



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, 2007



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, 2007

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

Susan Gerard, 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, 2007. 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 6, 2007

Department of Health Services
Division of Behavioral Health Services—Title XIX
Schedule of Revenues, Expenditures, and Encumbrances
Year Ended June 30, 2007

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 264,140,777		\$ 264,140,777
Federal grant revenues	<u>526,713,234</u>		<u>526,713,234</u>
Total revenues	<u>790,854,011</u>		<u>790,854,011</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	720,733,390	\$ 7,176,033	727,909,423
Fee for services	26,231,719		26,231,719
Medicaid special exemption payments	<u>15,807,007</u>		<u>15,807,007</u>
Total program costs	<u>762,772,116</u>	<u>7,176,033</u>	<u>769,948,149</u>
Administrative costs:			
Personal services	6,275,386		6,275,386
Employee related	2,052,004		2,052,004
Professional and outside services	1,602,456	179,503	1,781,959
In-state travel	43,754		43,754
Out-of-state travel	19,014		19,014
Aid to other organizations	52,436	20,096	72,532
Other operating	657,999	43,251	701,250
Equipment	60,374	649	61,023
Noncapital equipment	150,463	13,268	163,731
Information Technology support	530,114		530,114
Indirect costs	<u>1,236,755</u>		<u>1,236,755</u>
Total administrative costs	<u>12,680,755</u>	<u>256,767</u>	<u>12,937,522</u>
Total expenditures/encumbrances	<u>775,452,871</u>	<u>7,432,800</u>	<u>782,885,671</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 15,401,140</u>	<u>\$ (7,432,800)</u>	<u>\$ 7,968,340</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, 2007

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 4,453,890		\$ 4,453,890
Federal grant revenues	<u>14,594,634</u>		<u>14,594,634</u>
Total revenues	<u>19,048,524</u>		<u>19,048,524</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	17,251,346	\$ 174,204	17,425,550
Medicaid special exemption payments	<u>380,970</u>		<u>380,970</u>
Total program costs	<u>17,632,316</u>	<u>174,204</u>	<u>17,806,520</u>
Administrative costs:			
Personal services	213,270		213,270
Employee related	70,319		70,319
Professional and outside services	27,067	11,136	38,203
In-state travel	2,047		2,047
Out-of-state travel	1,189		1,189
Aid to other organizations	300		300
Other operating	12,158	167	12,325
Equipment	1,124		1,124
Noncapital equipment	3,417	493	3,910
Information Technology support	13,704		13,704
Indirect costs	<u>43,160</u>		<u>43,160</u>
Total administrative costs	<u>387,755</u>	<u>11,796</u>	<u>399,551</u>
Total expenditures/encumbrances	<u>18,020,071</u>	<u>186,000</u>	<u>18,206,071</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 1,028,453</u>	<u>\$ (186,000)</u>	<u>\$ 842,453</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, 2007

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) to provide 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 comprised 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. 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.