ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

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George Skiles, Partner
Sjoberg Evashenk Consulting, Inc.
455 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Mr. Skiles:

Enclosed is the Arizona Health Care Cost Containment System's (AHCCCS) response to the special audit of the Arizona Parents as Paid Caregiver (PPCG) model.

Independent audits play an important role in promoting accountability, transparency, and the effective administration of public programs, and we value the opportunity to provide additional context regarding the complexities associated with implementing recent statutory, federal, and operational changes affecting PPCG.

As reflected in our response, AHCCCS has already implemented a variety of cost-control and oversight measures, including those required by State law, and is committed to implementing the audit recommendations. Our response also explains areas where we respectfully disagree with certain findings, including circumstances involving federal Medicaid requirements, legal and procedural considerations, data limitations, and implementation timelines that affected the Agency's actions. We believe this context is important to understanding both the challenges and the progress associated with administering this rapidly evolving program.

AHCCCS remains committed to strengthening program oversight, implementing the HCBS Needs Tool and Extraordinary Care Review Process through the authority provided by the Legislature, enhancing monitoring and compliance activities, and evaluating additional strategies to support the long-term sustainability of services for Arizona families.

Thank you for the opportunity to review and respond to the audit report. We will continue ensuring effective stewardship of public resources while meeting the needs of the members we serve.

Sincerely,

Roberta Harrison
Interim Director

Chapter 1: AHCCCS did not implement the new standardized assessment tool required by Laws 2025, Chapter 93, and as a result did not realize potential cost reduction of $133 million to $493 million in fiscal year 2026.

AHCCCS response: The finding is not agreed to.

Response explanation: AHCCCS implemented the new standardized assessment tool on October 1, 2025, however, it discontinued use of the tool with the effective date of the emergency HNT rulemaking on October 15, 2025. AHCCCS suspended the strengthened standardized assessment tool required by Laws 2025, Chapter 93 and proceeded with rulemaking due to the probability of imminent litigation and the possibility of an adverse court ruling that may have resulted in further delay in implementation of the new assessment tool and inability to achieve cost savings.

AHCCCS does not agree that it could have reasonably anticipated that implementing Laws 2025, Chapter 93 required Administrative Procedure Act rulemaking before October 2025 as noted in the report. The HCBS Needs Tool has historically existed in AHCCCS policy manuals at AMPM Policy 1600.

AHCCCS generally adopts and amends its policies through its published policy process and not through Administrative Procedure Act (APA) rulemaking which has been a successful approach by which this agency has administered the Arizona Medicaid program for decades. AHCCCS has and continues to generally administer the AHCCCS Medical Policy Manual (AMPM), AHCCCS Contractor Operational Manual (ACOM), and other manuals through policy, not formal rulemaking. When promulgating policy, AHCCCS posts detailed policies for public comment, and subsequent consideration by the Agency. Advocates are familiar with this process and actively use this mechanism. AHCCCS therefore did not overlook, in April 2025, something it discovered in October 2025. Rather, no party asserted that the policies at issue required formal rulemaking, despite substantial public engagement, until September 29, 2025, in a letter which carried a litigation demand. Due to the probability of imminent litigation first communicated to AHCCCS and DES two days before the October 1 implementation date and due to the risk of a potentially adverse court ruling resulting in a more extensive delay of the tool's implementation, the strengthened standardized assessment tool was suspended. Even had AHCCCS promptly initiated formal rulemaking for Laws 2025, Chapter 93 which was enacted in April 2025, it is unlikely that the strengthened assessment tool would have been adopted as final rules and implemented in October 2025 due to the extensive procedural requirements of Title 41 Chapter 6, including the public comment processes mandated by the APA, the possibility of supplemental rulemaking, and the required proceedings before the Governor's Regulatory Review Council. Moreover, actual implementation of the strengthened assessment tool would entail several additional months subsequent to the rule's effective date due to the critical prerequisite for effective training of Department and other staff before "going live." As a result, the initially projected cost savings based upon an October implementation date would likely not have been realized.

Ultimately, the Legislature reached a similar conclusion by resolving the rulemaking question prospectively in Section 19 of Laws 2026, Chapter 132. It did not direct AHCCCS to conduct a full APA rulemaking and instead exempted the Agency from the rulemaking requirements of Title 41 Chapter 6 of the APA for the 2026-2027 fiscal year, authorizing

exempt rulemaking along with a minimum 30-day public comment period prior to implementation of such rules and policies.

