



**mercy maricopa**  
integrated care

**PROVIDER**

**FINANCIAL REPORTING GUIDE**

**Effective April 1, 2014**

**GSA 6**

**Regional Behavioral Health Authority**

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## DEFINITIONS

<b>TERM</b>	<b>DEFINITION</b>
<i>Mercy Maricopa</i>	Mercy Maricopa Integrated Care (MMIC); the Regional Behavioral Health Authority for GSA 6.
<i>ADHS/DBHS</i>	Arizona Department of Health Services/ Division of Behavioral Health Services.
<i>AHCCCS</i>	Arizona Health Care Cost Containment System.
<i>Administrative Costs</i>	Means administrative expenses incurred to manage the behavioral health system, including, but not limited to: provider relations and contracting, provider billing, accounting, information technology services, processing and investigating grievances and appeals, legal services (including any legal representation of the Contractor at administrative hearings concerning the Contractor’s decisions, and actions), planning, program development, program evaluation, personnel management, staff development and training, provider auditing and monitoring, utilization review and quality assurance. Administrative costs do not include expenses related to direct provision of behavioral health services including case management.
<i>AICPA</i>	American Institute of Certified Public Accountants.
<i>Capitation</i>	Capitation is a method by which Mercy Maricopa is paid by ADHS/DBHS to deliver covered services to eligible persons based on a fixed rate per member per month notwithstanding (a) the actual number of eligible persons who receive care from Mercy Maricopa and (b) the amount of services provided to any enrolled person; a cost containment alternative to fee-for-service.
<i>CFDA or CFDA #</i>	Catalogue of Federal Domestic Assistance – Numbers assigned that are used by the federal government to track funding and programs.
<i>MHBG (CMHS Block Grant)</i>	Mental Health Block Grant (Community Mental Health Services). Performance partnership program pursuant to Division B, Title XXXII, and Section 3204 of the Children’s Health Act of 2000. CFDA # 93.958.

<i>Direct</i>	Direct Mercy Maricopa - Contracts held directly with Mercy Maricopa FFS.
<i>Direct Expense</i>	Direct Expense means expenses incurred to provide covered services to enrolled members by the clinical team. The clinical team consists of employed staff and contracted persons who carry out direct care in the providers' outpatient service sites.
<i>FASB</i>	Financial Accounting Standards Board.
<i>FTE</i>	Full Time Equivalent employee (both contracted and non-contracted).
<i>GAAP</i>	Generally Accepted Accounting Principles. Sources of GAAP include, but are not limited to, publications, pronouncements and opinions of the American Institute of Certified Public Accountants (AICPA), the Accounting Principles Board (APB), the Financial Accounting Standards Board (FASB), and the Office of Management and Budget (OMB).
<i>Indirect</i>	Indirect Mercy Maricopa - Contracts held with a Mercy Maricopa Provider (i.e. a Child PNO).
<i>OMB</i>	United States Office of Management and Budget.
<i>OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations</i>	Provides guidance for compliance with the Single Audit Act.
<i>RBHA</i>	Regional Behavioral Health Authority.
<i>SABG ( SAPT)</i>	Substance Abuse Block Grant (Substance Abuse Prevention and Treatment). Performance partnership program pursuant to Division B. Title XXXIII, Section 3303 of The Children's Health Act of 2000 pursuant to Section 1921 – 1954 of the Public Health Service Act and 45 CFR Part 96 Interim Final Rules. CFDA # 93.959.
<i>Single Audit Act</i>	Provides for consistent and uniform financial audits of states, local governments, and non-profit organizations receiving federal awards. Mandates the OMB to provide guidance. Includes the Single Audit Act of 1984 (P.L. 98-502) and the Single Audit Act Amendments of 1996 (P.L. 104-156).
<i>SOA</i>	Statement of Activities

<i>SOP</i>	Statement of Financial Position (or Balance Sheet)
<i>Subrecipient per OMB A-133</i>	<p>Defined as a non-federal entity that expends federal awards to carry out a federal program. Characteristics of a subrecipient include:</p> <ul style="list-style-type: none"> <li>a) Determines who is eligible to receive federal financial assistance.</li> <li>b) Performance is measured against whether or not the objectives of the federal program are being met.</li> <li>c) Is responsible for making decisions about the program.</li> <li>d) Is responsible for adhering to applicable federal program compliance requirements.</li> <li>e) Uses the federal funds to carry out a program of the organization as opposed to providing goods or services for a program of the pass-through entity.</li> </ul> <p>OMB indicates that all of the characteristics may not be present and that judgment will be necessary to make the determination of subrecipient or vendor.</p>

## **OVERVIEW**

This guide has been developed to ensure that all Mercy Maricopa subcontracted providers and vendors develop and understand the financial requirements and responsibilities inherent in their contract with Mercy Maricopa. The primary objectives of this reporting guide are to establish consistency and uniformity in financial reporting and to provide guidelines to assist providers in meeting contractual reporting requirements. The requirements for reporting and formats apply to all providers, including non-profit and for-profit entities.

This guide is not intended, nor should it be construed, as an all-inclusive manual. Neither is it intended to limit the scope of audit procedures to be performed during the provider's annual certified financial audit nor should it be used to replace the independent certified public accountants judgment as to the work to be performed.

## **GENERAL ACCOUNTING**

### **Financial Standards**

Financial Statements must be prepared and presented in accordance with GAAP and all other applicable authoritative literature. It is the provider's responsibility to ensure that all reports submitted are accurate, complete and timely. An explanation of adjustments made for prior periods and any auditor's adjustments made are to be disclosed on Attachment C.

