

Division of Developmental Disabilities

Policy Notification

Early Notification Transmittal Date: Mar 26, 2026

Public Comment Transmittal Date: May 6, 2026

Notification

DDD is proposing changes to the following policy :

AdSS Operations Manual, Policy

438 - Administrative Services Subcontracts Evaluation and Monitoring
Chapter 400 - Operations

Description of changes :

This document has been Revised to align with AHCCCSs ACOM updates.

- Changed title from "Administrative Services Subcontracts Monitoring" to "Administrative Services Subcontracts Evaluation and Monitoring."
- Updated definition for "Administrative Services Subcontract."
- Added definitions for "Business Day" and "Calendar Day."
- Added the requirement that the AdSS shall submit specific requirements as detailed in AHCCCS ACOM 438 Attachment A (A.1.b.iii.).
- Changed the requirement that the AdSS shall notify the Division if the subcontractor is found to be in non-compliance to that the AdSS shall submit ACOM 438 Attachment C (B.4.).
- Changed the requirement that the AdSS shall communicate the results of a CAP to the Division to that the AdSS shall report the results of a CAP to AHCCCS using ACOM Attachment C (B.6.).
- Changed subheading C from "Evaluation Report" to "Administrative Services Subcontractor Evaluation Report."
- Added Checklists to Deliverables list.



Division of Developmental Disabilities

Public Comment Timeline

Dates: Public comment will be open for 30 days beginning May 6, 2026 and closing June 5, 2026, 11:59 pm, Arizona time.

Instructions: (Complete instructions are located on the Division's webpage)

- Comments may be submitted online by clicking [here](#).
- Do not include any information that is confidential, covered under HIPAA, or inappropriate for public disclosure.

If access to the online form is not available or if you have questions, please email the DDD Policy Unit at DDDpolicy@azdes.gov.

438 Administrative Services Subcontracts

Evaluation and Monitoring

REVISION DATES: XX/XX/XXXX, 3/27/2024, 7/26/2023, 2/16/2022
REVIEW DATES: 8/18/2025, 10/3/2024, 9/6/2023
EFFECTIVE DATE: October 1, 2019
REFERENCES: A.R.S. § 36-2901, ACOM 438 Attachments A and B, 42 CFR 436, 42 CFR 438.230, 42 CFR 455.101 through 106, and CMS document SMDL #09-001.

Purpose

This policy applies to the Division’s Administrative Services Subcontractors (AdSS). This policy establishes guidelines and requirements for the AdSS entering into Administrative Services Subcontracts or Management Services Agreement (MSA) and monitoring subcontractor performance, reporting performance review results, and notifying the appropriate entity of subcontractor non-compliance and Corrective Action Plans (CAPs). Unless otherwise stated, requirements outlined in this policy for Administrative Services Subcontractors also apply to MSA.

Definitions

1. “Administrative Services Subcontract” means an agreement that delegates any of the requirements of the Contract with the Division, including:

- a. Claims processing, including pharmacy claims;
 - b. Pharmacy Benefit Manager;
 - c. Dental Benefit Manager;
 - d. Credentialing, including those for only primary source verification;
 - e. Medicaid Accountable Organization
 - f. Clinically Integrated Network;
 - g. Service Level Agreements with the Division or Subsidiary of a corporate parent owner; and
 - h. Department of Child Safety Comprehensive Health Plan (DCS CHP) and DES DDD Subcontracted Health Plan.
 - i. An individual or entity that holds an Administrative Services Subcontract is an Administrative Services Subcontractor.
 - ii. Providers are not Administrative Services Subcontractors.
2. "Attachment A" means the Attachment A of the Administrative Services Subcontract Checklist. It is the AHCCCS deliverable template.
 3. "Business Day" means 8:00 a.m. to 5:00 p.m., Monday through

Friday, excluding holidays listed in A.R.S. § 1-301.

4. "Calendar Day" means every day of the week including weekends and holidays.
5. "Change in Organizational Structure" means any of the following:
 - a. Merger
 - b. Acquisition
 - c. Reorganization
 - d. Change in Articles of Incorporation
 - e. Joint Venture
 - f. Change in Ownership
 - g. Change of Management Services Agreement (MSA) Subcontractor
 - h. Other applicable changes that may cause:
 - i. A change in the Employer Identification Number/Tax Identification Number (EIN/TIN)
 - ii. Changes in critical Member information, including the website, Provider handbook and Member ID card
 - iii. A change in legal entity name.