Recommendation 1: Implement, as soon as possible, the new standardized assessment tool as required by State law.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS paused the tool in October 2025 because imposing service hour limitations through the ordinary policy process, with the threat of imminent and likely protracted litigation, presented an unreasonable and unacceptable operational and financial risk to the State. The Legislature's actions support the Agency's perspective by approving language in the budget reconciliation bill that exempted AHCCCS from formal rulemaking requirements related to these reforms for fiscal year 2026-2027.

Section 19 of Laws 2026, Chapter 132, exempts the rules and the policies at issue from the APA for Fiscal Year 2026-2027 and provides for adoption through exempt rulemaking. AHCCCS will adopt the HCBS Needs Tool and the Extraordinary Care Review process under the exempt rulemaking authority and implement statewide in 2026. The remaining steps are exempt rulemaking notice and comment, final exempt rule and policy adoption, DDD and health plan readiness, support coordinator training, and member notice.

Recommendation 2: Continue developing a formally documented Extraordinary Care Review process that is consistent with CMS requirements and that, when warranted, occurs during the annual assessment period.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS continues to work with CMS and other stakeholders to develop an Extraordinary Care Review (ECR) process that is consistent with Federal Medicaid requirements and applicable authorization and due process standards.

During development of the ECR process, questions arose regarding how an extraordinary care review could operate within existing federal managed care authorization and timeliness requirements. Following consultation with its External Quality Review Organization and CMS, AHCCCS determined that additional federal authority may be necessary to implement an Extraordinary Care Review process that allows for individualized review of requests that exceed established service parameters while remaining compliant with federal requirements.

AHCCCS explored multiple options with CMS to address these concerns, including requesting CMS to opine that an extraordinary care review was distinct from a prior authorization and therefore outside the timeliness rule, but CMS was unable to give that opinion. AHCCCS also requested a short-term exemption from the timeliness rule for the first ninety days of implementation, however, CMS formally denied that request in April 2026. As a result, AHCCCS is working to pursue authority through its upcoming Section 1115 demonstration waiver renewal and amendment process, which will be submitted to CMS on or before September 30, 2026.

AHCCCS remains committed to developing and implementing an Extraordinary Care Review process that is compliant with federal requirements and provides an appropriate mechanism for the review of extraordinary care needs. While AHCCCS will continue refining the process design, implementation is dependent in part upon receipt of necessary federal approvals, which are outside of AHCCCS' unilateral control.

Recommendation 3: Develop and implement a procedure to seek legal counsel prior to developing and implementing programmatic changes to determine, in a timely manner, whether the change is most appropriately memorialized in agency policy or administrative rule.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: While AHCCCS maintains that its longstanding policy process, in general, was the established mechanism for adopting and amending manuals and policies rather than rulemaking, the Agency agrees that a more formalized legal review procedure will strengthen documentation, potentially support timely identification of implementation risks, and may help ensure that future programmatic changes are implemented through the appropriate State and federal process.

AHCCCS will develop and implement a documented procedure that requires early consultation with legal counsel and relevant subject matter experts to assess the appropriate implementation vehicle, including whether the change requires rulemaking for any significant programmatic changes that affect member benefits, service limitations, contractor obligations, or other areas with potential State or Federal legal implications.

Chapter 2: Despite attendant care and habilitation costs increasing by $371 million in 2 years, of which approximately $130 million would have been subject to the State General fund match, and the Department seeking 2 supplemental appropriations to address budget shortfalls, AHCCCS and the Department had not fully implemented required cost-control measures for PPCG, risking additional cost increases and shortfalls.

AHCCCS response: The finding is not agreed to.

Response explanation: AHCCCS disagrees with the overly broad statement that, ”AHCCCS and the Department have not fully implemented required cost-control measures for PPCG." Several cost-control measures required by Laws 2025, Chapter 93 were implemented 7/1/2025 and 10/1/2025. Additionally, AHCCCS does not agree that the finding appropriately distinguishes between measures that were implemented and those that were delayed due to federal mandates, considerable litigation risk, and operational considerations. Specific provisions of Laws 2025, Chapter 93, were implemented as required, while other reforms were delayed due to federal mandates, mitigation of substantial litigation risk, and operational demands.

