

**HEALTH CHOICE ARIZONA, INC.**

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

Year Ended September 30, 2020

**HEALTH CHOICE ARIZONA, INC.**

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

Year Ended September 30, 2020

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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, 2020, 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, 2020 in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

April 5, 2021

## HEALTH CHOICE ARIZONA, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Contract Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Health and Human Services Pass-through Programs</b>					
<b>From:</b>					
Arizona Health Care Cost Containment System:					
Block Grants for Community Mental Health Services (MHBG):					
Children - Non Title XIX	93.958	YH17-0001	11356415170214	\$ 1,547,956	\$ 1,688,169
SMI - Non Title XIX	93.958	YH17-0001	11356415170214	<u>1,172,336</u>	<u>1,278,526</u>
Total Mental Health Block Grant (93.958)				<u>2,720,292</u>	<u>2,966,695</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse	93.959	YH17-0001	11356415170214	3,385,768	3,692,378
Prevention	93.959	YH17-0001	11356415170214	<u>477,070</u>	<u>520,283</u>
Total Substance Abuse Block Grant (93.959)				<u>3,862,838</u>	<u>4,212,661</u>
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	1,541,806	1,675,876
Substance Abuse and Mental Health Services - Projects of Regional and National Significance - State Opioid Response	93.788	YH17-003-02	11356415170214	<u>3,013,685</u>	<u>3,273,464</u>
Total Substance Abuse and Mental Health Services - Projects of Regional and National Significance (93.788)				<u>4,555,491</u>	<u>4,949,340</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance - Medicated Assisted Treatment - Prescription Drug and Opioid Addiction	93.243	YH17-003-02	11356415170214	<u>110,432</u>	<u>120,035</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>11,249,053</u>	<u>12,248,731</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 11,249,053</u>	<u>\$ 12,248,731</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, 2020

### (1) Organization operations

Health Choice Arizona (the "Plan" or "Health Choice") is a division of Health Choice Arizona, Inc. (the "Company"), which is a wholly owned subsidiary of Veritage LLC ("Veritage") effective December 30, 2019. Previously, the Company was a wholly owned subsidiary of Steward Health Care System, LLC ("Steward"). Veritage acquired the Company from Steward on December 30, 2019. Veritage is an Arizona limited liability company owned solely by Blue Cross Blue Shield of Arizona ("BCBSAZ").

Upon closing the transaction, Veritage acquired 100% of equity interest in the Company. As part of the acquisition, the Company and Steward settled prior intercompany balances. Veritage contributed \$52.0 million of capital in cash and \$200.0 million in the form of a note receivable with BCBSAZ to the Company to meet Arizona's administrative rules, certain capital requirements and standards established by the Arizona Health Care Cost Containment System ("AHCCCS"). The Company allocated \$9.0 million of the cash and \$15.2 million of the note receivable to Health Choice to meet equity per member requirements established under AHCCCS Contractor Operational Manual 305 (Section IV, B).

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. Health Choice provides high-quality physical and behavioral healthcare services to Medicaid eligible adults with serious mental illness in Northern Arizona under the Regional Behavioral Health Authority ("RBHA") (the "Contract" or the "Plan"). 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 AHCCCS. Effective October 1, 2018, HCIC's contract with AHCCCS was extended and assigned to Health Choice. Health Choice and Northern Arizona Regional Behavioral Health Authority ("NARBHA") provide governance over the AHCCCS RBHA contract. NARBHA provides assistance with community and government relations, community reinvestment, Serious Mental Illness ("SMI"), foster children, crisis management and other services delivered by Health Choice in accordance with AHCCCS rules and regulations. NARBHA receives 48% of the RBHA's pre-tax profit pursuant to an agreement between Health Choice and NARBHA. In addition to the Contract, the Company has a Complete Care contract with AHCCCS and a Medicare Advantage contract for dual-eligible members with CMS that are not included in these financial statements.

### (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, 2020. 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.**

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2020

(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) **Catalog of federal domestic assistance (CFDA) numbers**

The program titles and CFDA numbers were obtained from the 2020 *Catalog of Federal Domestic Assistance*.



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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, 2020. **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, 2020.

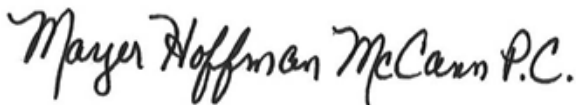
## **Report on Internal Control Over Compliance**

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.

April 5, 2021



**HEALTH CHOICE ARIZONA, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2020**

**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? No

**HEALTH CHOICE ARIZONA, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2020**

**Findings and Questioned Costs Relating to Federal Awards**

**None**