

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

THE FINANCE FLASH

February 28, 2025

DBF HC Finance Team Updates

Financial Reporting Guide (FRG) and Financial Reporting Template (FRT) Changes: There were some FRG changes made in the FRG, referenced by FRG section:

- **ALL FRGs, 4.15 Annual IBNR Actuarial Certification, #1.** – The following sentence was modified from “*An Actuarial Statement of Opinion on Claims reserves performed by an actuary appointed by the Contractor’s board of directors and/or chief officers.*” to “*A Statement of Actuarial Opinion on Claims Reserves performed by an actuary appointed by, or by the authority of, the Contractor’s board of directors.*”
- **ALL FRGs, Appendix J** - Revisions to Appendix J: (1) the second line of the Letterhead section was modified from “*Actuarial Statement of Opinion on Claims Reserves*” to “*Statement of Actuarial Opinion on Claims Reserves*”; and (2) in the first line of Identification section, the statement was modified from “*an actuary appointed by the <DBA Health Plan> board of directors*” to “*an actuary appointed by, or by the authority of, the <DBA Health Plan> board of directors*”
- **ACC and ACC-RBHA Financial Reporting Guide and Templates and the ACC-RBHA Financial Reporting Guide, 3.05 Income Statement:** Account number #60405-02 Targeted Behavioral Health Outreach Services was added to the ACC and ACC-RBHA Financial Reporting Templates and the ACC and ACC-RBHA Financial Reporting Guide.

MCO Questions and Responses from February Technical Assistance:

MCO: Will AHCCCS update the cells so they are linked to the Balance Sheet or Income Sheet tabs so we don’t have to manually update each quarter? For Example the Financial Viability tab should be linked to those tabs.

AHCCCS: Since all MCOs do not have the same fiscal year end, it is not possible to link appropriately.

MCO: For next quarter, will they update the file so that the cells that say “Prior Quarter” or” Previous reporting quarter” also be linked so we don’t have to manually enter in those records.

AHCCCS: Thank you for your suggestion. AHCCCS will consider these changes with the Contract Year 2026 Financial Reporting Templates.

MCO: For the Footnotes tab for number 9 Equity Activity, is there a reason why there are so many rows? Does AHCCCS want each month reported separately or do we report it by quarter?

AHCCCS: Instructions are, "Disclose and provide a written explanation for all activity during the quarter, other than net income or net loss." Each activity should be reported separately by

month within the quarter. Only use the lines needed to report each activity which will vary by MCO and from quarter to quarter.

MCO: MLR tab – column Q references line 50351-10, should it be 50350-10?

AHCCCS: Thank you for bringing this to our attention. It has been revised and the updated FRTs shall be posted to the AHCCCs website shortly.

MCO: Please expand on the process for AHCCCS draft/final audit and approval. Will the health plans need to have the draft audit and/or final audits approved by AHCCCS or will no approvals be necessary?

AHCCCS: As stated in the January 29, 2025 Finance Flash, AHCCCS has made the decision to cancel the following requirement from ALL Financial Reporting Guides (FRGs), Section, 1.02 which states, "*AHCCCS must approve the draft audit report prior to finalization by the auditor and subsequent inclusion of the MCO's AHCCCS financial results in the issuance of the MCO's parent or sponsoring organizations final consolidated financial statements.*"

Approval of the draft audit prior to finalization by the auditor and subsequent inclusion of the MCO's financial results in the issuance of the MCO's parent or sponsoring organizations final consolidated financial statements is not required; however, approval of the draft audit and the final audit is still required.

Updated FRGs reflecting this change shall be posted to the AHCCCs website shortly.

MCO: Footnotes 17 Health Related Social Needs (HRSN) and 18 Management Fees: The FRG states to include these on the 'Annual Financial Reporting Template'. Does AHCCCS consider the 'Annual Financial Reporting Template' to be the same as the contractor's quarterly financial reporting for the quarter ending the same as the contractor's fiscal year end, due 60 days after the quarter end? Or does this mean to include in the Annual Reconciliation due 90 days after contractor's fiscal year end?

AHCCCS: Yes. In AHCCCS' understanding of the question posed, answering yes to the first question eliminates the need to respond to the second question.

For example, if the MCO's fiscal year end is December 31, the Contractor should complete these footnotes using the December quarterly Financial Reporting Template.

The Footnote tab is required to be updated when completing the Draft and Final Audit Packages. If there are changes impacting these two footnotes, update the Footnote tab in the Draft and Final Audit Packages accordingly.

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MCO: In the excel financial reporting template, Lag Report-E4 tab, there is no adjusting entry for State Directed Payments in the reconciliation section. Normally, state directed payments would not be in our lag schedule. Should a line be added to remove the state directed payments from the total medical expense line along with the subcapitated and APM expenses or should we be including state directed payments in our lag?

