

**COMPREHENSIVE MEDICAL AND DENTAL
PROGRAM FUND,
A PROPRIETARY FUND OF THE STATE OF
ARIZONA DEPARTMENT OF CHILD SAFETY**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2018

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF
CHILD SAFETY**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Director of the

**ARIZONA DEPARTMENT OF CHILD SAFETY
(Comprehensive Medical and Dental Program)**

Report on the Financial Statements

We have audited the accompanying proprietary fund financial statements of the **Comprehensive Medical and Dental Program** ("CMDP") Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS") as of and for the year ended June 30, 2018, 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 (deficit) of the **Comprehensive Medical and Dental Program** Fund, a proprietary fund of the State of Arizona Department of Child Safety as of June 30, 2018 and the changes in net position (deficit) 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 Medical and Dental Program** Fund, a proprietary fund of the State of Arizona Department of Child Safety are intended to present the net position (deficit), changes in net position (deficit) 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 CMDP. They do not purport to, and do not, present fairly the financial position of the State of Arizona Department of Child Safety at June 30, 2018, the changes in the financial position, or, where applicable, the cash flows for the year then ended 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 CMDP'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.

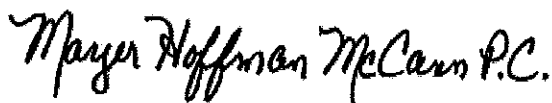
The Listing of Plan Officers and Directors has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2020 on our consideration of CMDP'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 CMDP'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 CMDP's internal control over financial reporting and compliance.

Correction of Errors

As described in Note 6 to the financial statements, certain items were identified by management which required adjustment to the previously issued 2017 financial statements. Cash was not appropriately reconciled and stated, payroll and employee benefits were not properly accrued, reinsurance receivables were not properly stated at the amount management expected to collect, and reconciliation receivables/payables and medical claims payable were not properly stated based on actual and estimated claims data. As a result, beginning net position and cash and cash equivalents have been restated to correct these errors. Our opinion is not modified with respect to this matter.

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

August 4, 2020

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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CHILD SAFETY**

STATEMENT OF NET POSITON (DEFICIT) - PROPRIETARY FUND

June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,235,372
Reinsurance receivables	920,860
Other current assets	<u>57,363</u>
TOTAL ASSETS	<u>\$ 4,213,595</u>

LIABILITIES

CURRENT LIABILITIES

Medical claims payable	\$ 3,406,209
Accrued administrative expenses	514,281
Reconciliation payable	<u>1,593,371</u>
TOTAL LIABILITIES	<u>\$ 5,513,861</u>

COMMITMENTS AND CONTINGENCIES

NET POSITION (DEFICIT)

Unrestricted net deficit	<u>(1,300,266)</u>
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	<u>\$ 4,213,595</u>

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY
FUND**

Year Ended June 30, 2018

REVENUES	
Capitation	\$ 40,398,666
PCP parity cost settlement, net	<u>(438,826)</u>
TOTAL REVENUES	<u>39,959,840</u>
 HEALTH CARE EXPENSES	
Hospitalization	9,202,014
Medical compensation	10,751,536
Ancillary and other medical services	19,399,177
Less: reinsurance recoveries	(1,889,312)
Less: third-party liability	<u>(52,688)</u>
TOTAL HEALTH CARE EXPENSES	37,410,727
ADMINISTRATIVE EXPENSES	9,873,209
PREMIUM TAX	<u>845,056</u>
TOTAL EXPENSES	<u>48,128,992</u>
CHANGE IN NET POSITION (DEFICIT)	<u>(8,169,152)</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY STATED	12,516,925
PRIOR PERIOD ADJUSTMENTS	<u>(5,648,039)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>6,868,886</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ (1,300,266)</u>

