

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program
AHCCCS Line of Business

Financial Statements

June 30, 2014

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program
AHCCCS Line of Business
June 30, 2014

<u>Table of Contents</u>	<u>Page</u>
Independent Auditors' Report.....	1 - 2
Financial Statements	
Balance Sheet – Special Revenue Fund	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Special Revenue Fund	4
Notes to Financial Statements	5 - 8
Supplementary Information	
Medical Claims Lag Report.....	9
Listing of Plan Officers and Directors.....	10
Report on Compliance and Internal Control	
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.....	11 - 12

Independent Auditors' Report

Charles Flanagan, Director
Arizona Department of Child Safety

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Arizona, Department of Child Safety (the Department), Comprehensive Medical and Dental Program (CMDP), Arizona Health Care Cost Containment System (AHCCCS) Line of Business as of and for the year ended June 30, 2014, 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Arizona, Department of Child Safety, Comprehensive Medical and Dental Program, Arizona Health Care Cost Containment System Line of Business as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of CMDP are intended to present the financial position and changes in financial position of only that portion of the governmental activities and General Fund of the State of Arizona that is attributable to the transactions of the Arizona Department of Child Safety, Comprehensive Medical and Dental Program, AHCCCS Line of Business. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2014, and the changes in its financial position, for the year ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the CMDP, AHCCCS Line of Business' financial statements. The medical claims lag report and listing of plan officers and directors listed in the table of contents is presented for purposes of additional analysis and is 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 October 28, 2014 on our consideration of CMDP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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.



October 28, 2014

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Balance Sheet - Special Revenue Fund
June 30, 2014

Assets:

Cash and investments held by the State Treasurer	\$ 7,436,690
Reinsurance receivable	146,096
Reconciliation receivable	<u>2,638,833</u>
 Total assets	 <u>\$ 10,221,619</u>

Liabilities and Fund Balance

Liabilities:

Medical claims payable	\$ 6,436,412
Accrued payroll and employee benefits	194,064
Reconciliation payable	<u>279,815</u>
 Total liabilities	 <u>6,910,291</u>

Fund balance:

Restricted for health and welfare	<u>3,311,328</u>
 Total liabilities and fund balance	 <u>\$ 10,221,619</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Special Revenue Fund
Year Ended June 30, 2014

Revenues:	
Capitation	\$ 38,448,304
PPC capitation	1,257,023
PPC reconciliation	104,835
PCP parity cost settlement	<u>1,822,905</u>
Total revenues	<u>41,633,067</u>
Expenditures:	
Hospitalization	5,853,096
Medical compensation	9,630,802
Other medical	18,027,799
Allocated administrative expenditures	4,942,504
PCP parity enhanced payment expense	1,822,905
Premium tax	<u>828,487</u>
Total expenditures	<u>41,105,593</u>
Net change in fund balance	527,474
Fund balance, July 1, 2013	<u>2,783,854</u>
Fund balance, June 30, 2014	<u>\$ 3,311,328</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Notes to Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the State of Arizona, Department of Child Safety, Comprehensive Medical and Dental Program (CMDP), Arizona Health Care Cost Containment System (AHCCCS) Line of Business, conform to generally accepted accounting principles as applicable to governmental units as adopted by the Governmental Accounting Standards Board. A summary of CMDP's more significant accounting policies follows.

A. Reporting Entity

CMDP is a health plan established by Arizona Revised Statutes § 8-512 to provide comprehensive medical and dental care for children in foster care. These services are provided to eligible children in all 15 Arizona counties through an intergovernmental agreement between the Department of Child Safety (DCS) and the Arizona Health Care Cost Containment System (AHCCCS). CMDP has operated as an acute care health plan since 1972.

For financial reporting purposes, DCS, CMDP's AHCCCS Line of Business includes those portions of the State of Arizona's General Fund that are controlled by DCS. Further, CMDP's contract with AHCCCS includes those portions of the General Fund of DCS that are controlled by CMDP. Control by CMDP was determined on the basis of accountability. Fiscal responsibility for CMDP remains with DCS and, ultimately, with the State of Arizona.

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.

CMDP has contracted with AHCCCS to provide health care services to children determined to be eligible enrollees of CMDP, and only the AHCCCS portion of CMDP is presented in the financial statements. CMDP provides inpatient, outpatient, dental and other medical services, including pharmacy, laboratory, and physical therapy, to children who are eligible enrollees of CMDP. CMDP receives monthly premiums from AHCCCS for all eligible enrollees.

B. 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, fund equity, revenues, and expenditures, as appropriate. CMDP's financial transactions are recorded and reported using the flow of current financial resources measurement focus as a special revenue fund since the funds' revenues are primarily derived from capitation payments from AHCCCS that are legally restricted to expenditures for specified purposes.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Notes to Financial Statements
June 30, 2014

Note 1 – Summary of Significant Accounting Policies – (continued)

B. Fund Accounting – (continued)

Although CMDP is considered a special revenue fund when reported on individually, it becomes a part of DCS's General Fund at the combined department level and a part of the State of Arizona's General Fund at the combined statewide level because one of its major sources of funding is state appropriations.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenditures are recognized in the accounts and reported in the financial statements. The financial statements of CMDP are presented on the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance current period expenditures. Expenditures are recognized when the related fund liability is incurred.

