

**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 September 30, 2020

**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 September 30, 2020

INDEX

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
FINANCIAL STATEMENTS	
Statement of Net Position – Proprietary Fund	4
Statement of Revenues, Expenses and Changes in Net Position (Deficit) - Proprietary Fund	5
Statement of Cash Flows – Proprietary Fund	6
Notes to Financial Statements	7 - 13
SUPPLEMENTARY INFORMATION	
Medical Claims Lag Report	14
Listing of Plan Officers and Directors	15
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	16 - 17
Schedule of Findings and Responses	18
Summary Schedule of Prior Audit Findings	19



4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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 September 30, 2020 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 of the **Comprehensive Medical and Dental Program** Fund, a proprietary fund of the State of Arizona Department of Child Safety as of September 30, 2020 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, 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 September 30, 2020, the changes in the financial position, or, where applicable, the cash flows as of September 30, 2020 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 March 19, 2021 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.

Mayer Hoffman McCann P.C.

March 19, 2021

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

STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 11,405,203
Capitation and supplement receivables	1,081
Reinsurance receivables	990,428
Other current assets	<u>6,506</u>
TOTAL ASSETS	<u>\$ 12,403,218</u>

LIABILITIES

CURRENT LIABILITIES

Medical claims payable	\$ 10,183,435
Accrued administrative expenses	<u>848,012</u>
TOTAL LIABILITIES	<u>11,031,447</u>

COMMITMENTS AND CONTINGENCIES

NET POSITION

Restricted	<u>1,371,771</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,403,218</u>

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

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

Year Ended September 30, 2020

REVENUES	
Capitation	\$ 53,054,901
Risk settlement	153,459
TOTAL REVENUES	<u>53,208,360</u>
 HEALTH CARE EXPENSES	
Hospitalization	11,362,309
Medical compensation	9,326,805
Ancillary and other medical services	21,909,429
Less: reinsurance recoveries	(1,741,435)
Less: third-party liability	(188,937)
TOTAL HEALTH CARE EXPENSES	<u>40,668,171</u>
ADMINISTRATIVE EXPENSES	10,087,173
PREMIUM TAX	1,081,245
TOTAL EXPENSES	<u>51,836,589</u>
CHANGE IN NET POSITION (DEFICIT)	1,371,771
 OTHER NONCAPITAL FINANCING SOURCES	
Transfer in from the Arizona Department of Child Safety	1,569,323
NET DEFICIT, BEGINNING OF YEAR	<u>(1,569,323)</u>
NET POSITION, END OF YEAR	<u>\$ 1,371,771</u>

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year Ended September 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from AHCCCS	\$ 53,619,915
Payments of health care expenses	(39,318,305)
Payments of administrative expenses	(9,742,933)
Premium taxes paid	<u>(1,081,245)</u>
Net cash provided by operating activities	3,477,432
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in from the Arizona Department of Child Safety	<u>1,569,323</u>
Net cash provided by noncapital financing activities	<u>1,569,323</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 5,046,755
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>6,358,448</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 11,405,203</u>
 RECONCILIATION OF CHANGE IN NET POSITION (DEFICIT) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net position (deficit)	\$ 1,371,771
Bad debt expense	493,557
Adjustments to reconcile change in net position (deficit) to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Capitation and supplement receivables	(1,081)
Reinsurance receivables	(81,869)
Other current assets	948
Accrued administrative expenses	344,240
Medical claims payable	1,504,348
Reconciliation payable	<u>(154,482)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 3,477,432</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2020

(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 September 30, 2020.

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.

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 September 30, 2020

(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 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 \$11,405,203 at September 30, 2020.

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 supplement 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 supplement receivables. At September 30, 2020, capitation and supplement receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

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. Effective with contract year 2019, PPC risk is no longer shared with AHCCCS.

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

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2020

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

During the year ended September 30, 2020, CMDP collected the final reconciliation settlement for contract year 2018 in the amount of \$153,459 which is included in settlement revenue in the accompanying statement of revenues, expenses and changes in net position (deficit) - proprietary fund.

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 September 30, 2020, CMDP did not report a premium deficiency reserve 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 periods 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.

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 \$35,000. 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.

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

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2020

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

For the year ended September 30, 2020, CMDP reported reinsurance recoveries in the amount of \$1,741,435 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. During fiscal year 2020, CMDP identified approximately \$494,000 of reinsurance receivables which were not deemed to be collectable. Accordingly, CMDP wrote off this amount which is included in the accompanying statement of revenues, expenses and changes in net position (deficit) – proprietary fund as bad debt expense within administrative expenses.

At September 30, 2020, 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 September 30, 2020, CMDP received settlements from other third-party resources totaling \$188,937. These amounts are reported as offsets to health care expenses in the accompanying statement of revenues, expenses and changes in net position (deficit). At September 30, 2020, 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 and Finance Institutions ("AZDIFI").

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 September 30, 2020, CMDP's net position was restricted by the grantor (AHCCCS) for the provision of health care services. Accordingly CMDP has reported its net position as restricted at September 30, 2020. The fund balance is in its own sub-fund classification and is considered proprietary as funds cannot be used for any other purpose other than cost related to Medicaid services as out-lined in the contract between CMDP and AHCCCS. For the funds to be used for any other purpose, approval by AHCCCS or the State Legislature is required. The net position is restricted at 100% of the balance.

Subsequent events - CMDP has evaluated subsequent events through March 19, 2021, which is the date the financial statements were available to be issued.