See Notes to Financial Statements

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from AHCCCS	\$ 40,879,242
Payments of health care expenses	(41,196,644)
Payments of administrative expenses	(9,865,763)
Premium taxes paid	<u>(845,056)</u>
Net cash used in operating activities	<u>(11,028,221)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,028,221)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (as restated)	<u>14,263,593</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,235,372</u>
RECONCILIATION OF CHANGE IN NET POSITION (DEFICIT) TO NET CASH USED IN OPERATING ACTIVITIES	
Change in net position (deficit)	(8,169,152)
Adjustments to reconcile change in net position (deficit) to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Reinsurance receivables	976,765
Other current assets	(57,363)
Accrued administrative expenses	7,446
Medical claims payable	(3,251,453)
Reconciliation payable	<u>\$ (534,464)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (11,028,221)</u>

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

The accounting policies of the *Comprehensive Medical and Dental Program ("CMDP")* 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 CMDP, as a proprietary fund of DCS, are not intended to represent the related financial statement information of the primary government.

In January 2014, Governor Brewer 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 CMDP to DCS.

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

Reporting entity - CMDP 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"). CMDP has operated as an acute care health plan since 1972. CMDP has contracted with AHCCCS to provide health care services to children determined to be eligible enrollees of CMDP. These health care services include inpatient, outpatient, dental and other medical services, including pharmacy, laboratory, and physical therapy.

Fund accounting - CMDP's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on CMDP'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 CMDP include capitation revenues net of PCP parity cost settlement. Operating expenses for CMDP include the costs of medical services, net of reinsurance recoveries and third-party liability, administrative expenses and premium taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. CMDP has no non-operating revenues and expenses for the year ended June 30, 2018.

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. CMDP'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.

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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

CMDP has neither adopted a minimum fund balance policy nor any agency specific policy for the order of spending fund balances; rather, CMDP 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 reconciliation liability and reinsurance recoveries.

Cash and cash equivalents - All of the cash and cash equivalents maintained by CMDP 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 \$3,235,372 at June 30, 2018.

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.

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

CMDP 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, CMDP 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 and supplemental 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 supplemental receivables. CMDP had no capitation and supplemental receivables at June 30, 2018.

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**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

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. The risk under PPC is shared by both CMDP and AHCCCS for the contract year ended September 30, 2018. For the contract year ending September 30, 2018, CMDP shares risk with AHCCCS for the Acute Prior Period Coverage population.

Estimated reconciliation settlement balances are recorded as a net receivable or payable on the statement of net position (deficit) – proprietary fund by risk population. A summary of the balances as of June 30, 2018 for all open contract years is as follows:

Prior period coverage – contract year 2016	\$ 975,394
Prior period coverage – contract year 2017	463,495
Prior period coverage – contract year 2018	<u>154,482</u>
Total reconciliation payable at June 30, 2018	<u>\$ 1,593,371</u>

It is expected that a final settlement with AHCCCS will not be reached until over a year after the end of the specific contract year. During the year ended June 30, 2018, the prior period coverage reconciliation for contract year 2015 was settled for the amount previously accrued to AHCCCS of \$688,996.

Premium deficiency reserve - CMDP assessed 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 June 30, 2018, CMDP did not report a premium deficiency reserves 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. CMDP'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.

CMDP 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 period 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.

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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

CMDP 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, CMDP amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

Reinsurance - AHCCCS provides a stop-loss reinsurance program for CMDP for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible of \$20,000. AHCCCS reimburses CMDP 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 CMDP 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 (deficit).

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.

During the year ended June 30, 2018, CMDP reported reinsurance recoveries in the amount of \$1,889,312 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 CMDP 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. At June 30, 2018, reinsurance receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

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 CMDP 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 June 30, 2018, CMDP received settlements from other third-party resources totaling \$52,688. These amounts are reported as offsets to health care expenses in the accompanying statement of revenues, expenses and changes in net position (deficit). At June 30, 2018, there were no third-party liability receivables.

Premium taxes - CMDP 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 ("ADOI").

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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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

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 June 30, 2018, CMDP's net position was restricted by the grantor (AHCCCS) for the provision of health care services. However, in accordance with Governmental Accounting Standards Board ("GASB"), negative amounts should not be reported for any category of restricted net position. If liabilities and deferred inflows of resources that relate to specific restricted assets exceed those assets, no restricted net position balance should be reported; the net negative amount should reduce unrestricted net position. Accordingly CMDP has reported its net position as an unrestricted net deficit at June 30, 2018.