D. Fund Balance Classifications

Fund balance is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. Deficits in fund balances, if any, are reported as unassigned.

E. Medical Claims Payable

CMDP uses lag tables and per member per month averages to develop the incurred but not reported claims portion of the medical claims payable amount reported, in accordance with the AHCCCS Financial Reporting Guide for the Comprehensive Medical and Dental Program (CMDP) Contractor, Effective Date: January 1, 2013.

F. Premium Tax

CMDP is assessed a 2% premium tax by the Arizona Department of Insurance on revenues received from AHCCCS, and the tax totaled \$828,487 for the year ended June 30, 2014.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Notes to Financial Statements
June 30, 2014

Note 2 – Reconciliation Receivable and Payable

Section 1202 of the Affordable Care Act (ACA) requires that Medicaid reimburse designated primary care providers who provide primary care services and vaccine administration services at rates that are not less than the Medicare fee schedule in effect for 2013 and 2014, or, if greater, at the payment rates that would result from applying the 2009 Medicare physician fee schedule conversion factor to the 2013 or 2014 Medicare payment rates. These reimbursement requirements apply to payments made between January 1, 2013 and December 31, 2014. CMDP has incurred approximately \$2,630,000 in expenditures pertaining to the ACA rate differentials for dates of service between January 1, 2013 and June 30, 2014. These payments have been recorded as reconciliation receivables and payables as AHCCCS is required to reimburse CMDP for the payments.

Note 3 – Acute Care Reinsurance and Third Party Liability

During the year ended June 30, 2014, CMDP received reimbursement in the amount of \$965,721 from AHCCCS for costs incurred in excess of a stated deductible per member per contract year. In addition, CMDP received settlements from other third party sources totaling \$10,625. These revenues are reported as offsets to other medical expenditures.

Note 4 – Prior Period Coverage Settlement

CMDP recorded an asset in the amount of \$104,835 for prior period coverage reconciliations provided by AHCCCS, and the amount is reported as additions to PPC Reconciliation revenue for the year ended June 30, 2014.

Note 5 – Allocated Administrative Expenditures

During the year ended June 30, 2014, CMDP recorded as expenditures allocated administrative charges of \$4,942,504 for its share of services provided by the State of Arizona.

Note 6 – 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*.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Notes to Financial Statements
June 30, 2014

Note 7 – Retirement Plan

Plan Description—CMDP contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (System). 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.

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

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and CMDP's contribution rates. For the year ended June 30, 2014, active plan members and CMDP were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. CMDP's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$247,359, \$163,360 and \$175,347, respectively, which were equal to the required contributions for the year.

Supplementary Information

CMDP

Quarter Ended: 6/30/2014

Claims Lag Report

Expense Type: Hospital, Medical and Other (PPC and Prospective)

Payment Qtr	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior*	Total
Current	4,292,859	3,798,055	333,538	124,752	45,031	16,233	5,505	8,615,973
1st Prior		5,320,452	3,703,607	355,889	83,680	42,326	4,794	9,510,748
2nd Prior			4,214,513	2,464,905	451,850	49,285	32,086	7,212,639
3rd Prior				4,960,253	2,943,875	935,884	73,403	8,913,415
4th Prior					4,657,212	3,887,655	725,533	9,270,400
5th Prior						4,334,340	3,263,955	7,598,295
6th Prior*							3,504,080	3,504,080
Totals	4,292,859	9,118,507	8,251,658	7,905,799	8,181,648	9,265,723	7,609,356	54,625,550
Expense	9,503,428	9,477,451	9,080,116	8,249,952	8,341,358	7,830,819	8,079,881	60,563,005
Adjustment	0	0	0	0	0	0	498,957	498,957
Remaining	5,210,569	358,944	828,458	344,153	159,710	(1,434,904)	969,482	6,436,412

* Amounts in this column or row include the amounts for the 6th prior period, and any earlier periods where the expenses reported exceed the payments made to date.

STATE OF ARIZONA
Department of Child Safety
Comprehensive Medical and Dental Program, AHCCCS Line of Business
Listing of Plan Officers and Directors
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Other Relationship to Program</u>	<u>Type of Compensation</u>
Mas, Rodd	Comprehensive Medical & Dental Program Chief Executive Officer	None	Salary
Stephens, Susan, M.D.	Comprehensive Medical & Dental Program Medical Director	None	Salary
Light, Kim, RN	Comprehensive Medical & Dental Program Medical Management Director	None	Salary
Blackledge, Susan	Comprehensive Medical & Dental Program Chief Financial Officer	None	Salary
Sobczyk, Matthew	Comprehensive Medical & Dental Program Chief Operations Officer	None	Salary

Report on Compliance and Internal Control

**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***

Charles Flanagan, Director
Arizona Department of Child Safety

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State of Arizona, Department of Child Safety, Comprehensive Medical and Dental Program (CMDP), Arizona Health Care Cost Containment System (AHCCCS) Line of Business as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Arizona, Department of Child Safety, Comprehensive Medical and Dental Program's (CMDP), AHCCCS Line of Business internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CMDP's internal control over financial reporting. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State of Arizona, Department of Child Safety, Comprehensive Medical and Dental Program, AHCCCS Line of Business 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*.

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

Handwritten signature of Fester & Chapman P.C. in cursive script.

October 28, 2014