



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Audit

## **Department of Health Services**

Division of Behavioral Health  
Services—Title XIX and XXI Contract  
Year Ended June 30, 2008

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**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, 2008

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**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

January Contreras, Acting 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, 2008. 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 14, 2008

Department of Health Services  
Division of Behavioral Health Services—Title XIX  
Schedule of Revenues, Expenditures, and Encumbrances  
Year Ended June 30, 2008

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 310,478,354		\$ 310,478,354
Federal grant revenues	<u>610,023,735</u>		<u>610,023,735</u>
Total revenues	<u>920,502,089</u>		<u>920,502,089</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	874,068,369		874,068,369
Fee for services	13,935,123		13,935,123
Medicaid special exemption payments	<u>17,964,511</u>		<u>17,964,511</u>
Total program costs	<u>905,968,003</u>		<u>905,968,003</u>
Administrative costs:			
Personal services	8,723,437		8,723,437
Employee related	3,070,209		3,070,209
Professional and outside services	1,086,149	\$ 85,689	1,171,838
In-state travel	94,508		94,508
Out-of-state travel	3,208		3,208
Aid to other organizations	194,677	88,333	283,010
Other operating	621,435	32,629	654,064
Equipment	15,703		15,703
Noncapital equipment	250,753	89,891	340,644
Information technology support	1,264,819		1,264,819
Indirect costs	<u>1,998,117</u>		<u>1,998,117</u>
Total administrative costs	<u>17,323,015</u>	<u>296,542</u>	<u>17,619,557</u>
Total expenditures/encumbrances	<u>923,291,018</u>	<u>296,542</u>	<u>923,587,560</u>
Revenues (under) expenditures/ encumbrances	<u>\$ (2,788,929)</u>	<u>\$ (296,542)</u>	<u>\$ (3,085,471)</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, 2008

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 4,914,970		\$ 4,914,970
Federal grant revenues	<u>15,901,378</u>		<u>15,901,378</u>
Total revenues	<u>20,816,348</u>		<u>20,816,348</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	18,380,830		18,380,830
Fee for services	1,064,877		1,064,877
Medicaid special exemption payments	<u>416,327</u>		<u>416,327</u>
Total program costs	<u>19,862,034</u>		<u>19,862,034</u>
Administrative costs:			
Personal services	268,876		268,876
Employee related	95,207		95,207
Professional and outside services	40,822	\$ 749	41,571
In-state travel	3,319		3,319
Out-of-state travel	158		158
Other operating	12,092	182	12,274
Noncapital equipment	911	257	1,168
Information technology support	16,506		16,506
Indirect costs	<u>59,792</u>		<u>59,792</u>
Total administrative costs	<u>497,683</u>	<u>1,188</u>	<u>498,871</u>
Total expenditures/encumbrances	<u>20,359,717</u>	<u>1,188</u>	<u>20,360,905</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 456,631</u>	<u>\$ (1,188)</u>	<u>\$ 455,443</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, 2008

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.