### **Defined Cost Record Keeping System**

All financial records shall be maintained in such detail that accurately reflects each service provided and all costs and expenses associated to the payment made to the provider. Each provider must maintain an official accounting system which properly records all financial transactions and equitably allocates expenses to programs or services in accordance with generally accepted accounting procedures. The provider's accounting system is to provide an audit trail wherein the financial data reported can be later verified.

## **Fiscal Monitoring**

Mercy Maricopa has a mandated responsibility to monitor providers, to report applicable financial information to ADHS/DBHS, and to review the operational and financial systems of providers. The format and content of the required reports are subject to change. Providers will be given a reasonable time period for review and comment regarding any proposed changes. ADHS and/or Mercy Maricopa may request financial or other information from provider. Upon receipt of a request for information, provider shall provide complete and accurate information no later than thirty (30) days after the receipt of the request unless otherwise specified by ADHS or Mercy Maricopa.

Questions regarding the content or format of a report are to be directed to the Mercy Maricopa Chief Financial Officer and submitted in writing to Mercy Maricopa Finance Department.

## **ADHS Requirements**

ADHS requires its providers to have an internal control system that at the minimum addresses the following objectives:

- ❖ Separate accounting for contract funds received and related expenditures, or a consistently applied cost allocation system, which accurately documents the costs of contracted programs or units of service.
- ❖ Segregation of and accumulation of budget item expenditures to give a ready reference for compiling the expenditure reports.
- ❖ Expenditures of contract funds in accordance with contract requirements. This objective typically includes the following:
  - Expenditure of funds within the contract period.
  - Expenditure within the proper account classification.
  - Expenditure and/or allocation of direct and indirect costs that are directly related to or properly allocable to the contracted services.
  - Adequate documentation for all expenditures.
  - Adequate documentation of the occurrence of services billed to the department under contract.

## **Federal Block Grant Funding**

The provider shall comply with all terms, conditions and requirements of the MHBG and SABG (Children's Health Act of 2000, P.L. 106-310 Part B of Title XIX of the 23 Public Health Service Act [42 U.S.C. 300 x et seq.] and 45 CFR Part 96 as amended).

Financial, performance, and program data subject to audit, shall be retained by the provider and shall be made available at the request of Mercy Maricopa or ADHS as documentation of compliance with federal requirements.

- ❖ SABG: The provider is authorized to expend funds for planning, performing, and evaluating activities to prevent and treat substance abuse as well as related activities addressing HIV and tuberculosis services.
- ❖ MHBG: The provider is authorized to expend funds for services for adults with serious mental illnesses and children with serious emotional disturbances.
- ❖ Other federal grant funding as allocated by ADHS/DBHS as directed for purposes set forth in the federal grant requirements.

For the Federal Block Grant Funding, the provider shall:

- ❖ Establish fiscal controls consistent with the Provider Manual, which is the prevention framework for behavioral health accounting, auditing and financial reporting procedures.
- ❖ Ensure that funds are accounted for in a manner that permits separate reporting of mental health and substance abuse grant funds and services.
- ❖ Upon request, provide Mercy Maricopa with information relative to block grant expenditures.
- ❖ Manage, record, and report Federal grant funds in accordance with the practices, procedures, and standards in the ADHS/DBHS Accounting and Auditing Procedures Manual.
- ❖ Report financial information related to federal grants in conformance with the ADHS/DBHS Financial Reporting Guide for GSA 6.
- ❖ Comply with prevention funds management in conformance with the ADHS/DBHS Framework for Prevention in Behavioral Health.
- ❖ Comply with all terms, conditions, and requirements for any federal grant funding allocated by ADHS/DBHS.



Provider shall ensure delivery of grant services and submission of data for certain allocations of the SABG:

- ❖ Alcohol/drug abuse treatment services;
- ❖ Primary prevention services;
- ❖ Specialty programs and services for pregnant women and women with dependent children;
- ❖ Crisis Services;
- ❖ HIV Early Intervention Services.

Funds paid to the provider shall be available for obligation and expenditure until the end of the fiscal year for which the funds were paid. Mercy Maricopa will comply and follow all rules set forth in accordance with Federal Block Grant Funds Transfers Cash Management Improvement Act of 1990 and any rules or regulations promulgated by the U.S. Department of Treasury including 31 CFR Part 205.

Non-Discrimination: The provider may not discriminate against non-governmental organizations on the basis of religion in the distribution of grant funds.

### **Prohibited Expenditures**

Provider may **not** expend Federal Block Grant funds for the following:

- ❖ provide inpatient services;
- ❖ provide physical health care services;
- ❖ make cash payments to intended recipients;
- ❖ purchase or improve land, purchase, construct or permanently improve (other than minor remodeling) any building or facility;
- ❖ purchase major medical equipment;
- ❖ provide financial assistance to any entity other than a public or non-profit private entity;
- ❖ carry out any program of distributing sterile needles for the hypodermic injection of any illegal drug;
- ❖ carry out any testing for the etiologic agent for acquired immune deficiency syndrome unless such testing is accompanied by appropriate pre-testing counseling and appropriate post-test counseling;
- ❖ pay the salary of an individual, through a grant or other extramural mechanism, at a rate in excess of \$175,700 per year;
- ❖ purchase treatment services in penal or correctional institutions in the State of Arizona.

