

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND UNIFORM GUIDANCE REPORTS**

Year Ended September 30, 2018

**HEALTH CHOICE INTEGRATED CARE, LLC**  
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**AND UNIFORM GUIDANCE REPORTS**

Year Ended September 30, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

### HEALTH CHOICE INTEGRATED CARE, LLC

#### *Report on the Schedule of Expenditures of Federal Awards*

We have audited the accompanying schedule of expenditures of federal awards of **Health Choice Integrated Care, LLC** (the "Organization") for the year ended September 30, 2018, and the related notes (the financial statement).

#### *Management's Responsibility for the Schedule of Expenditures of Federal Awards*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of **Health Choice Integrated Care, LLC** for the year ended September 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

August 30, 2019

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2018

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services Pass-through Programs</b>					
<b>From:</b>					
Arizona Health Care Cost Containment System:					
Block Grants for Community Mental Health Services (MHBG):					
Children - Non Title XIX	93.958	YH17-0001	11356415170214	\$ 978,356	\$ 1,066,975
SMI - Non Title XIX	93.958	YH17-0001	11356415170214	818,532	892,674
Total Mental Health Block Grant (93.958)				<u>1,796,888</u>	<u>1,959,649</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse	93.959	YH17-0001	11356415170214	3,631,793	3,960,760
Prevention	93.959	YH17-0001	11356415170214	562,103	613,018
Total Substance Abuse Block Grant (93.959)				<u>4,193,896</u>	<u>4,573,778</u>
Substance Abuse and Mental Health Services Administration/Arizona Governor's Office of Youth, Faith and Family (GOYFF) - State Targeted Response to the Opioid Crisis Grant					
	93.788	STR-GR-17-050117-02	11356415170214	392,065	571,702
Substance Abuse and Mental Health Services/Arizona Health Care Cost Containment System - State Targeted Response to the Opioid Crisis Grant					
	93.788	YH17-003-02	11356415170214	635,690	1,057,699
Total State Targeted Response to the Opioid Crisis Grant (93.788)				<u>1,027,755</u>	<u>1,629,401</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>7,018,539</u>	<u>8,162,828</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 7,018,539</u>	<u>\$ 8,162,828</u>

See Independent Auditors' Report  
See Notes to Schedule of Expenditures of Federal Awards

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

### (1) Organization operations

Health Choice Integrated Care, LLC (“HCIC” or the “Organization”), is an Arizona Limited Liability Company located in Flagstaff, Arizona. HCIC was formed to provide high quality physical and behavioral health care services on an integrated basis to Medicaid eligible adults with serious mental illness and to operate as the Regional Behavioral Health Authority (“RBHA”) to coordinate the delivery of health care services to eligible persons in Northern Arizona, and to perform all obligations under the RBHA contract entered into by the Organization and the Arizona Department of Health Services (“ADHS”). On December 18, 2014, HCIC was awarded a contract with ADHS to serve as the designated RBHA for Northern Arizona. The contract was effective October 1, 2015 and had an initial three year term with two two-year renewal options for the potential maximum length of seven years. Effective July 1, 2016 the contract with ADHS was transferred to the Arizona Health Care Cost Containment System (“AHCCCS”).

The members of HCIC are Health Choice of Northern Arizona (“Health Choice”) and The Northern Arizona Regional Behavioral Health (“NARBHA”) Institute. Health Choice is a wholly-owned subsidiary of IASIS Healthcare LLC (“IASIS”). Effective September 29, 2017, Steward Health Care System, LLC (“Steward”) acquired IASIS. HCIC’s by-laws provide that HCIC shall have one class of members initially; however, the current members may decide to create additional classes of membership or to add new members with unanimous consent of existing members. Additionally, the members have entered into an Operating Agreement under which a Board of Managers is appointed to govern the operations of the Organization.

The Organization shall continue in existence on a perpetual basis unless and until terminated and liquidated in accordance with the terms of the Operating Agreement. Relative interests of the members and the formula for distributions to members are as follows:

Health Choice of Northern Arizona	52%
The NARBHA Institute	48%

HCIC was initially funded through a \$2.6 million contribution from Health Choice and a \$2.4 million contribution from The NARBHA Institute. Under the contract with AHCCCS, HCIC is responsible for managing and maintaining an organized, comprehensive, integrated healthcare delivery system for the benefit of eligible members within Northern Arizona. HCIC functions as an integrated health management organization and does not provide direct healthcare services to eligible members. Direct healthcare services are provided to eligible members by a network of subcontract service providers.

Effective October 1, 2018, HCIC’s contract with AHCCCS was extended and assigned to Steward Health Choice Arizona (“SHCA”).

### (2) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of **Health Choice Integrated Care, LLC** under programs of the federal government for the year ended September 30, 2018. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of **Health Choice Integrated Care, LLC**, it is not intended to and does not present the financial position, results of operations or cash flows of **Health Choice Integrated Care, LLC**.

HEALTH CHOICE INTEGRATED CARE, LLC

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

(3) Summary of significant accounting policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. **Health Choice Integrated Care, LLC** has not elected to use the ten percent de minimus indirect cost rate allowable under the Uniform Guidance.

(4) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2018 *Catalog of Federal Domestic Assistance*.