Subsequent events - CMDP has evaluated subsequent events through August 4, 2020, which is the date the financial statements were available to be issued.

On March 1, 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 now known 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 COVID-19 outbreak is also disrupting supply chains of personal protective equipment and other medical supplies. The extent of the impact of COVID-19 on CMDP's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on members, employees and vendors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could significantly impact the number of eligible 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, CMDP's operations have not been significantly negatively impacted. However, CMDP continues to closely monitor the situation. Depending on the severity and duration of the pandemic, CMDP could experience a material negative impact to operations, cash flow and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

(2) Administrative services

Certain direct, indirect and administrative expenses are incurred at DCS which benefit CMDP. Such common expenses are allocated based upon a Department of Human Services approved cost allocation plan, which is primarily based upon enrollment, claims and costs by fund. CMDP recorded as administrative expenses \$9,873,209 representing its allocated share of services provided by DCS for the year ended June 30, 2018. Administrative services expense for the year ended June 30, 2018 includes direct CMDP costs as well as certain allocated costs which are incurred and paid by DCS and allocated to CMDP for shared expenses such as information technology, support services, legislative affairs, general counsel, quality improvement, field operations and office administration.

See Independent Auditors' Report

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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

(3) Retirement plan

Plan description - CMDP 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 CMDP'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, 3300 North Central Avenue, PO Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000.

Funding policy - The Arizona State Legislature establishes and may amend active plan members' and CMDP's contribution rates. For the year ended June 30, 2018, active plan members and CMDP were each required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent retirement and 0.16 percent long-term disability) of the members' annual covered payroll. CMDP's contributions to ASRS for the year ended June 30, 2018 were \$302,988, which was equal to the required contributions for the year.

(4) Commitments and contingencies

Risk management - CMDP 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 CMDP'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 CMDP 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 CMDP 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 CMDP to increase risk of loss or further liabilities. CMDP's operating results, financial position and cash flows could be adversely impacted by such changes.

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

(5) Contract requirements

In accordance with its contract with AHCCCS, CMDP 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%. CMDP must also meet various quarterly financial viability standards and performance guidelines. As of June 30, 2018, CMDP was not in compliance with these measures.

During the year ended June 30, 2018, CMDP was notified by AHCCCS that CMDP was not in compliance with their contract. As a result, AHCCCS required CMDP to operate under a Corrective Action Plan ("CAP") where CMDP is subject to strict reporting requirements to describe CMDP'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 CMDP, and (g) and the procurement of a consultant to review the medical claims payable. The CAP remains open through the date the financial statements were available to issue.

Should CMDP 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 CMDP for matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. For the year ended June 30, 2018, AHCCCS levied sanctions against CMDP totaling approximately \$111,400. Of this amount, \$42,950 was waived by AHCCCS with a remaining sanction totaling \$68,450.

(6) Prior period adjustments

During the year ended June 30, 2018, certain errors were identified in the previously reported financial statements as of June 30, 2017, which have been corrected as described below:

Cash and cash equivalents – Cash and cash equivalents was not stated properly as of June 30, 2017, resulting in an overstated cash and cash equivalents balance and an overstated net position. As a result of this error, beginning net position has been reduced by \$3,757,957.

Reinsurance receivables - Reinsurance receivables were not properly stated at June 30, 2017 at the amount management expected to collect based on claim activity in accordance with CMDP's policy, resulting in understated reinsurance receivables and an understated net position. As a result of this error, beginning net position has been increased by \$906,768.

Reconciliation receivable and payable - Reconciliation receivable and payable balances as of June 30, 2017 were not properly recorded in accordance with CMDP's policy, resulting in overstated reconciliation receivables, understated reconciliation payables, and an overstated net position. As a result of this error, beginning net position has been reduced by \$2,305,262.

