

October 12, 2022

Scott Cummings
Chief Executive Officer
Care1st Health Plan Arizona, Inc.
1870 W. Rio Salado Parkway
Tempe, AZ 85281

RE: Compliance Action – Sanction: Administrative Cost Percentage

Dear Mr. Cummings:

The Arizona Health Care Cost Containment System (AHCCCS), Division of Health Care Management (DHCM) has determined that Care1st Health Plan Arizona (Care1st) is in violation of its AHCCCS Complete Care (ACC) Contract YH19-0001-02. Care1st failed to demonstrate compliance with the contractual Administrative Cost Percentage Financial Viability Standard requirement. Pursuant to Section D, Paragraph 68 of the ACC Contract, Care1st is hereby subject to compliance action as delineated below.

AHCCCS is imposing a monetary sanction on Care1st due to its continuing failure over a lengthy period of time to demonstrate compliance with the contractual requirement that the Administrative Cost Percentage Financial Viability Standard be no more than ten percent (10%).

Section D, Paragraph 47, Financial Viability Standards, of the ACC Contract provides, in part:

The Contractor shall comply with the AHCCCS-established financial viability standards or any revisions or modifications of the standards, in conformance with the AHCCCS Financial Reporting Guide. On a quarterly basis, AHCCCS will review the following ratios with the purpose of monitoring the financial health of the Contractor: current ratio; equity per member; medical loss ratio; and the administrative cost percentage [42 CFR 438.116 (a)-(b)]

Sanctions may be imposed if the Contractor does not meet these financial viability standards.

<i>FINANCIAL VIABILITY STANDARDS – AHCCCS COMPLETE CARE</i>	
<i>Administrative Cost percentage</i>	<i>Total administrative expenses divided by the sum of total capitation plus Delivery Supplement plus All Reconciliation Settlements less Reinsurance less premium tax. All components of the calculation should include annual audit adjustments.</i> <i>Standard: No greater than 10 percent</i>

The Financial Reporting Guide for ACC Contractors provides:

The Contractor's Administrative Cost Percentage and Medical Loss Ratio are measured on a contract year-to-date basis.

Background:

As depicted in the table below, for four quarters of Contract Year 2021, Care1st has violated the Administrative Cost Percentage Financial Viability Standard requirement which is not permitted to exceed 10%. The following percentages are on a contract year-to-date (CYTD) basis.

Care1st	QE 12/31/20	QE 3/31/21	QE 6/30/21	QE 9/30/21	CYE 21 with audit adjustments
Admin Cost %	10.19%	11.26%	10.52%	10.36%	10.52%

Contractors are required to provide quarterly information regarding non-compliances and indicate when compliance can be expected.

Care1st was non-compliant each quarter of the contract year and indicated the following in the September 30, 2021 financial reporting package: *the non-compliance resulted from Care1st recording an increase in the ACC tiered recon during the first quarter of contract year 2021 of approximately \$7.1M related to the retroactive removal of the 1% deduction from the contract year 2020 tiered recon. This reduced the plan's eligible revenue on a contract year-to-date basis because of the plan's position in the recon. Also contributing to the higher administrative expense ratio was the impact of the contract year 2021 reconciliation which, at the time, had a liability to AHCCCS of approximately \$50M. Exclusion of even 50% of the contract year 2021 reconciliation would fully resolve the non-compliance with the admin ratio.*

In each quarterly contract year 2021 Financial Statement, Care1st cited the Tiered Reconciliation as the cause for the non-compliance and indicated they expected to become compliant by contract year end.

In a letter to Care1st dated February 2, 2022 regarding the September 2021 financial package submission, AHCCCS informed Care1st they may be sanctioned for non-compliance with the Administrative Cost Percentage requirement.

At the conclusion of the Care1st fiscal year end, the final financial audit was issued by Care1st, and compliance with the Administrative Cost Percentage was still not achieved for contract year 2021.

Sanction

Care1st failed to comply with the Administrative Cost Percentage Financial Viability Standard throughout contract year 2021. Accordingly, Care1st is hereby subject to a monetary sanction in the amount of \$25,000. This monetary sanction will be withheld from a future capitation payment.


Future Performance

Care1st shall ensure that it complies with contractual and policy provisions setting forth requirements for the Administrative Cost Percentage. Administrative costs shall be monitored and adjusted, where possible, on a regular basis to ensure compliance. Future non-compliance regarding the deficiency outlined in this notice may result in additional Administrative Actions, as outlined in the ACC Contractor Section D, Paragraph 68, Administrative Actions.

If Care1st disagrees with this decision, the Contractor may file a dispute with the AHCCCS Administration using the process outlined in A.A.C. R9-34-401 et.seq. The dispute must be filed in writing and must be received by the AHCCCS Administration, Office of General Counsel at 801 E. Jefferson Street, Phoenix, Arizona 85034, no later than 60 days from the date of this letter. The dispute shall specify the legal and factual bases for the dispute as well as the relief requested.

Should Care1st have any questions regarding this correspondence, please contact Maureen Sharp at (602) 417-4820 or maureen.sharp@azahcccs.gov

Sincerely,


[Meggan LaPorte \(Oct 12, 2022 10:27 PDT\)](#)

Meggan LaPorte, MSW, CPPO
Chief Procurement Officer

c: Deena Sigel, Care1st
Stacie Romney, Care1st
Christina Quast, AHCCCS
Michelle Holmes, AHCCCS
Maureen Sharp, AHCCCS
Cynthia Layne, AHCCCS
Pamela Sullivan, AHCCCS