

September 11, 2015

Ms. Trista Loops
Director, Finance
Health Net of Arizona
1230 West Washington Street
Tempe, AZ 85281

Subject: Notice of Mandated Corrective Action Plan

Dear Ms. Loops:

The Arizona Health Care Cost Containment System (AHCCCS), Division of Health Care Management (DHCM) has determined that Health Net Access (HNA) is in violation of contract YH14-0001 for acute care services for the contract year ending 2015.

Paragraph 50, page 87 of the contract reads in part as follows:

The Contractor must comply with the AHCCCS established financial viability standards. 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 expense ratio; and the administrative cost percentage.

HNA has failed to demonstrate compliance with the contractual requirement that the Administrative Cost Percentage be no more than ten percent (10%). When HNA submitted the financial reporting package on June 1, 2015, for the quarter ended March 31, 2015, HNA acknowledged the standard was not met but stated in the footnotes *that administrative expenses will fall below the 10% threshold for the full contract year*. Then, in an e-mail dated June 17, 2015, HNA acknowledged that it would not meet the threshold claiming that, *As a result of the Notice of Compliance Action-Sanction HNA has determined that it is necessary to dedicate additional resources in several areas to correct operational deficiencies*. In addition, AHCCCS noted that although member months decreased by 15,196 between quarters ended March and June, the management fee increased \$850,259 from \$6,848,355 to \$7,698,614 respectively.

AHCCCS is requiring HNA to submit a corrective action plan including a timeline of when HNA expects to be in compliance. In addition, AHCCCS is requesting a copy of the cost allocation plan or management agreement which specifies the arrangement between Health Net of Arizona and HNA for the provision of administrative services. Please provide the information requested by September 25, 2015.

Upon receipt and review of the information AHCCCS will determine if any additional actions will be taken.

If you have any questions, please contact me at 602.417.4210 or by e-mail at nancy.neroni@azahcccs.gov.

Sincerely,

Sent via electronic mail

Nancy Neroni, MBA
Finance and Program Monitor

C: Virginia Rountree, DHCM
Cynthia Layne, DHCM
Christina Quast, DHCM
Jay Dunkleberger, DHCM
Shelli Silver, DHCM
Susan Gilkey, HNA
Gay Ann Williams, HNA