6. "Corrective Action Plan" or "CAP" means a written work plan that identifies the root cause(s) of a deficiency, includes goals and objectives, actions or tasks to be taken to facilitate an expedient return to compliance, methodologies to be used to accomplish CAP goals and objectives, and staff responsible to carry out the CAP within established timelines. CAPs are generally used to improve performance of the Contractor or its Providers, to enhance Quality Management or Process Improvement activities and the outcomes of the activities, or to resolve a deficiency.
7. "Management Service Agreement" or "MSA" means a type of subcontract with an entity in which the owner of the Contractor delegates all or substantially all management and administrative services necessary for the operation of the Contractor.
8. "Medicaid Accountable Care Organization" or "ACO" means an entity that enters into a Value-Based Purchasing (VBP) arrangement with a Contractor which:
 - a. Improves the health care delivery system by increasing the quality of care while reducing costs.

- b. Enters into VBP contracts with Provider groups or networks of groups.
 - c. Coordinates Provider accountability for the health of their patient population, often through shared savings, shared risk, or capitated Alternative Payment Models (APM), combined with quality incentives to ensure both quality outcomes and cost containment.
 - d. Supports Providers participating in APMs by providing services such as data analytics, technical assistance, Provider education, and Provider recruitment.
 - e. Operates as an intermediary between the Contractor and Providers, but not as a Provider of direct services to Members.
 - f. May or may not perform delegated administrative activities. Any delegated administrative activities to the Medicaid ACO are subject to prior approval by AHCCCS.
9. "Member" means the same as "client" as defined in A.R.S. § 36-551.
10. "Provider" means any person or entity that contracts with the AdSS for the provision of covered services to Members

according to the provisions of A.R.S. § 36-2901 or any subcontractor of a Provider delivering services pursuant to A.R.S. § 36-2901. Providers are not Administrative Services Subcontractors.

11. "Quality of Care" or "QOC" means an expectation that, and the degree to which the health care services provided to individuals and patient populations improve desired health outcomes and are consistent with current professionally recognized standards of care and service provision.
12. "Request for Proposal" or "RFP" means a document prepared by the Division that describes the services required and that instructs a prospective Offeror how to prepare a response.
13. "Subcontractor" means:
 - a. A provider of health care who agrees to furnish covered services to Members.
 - b. An individual, agency, or organization with which the Contractor, or its Subcontractor, has contracted or delegated some of its management or administrative functions or responsibilities.

- c. An individual, agency, or organization with which a fiscal agent has entered into a Contract, agreement, purchase order or lease or leases of real property to obtain space, supplies equipment or services provided under the AHCCCS agreement.

Policy

A. Approval of Subcontracts

1. The AdSS shall submit all Management Services Agreements (MSA) and Administrative Services Subcontracts to the Division for prior approval as noted below and as specified in the AdSS contract with the Division, 60 Calendar Days before the effective date of the subcontract.
 - a. The AdSS shall submit an unredacted copy of the proposed Subcontract to the Division with AHCCCS Contractor Operations Policy Manual (ACOM) Policy 438 Attachment A, Administrative Services Subcontract Checklist.

- b. The AdSS' local Chief Executive Officer (CEO) shall retain the authority to direct and prioritize all work performed through a delegated contract.
- c. The AdSS shall require that subcontractors meet any performance standards applicable to the delegated services as mandated by the Division and AHCCCS.
 - i. The AdSS shall notify a change in Organizational Structure of Administrative Services Subcontractor to the Division.
 - ii. If a complete Attachment A submission is required, the AdSS shall follow the process for the review and approval of newly proposed Administrative Services Subcontracts as defined in this policy.
 - iii. If the National Committee for Quality Assurance (NCQA) Health Plan Accreditation has been obtained, the AdSS shall submit specific requirements as detailed in AHCCCS ACOM 438 Attachment A.
- d. The AdSS shall notify and obtain prior approval from the Division of a Change in Organizational Structure of an

Administrative Services Subcontractor. If the Change in Organizational Structure is related to the AdSS MSA, the AdSS shall submit the proposed change for prior approval as outlined in AdSS Operations Policy Manual, Policy 317.

