



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, 2011



Debra K. Davenport
Auditor General

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Department of Health Services
Division of Behavioral Health Services
Title XIX and XXI Contract
Year Ended June 30, 2011

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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 Auditors' Report

Members of the Arizona State Legislature

Will Humble, 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, 2011. 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 Director of the Department of Health Services, department management, others within the Department, 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 3, 2011

Department of Health Services
Division of Behavioral Health Services—Title XIX
Schedule of Revenues, Expenditures, and Encumbrances
Year Ended June 30, 2011

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 339,500,609		\$ 339,500,609
Federal grant revenues	861,620,915		861,620,915
Federal American Recovery and Reinvestment Act revenues	<u>107,804,216</u>		<u>107,804,216</u>
Total revenues	<u>1,308,925,740</u>		<u>1,308,925,740</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	1,191,906,380		1,191,906,380
Fee for services	50,687,418		50,687,418
Medicaid special exemption payments	25,610,213		25,610,213
Transfer to State General Fund	<u>76,200</u>		<u>76,200</u>
Total program costs	<u>1,268,280,211</u>		<u>1,268,280,211</u>
Administrative costs:			
Personal services	7,469,848		7,469,848
Employee related	3,028,737		3,028,737
Professional and outside services	859,755	\$ 290,953	1,150,708
In-state travel	46,936		46,936
Out of state travel	2,607		2,607
Aid to other organizations	75,638	68,088	143,726
Other operating	752,297	113,907	866,204
Noncapital equipment	23,082	5,829	28,911
Information technology support	235,257		235,257
Indirect costs	<u>1,574,813</u>		<u>1,574,813</u>
Total administrative costs	<u>14,068,970</u>	<u>478,777</u>	<u>14,547,747</u>
Total expenditures/encumbrances	<u>1,282,349,181</u>	<u>478,777</u>	<u>1,282,827,958</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 26,576,559</u>	<u>\$ (478,777)</u>	<u>\$ 26,097,782</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, 2011

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 1,648,409		\$ 1,648,409
Federal grant revenues	<u>5,242,537</u>		<u>5,242,537</u>
Total revenues	<u>6,890,946</u>		<u>6,890,946</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	6,130,130		6,130,130
Medicaid special exemption payments	<u>137,818</u>		<u>137,818</u>
Total program costs	<u>6,267,948</u>		<u>6,267,948</u>
Administrative costs:			
Personal services	53,306		53,306
Employee related	22,248		22,248
Other operating	10		10
Information technology support	527		527
Indirect costs	<u>11,408</u>		<u>11,408</u>
Total administrative costs	<u>87,499</u>	<u>-</u>	<u>87,499</u>
Total expenditures/encumbrances	<u>6,355,447</u>		<u>6,355,447</u>
Revenues over expenditures/encumbrances	<u>\$ 535,499</u>	<u>\$ -</u>	<u>\$ 535,499</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, 2011

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, 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 \$107,804,216 for the year ended June 30, 2011.



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

Financial Audit
Year Ended June 30, 2011

State of Arizona
Office of the Auditor General