## **State General Funds**

In accordance with A.R.S. 35-190, State General Funds are appropriated by legislature and must be expended (based on dates of service) by June 30 of each state fiscal year at the provider level.

Mercy Maricopa will monitor provider expenditures to ensure that State General Funds are spent by June 30. Providers are not allowed to defer State General Funds and shall provide Mercy Maricopa with projected unexpended State General dollars by fund source via email or letter by March 31 of each state fiscal year. In addition, providers shall provide Mercy Maricopa with projected unexpended State General dollars by fund source via email or letter, as requested.

Providers must return unexpended State General Funds to Mercy Maricopa. Unexpended funds held by providers may be withheld from future payments by Mercy Maricopa.

## **Financial Viability**

All Mercy Maricopa providers are expected to maintain financial viability. Mercy Maricopa uses the Current Ratio and Defensive Interval to monitor providers.

- ❖ Current Ratio: Current Assets divided by current liabilities shall be equal to or greater than 1.0
- ❖ Defensive Interval: Defensive Interval measures the provider's survivability in the absence of external cash flows. The required Defensive Interval is thirty (30) days and is based on the following required calculation:  $(\text{Cash} + \text{Cash Equivalents}) / (\text{Operating Expenses} - \text{Non Cash Expense Items}) [\text{Period Being Measured in Days}]$

Note: Bank Lines of Credit are an external source of cash. If the provider's cash flows cease, it is more than likely the bank may freeze, call, or terminate the line of credit at the time a provider needs it the most. Therefore, it is not a part of the defensive interval calculation.

## **Profit Limitations**

Providers will be held to a 4% profit limitation and applies to revenues earned by both direct & indirect Mercy Maricopa providers subject to encounter reporting. The 4% profit limitation will be reviewed at the end of each contract year or immediately upon a provider's termination date.

Note: Direct Mercy Maricopa contracts will be treated separately from each indirect Mercy Maricopa contract. Federal Programs like SABG will also be treated separately from direct & indirect Mercy Maricopa contracts. Special contracts that do not require encounters reporting will be subject to a zero profit limitation.

## **Requirements for Reporting**

Providers are subject to the following reporting requirements based on the highest combined direct and indirect contract revenue amount per contract-year or on request:

### **Contract revenues less than \$250,000**

Provider must submit annual unaudited financial statements to the Mercy Maricopa's Finance Department 30 days after the contract year-end, ending 09/30/xx, or provider termination date. Final reconciliations (inclusive of any year-end adjustments) for annual unaudited statements are due no later than 120 days after the contract year-end. Provider must comply with interim financial report requests.

### **Contract revenues between \$250,000 and \$499,999**

On a quarterly basis providers must submit contract year-to-date unaudited financial statements to the Mercy Maricopa's Finance Department 30 days after the quarter-end, or provider termination date. Final reconciliations of a provider's financial statements (inclusive of any year-end adjustments) for the complete contract year are due no later than 120 days after the contract year-end.

### **Contract revenues of \$500,000 or more**

On a quarterly basis providers must submit contract year-to-date unaudited financial statements 30 days after the quarter-end, or provider termination date and two (2) copies of an annual

audited financial report along with any management letters to the Mercy Maricopa’s Finance Department 120 days after provider’s year end if different from the contract year end. Provider final contract year Statement of Activities must be included as an audit item.

### **OMB Circular A-133 audit**

Some providers may receive substantial Federal funding (\$500,000 or more, SABG or MHBG) through Mercy Maricopa and other sources, or otherwise be deemed a sub-recipient of Federal funds and required to obtain an OMB Circular A-133 audit. In such cases, the provider must submit two (2) copies of the A-133 audit report to the Mercy Maricopa’s Finance Department within 30 days after receipt of the audit report and no later than 120 days after the provider’s year-end.

All providers must comply with updates, supplemental, and interim financial report requests.

### **Reporting Packages & Time Frames**

#### **Quarterly & Annual Unaudited Financial Statements**

Quarterly and/or annual unaudited financial statements are due to Mercy Maricopa 30 days after the end of each period and must include the following reports:

- ❖ Certification Statement (Attachment A);
- ❖ Statement of Financial Position (Attachment B);
- ❖ Disclosures Statement (Attachment C);
- ❖ Statement of Activities (contract year-to-date) (Attachment D);
- ❖ Statement of Cash Flows (Indirect Method) (Attachment E);
- ❖ Financial Ratios (Attachment F);
- ❖ Cost Allocation Plan (only required with first submission of contract year) (Attachment H).

Report	Report Period	Report Due
Year-to-Date	10/1/xx to 12/31/xx	1/30/20xx
Year-to-Date	10/1/xx to 3/31/xx	4/30/20xx
Year-to-Date	10/1/xx to 6/30/xx	7/30/20xx
Annual	10/1/xx to 9/30/xx	10/30/20xx

Mercy Maricopa recognizes that interim financial statements are based on information available at the end of the reporting period, which may be incomplete. Revisions to a prior period will invalidate the previously submitted report. If material revisions are submitted after the Mercy Maricopa due date, then sanctions may be imposed for untimely reporting. Final reconciliations (inclusive of any year-end adjustments) for annual unaudited financial statements are due no later than 120 days after the contract year-end. The annual contract year-to-date unaudited financial reporting requirement applies to all providers.

