) - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)	93.958	YH17-0003-02	11356415170214	\$ 240,081	\$ 260,958
Substance Abuse and Mental Health Services Administration (SAMHSA)/Arizona Health Care Cost Containment System:					
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse (SABG) - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)	93.959	YH17-0003-02	11356415170214	603,123	655,569
Substance Abuse and Mental Health Services Administration (SAMHSA)/Arizona Health Care Cost Containment System:					
Opioid STR - State Opioid Response II	93.788	YH17-0003-02	11356415170214	1,203,509	1,308,261
Substance Abuse and Mental Health Services Administration (SAMHSA)/Arizona Health Care Cost Containment System:					
COVID-19 - Emergency Grants to Address Mental and Substance Use Disorders During COVID-19 - Arizona Emergency COVID-19 Project Supplemental	93.665	YH17-0003-02	11356415170214	50,998	55,389
Total U.S. Department of Health and Human Services				<u>2,097,711</u>	<u>2,280,177</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 2,097,711</u>	<u>\$ 2,280,177</u>

HEALTH CHOICE ARIZONA, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2023

(1) Company operations

Health Choice Arizona, Inc. (the "Company") is a wholly owned subsidiary of Veritage LLC ("Veritage"). Veritage is an Arizona limited liability company owned solely by Blue Cross Blue Shield of Arizona ("BCBSAZ").

The Company is a managed care organization and insurer that delivers healthcare services to members through multiple health plans, accountable care networks and managed care solutions. The Company subcontracts with hospitals, physicians and other medical providers within Arizona and surrounding states to provide services to its members in the service area counties. The Company operates under three different contracts: Health Choice Arizona – Arizona Health Care Cost Containment System ("AHCCCS") Complete Care ("ACC"), Health Choice Arizona – AHCCCS Regional Behavioral Health Authority ("RBHA") and Health Choice Pathway ("HCP").

The Company's ACC contract with AHCCCS was established to provide specified healthcare services to qualified Medicaid enrollees through contracts with providers. AHCCCS is the state agency that administers Arizona's Medicaid program, including the AHCCCS Complete Care program. The contract requires the Company to arrange for healthcare services for enrolled Medicaid patients in exchange for fixed monthly premiums, based on negotiated per capita member rates, and supplemental payments from AHCCCS. These services are provided regardless of the actual costs incurred to provide these services. The Company receives reinsurance and other supplemental payments from AHCCCS to cover certain costs of healthcare services that exceed defined thresholds. On March 5, 2018, the Company was awarded the ACC contract to provide integrated physical and behavioral health services to AHCCCS members in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pinal, and Yavapai counties, beginning October 1, 2018. The ACC contract had an initial term of three years and two two-year options to extend the contract at the discretion of AHCCCS. The contract is terminable without cause on 90 days' written notice or for cause upon written notice if the Company fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract. Additionally, AHCCCS can terminate the contract in the event of the unavailability of state or federal funding.

Through the RBHA contract, the Company provides high-quality physical and behavioral healthcare services to Medicaid eligible adults with serious mental illness ("SMI") in Northern Arizona under the Regional Behavioral Health Authority. Effective October 1, 2022, the Company is no longer a contracted managed care organization for the RBHA Program. The Company experienced RBHA program related run out activities in 2023 and expects to continue in 2024.

The Company operates a prepaid Medicare Advantage Prescription Drug ("MAPD") Special Needs Plan ("SNP"), called Health Choice Pathway, through a contract with the Centers for Medicare & Medicaid Services ("CMS"). Effective January 1, 2006, the Company began providing coverage as a MAPD SNP provider pursuant to its contract with CMS. The contract allows the Company to offer Medicare and Part D drug benefit coverage for new and existing dual-eligible members. Dual-eligible members are those who are eligible for Medicare and Medicaid. The contract requires the Company to arrange for healthcare services for its enrollees in exchange for fixed monthly premiums, based on risk adjusted per capita rates from CMS.

The contract with CMS, which covers enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pinal, and Yavapai counties, has been renewed for calendar year 2023 and 2022 and includes successive one-year renewal options at the discretion of CMS. The contract is terminable by CMS without cause on 90 days' written notice, or for cause upon written notice if the Company fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract.

HEALTH CHOICE ARIZONA, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2023

(2) **Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of **Health Choice Arizona, Inc.** under programs of the federal government for the year ended September 30, 2023. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of **Health Choice Arizona, Inc.**, it is not intended to and does not present the financial position, results of operations or cash flows of **Health Choice Arizona, Inc.**

(3) **Summary of significant accounting policies**

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. **Health Choice Arizona, Inc.** has not elected to use the ten percent de minimus indirect cost rate allowable under the Uniform Guidance.

UNIFORM GUIDANCE REPORT



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of

HEALTH CHOICE ARIZONA, INC.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Health Choice Arizona, Inc.'s** compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of **Health Choice Arizona, Inc.'s** major federal programs for the year ended September 30, 2023. **Health Choice Arizona, Inc.'s** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Health Choice Arizona, Inc.** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report. We are required to be independent of **Health Choice Arizona, Inc.** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of **Health Choice Arizona, Inc.'s** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to **Health Choice Arizona, Inc.'s** federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ***Health Choice Arizona, Inc.'s*** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about ***Health Choice Arizona, Inc.'s*** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding ***Health Choice Arizona, Inc.'s*** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of ***Health Choice Arizona, Inc.'s*** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of ***Health Choice Arizona, Inc.'s*** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

June 3, 2024

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2023

Section I - Summary of Auditors' Results

Schedule of Expenditures of Federal Awards

- | | |
|--|------------|
| 1. Type of report the auditor issued on whether the Schedule of Expenditures of Federal Awards was prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None noted |
| 3. Noncompliance material to the Schedule of Expenditures of Federal Awards noted? | No |

Federal Awards

- | | |
|---|------------|
| 1. Internal control over major federal programs: | |
| c. Material weakness(es) identified? | No |
| d. Significant deficiency(ies) identified? | None noted |
| 2. Type of Auditors' report issued on compliance for major federal programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

4. Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
93.958	Block Grants for Community Mental Health Services (MHBG)
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SABG)

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2023

Section II –Schedule of Expenditures of Federal Awards Findings

None

Section III - Federal Award Findings and Questioned Costs

None