B. Monitoring and Reporting

1. The AdSS shall adhere to all requirements for any contractual relationship and delegation as listed in 42 CFR 438.230.
2. The AdSS shall monitor its subcontractor's performance on an ongoing basis and complete a formal review of the subcontractors at least annually.
3. In the formal review, the AdSS shall conduct a review of delegated duties, responsibilities, and financial position of the subcontractors.
4. The AdSS shall submit ACOM 438 Attachment C as specified in the Contract F3 Contractor Chart of Deliverables within 30 Calendar Days of the discovery of an Administrative Service Subcontractor's non-compliance.
5. The AdSS shall review and respond to any follow-up questions for more information related to an open CAP requested by the Division.

6. The AdSS shall report the results of a CAP to AHCCCS upon closure using ACOM Attachment C as specified in the Contract F3 Contractor Chart of Deliverables.

C. Administrative Services Subcontractor Evaluation

Report

1. The AdSS shall submit a completed Administrative Services Subcontractor Evaluation Report annually, using ACOM Policy 438, Attachment B, Administrative Services Subcontractor Evaluation Report Template.
2. The AdSS shall ensure that the Administrative Services Subcontractor Evaluation Report includes the following:
 - a. The name of the subcontractor;
 - b. The delegated duties and responsibilities;
 - c. The date of the most recent formal review of the duties, responsibilities, and financial position, as appropriate, of the subcontractor;
 - d. A comprehensive summary of the evaluation of the operational and financial, as appropriate, performance of the subcontractor, including the type of review performed;

- e. The next scheduled formal review date;
- f. All identified areas of deficiency that:
 - i. Affect Member services; or
 - ii. Cause a quality of care concern; and
- g. The following CAP Information:
 - i. Date reported to the Division;
 - ii. A detailed description of the reason(s) the Subcontractor was placed on a CAP;
 - iii. A description of the steps taken by the Subcontractor to address the CAP; and
 - iv. The current status and expected completion time of the CAP.

D. Additional Requirements

1. The AdSS shall evaluate, before entering into an Administrative Services Subcontract, the prospective subcontractor's ability to perform the delegated duties.
2. The AdSS shall ensure that all Administrative Services Subcontracts reference and comply with the Minimum Subcontract Provisions available on the AHCCCS website.

3. The AdSS shall issue a notification of the change to its affected subcontractors of any affected subcontracts in the event of a modification to Division Policy, guidelines, and manuals.
4. The AdSS shall amend the affected Administrative Services Subcontracts on the regular renewal schedule or within six calendar months of the update, whichever comes first.
5. The AdSS shall issue a notification and amend Administrative Services Subcontracts in the event of a modification to Minimum Subcontract Provisions.
6. The AdSS shall ensure that all Administrative Services Subcontracts reference and comply with the Disclosure of Ownership and Control and Disclosure of Information on Persons Convicted of Crimes requirements as outlined in the contract and 42 CFR 455.101 through 106, 42 CFR 436, and State Director Letter (SMDL) 09-001.
7. AdSS shall disclose to the Division the identity of any excluded person.
8. The AdSS shall ensure that all Administrative Services Subcontracts for services rendered to Medicaid recipients

incorporate by reference the applicable terms and conditions outlined in the Division Contract.

9. The AdSS shall maintain a fully executed original or electronic copy of all Administrative Services Subcontracts and make them accessible to the Division within five Business Days of the request by the Division according to contract requirements.
10. The AdSS shall ensure that all Member communications furnished by the AdSS include the Division's name and comply with Member notification requirements as outlined in AdSS Operations Manual, Policy 404.
11. The AdSS shall ensure compliance with all aspects of the Division contract if the AdSS terminates a subcontract, notwithstanding the subcontractor termination, including availability of and access to all covered services and provision of covered services to Members within the required timeliness standards.

Supplemental Information

DELIVERABLES:

1. Administrative Services Subcontracts and Checklists
2. Administrative Services Subcontractor Evaluation Report

3. Administrative Services Subcontractor Non-Compliance Reporting
4. Corporate Cost Allocation Plans and Adjustment in Management Fees

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