For tracking purposes, quarterly & annual unaudited financial statements should be submitted via email to: Finance@mercymaricopa.org

### **Audited Annual Financial Statements (no OMB Circular A-133 audit required)**

Due to Mercy Maricopa 120 days after the contract year-end or the provider's year end if different, and must include the following reports:

- ❖ One copy of an annual certified financial audit report along with any management and opinion letters;
- ❖ Supplemental Disclosures Statement (Attachment C);
- ❖ Supplemental Statement of Activities (Attachment D).

Providers that are required to submit annual audit reports 120 days after year-end must also submit unaudited 4th quarter statements 30 days after year-end.

### **Audited Annual Financial Statements (OMB Circular A-133 audit required)**

Due to Mercy Maricopa within 30 days after receipt of the audit report and no later than 120 days after the contract year-end or provider's year end and must include the following reports:

- ❖ One copy of an annual certified financial audit report along with any management and opinion letters;
- ❖ Supplemental Disclosures Statement (Attachment C);
- ❖ Supplemental Statement of Activities (Attachment D);
- ❖ One copy of an OMB Circular A-133 audit and program specific schedules.

Providers are required to submit annual audit reports 120 days after year-end and must also submit unaudited 4th quarter statements 30 days after quarter-end.

If report due dates fall on a weekend or State recognized holiday, the reports will be due the next business day. All reports are due by 4:30 p.m. on the due date and are not considered received until actually delivered to the Mercy Maricopa's Finance Department. The preferred method for submission is via email. Mercy Maricopa requests providers submit all quarterly and annual unaudited financial statements in an electronic format. Acceptable formats are Microsoft Excel (.xls) for all financial statements and Adobe (.pdf) for the Certification Statement. However, one copy of the annual audit report and the OMB Circular A-133 audit reports are still required. Financial reports may be emailed, faxed, mailed, or hand delivered and should be sent to the following address:

Mercy Maricopa Integrated Care  
Attention: Finance Department  
4350 E. Cotton Center Blvd. Bldg. D  
Phoenix, AZ 85040  
Email: [Finance@mercymaricopa.org](mailto:Finance@mercymaricopa.org)

## **Reporting**

Providers must include contract year-to-date data when compiling financial reports. If a provider's year end differs from the contract year, they may report based on their year-end for Annual Audited Financial Submission only. Quarterly and unaudited annual submissions must be on a contract year-to-date basis. Please note that the annual contract year-to-date unaudited financial reporting requirement applies to all providers. All financial reports should clearly identify the time period by listing the start and end dates.

An explanation of adjustments made for prior periods or other items are to be disclosed in a footnote to the subject statement and disclosed on Attachment C. Material items included as "other" must be itemized on a supporting schedule.

Depreciation on properties directly purchased or reimbursed with any State funding source will not be allowable for the Statement of Activities, or for purposes of evaluating a provider's profit limitation. This provision applies to Community Living or like properties where recipients are temporarily housed during a course or program of treatment. These depreciation amounts should instead be listed under the non-Mercy Maricopa column within the Statement of Activities section of the template.

Quarterly and annual reports are required by Mercy Maricopa's contract with ADHS/DBHS and by contracts with the providers. If there are any inconsistencies between this reporting guide and any contract provision, the contract provisions shall prevail. Any inconsistencies should be reported to the Mercy Maricopa's Finance Department. This reporting guide is neither intended to limit the scope of audit procedures performed during the provider's annual certified audit nor to replace the independent certified public accountant's judgment as to the work performed. It is merely a supplement to the contract.

Mercy Maricopa will issue a letter referred to as an "Incomplete Checklist" to providers noting any missing items required to meet the minimum financial reporting requirements. Once a complete set of financials containing the minimum financial reporting requirements has been received, Mercy Maricopa will issue a letter referred to as a "Complete Checklist" as assurance that your agency's financials have been received and meet the minimum financial reporting requirements. A provider may be subject to sanctions if they do not meet the minimum financial reporting requirements for each applicable reporting period.

## **UNAUDITED ANNUAL & QUARTERLY REPORTS**

### **Certification Statement (Attachment A)**

Unaudited annual and quarterly reports must contain a Certification Statement cover sheet, which is to be signed and dated by the Chief Financial Officer of the provider. This signature is confirmation the reports have been reviewed for accuracy and completeness. Unsigned or unlabeled reports will not be accepted. Electronic signatures are permitted. If the provider submits financial reports electronically, the Certification Statement may be faxed/mailed separately if electronic signatures are not available. A sample of the Certification Statement may be found in Attachment A.

### **Statement of Financial Position (Balance Sheet) (Attachment B)**

The Statement of Financial Position illustrates the financial position of the provider as of the reporting date. It is the primary source of information about liquidity and financial flexibility. Current and Non-Current Assets and Liabilities must be clearly identified. The required format for the Statement of Financial Position may be found in Attachment B.

## **Disclosures Statement (Attachment C)**

The Disclosures Statement provides additional detail regarding items that relate to Mercy Maricopa Programs. Providers should submit this statement when there are accounts receivable, deferred revenue, or any other line-item that is specific to Mercy Maricopa. The required format for Disclosures Statement may be found in Attachment C. If there are no disclosures for the corresponding period the provider must submit a zero-filled Disclosure Statement; or insert a page stating "There are no disclosures for the current period."

### Accounts Receivable

Providers should report Statement of Financial Position's Accounts Receivable attributable directly to Mercy Maricopa Programs.

### Deferred Revenue

Provider must report the amount of liabilities attributable directly to Mercy Maricopa Programs and include the Funding Source and Program (if applicable).