See Independent Auditors' Report

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF
CHILD SAFETY**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

(6) Prior period adjustments (continued)

Accrued payroll and employee benefits - Payroll and employee benefits were not properly accrued as of June 30, 2017 in accordance with CMDP's policy, resulting in an overstated accrued payroll and employee benefits and an understated net position. As a result of this error, beginning net position has been increased by \$25,296.

Medical claims payable - Medical claims payable was not properly accrued as of June 30, 2017 in accordance with CMDP's policy, resulting in understated medical claims payable and overstated net position. As a result of this error, beginning net position has been reduced by \$516,884.

The cumulative impact of the errors above is a reduction of beginning net position (deficit) of \$5,648,039. The beginning net position (deficit) within the accompanying June 30, 2018 financial statements has been restated to correct these errors identified.

(7) Concentration of credit risk

CMDP's future contract awards are contingent upon the continuation of the AHCCCS program by the State of Arizona and CMDP's ability and desire to retain its status as a Contractor under the AHCCCS program. The AHCCCS contract is effective through September 30, 2021 with two (2) two-year options to extend, 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 MEDICAL AND DENTAL PROGRAM FUND,
A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY**

SUPPLEMENTARY INFORMATION

MEDICAL CLAIMS LAG REPORT

Paragraph 4.07

CMDP

Quarter Ended: 6/30/2018

Claims Lag Report (Audit Adjusted)

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	6,284,045	3,307,152	248,111	584,308	50,339	198	9,686	10,483,839
1st Prior		7,219,571	3,200,486	527,095	108,864	(1,296,872)	1,466,215	11,225,359
2nd Prior			5,976,489	3,092,265	542,194	564,696	44,008	10,219,652
3rd Prior				5,773,013	2,881,400	1,855,362	271,250	10,781,025
4th Prior					6,389,041	3,368,174	409,887	10,167,102
5th Prior						6,346,730	3,446,011	9,792,741
6th Prior							5,411,321	5,411,321
Total Paid	6,284,045	10,526,723	9,425,086	9,976,681	9,971,838	10,838,288	11,058,378	68,081,039
Estimated Expense	9,562,598	11,387,725	9,965,779	10,447,848	10,426,811	11,322,822	11,551,539	74,665,122
Reported Expense	9,092,922	10,840,368	9,478,943	9,940,494	9,983,028	10,840,903	11,059,886	71,236,544
Adjustment	(407,000)	(484,681)	(424,160)	(444,678)	(443,783)	(481,919)	(491,653)	(3,177,874)
Remaining	2,871,553	376,321	116,533	26,489	11,190	2,615	1,508	3,406,209

See Independent Auditors' Report

**COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
A PROPRIETARY FUND OF THE STATE OF ARIZONA DEPARTMENT OF
CHILD SAFETY**

SUPPLEMENTARY INFORMATION

LISTING OF PLAN OFFICERS AND DIRECTORS

June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Other Relationship to Program</u>	<u>Type of Compensation</u>
Mouw, Karla	Comprehensive Medical and Dental Program – Chief Executive Officer	None	Salary
Park, Sara, M.D.	Comprehensive Medical and Dental Program – Chief Medical Officer	None	Salary
Navarro, Robert	Comprehensive Medical and Dental Program – Chief Financial Officer	None	Salary
Winfrey, Jason	Comprehensive Medical and Dental Program – Chief Operations Officer	None	Salary



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**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

COMPREHENSIVE MEDICAL AND DENTAL PROGRAM FUND,
a proprietary fund of the State of Arizona Department of Child Safety

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 ***Comprehensive Medical and Dental Program*** ("CMDP") Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CMDP's basic financial statements and have issued our report thereon dated August 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CMDP's internal control over financial reporting (internal control) to determine the 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 CMDP's internal control. Accordingly, we do not express an opinion on the effectiveness of CMDP'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CMDP'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*.

CMDP's Response to Finding

CMDP's response to the finding identified in our audit is described in the accompanying corrective action plan. CMDP's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



August 4, 2020