AHCCCS: For the CYE 25 (October 1, 2024 through September 30, 2025) State Directed Payments A/C # 50350-05 should be removed from the lag schedule reconciliations section, as these SDP initiatives are not currently encounterable. Subcapitated and APM expenses should also be removed from the lag schedule.

MCO: Our question is about reporting FQHC and Vaccines for Kids payments in the Provider Payments Attributable to State Directed Payments Account (Account 50350-05), from the CYE 25 Financial Reporting Guide Workshop slide 14.

1. The Actuarial Certification for CYE 2025 (Page 54, I.4.D.ii.(a)(i)) states: “Contractors are required to adopt Prospective Payment System (PPS) rates as defined in the Arizona Medicaid State plan as a minimum fee schedule for FQHC/RHC providers.” We’d like clarification on what we should report in the State Directed Payments Account for these services vs. what should be reported in the two FQHC Accounts?
2. The Vaccines for Children has similar requirements, the Health plan is required to adopt the payment rates in the Arizona Medicaid State plan as a minimum fee schedule for VFC providers. Please advise what expenses should be included in the State Directed Payment Account, for example (1) all expenses related to this program or (2) only up to the minimum fee schedule with the remaining expenses reported in the appropriate Medical Expense Account?

AHCCCS: The minimum fee schedule was set at the maximum allowable; so, there should not be additional expense. For Question #1, these expenses should be reported under the medical expense A/C #50220-01 PH FQHC/RHC Services or A/C #61205-01 BH FQHC/RHC Services. For Question #2, these expenses should be reported in the appropriate medical expense A/C#.

MCO: the second line of the title should read, “Statement of Actuarial Opinion on Claims Reserves”. “Statement of Actuarial Opinion”, rather than “Actuarial Statement of Opinion”, is standard usage in the profession, for example in the U.S. Qualification Standards.

AHCCCS: AHCCCS revised to align with industry wording and best practices. For consistency, the sentence in #1 of *4.15 Annual IBNR Actuarial Certification* was modified to, “A Statement of Actuarial Opinion on Claims Reserves performed by an actuary appointed by, or by the authority of, the Contractor’s board of directors. Updated FRGs and Appendix J - Sample will be posted to the AHCCCs website shortly.

MCO: The Identification section begins by saying that the opining actuary was appointed by the board of directors. However, the draft Reporting Guide indicates that the actuary may be appointed by the chief officers of the Health Plan. Also, it is possible that the board would delegate the responsibility for the appointment to a committee, such as the Audit Committee of the board. Accordingly, we suggested that the phrasing should be “an actuary appointed by, or by the authority of, the <DBA Health Plan> board of directors”, to cover all the possibilities.

AHCCCS: AHCCCS has revised the FRGs and Appendix J accordingly. Updated FRGs and Appendix J - Sample will be posted to the AHCCCs website shortly.

MCO: The statement of opinion is intended to address “the claims liability reserves”, inclusive of “Incurred But Not Reported (IBNR) and Reported But Unpaid Claims (RBUC)”, and “[n]o other

liabilities”. It is not clear to us whether AHCCCS expects that scope to be identical to the “medical services payable” line in the financial statement, and we would like clarification on that point.

AHCCCS: The reported total reserves in this statement of opinion should be equal to what is reported on the "Medical Claims Payable" A/C #20120-99 on the balance sheet.

The total claims cost consists of what-has-been-paid and what-has-yet-to-be-paid. The "what-has-yet-to-be-paid" portion consists of claims received but haven't yet settled (RBUC), and claims for services that occurred but which have not yet been received (IBNR). The claims reserve must equal the estimated claims that are yet to be paid. The "no other liabilities" phrasing is there to ensure that what AHCCCS is looking at is specifically *not* inclusive of other amounts that might confound the comparison. Not all of the MCOs have handled IBNR and RBUC correctly on the financial statements, and AHCCCS wants that phrase there precisely to be clear that AHCCCS intends for the MCOs to report the actuarial estimate of claims that are yet to be paid as of a particular valuation date, and that amount is not polluted by any other "adjustment" or "plug value" that might represent liabilities unrelated to the actuarial reserve estimate.

MCO: The statement of opinion states the actuary’s reasonable range of estimates for the claims reserves but does not actually state the corresponding amount reported in the financials. We realize that the reported amount will appear in the supplemental report, but we believe that for avoidance of doubt the amount should also appear in the statement of opinion itself. We suggest that in the first paragraph of the Opinion section, the third sentence, which begins, “The given reserve amount falls within...”, should instead begin, “The given reserve amount of <z> falls within...”

AHCCCS: AHCCCS agrees with the suggestion in theory. Appendix J was revised to, “The given reserve amount of <y> falls within the reasonable range of <x> and <z> Updated Appendix J will be posted to the AHCCCs website shortly.