In regards to deferred revenue, providers must clearly identify what amount of deferred revenue is attributable to Mercy Maricopa. Mercy Maricopa deferred revenue should be further identified as prior contract year and/or current contract year. Any deferred revenue from a prior contract year should be reclassified on the Statement of Financial Position as a Payable to Mercy Maricopa. Any deferred revenue received during and remaining at the end of the current year should also be reclassified as a payable to Mercy Maricopa in the 4th quarter statements and annual audit report. Providers are not to spend any deferred revenue after the end of the contract year (September 30) without Mercy Maricopa's approval. Any request to do so should be directed to Mercy Maricopa's Chief Financial Officer and submitted in writing to the Mercy Maricopa Finance Department.

Mercy Maricopa regularly determines whether there will be unspent funds by the end of the contract year or state fiscal year in the case of general funds and Block Grant Funds. If general funds remain at the end of the state fiscal year, providers are prohibited from recording deferred revenue. Instead, these unspent general funds must be reported as a payable to the Mercy Maricopa and returned immediately for subsequent return to ADHS/DBHS. TXIX/TXXI, grant, and county revenue may be deferred at the end of the provider's fiscal year only under



extenuating circumstances and after prior written approval of Mercy Maricopa and ADHS/DBHS. Providers must provide details of the circumstances to Mercy Maricopa no later than 45 days prior to the end of the state fiscal year for review and prior approval.

#### Mercy Maricopa Contracts Revenue Reconciliation

Providers must reconcile variances between the reported Revenue on the Statement of Activities by Program to contracted amounts found on the Mercy Maricopa Compensation Exhibit.

#### Mercy Maricopa Income Tax Provision Reconciliation

After year-end for-profit providers claiming Income Tax Provisions must reconcile the actual Income Taxes related to net gain from Mercy Maricopa operations to Prior Reported (un-audited) Income Tax Provisions. If variances exist, the provider must submit a final Reporting Package with applicable changes to: Mercy Maricopa's Chief Financial Officer.

#### Other Disclosures/Adjustments

Provider may use this line to disclose any other item related to Mercy Maricopa Programs that requires disclosure.

#### **Statement of Activities (Attachment D)**

The Statement of Activities section encompasses accumulated (year-to-date) and comprehensive revenue and expenses within geographic area (Maricopa County) for the provider. All items are to be reported using the accrual method of accounting. The intent of the statement is to capture, on an accrual basis, the revenue by program of the provider and to match that revenue with the related expenses. The revenues and expenses for direct Mercy Maricopa contracted programs must be clearly distinguished from indirect Mercy Maricopa contracts and non-Mercy Maricopa contracts. An example of the required format for the Statement of Activities is included in Attachment D.

## Headers

The column headings in the Statement of Activities must represent a provider's contracted programs. Providers should categorize programs using their respective contracts and may add their own program descriptions to these headings if further clarification is desired. Providers should use their best judgment when reporting programs.

The direct Mercy Maricopa columns should be used by providers that hold contracts directly with Mercy Maricopa Health Services of Arizona, Inc. The indirect Mercy Maricopa column(s) should be used by providers that hold contracts with a direct Mercy Maricopa contracted provider. An example would be a Child Service Provider that holds a contract with a provider Network Organization (PNO). Indirect providers must list each PNO separately for each contract held with that PNO. PNO contracted programs should be categorized using the same format as a direct Mercy Maricopa contract. Providers that hold both direct Mercy Maricopa contracts and indirect Mercy Maricopa contracts must list each contract and programs separately in their respective column headers. Programs like SABG will require their own header by program & type (SABG General, SABG HIV, etc.)

## Revenue

Revenue lines must include service revenue by program and may include prior year adjustment, Other Revenue, Interest Income, and Unrelated Business Activities line items, with associated expenses.

If the provider assesses and collects co-payments, their value should be indicated on the Statement of Activities under the Other Revenue line item. Mercy Maricopa recognizes that, depending on the fact pattern, the preferred GAAP method might be to record co-payments as a contra-expense. To maintain consistency with ADHS/DBHS and for our own reporting purposes, however, we require the co-payment information be listed under revenue. Providers should maintain a monthly member roster of all consumers who have been assessed and/or collected for co-payments. This roster should specifically tie to the values listed in the Statement of Activities and should be made available to Mercy Maricopa upon request. Please refer to the Provider Manual, Section 3.4 for more information regarding co-payments.

## Expenses

Expenses should be grouped into one of two categories: Clinical Services Expenses or Administrative Expenses.

Expenses in the Clinical Services category are directly associated with the provision of behavioral health services to consumers. Clinical Services expenses are distinguished from Administrative expenses by being an expense or portion of expense related to the direct service to recipients or the support thereof. Support expenses that are an integral part in providing services may include, but are not limited to: quality, claims processing, front desk staff, medical records, clinical directors, clinical management, licensing and compliance, call center staff, and training. Salaries should include all labor types for direct staff. Labor types that are outsourced should be included in the temp/contract labor line.

Administrative expenses are those expenses incurred for the common benefit of the overall organization. This may include contracted labor and services or services not directly identifiable as clinical services. These expense areas may include Human Resources, Finance, Executive staff (not to include clinical leadership) and Management Fees/Corporate Administrative allocations.