It is critical to recognize that the referenced $371 million increase was almost exclusively attributable to factors which took place prior to Laws 2025, Chapter 93. This statute took

effect April 24, 2025, and its cost-control provisions became effective on and after June 2025 whereas the $371 million increase occurred between fiscal years 2023 and 2025.

AHCCCS also lacked authority to impose service restrictions for much of the period the finding covers. Under section 9817 of the American Rescue Plan Act and CMS guidance in SMD 21-003, a state claiming the enhanced HCBS match could not impose stricter eligibility standards, methodologies, or procedures than were in place on April 1, 2021, could not reduce the amount, duration, or scope of covered HCBS in effect on that date, and could not reduce provider payment rates below those in effect on that date. That CMS guidance prohibits the measures that the finding faults AHCCCS for not adopting in 2023.

While CMS requires what is outlined in the waiver, including the terms and conditions, CMS does not require or expect that States implement their waiver authorities immediately upon approval. CMS' February 16, 2024 approval letter confirms that states are not required under federal statute or regulation to define limitations on the circumstances under which legally responsible individuals may be paid providers, including a cap on weekly hours. CMS approved Arizona's phased approach and set no implementation date.

AHCCCS agrees that the increase in attendant care and habilitation services costs between 2023 and 2025 was $371 million Total Fund, of which approximately $112 million represents General Fund dollars for these services. Additionally, DDD program membership experienced unprecedented growth between 2023 and 2025, and continues to increase, which contributes considerably to total spend.

In addition, the supplemental appropriations referenced were the result of growth in membership, and in multiple service lines in addition to the PPCG service delivery model, such as Applied Behavior Analysis (ABA) services, which the Agency has been working to reform and will be implementing reforms for in the coming months. Arizona's forthcoming ABA reforms have been praised by members, providers, and health plans as some of the most thoughtful in the nation.

Recommendation 4: Develop and implement all required cost controls and oversight processes to ensure the cost controls are working, including those that AHCCCS committed to CMS it would implement in September 2023, those CMS required in its waiver approval in February 2024, and those required by Laws 2025, Chapter 93 in June and October 2025.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS has implemented several of the cost control measures required by Laws 2025, Chapter 93, and will continue to work toward full implementation of cost controls it committed to in consultation with CMS. While AHCCCS was required to pause the implementation of the strengthened assessment tool in the face of legal challenges, it has continued to work to implement those reforms and will do so in 2026. AHCCCS will continue to implement cost control measures and incorporate them into its existing oversight processes to assess compliance with contractual, statutory, policy, and Federal and State requirements and to identify and address additional opportunities when appropriate.

Recommendation 5: Update monitoring procedures to ensure timely oversight of the Department's compliance with contractual and statutory obligations related to its ALTCS-DD program and PPCG service delivery model, and all provisions related to Laws 2025, Chapter 93.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS will continue to enhance its monitoring procedures to support timely oversight of the Department's compliance with contractual, statutory, and policy requirements related to the ALTCS-DD program, including PPCG. Consistent with its existing oversight, AHCCCS will incorporate available utilization, operational, and compliance information into its monitoring activities to identify potential compliance concerns and implement appropriate follow-up actions when warranted.

Recommendation 6: Require the Department to provide timely access to utilization and vendor payment records and utilize this information to improve monitoring of Department compliance and program utilization and costs.

AHCCCS response: The audit recommendation will be implemented in a different manner.

Response explanation: AHCCCS agrees that timely access to information is important for effective program oversight and monitoring. However, AHCCCS does not agree that the Department is failing to provide utilization or vendor payment records within required timeframes. Data generally has delays in Medicaid programs, particularly in managed care programs like ALTCS-DD, due to claims payment and encounter processing requirements. The Department is subject to the same contractual encounter reporting requirements as other AHCCCS health plans and is currently meeting those requirements.

While AHCCCS does not plan to modify existing encounter reporting timeframes, it will continue working with the Department to evaluate opportunities to enhance reporting and oversight processes, including the use of operational, authorization, assessment, and utilization information available prior to encounter submission. AHCCCS will incorporate available information into its existing monitoring and auditing framework to support proactive oversight of compliance, utilization trends, and program costs.

Chapter 3: AHCCCS and the Department did not initiate action to enforce the 40-hour limit on parent-provided paid care until April 2026 despite State law requiring this beginning July 2025, contributing to the Department inappropriately overpaying some parents.