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

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2020

(2) Administrative services

Certain direct, indirect and administrative expenses are incurred at DCS which benefit CMDP. Such common expenses are allocated based upon an Arizona Department of Health Services approved cost allocation plan, which is primarily based upon enrollment, claims and costs by fund. CMDP recorded as administrative expenses \$10,087,173 representing its allocated share of services provided by DCS for the year ended September 30, 2020. Administrative services expense for the year ended September 30, 2020 includes direct CMDP costs as well as certain allocated costs which are paid to DCS for shared expenses such as information technology, support services, legislative affairs, general counsel, quality improvement, field operations and office administration.

(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 at, 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 nine months ended June 30, 2020, active plan members and CMDP were each required by statute to contribute at the actuarially determined rate of 12.11 percent (11.94 percent retirement and 0.17 percent long-term disability) of the members' annual covered payroll. At July 1, 2020 the actuarially determined rate, as required by statute, increased to 12.22 percent (12.04 percent retirement and .18 percent long-term disability). CMDP's contributions to ASRS for the year ended September 30, 2020 totaled \$359,951 which was equal to the required contributions for the period.

(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.

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 September 30, 2020

(4) Commitments and contingencies (continued)

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.

COVID-19 pandemic - On March 11, 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 known now 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 development, 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 flows and financial condition. However, the impact cannot be reasonably estimated at this time.

(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 September 30, 2020, CMDP was not in compliance with the medical expense ratio or the administrative cost percentage.

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) the procurement of a consultant to review the medical claims payable. AHCCCS released the CAP in December 2020.

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.

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

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2020

(5) Contract requirements (continued)

AHCCCS has a right to sanction CMDP for matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. For the year ended September 30, 2020, AHCCCS levied sanctions against CMDP totaling \$728,914. Of this amount, \$724,914 was waived by AHCCCS. During the quarter ended September 30, 2020, the sanction amount of \$4,634 was deducted from Capitation payments. The sanction amount of \$4,634 has been reported as an administrative expense, under Other Administrative Expenses. CMDP received a sanction letter dated December 8, 2020 for Pended Encounters for June, 2020 of \$651,940. This amount has been waived by AHCCCS. No sanctions against CMDP remain.

(6) 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.

In July 2020, DCS entered into an agreement with Mercy Care, a local, not-for-profit company that has been serving AHCCCS members in Arizona since 1985 to provide physical and behavioral health services for children enrolled with DCS CMDP. This collaboration creates innovation in child welfare that draws upon CMDP's knowledge and experience around the unique needs of children and families involved in foster care and Mercy Care's knowledge and experience in physical and behavioral health care and service delivery. Under the new partnership, the provider network will be comprehensive and designed to meet the physical and behavioral health needs of the children in child welfare throughout the state. To reflect this integrated approach to healthcare, CMDP is changing its name to Comprehensive Health Plan (CHP) as of April 1, 2021.

Mercy Care will be responsible for the administration and provision of integrated physical health and behavioral health services. Mercy Care, in close collaboration with DCS/CHP, shall provide for the delivery of these integrated services as required by the contract, including but not limited to, Network Development and Management, Claims/Encounter processing, Utilization Management, Care Management, Care Coordination, Member Services, and Grievance and Appeals (both member and provider). In fulfilling its responsibilities, Mercy Care shall collaborate closely with DCS/CHP to create a health care delivery system that provides the highest quality of services for Arizona's children and youth in foster care. Pursuant to the agreement with Mercy Care, CMDP will pay Mercy Care a per member per month capitation rate as set by AHCCCS, representing a portion of the per member per month funding received from AHCCCS by CMDP.

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: 9/30/2020

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	3,155,326	3,690,696	588,443	53,766	89,818	3,473	(330)	7,581,192
1st Prior		3,236,502	5,682,918	763,145	299,750	159,964	27,183	10,169,462
2nd Prior			6,349,262	4,883,883	699,355	61,185	178,832	12,172,517
3rd Prior				4,028,922	4,573,824	1,061,664	1,540,037	11,204,447
4th Prior					4,322,109	4,300,597	2,027,149	10,649,855
5th Prior						4,903,425	5,131,693	10,035,118
6th Prior							20,765,841	20,765,841
Total Paid	3,155,326	6,927,198	12,620,623	9,729,716	9,984,856	10,490,308	29,670,405	82,578,432
Expense	8,892,927	10,311,574	12,172,516	11,221,526	699,355	61,185	178,832	43,537,915
Adjustment	(255,636)	(645,138)	377,598	377,598	9,449,233	10,314,093	29,606,204	49,223,952
Remaining	5,481,965	2,739,238	(70,509)	1,869,408	163,732	(115,030)	114,631	10,183,435

**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

Year Ended September 30, 2020

<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
Harri, Theresa	Comprehensive Medical and Dental Program – Chief Financial Officer	None	Salary
Winfrey, Jason	Comprehensive Medical and Dental Program – Chief Operations Officer	None	Salary
Webb, Sala	Comprehensive Medical and Dental Program – Chief Medical Officer, Behavioral Health	None	Salary
Keck, Christopher	Comprehensive Medical and Dental Program – Director of Behavioral Health Services	None	Salary
Soble, Michelle	Comprehensive Medical and Dental Program – Pharmacy Director	None	Salary



4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

**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

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

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 the **Comprehensive Medical and Dental Program** ("CMDP") Fund, a proprietary fund of the State of Arizona Department of Child Safety ("DCS") as of September 30, 2020 and for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2021.

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) as a basis for designing 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. 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 **CMDP's** financial statements are free from 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 financial statements. 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 **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.

Mayer Hoffman McCann P.C.

March 19, 2021