## **Statement of Cash Flows (Attachment E)**

The primary purpose of the Statement of Cash Flows is to provide information about an organization's cash inflows and cash outflows during the accounting period. Cash flows are classified in terms of operating, investing, and financing activities. Significant non-cash investing and financing activities not affecting cash must also be disclosed in the Statement of Cash Flows. The indirect method is used for financial reporting. For further guidance, providers should refer to SFAS 117. An example of the Statement of Cash Flows is included in Attachment E.

## **Financial Ratios (Attachment F)**

All providers must submit key financial ratios as part of the required financial reporting. The following is the minimum ratios for submission:

1. LIQUIDITY RATIO/CURRENT RATIO: (STANDARD  $\geq$  1.0): Current Assets/Current Liabilities
2. DEFENSIVE INTERVAL (IN DAYS): (STANDARD  $\geq$  30 DAYS): (Cash + Current Investments)/ ((Total Expense - Non-cash Expense)/days)

## **Conflict of Interest Disclosure (Attachment G)**

As a recipient of funds through Mercy Maricopa, your organization is required to comply with regulations pertaining to Conflict of Interest as defined under (A.R.S 35-705) (A.R.S 38-503).

Your organization must provide Mercy Maricopa with a certification of compliance with Conflict of Interest (COI) Policies. Providers are required to disclose conflicts of interest with each financial reporting package.

## **Cost Allocation Plan (Attachment H)**

All providers must submit a Cost Allocation Plan for approval. The Cost Allocation Plan is a narrative explanation for the allocation of indirect costs (both by expense lines and across by program). It must be submitted with the first financial statement submission of the fiscal year, or by October 31st of each year. Direct expenses should be recorded directly to the applicable program(s) and expense categories, if identifiable. Providers may apply the principles described in OMB Circular A-122.

### Allocations

Many expenses require allocations. There may be costs that are shared between categories (clinical and administrative) and would need to be allocated appropriately and according to the

organization's Cost Allocation Plan and statistical basis methodologies. This split of allocation needs to be uniquely identifiable either to clinical or administrative.

Other allocated costs may cross multiple categories of expense and may become quite complex in nature. As there are no universal rules that could be applied across provider agencies, each agency must determine what is appropriate for them based on how their organization is structured. Some allocated costs may also cross programs within a single category of expense.

Providers are required to ensure Mercy Maricopa and non-Mercy Maricopa expenses are charged appropriately between the funding sources.

### Allocation Methodology

Allocation methodologies should be specifically outlined in your Cost Allocation Plan and should use a basis that results in an equitable and reasonable distribution. Allocation methodologies should explain rationale used to identify and appropriately match expense to revenue, and to allocate across the various programs, grants, contracts and agreements.

Use the method that is most appropriate to the particular cost being prorated. These may include, but are not limited to: time studies, square footage, number of clients/beds, bed days, direct service hours, direct service expense, FTEs, salaries, and accumulated expense.

### Allowable & Unallowable Costs

Unallowable costs will not be expensed against any Mercy Maricopa funded programs. Based on your provider type please refer to one of the guides:

- ❖ Circular A122 provides costs principles for non-profit organizations for guidance related to allowable and unallowable expenditures;
- ❖ Hospital Insurance Manual 15 or 42 Code of Federal Regulations.

## **AUDITED ANNUAL REPORTS**

### **Audited Annual Report**

The audited annual report package is due 120 days after the contract year-end, or provider's year-end, if different. This package must include the Supplemental Schedules described below.

If an audit confirmation is needed to complete the audit report, please submit any requests in writing to the Mercy Maricopa Finance Department.

If the audit report will not be ready for submission within 120 days after the provider's year end or contract-year-end, the provider must submit a letter from their auditing firm stating the reason(s) for the delay and include the date the report will be submitted. This letter must be received by Mercy Maricopa via postal service prior to the 120th day. Financial sanctions may be applied as described in Sanctions Procedure section below.

### **Supplemental Schedules**

When submitting annual certified audit reports, providers must also include a Supplemental Schedule of Financial Position Disclosures and Supplemental Schedule of Activities. The Supplemental Schedules must be presented in the same formats as the 4th quarter unaudited statements submitted for the fiscal year (Attachments C & D).

The Supplemental Schedule of Financial Position Disclosures must clearly identify any deferred revenue as direct Mercy Maricopa, indirect Mercy Maricopa or non-Mercy Maricopa. The Supplemental Schedule of Activities must be organized by applicable Mercy Maricopa Funding Source and Programs. The schedule must clearly identify the revenues and expenses attributable to the Mercy Maricopa contracts, and reconcile any differences between the unaudited contract year-to-date report(s) and the annual certified financial audit.

The Supplemental Schedules shall be reviewed as an integral part of each provider's annual certified audit. Mercy Maricopa expects the auditors employed by the provider to test the provider's compliance with the Cost Allocation Plan and any issues of non-compliance must be included in the certified audit report.

### OMB Circular A-133 Reports (if applicable)

Non-federal entities that receive \$500,000 or more in a year in federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Providers can identify the amount of federal funding they receive as part of their Mercy Maricopa contract by referring to the funding section, Exhibit C. Any dollars attributable to SABGs and/or MHBGs are federally funded.

An auditee may be a recipient, a subrecipient, and/or a vendor. Recipient means a non-federal entity that expends federal awards received directly from a federal awarding agency to carry out a federal program. Subrecipient means a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. Vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program.