AHCCCS response: The finding is not agreed to.

Response explanation: AHCCCS does not agree that it did not initiate action to enforce the 40-hour limit on parent-provided paid care until April 2026. In its approval letter, CMS approved the State's phased-in approach to reducing hours to the 40-hour limit for parent-provided paid care, and AHCCCS and DDD began enforcing the 40-hour limit in a phased, education-forward approach. This education-forward approach includes training AHCCCS-registered provider agencies, who are responsible for paying parent caregivers, as well as providing technical assistance when instances of noncompliance arise.

Although the provider agencies may have continued to pay some parents for providing more than 40 hours of care to their minor child, the Department had been using an education-forward process rather than punitive action, which is a standard approach when implementing a new service model. Regardless of the caregiver, it is important to recognize that assessed services in excess of 40 hours are still covered for the minor child by a non-parent provider because the services were determined to be medically necessary. The hours assessed for the member as medically necessary are not determined by the individual provider who delivers the service. When a parent provider is capped at 40 hours, the balance of the member's authorized hours is delivered by a non-parent direct care worker. The State's obligation to cover the authorized service does not disappear. The 40-hour limit is a program integrity and conflict of interest control feature and strategy. It was not designed as, and does not function as, a cost-reduction mechanism. The Department is developing and implementing additional oversight processes of its provider agencies which will include punitive action, as necessary, to ensure continued adherence to the 40-hour parent-provided care requirement. Please refer to the Department's response to this Finding and its recommendations.

Enforcement of the 40-hour limit also required data that did not exist at the time. Until AHCCCS moved from its vendor-hosted electronic visit verification (EVV) system to an in-house EVV Aggregator effective October 1, 2025, the system could not reliably distinguish parent providers from other direct care workers. AHCCCS directed its vendor-hosted EVV users to begin reporting live-in caregiver data in March 2025, required providers contracting directly with an EVV vendor to implement the new indicators between July and September 2025, and required all providers to use the in-house Aggregator beginning October 1, 2025. Parent-provider data was not confirmed to be generally complete and accurate until approximately April 2026, a fact the report acknowledges in the note to Exhibit 4. For the remaining handful of providers who are out of compliance, the health plans, including the Department, began compliance actions in April 2026.

Recommendation 7: Develop and implement procedures to regularly assess the Department's enforcement of the 40-hour-per-week limit per minor child.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS will continue to develop its procedures for regularly assessing the Department's enforcement of the 40-hour-per-week limit on parent-provided care per minor child. The development of these procedures is consistent with AHCCCS' existing monitoring and auditing processes, which relies on the availability of complete and reliable data to support effective oversight activities. As noted in the Finding 3 response, implementation of monitoring activities was dependent on the availability of data necessary to accurately identify parent providers and track hours across service settings and providers. As the necessary parent-provider and utilization data became available, AHCCCS began incorporating this information into its oversight activities.

AHCCCS will continue to incorporate the 40-hour limit review into its existing oversight framework and develop monitoring and auditing procedures comparable to those used for other health plan compliance activities, including DDD compliance with contractual, statutory, and policy requirements. These procedures will support routine auditing,

identification of potential noncompliance, and implementation of corrective actions through existing oversight processes when appropriate.

Recommendation 8: Establish corrective action requirements for instances when the Department does not enforce or adequately monitor the 40-hour weekly limit per minor child.

AHCCCS response: The audit recommendation will be implemented.

Response explanation: AHCCCS already has longstanding established processes for issuing administrative actions for instances of noncompliance, including corrective action plans, to its health plans, which includes DDD. The Managed Care Organization (MCO) Compliance Committee is the body responsible for evaluating AHCCCS staff recommendations for MCO Administrative Actions and determining the appropriate action after consideration of relevant factors related to MCO contract noncompliance. As a managed care organization, DDD falls within the scope of the MCO Compliance Committee.

AHCCCS is currently working to enhance its monitoring procedures for the 40-hour-per-week limit on parent-provided care per minor child as explained in the response to Recommendation 7 above. If monitoring or auditing identifies deficiencies in the Department's enforcement of the 40-hour limit, AHCCCS will use its existing compliance governance processes to determine and implement an appropriate response. Appropriate responses may include technical assistance, Notice of Concern, Mandated Corrective Action Plan, Notice to Cure, sanction, or other improvement strategy, depending on the facts and circumstances of the deficiency and consistent with the MCO Compliance Committee's established decision-making factors.

