



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Audit

Department of Health Services

Division of Behavioral Health
Services—Title XIX and XXI Contract
Year Ended June 30, 2009



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 of school districts, state agencies, and the programs they administer.



Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov

Department of Health Services
Division of Behavioral Health Services
Title XIX and XXI Contract
Year Ended June 30, 2009

Table of Contents	Page
Independent Auditors' Report	1
Schedules of Revenues, Expenditures, and Encumbrances:	
Title XIX	2
Title XXI	3
Notes to Schedules	4



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

Will Humble, Interim Director
Department of Health Services

We have audited the accompanying Schedules of Revenues, Expenditures, and Encumbrances for the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract, for the year ended June 30, 2009. These schedules are the responsibility of the Department's management and its Division of Behavioral Health Services' management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentations. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules of Revenues, Expenditures, and Encumbrances were prepared for the purpose of complying with contract requirements between the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services, Division of Behavioral Health Services, 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 fairly, in all material respects, the revenues, expenditures, and encumbrances of the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Department of Health Services, and the Arizona Health Care Cost Containment System, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

November 12, 2009

Department of Health Services
Division of Behavioral Health Services—Title XIX
Schedule of Revenues, Expenditures, and Encumbrances
Year Ended June 30, 2009

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 299,671,419		\$ 299,671,419
Federal grant revenues	728,248,543		728,248,543
Federal American Recovery and Reinvestment Act revenues	<u>77,583,790</u>		<u>77,583,790</u>
Total revenues	<u>1,105,503,752</u>		<u>1,105,503,752</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	1,015,230,886		1,015,230,886
Fee for services	36,232,750		36,232,750
Medicaid special exemption payments	21,463,515		21,463,515
Transfer to State General Fund	<u>964,178</u>		<u>964,178</u>
Total program costs	<u>1,073,891,329</u>		<u>1,073,891,329</u>
Administrative costs:			
Personal services	8,912,465		8,912,465
Employee related	3,271,700		3,271,700
Professional and outside services	793,581	\$ 25,526	819,107
In-state travel	79,981		79,981
Out-of-state travel	1,684		1,684
Aid to other organizations	501,479	190,139	691,618
Other operating	599,240	16,032	615,272
Equipment	19,319		19,319
Noncapital equipment	30,165		30,165
Information technology support	420,242		420,242
Indirect costs	<u>1,790,447</u>		<u>1,790,447</u>
Total administrative costs	<u>16,420,303</u>	<u>231,697</u>	<u>16,652,000</u>
Total expenditures/encumbrances	<u>1,090,311,632</u>	<u>231,697</u>	<u>1,090,543,329</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 15,192,120</u>	<u>\$ (231,697)</u>	<u>\$ 14,960,423</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, 2009

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 4,327,007		\$ 4,327,007
Federal grant revenues	<u>13,792,484</u>		<u>13,792,484</u>
Total revenues	<u>18,119,491</u>		<u>18,119,491</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	16,362,557		16,362,557
Fee for services	522,500		522,500
Medicaid special exemption payments	<u>362,390</u>		<u>362,390</u>
Total program costs	<u>17,247,447</u>		<u>17,247,447</u>
Administrative costs:			
Personal services	165,032		165,032
Employee related	61,487		61,487
Professional and outside services	9,662	\$ 1,278	10,940
In-state travel	1,621		1,621
Out-of-state travel	18		18
Aid to other organizations	975		975
Other operating	8,049	200	8,249
Noncapital equipment	661		661
Information technology support	2,827		2,827
Indirect costs	<u>34,282</u>		<u>34,282</u>
Total administrative costs	<u>284,614</u>	<u>1,478</u>	<u>286,092</u>
Total expenditures/encumbrances	<u>17,532,061</u>	<u>1,478</u>	<u>17,533,539</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 587,430</u>	<u>\$ (1,478)</u>	<u>\$ 585,952</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, 2009

Note 1 - Reporting Entity

The Department of Health Services, Division of Behavioral Health Services, 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 of Behavioral Health Services is responsible for administering the contract. Fiscal responsibility for the Division remains with the Department of Health Services and, ultimately, with the State of Arizona. Each schedule includes only that portion of the Department of Health Services, Division of Behavioral Health Services', 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, federal grant monies, and Federal American Recovery and Reinvestment Act 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. Expenditures paid from excess revenues of prior periods are reported to AHCCCS in separate unaudited schedules that the Division prepares.

Encumbrances—Encumbrances are recognized when goods or services have been received but not paid for as of June 30.

Note 3 - Federal American Recovery and Reinvestment Act (ARRA) Revenues

The ARRA, Section 5001, provided for state fiscal relief through a temporary increase in the Medicaid federal medical assistance percentage. As a result, the Department reported ARRA revenues of \$77,583,790 for the year ended June 30.