

COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING
Denver, Colorado

Denver Health Medical Plan Annual Review

For the 12-month Period Ended June 30, 2021





**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2022

Ms. Ling Cui
Colorado Department of Health Care Policy & Financing
1570 Grant Street
Denver, Colorado 80203

SUBJECT: Managed Care Organization - Denver Health Medical Plan

Dear Ms. Cui:

We are pleased to provide the annual review for Denver Health Medical Plan (DHMP). Our review covers costs reported by DHMP on the managed care organization (MCO) Reporting Template (MRT) for the 12-month period ended June 30, 2021 (SFY 2021). This engagement was conducted pursuant to contracts #16-87969 and #20-140826 between the Colorado Department of Health Care Policy & Financing (Department) and Myers and Stauffer LC. This agreement calls for us to perform an annual review of costs reported by DHMP and provide an assessment of whether the administrative and medical costs were correctly classified and allowable according to the applicable federal and state regulations. The results of our assessment are provided in the attached DHMP annual review report.

Our work was performed in accordance with American Institute of Certified Public Accountants' (AICPA) professional standards for consulting engagements. We were not engaged to, and did not perform, an attestation engagement, the objective of which would be to express an opinion on the reviewed cost report.

We appreciate the opportunity to be of service to you and assist you with the important task of monitoring the financial costs reported by the RAEs and MCOs. Should you have any questions or wish to discuss this report in detail, please feel free to contact us.

Sincerely,

Myers and Stauffer LC

Myers and Stauffer LC

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EXECUTIVE SUMMARY

Denver Health Medical Plan, Inc. (DHMP) is contracted with the State of Colorado to provide managed care services and prescription drug coverage for members who reside in Adams, Arapahoe, Denver, and Jefferson counties. DHMP subcontracts the behavioral health administration to Colorado Access (COA) RAE 5.

DHMP is a unit within Denver Health and Hospital Authority (DHHA). DHMP has two contracts with DHHA: an administrative services contract and a subcapitated medical contract. The total subcapitated medical contract per member per month (PMPM) amount paid to DHHA was reported on two parts of the SFY 2021 MRT. These amounts were reported by DHMP on the SFY 2021 MRT as: repriced claims in the Internal Provider Medical Expenses category and sub-capitated incurred but not reported (IBNR) reported in the total External Provider Medical Expenses IBNR.

This report contains the results of our assessment of the administrative and medical costs reported by DHMP on the MRT for SFY 2021, specifically focused on whether those items were allowable and correctly classified as administrative or medical costs pursuant to federal and state regulations.

We reconciled the administrative cost category amounts reported by DHMP on the DHMP SFY 2021 MRT to the supporting data with no significant variance.

We reconciled the medical cost categories related to Third Party Liability Recoveries and Reinsurance Recoveries reported by DHMP on the SFY 2021 MRT to supporting data and summary schedules with no significant variance.

We determined DHMP does not allocate any of the medical costs reported on the SFY 2021 MRT. For administrative costs, DHMP provided a methodology for the allocation of non-salary administrative expenses that was consistent with the amounts reported on the SFY 2021 MRT. However, DHMP over reported \$599,634 in salary and temporary staffing expenses, due to an error in the allocation methodology. Additionally, DHMP reported duplicate DHHA Activities that Improve Healthcare Quality costs of \$5,631,814, which are considered unallowable.

We reviewed the general ledger accounts and transaction detail that reconciled to the DMHP SFY 2021 MRT found DHMP properly classified non-salary administrative expense on the SFY 2021 MRT. Additionally, DHMP over reported Value-added Services expenses by \$10,000. We judgmentally reviewed six sample transactions from the general ledger transaction detail and found four of the six sample transactions were transactions were accurately recorded, allowable according to Federal Acquisition Regulation (FAR), and payment occurred as reported. For the remaining two sample transactions, we found DHMP reported \$307 of unallowable lobbying expense and \$9,465 for costs incurred outside of SFY 2021. Additionally we observed that DHMP reported \$30,499 in lobbying expenses that was not supported on the SFY 2021 MRT.

We reviewed the claims data, summary level schedule, and general ledger detail that reconciled to the DHMP SFY 2021 MRT and determined the reported medical costs were appropriately classified as

medical expenses. For all 46 External and Internal claim samples tested, the provider was not listed on the Office of Inspector General's (OIG) excluded entity list. For all 46 External and Internal claim samples tested, the claims were appropriately categorized using the category of service hierarchy on the MRT.

DENVER HEALTH MEDICAL PLAN

ANNUAL REVIEW

BACKGROUND

DHMP is contracted with the State of Colorado to manage and administer physical health and behavioral health program benefits to Medicaid beneficiaries in Adams, Arapahoe, Denver, and Jefferson counties. DHMP subcontracts the behavioral health administration to Colorado Access (COA) RAE 5.

DHMP is a unit within DHHA. DHMP has two contracts with DHHA: an administrative services contract and a subcapitated medical contract. The administrative services contract is for leased office space and employees. DHHA employs leased employees, and administers their payroll and benefits in the following DHHA department: Finance, Accounts Payable, Compliance, Risk Management, Legal Services, eHealth Services, and Human Resources. The total subcapitated medical contract per member per month (PMPM) amount paid to DHHA is reported on two parts of the SFY 2021 MRT. These amounts were reported by DHMP on the SFY 2021 MRT as: repriced claims in the Internal Provider Medical Expenses category and sub-capitated incurred but not reported (IBNR) reported in the total External Provider Medical Expenses IBNR.