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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of

### HEALTH CHOICE INTEGRATED CARE, LLC

#### Report on Compliance for Each Major Federal Program

We have audited **Health Choice Integrated Care, LLC's** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on each of **Health Choice Integrated Care, LLC's** major federal programs for the year ended September 30, 2018. **Health Choice Integrated Care, LLC's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

#### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Health Choice Integrated Care, LLC's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Health Choice Integrated Care, LLC's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Health Choice Integrated Care, LLC's** compliance.

#### Opinion on Each Major Federal Program

In our opinion, **Health Choice Integrated Care, LLC** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

**Health Choice Integrated Care, LLC's** response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. **Health Choice Integrated Care, LLC's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of **Health Choice Integrated Care, LLC** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Health Choice Integrated Care, LLC's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Health Choice Integrated Care, LLC's** internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

**Health Choice Integrated Care, LLC's** response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. **Health Choice Integrated Care, LLC's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mayer Hoffman McCann P.C.*

August 30, 2019

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2018**

**Summary of Auditors' Results**

***Federal Awards***

1. Internal control over major federal programs:
  - a. Material weakness(es) identified? No
  - b. Significant deficiency(ies) identified? Yes
2. Type of Auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

4. Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.958	Block Grants for Community Mental Health Services (MHBG)
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SABG)
93.788	State Targeted Response to the Opioid Crisis Grant (STR)

5. Dollar threshold used to distinguish between type A and type B programs: \$750,000
6. Auditee qualified as a low-risk auditee? Yes

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2018**

**Findings and Questioned Costs Relating to Federal Awards**

**Item:** 2018-001

**CFDA Number:** 93.788

**Program:** State Targeted Response to the Opioid Crisis Grant (STR)

**Federal Agency:** U.S. Department of Health and Human Services

**Pass-Through Agency:** Arizona Governor's Office of Youth, Faith and Family (GOYFF) and the Arizona Health Care Cost Containment System

**Compliance Requirement:** Subrecipient Monitoring

**Criteria:** In accordance with 2 CFR Section 200.331, **Health Choice Integrated Care, LLC** (the "Organization") is required to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required federal award identification information described in 2 CFR Section 200.331(a)(1).

**Condition and Context:** During our testing, while we noted that the grant contracts provided to the subrecipients properly included the required information under 2 CFR Section 200.331, we noted that certain communications from **Health Choice Integrated Care, LLC** did not effectively communicate the nature of the subaward as a federal pass-through grant to the subrecipients. This is also deemed to be a significant deficiency in internal control over compliance.

**Questioned Cost:** None

**Effect:** As a result of noncompliance with the grant agreement, the granting agencies could request return of the grant funds. Additionally, subrecipients may not have properly reported the subaward.

**Cause:** The individuals responsible for communicating with the subrecipients failed to effectively communicate the required information on the subaward to the subrecipients.

**Identification as a Repeat Finding:** Not a repeat finding.

**Recommendation:** The Organization should review the subrecipient monitoring requirements under the Uniform Guidance and ensure that required subaward information is clearly identified and communicated to the subrecipient in all of their relevant communications. Additionally, we recommend **Health Choice Integrated Care, LLC** closely monitor the financial reporting packages of subrecipients going forward to ensure the subrecipients have properly reported the subaward. Finally, we recommend **Health Choice Integrated Care, LLC** implement controls to adequately monitor employees charged with subrecipient monitoring and communication with subrecipients.

**Views of Responsible Officials:** Management of **Health Choice Integrated Care, LLC** concurs with the finding. See Corrective Action Plan.



## Corrective Action Plan and Summary Schedule of Prior Audit Findings

### Corrective Action Plan

<b>Item:</b>	2018-001
<b>CFDA Number:</b>	93.788
<b>Program:</b>	State Targeted Response to the Opioid Crisis Grant (STR)
<b>Criteria or specific requirement:</b>	In accordance with 2 CFR Section 200.331, <b>Health Choice Integrated Care, LLC</b> (the "Organization") is required to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required federal award identification information described in 2 CFR Section 200.331(a)(1).
<b>Condition:</b>	During our testing, while we noted that the grant contracts provided to the subrecipients properly included the required information under 2 CFR Section 200.331, we noted that certain communications from <b>Health Choice Integrated Care, LLC</b> did not effectively communicate the nature of the subaward as a federal pass-through grant to the subrecipients. This is also deemed to be a significant deficiency in internal control over compliance.
<b>Name of Contact Person:</b>	Erin Chadwick, Director of Accounting
<b>Phone Number:</b>	(928) 214-1162
<b>Anticipated Completion Date:</b>	September 30, 2019
<b>Views of Responsible Officials and Corrective Actions:</b>	Management of <b>Health Choice Integrated Care, LLC</b> concurs with the finding. <b>Health Choice Integrated Care, LLC</b> will review the subrecipient monitoring requirements under the Uniform Guidance and ensure that required subaward information is clearly identified and communicated to the subrecipient in all of their relevant communications. Additionally, <b>Health Choice Integrated Care, LLC</b> will carefully scrutinize the financial reporting packages of subrecipients going forward to ensure the subrecipients have properly reported the subaward. Finally, <b>Health Choice Integrated Care, LLC</b> will implement additional controls to oversee correspondence with the subrecipients to ensure compliance.

### Summary Schedule of Prior Audit Findings

None