Chapter 4: The State's new standardized assessment tool is unlikely to contain costs long term on its own, but other states have developed common cost-control measures that could help contain costs in the State, but would require additional legislative changes and CMS approval.

AHCCCS response: The finding is not agreed to.

Response explanation: AHCCCS does not agree that the strengthened standardized assessment tool on its own is unlikely to contribute to long-term cost containment. The HCBS Needs Tool was developed to improve consistency in assessments, strengthen the determination of member needs, and support more standardized service authorization decisions. In light of these features, the strengthened standardized assessment tool will contribute to long-term cost containment. Because full implementation has not yet occurred, it is premature to evaluate the precise impact that the tool will have on long term cost containment.

AHCCCS further does not agree that the experience of other States can be directly applied to Arizona without recognizing the significant legal, operational, and programmatic differences which preclude adoption of such practices in Arizona at present and in the near future. The more significant cost-control measures highlighted in the report are not currently available to AHCCCS under Arizona law or existing federal authority. For example, A.R.S. § 36-2901.01(A) provides that neither the executive department nor the Legislature may establish a cap on the number of eligible persons who may enroll in the system. Other

measures discussed in the report, including expenditure caps or additional eligibility restrictions, would require legislative action, federal approval, amendments to Arizona's State Plan or Section 1115 demonstration, or some combination thereof. The report also compares Arizona's ALTCS program to programs operating under different federal authorities, including Section 1915(c) waiver programs that permit enrollment limitations not available under Arizona's integrated Section 1115 demonstration authority. While additional sweeping cost-containment strategies, like those referenced in the report, are possible, they would require legislative action, Federal authority, or both.

However, AHCCCS agrees that long-term fiscal sustainability will require continuous evaluation of program operations and potential future policy options. Prior to issuance of this audit, AHCCCS and DDD had already developed plans to engage members, families, providers, advocates, and other stakeholders through a community-informed process to evaluate additional strategies for supporting long-term program sustainability. Those efforts were temporarily paused while the agencies focused on implementation of the HCBS Needs Tool and development of the Extraordinary Care Review process. AHCCCS remains committed to resuming stakeholder engagement processes and working with policymakers, CMS, and other interested parties to thoughtfully evaluate potential future options that are consistent with Arizona law, federal requirements, and member needs.

Recommendation 9: Work with the Governor's Office to conduct an analysis to identify if there are additional cost-control measures that could be implemented in order to support greater long-term fiscal sustainability for the ALTCS-DD program.

AHCCCS response: The audit recommendation will be implemented in a different manner.

Response explanation: AHCCCS will continue to evaluate potential opportunities to support the long-term fiscal sustainability of the ALTCS-DD program. As part of this effort, AHCCCS will leverage existing analyses and continue working with DDD to assess potential policy, operational, and programmatic options for consideration.

Consistent with the approach described in the response to Finding 4, AHCCCS intends to engage members, families, providers, advocates, and other stakeholders through a community-informed process to evaluate potential strategies and their associated impacts. This work will help inform an analysis of available options, including considerations related to member access, quality of care, operational feasibility, State law, and federal requirements. AHCCCS will provide the results of its analysis to the Governor's Office for consideration.

Recommendation 10: If AHCCCS determines that additional cost-control measures are needed, work with the Governor's Office, CMS, and other key stakeholders as needed to determine what steps would be needed to implement additional cost controls in order to support greater long-term fiscal sustainability for the ALTCS-DD program.

AHCCCS response: The audit recommendation will be implemented in a different manner.

Response explanation: AHCCCS will continue to identify additional cost-control measures that warrant further consideration. As indicated in the report, many of the additional PPCG cost control measures utilized in other States would require legislative action. For such measures, if directed by policymakers, AHCCCS will work with CMS

and other relevant stakeholders to evaluate and pursue legislative, regulatory, contractual, State Plan, or waiver actions required for implementation.

Recommendation 11: Notify the Legislature of the results of its analysis and plan to implement additional cost controls.

AHCCCS/Department response: The audit recommendation will be implemented.

Response explanation: AHCCCS will communicate the results of its analysis to the Legislature. Proactive engagement with policymakers will support informed decision-making regarding any potential future cost-control measures and associated legislative, federal, or operational considerations.