Federal awards expended as a recipient or a subrecipient would be subject to an A-133 audit. The payments received for goods or services provided as a vendor would not be considered Federal awards. Together with our auditors, Mercy Maricopa Health Services of Arizona, Inc. has determined that providers who receive SABG (CFDA number 93.959) or MHBG (CFDA number 93.958) funding are considered to be a subrecipient. Medicaid Funds (Title XIX and XXI) are excluded from OMB Circular No. A-133. Although ADHS requires Mercy Maricopa to include Title XIX and Title XXI funds in our OMB Circular A-133 Audit Reports, we do not currently require providers to do so.

Providers who receive SABG or MHBG funds will be notified via a Federal Award Letter stating the amount of their federal funding, their sub-recipient status, the applicable CFDA title & number, and Issuing Agency; as well as an explanation of their requirements under OMB Circular No. A-133.

If your agency is required to submit an OMB Circular A-133 Audit Report, Mercy Maricopa requires that you provide one copy of the report to the Mercy Maricopa's Finance Department within 30 days after your agency receives it and no later than 120 days from the end of the fiscal year. These should include the reports presented by that Circular.

## ENCOUNTER VALUE RECOUPMENT POLICY

### Communication of Fiscal Provider Funding Levels

Barring any delays in the receipt of funding information from ADHS, Mercy Maricopa will communicate annual block funding levels by mid-September of each fiscal year. While annual block funding levels are being established, Mercy Maricopa will provide interim funding. Interim funding will be reconciled against final contract amounts for the fiscal year.

### Retroactive Adjustments to Funding by ADHS

To the extent ADHS makes an adjustment to Mercy Maricopa's funding, subsequent to the establishment of block provider funding levels, Mercy Maricopa reserves the right to pass such adjustments on to providers. Providers will be notified in writing (or email) of such funding adjustments and shall receive sixty (60) days' notice, prior to any retroactive reduction. Mercy Maricopa's standard policy will be to apply retroactive reductions in funding over a three (3) month period. Refunds and lump-sum deductions will also be considered.

### Encounter Value Reporting

Mercy Maricopa will have encounter data reporting available which the providers can utilize to track their encounter value against funding. This data will be available regularly through the Provider Relations Liaisons. In the event that a provider is in disagreement about the encounter values, the provider may request a meeting to review the encounters through their Provider Relations Liaison.

### Interim Block Adjustments

- ❖ **Timing:** Mercy Maricopa will regularly monitor and review provider encounter levels and make adjustments prospectively, based on the providers encounter values against funding.
  
- ❖ **Notice:** Prior to the imposition of prospective adjustments, Mercy Maricopa will make every effort to schedule and hold an in-person meeting with the provider to notify the



provider of the decision, explain the basis for the decision, and outline what the provider must do to have the adjustments rescinded.

- ❖ **Withhold of Funds:** The application of these prospective interim block adjustments will continue until the provider has met the criteria established and communicated during the notice period. During the period in which a provider is having adjustments applied to his/her monthly block funding payments, further adjustments (upward or downward) can be applied based on the provider's progress in encounter values.

### Review and Recoupment Process

- ❖ **Timing:** Formal reviews of the encounter values against funding will be performed in the months of November (interim) and May (final) of each year. The interim review in November will cover the months of service, October-March of the preceding year (allowing for 180 days of run-out for the period). The final review in May will cover all months in the preceding contract year (allowing for 180 days of run-out for the period).
- ❖ **Notice:** Providers will be notified in writing (or email) of recoupment decisions and shall receive thirty (30) days' notice prior to any recoupment taking place. A meeting with the provider will be requested and setup through the Provider Relations Liaison.
- ❖ **Withhold of Funds:** Mercy Maricopa's standard policy will be to apply recoupment's ratably over a 3 month period. Refunds and lump-sum deductions will also be considered. Providers will have the ability to earn back any recoupment related to the interim review and recoupment process, based on their final encounter value for the fiscal year. The amount earned back, however, will not exceed the amount contracted for the respective fiscal year, will be subject to the 4% profit limitation, and is subject to funding availability.

### Timely Filing Extensions

Requests for timely filing extensions must be submitted in writing (or email) and be directed to their Provider Relations Liaison. These requests must outline the period(s) for which the extension is being requested, causal issues, a list of the RBHA staff that the provider has been working with to resolve the issue, and the anticipated date the issue is to resolve. Mercy Maricopa will consider, review, and communicate a decision on the request within 30 days.

## Provider Deliverables

Key deliverables that providers are required to meet are listed within Section 20 of the Provider Form Library (<http://mercymaricopa.org/providers/forms>). Providers will be held to the timelines and due dates outlined in Section 20. Failure to meet any of the required deliverables may result in the imposition of sanctions, as outlined in the provider's contract.

## **FEE SCHEDULE AND FUNDING REQUESTS**

### **Fee Schedule Requests**

Fee Schedule requests can be submitted by providers to coincide with financial reporting submissions. The following documents are required for requests to be considered:

1. Production or utilization data, (see Fee Schedule Exception Template Attachment J) for the top 80% of provider's services in excel format.
2. Written description of the programmatic differences or practices that necessitate the need for higher reimbursement.
3. Cost build-up information for the service code.

### **Funding Requests**

In order for funding requests to be submitted and considered by Mercy Maricopa, a provider must meet the following criteria:

1. Projected loss of 2% or greater;
2. Over encounter of 10% or greater;
3. Detailed cost justification by major line item of the Statement of Activities (SOA).

## INTERPRETIVE SERVICES

The following codes are to be used for Interpretive Services as defined by the Mercy Maricopa Provider Manual (3.23 - Cultural Competence):

MCPC'S Code	Modifier	Description
T1013		Staff delivering services is also interpreting.
T1013	Q6	Separate but employed staff is interpreting.
T1013	CR	External vendor used.

