

HEALTH CHOICE ARIZONA, INC.

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

Year Ended September 30, 2021

HEALTH CHOICE ARIZONA, INC.

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

Year Ended September 30, 2021

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	2
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	3 - 4
UNIFORM GUIDANCE REPORTS	
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance	5 - 6
Schedule of Findings and Questioned Costs	7 - 8



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INDEPENDENT AUDITORS' REPORT

To the Management of

HEALTH CHOICE ARIZONA, INC.

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards of **Health Choice Arizona, Inc.** (the "Organization") for the year ended September 30, 2021, and the related notes (the financial statement).

Management's Responsibility for the Schedule of Expenditures of Federal Awards

Management is responsible for the preparation and fair presentation of this financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement referred to above presents fairly, in all material respects, the expenditures of federal awards of **Health Choice Arizona, Inc.** for the year ended September 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

March 30, 2022

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

Year Ended September 30, 2021

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services Pass-through Programs					
From:					
Arizona Health Care Cost Containment System:					
Block Grants for Community Mental Health Services (MHBG):					
Children - Non Title XIX	93.958	YH17-0001	11356415170214	\$ 1,432,482	\$ 1,562,236
SMI - Non Title XIX	93.958	YH17-0001	11356415170214	708,140	772,283
FEP - Non Title XIX	93.958	YH17-0001	11356415170214	575,603	627,741
Total Mental Health Block Grant (93.958)				<u>2,716,225</u>	<u>2,962,260</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse	93.959	YH17-0001	11356415170214	3,378,909	3,684,814
Prevention	93.959	YH17-0001	11356415170214	375,340	409,338
Total Substance Abuse Block Grant (93.959)				<u>3,754,249</u>	<u>4,094,152</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance - State Targeted Response to the Opioid Crisis - No Cost Extension					
	93.788	YH17-003-02	11356415170214	1,312,388	1,426,443
Substance Abuse and Mental Health Services - Projects of Regional and National Significance - State Targeted Response to the Opioid Crisis					
	93.788	YH17-003-02	11356415170214	3,691,271	4,012,486
Total Substance Abuse and Mental Health Services - Projects of Regional and National Significance (93.788)				<u>5,003,659</u>	<u>5,438,929</u>
Injury Prevention and Control Research and State and Community Based Programs - Suicide Prevention Gun Lock Project					
	93.136	unknown	11356415170214	9,916	9,916
Total U.S. Department of Health and Human Services				<u>11,484,049</u>	<u>12,505,257</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 11,484,049</u>	<u>\$ 12,505,257</u>

See Independent Auditors' Report
See Notes to the Schedule of Expenditures of Federal Awards

HEALTH CHOICE ARIZONA, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2021

(1) Organization 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. The contract was originally awarded to Health Choice Integrated Care, LLC ("HCIC") on December 18, 2014. The contract between HCIC and the Arizona Department of Health Services ("ADHS") was effective October 1, 2015, and had an initial three-year term with two two-year renewal options for the potential maximum length of seven years. Effective July 1, 2016, the contract with ADHS was transferred to the Company. Effective October 1, 2018, HCIC's contract with AHCCCS was extended and assigned to the Company. The Company and Northern Arizona Regional Behavioral Health Authority ("NARBHA") provide governance of the RBHA contract. NARBHA provides assistance with community and government relations, community reinvestment, SMI, crisis management and other services delivered by the Company in accordance with AHCCCS rules and regulations. NARBHA receives 48% of the pre-tax profit related to the RBHA contract pursuant to an agreement between the Company and NARBHA. AHCCCS announced on November 15, 2021 that, effective October 1, 2022, the Company will no longer be a contracted managed care organization for the RBHA Program.

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.

HEALTH CHOICE ARIZONA, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2021

(1) **Organization operations (continued)**

The contract with CMS, which covers enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pinal, and Yavapai counties, has been renewed for calendar year 2021 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.

(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, 2021. 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.

(4) **Assistance listing numbers**

The program titles and assistance listing numbers were obtained from the 2021 *Assistance Listing*.



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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 Management of

HEALTH CHOICE ARIZONA, INC.

Report on Compliance for Each Major Federal Program

We have audited **Health Choice Arizona, Inc.'s** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("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, 2021. **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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Health Choice Arizona, Inc.'s** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Health Choice Arizona, Inc.'s** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Health Choice Arizona, Inc.'s** compliance.

Opinion on Each Major Federal Program

In our opinion, **Health Choice Arizona, Inc.** complied, in all material respects, with the types of 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, 2021.

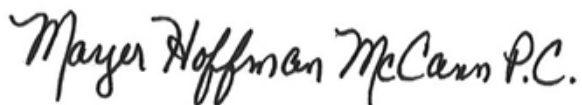
Report on Internal Control Over Compliance

Management of **Health Choice Arizona, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Health Choice Arizona, Inc.'s** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Health Choice Arizona, Inc.'s** 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

March 30, 2022

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2021

Summary of Auditors' Results

Federal Awards

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

3. Identification of major federal programs:

<u>CFDA 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)

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

HEALTH CHOICE ARIZONA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2021

Findings and Questioned Costs Relating to Federal Awards

None