

**Department of Health Services**  
Division of Behavioral Health Services—Title XIX and XXI  
Contract

Schedule of Revenues,  
Expenditures, and  
Encumbrances

Year Ended June 30, 2016

A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent accountants' report**

Members of the Arizona State Legislature

Dr. Cara M. Christ, Director  
Department of Health Services

We have examined the accompanying schedules of revenues, expenditures, and encumbrances for the Department of Health Services (Department), Division of Behavioral Health Services, Title XIX and XXI Contract, for the year ended June 30, 2016. These schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these schedules based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the schedules and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The accompanying schedules of revenues, expenditures, and encumbrances were prepared to comply with contract requirements between the Arizona Health Care Cost Containment System (AHCCCS) and the Department, as discussed in Note 2, and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, the schedules of revenues, expenditures, and encumbrances referred to above present, in all material respects, the revenues, expenditures, and encumbrances of the Department's Title XIX and XXI Contract for the year ended June 30, 2016, based on the criteria described in Note 2.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Director of the Department, department management, others within the Department, and AHCCCS and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA  
Financial Audit Director

January 11, 2017



**Department of Health Services**  
**Division of Behavioral Health Services—Title XIX**  
**Schedule of revenues, expenditures, and encumbrances**  
**Year Ended June 30, 2016**

	<u>Revenues/ expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 512,524,114		\$ 512,524,114
Federal grant revenues	<u>1,474,003,459</u>		<u>1,474,003,459</u>
Total revenues	<u>1,986,527,573</u>		<u>1,986,527,573</u>
Expenditures/encumbrances			
Program costs:			
Capitation paid	1,855,991,861	\$ 11,752,542	1,867,744,403
Fee for services (Tribal)	76,500,000		76,500,000
Medicaid special exemption payments	<u>38,937,302</u>		<u>38,937,302</u>
Total program costs	<u>1,971,429,163</u>	<u>11,752,542</u>	<u>1,983,181,705</u>
Administrative costs:			
Personal services	6,148,805		6,148,805
Employee related	2,293,765		2,293,765
Professional and outside services	1,447,315	326,195	1,773,510
In-state travel	54,437		54,437
Out-of-state travel	2,631		2,631
Aid to other organizations	330,948	151,631	482,579
Other operating	1,209,459	183,389	1,392,848
Noncapital equipment	3,969		3,969
Information technology support	3,732,848		3,732,848
Indirect costs	<u>1,346,559</u>		<u>1,346,559</u>
Total administrative costs	<u>16,570,736</u>	<u>661,215</u>	<u>17,231,951</u>
Total expenditures/encumbrances	<u>1,987,999,899</u>	<u>12,413,757</u>	<u>2,000,413,656</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ (1,472,326)</u>	<u>\$ (12,413,757)</u>	<u>\$ (13,886,083)</u>

See accompanying notes to schedules.

**Department of Health Services**  
**Division of Behavioral Health Services—Title XXI**  
**Schedule of revenues, expenditures, and encumbrances**  
**Year Ended June 30, 2016**

	<u>Revenues/ expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 23,707		\$ 23,707
Federal grant revenues	<u>367,504</u>		<u>367,504</u>
Total revenues	<u>391,211</u>		<u>391,211</u>
Expenditures/encumbrances			
Program costs:			
Capitation paid	350,651	\$ 3,859	354,510
Medicaid special exemption payments	<u>7,823</u>	<u>          </u>	<u>7,823</u>
Total program costs	<u>358,474</u>	<u>3,859</u>	<u>362,333</u>
Administrative costs:			
In-state travel	362		362
Other operating	6,074		6,074
Information technology support	<u>116</u>		<u>116</u>
Total administrative costs	<u>6,552</u>		<u>6,552</u>
Total expenditures/encumbrances	<u>365,026</u>	<u>3,859</u>	<u>368,885</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 26,185</u>	<u>\$ (3,859)</u>	<u>\$ 22,326</u>

See accompanying notes to schedules.



**Department of Health Services**  
**Division of Behavioral Health Services**  
**Title XIX and XXI Contract**  
**Notes to schedules**  
**Year ended June 30, 2016**

**Note 1 - Reporting entity**

The Department of Health Services (Department), Division of Behavioral Health Services (Division), is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) that provides behavioral health services to eligible enrollees of the AHCCCS program who are participating in the federal Title XIX and XXI programs. The Division is responsible for administering the contract. Fiscal responsibility for the Division remains with the Department and, ultimately, with the State of Arizona. Each schedule includes only that portion of the Division's operations that are attributable to the applicable Title XIX and Title XXI contract with AHCCCS.

**Note 2 - Basis of accounting**

Annually, the Division is required to obtain an audit of contract revenues, expenditures, and encumbrances. For purposes of complying with the contract and to present revenues, expenditures, and encumbrances on a basis consistent with the State's accounting system, the Division has defined revenues, expenditures, and encumbrances as follows:

*Revenues*—The Division receives monthly capitation payments from AHCCCS that are composed of state matching monies and federal grant monies. AHCCCS capitation payments are recognized as revenues when received.

*Expenditures*—The Division uses monies received from AHCCCS to pay contracted service providers and administrative costs that the Division incurs for administering the contract. Expenditures are recognized when goods or services are received and paid from revenues recognized during the year ended June 30, 2016. Expenditures paid from excess revenues of prior periods are reported to AHCCCS in separate unaudited schedules that the Division prepares.

*Encumbrances*—Encumbrances represent formal commitments (usually contracts or purchase orders) to acquire goods or services not yet received as of June 30, 2016.