Billed rates and supporting documentation are subject to periodic review.

For services provided by external vendors providers are to show all expenses associated on the Interpretive Services line of the Statement of Activities (SOA).

## SANCTION PROCEDURES

### **Financial Reporting Sanctions**

Mercy Maricopa has the right to impose sanctions or financial penalties on providers for failure to perform their contractual obligations. Failure of a provider to submit accurate, complete, and timely financial reports in accordance with Mercy Maricopa's Provider Financial Reporting Guide may result in one or more sanctions listed in the contract. It is the policy of Mercy Maricopa and ADHS/DBHS to sanction in the full amount if reports are not accurate, complete, and received by the due date. It is the responsibility of providers to comply with these requirements.

Mercy Maricopa will send a General Provider Communication email within three (3) business days following the last day of the current quarter indicating that financials are due within the next 30 days. Mercy Maricopa will also send a General Provider Communication email announcing changes and updates to the Provider Financial Reporting Guide. Changes to the

Provider Financial Reporting Guide will be in effect for the current reporting period. Updates, resubmissions, prior period adjustments, or financials not yet submitted will be subject to the new reporting requirements.

Extensions may be granted, and must be requested using Mercy Maricopa's extension request form (Attachment I). Requests for extensions of two (2) weeks or less should be sent via e-mail to Mercy Maricopa's Finance email: Finance@MercyMaricopa.org. Requests for extensions greater than two (2) weeks require detailed justification and must be submitted to Mercy Maricopa's Chief Financial Officer. All requests for extensions must be received at least five (5) business days prior to Mercy Maricopa's filing date and must include the reason for the extension and the revised filing date. Requests for filing extensions will be reviewed and considered on a case-by-case basis.

If providers do not meet the minimum financial reporting requirements or do not submit by the filing date:

- ❖ Mercy Maricopa will notify the provider via postal service and/or e-mail that the provider is not in compliance with the financial reporting guidelines. The letter will include a list of those items that are not in compliance and/or are missing.
- ❖ In the interim Mercy Maricopa will deny and/or put on hold all finance related requests until the provider becomes compliant.
- ❖ Subsequently, Mercy Maricopa will issue a Notice-to-Cure letter indicating financial sanctions of \$500 per day, not to exceed 50% of their monthly contract.
- ❖ Mercy Maricopa will apply sanctions on the 10th business day from the date of the Notice-to-Cure letter and place a hold on all payments until the provider becomes compliant.
- ❖ Sanctions cannot offset profit and will be excluded from the 4% profit limitation outlined in provider contracts.

No extensions will be granted after the due date has passed. Sanctions are non-negotiable and will be taken against future Block or Fee-for-Service payments.

It is the provider's responsibility to ensure their financials have reached Mercy Maricopa. The preferred delivery method is to submit financials to Mercy Maricopa's Finance email [Finance@MercyMaricopa.org](mailto:Finance@MercyMaricopa.org). Mercy Maricopa will issue a letter referred to as a "Complete Checklist" to providers as assurance their financials have been received and meet the minimum financial reporting requirements.

### Contractual Non-Performance Failure Sanctions

Mercy Maricopa may impose financial sanctions to providers for a non-performance failure. A sanction for non-performance failure may be passed down from any governing agency including but not limited to AHCCCS, ADHS, CMS, or Mercy Maricopa. Unless explicitly stated otherwise in Mercy Maricopa's Provider Participation Agreement or document incorporated by reference, as applicable, ADHS or Mercy Maricopa, at its sole discretion, may consider the following factors when imposing financial sanctions:

- ❖ Substantial failure to provide required medically necessary covered services to an individual under this Agreement;
- ❖ Imposition of charges on enrollees that are in excess of the charges permitted under the Medicaid program;
- ❖ Discrimination toward enrollees on the basis of their health status or need for health care services;
- ❖ Misrepresentation or falsification of information furnished to AHCCCS, ADHS, or Mercy Maricopa;
- ❖ Misrepresentation or falsification of information furnished to an enrollee, potential enrollee, subprovider, or health care provider;
- ❖ Failure to comply with the requirements for physician incentive plans, in accordance with 42 CFR §§ 422.438(6)(h) and 422.210, which prohibit such plans from directly or indirectly making payments to a physician or group as an inducement to limit or refuse medically necessary services to an enrollee;

- ❖ Direct or indirect distribution of marketing materials without prior ADHS approval or that contain false or materially misleading information;
- ❖ Violation of any of the other applicable requirements of sections 1903(m) or 1932 of the SSA and any implementing regulations;
- ❖ Non-compliance with requirement of the Agreement that has a negative effect on the service delivery system or that causes potential harm or results in actual harm to an enrollee;
- ❖ Non-compliance with any Agreement term may result in a financial sanction.

For providers receiving a sanction for a non-performance failure:

- ❖ Mercy Maricopa will notify the provider via postal service and/or e-mail that the provider is being sanctioned for non-performance failure, the amount of the sanction, and the due date of the sanction.
- ❖ In the interim Mercy Maricopa will deny and/or put on hold all finance related requests until the provider becomes compliant.
- ❖ Sanctions are non-negotiable and may be taken against future Block or Fee-for-Service payments.
- ❖ Sanctions cannot offset profit and will be excluded from the 4% profit limitation outlined in provider contracts.