DHMP contracted with Mediimpact, a pharmacy benefit manager (PBM), to provide the following services for the internal and external pharmacy: claims processing, utilization management, and other metrics as required by the HCPF contract. DHMP reported pharmacy expenses in the claims data in the drugs category for both external and internal claims.

DHMP reported its Medicaid physical health program costs to the Department using the Department's MRT for SFY 2021.

SCOPE

This report provides our assessment of whether the amounts reported by DHMP on the MRT for SFY 2021 were correctly classified between administrative and medical costs. Our work was performed in accordance with AICPA professional standards for consulting engagements. We were not engaged to and did not perform an attestation engagement, the objective of which would be to express an opinion on the reviewed cost report. As such, we express no opinion on the reviewed cost report. We specifically reviewed the administrative costs to confirm those costs were correctly classified according to applicable federal and state regulations.

METHODOLOGY

Our assessment of the classification and reporting of administrative and medical costs included a high-level review of the documentation and information provided by DHMP and a review of selected cost types and transactions. Our assessment is based on supporting documentation provided by DHMP as well as the performance of the following procedures:

- Reconciliation of the administrative and medical costs reported on the SFY 2021 MRT to the general ledger and associated schedules.
- Inquire of DHMP to identify allocated costs and allocation methodologies.
- Review of allocated costs to confirm the amounts reported are consistent with the allocation methodology.
- Review of the general ledger accounts and a judgmental review of transaction details from select account types to assess transaction classification and appropriateness.
- Review of the reported medical costs data and a judgmental review of select claims and providers to assess transaction classification and appropriateness.

ASSESSMENT CRITERIA

During our assessment of the MRT transactions, we used the criteria below to identify potentially unallowable expenses. While this is not a comprehensive list of all regulatory guidance, this does provide requirements that form a general framework for reporting compliance.

- CFR Title 45 Section 75 – Subpart E identifies cost principles applicable to federal awards. Based on our professional experience, areas which are generally unallowable and are regularly included in administrative expense include the following:
 - CFR Title 45 Section 75.420-475 – General Provisions for selected areas of costs:
 - 75.421 – Advertising and public relations
 - 75.423 – Alcoholic beverages
 - 75.432 – Conferences
 - 75.434 – Contributions and donations
 - 75.435 – Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements
 - 75.438 – Entertainment Costs
 - 75.441 – Fines, penalties, damages, and other settlements
 - 75.450 – Lobbying
 - 75.467 – Selling and marketing costs
- CFR Title 42 Section 413.9(a) – Cost related to patient care, Principle:
 - All payments to providers of services must be based on the reasonable cost of services covered.
- CFR Title 42 Section 413.13(a) – Definitions:
 - Reasonable cost means cost actually incurred, to the extent that cost is necessary for the efficient delivery of the service.
- CFR Title 42 Section 413.17 – Cost to related organizations:
 - Costs to related organizations must be reported at cost or fair market value;
 - Provides guidance for demonstrating convincing evidence for fair market value.
- CFR Title 42 Section 413.24 – Adequate cost data and cost finding:

- (a) *Principle*. Providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors.
- (c) *Adequacy of cost information*. Adequate cost information must be obtained from the provider's records to support payments made for services furnished to beneficiaries. The requirement of adequacy of data implies that the data be accurate and in sufficient detail to accomplish the purposes for which it is intended. Adequate data capable of being audited is consistent with good business concepts and effective and efficient management of any organization, whether it is operated for profit or on a nonprofit basis. It is a reasonable expectation on the part of any agency paying for services on a cost-reimbursement basis. In order to provide the required cost data and not impair comparability, financial and statistical records should be maintained in a manner consistent from one period to another. However, a proper regard for consistency need not preclude a desirable change in accounting procedures if there is reason to effect such change.
- CFR Title 45 Section 75.504 – Frequency of Audits:
 - Audits must be performed annually.
- CFR Title 45 Section 75.508 – Auditee Responsibilities:
 - The auditee must prepare appropriate financial statements, including a schedule of expenditures of Federal awards in accordance with Section 75.510 Financial Statements.
- CFR Title 45 Section 75.512(b)(1) – Data Collection:
 - A senior level representative of the auditee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to be included as part of the data collection that says that the auditee complied with the requirements of this part, the data were prepared in accordance with this part (and the instructions accompanying the form), the reporting package does not include protected personally identifiable information, the information included in its entirety is accurate and complete, and that the Federal Audit Clearinghouse is authorized to make the reporting package and the form publicly available on a website.

OBSERVATIONS AND FINDINGS

Reconciliation of MRT

We obtained the DHMP MRT and associated general ledger transactions, supporting schedules, and claims data for the SFY 2021. Through inquiry of DHMP, we obtained an understanding of the cost reporting methodology used for the MRT reporting. We reconciled the administrative and medical cost category amounts reported on the DHMP SFY 2021 MRT to the supporting data with the following results:

- External Provider Medical Expenses:

- DHMP provided the claims data and the IBNR schedule, which reconciled to the External Provider Medical Expense reported on the SFY 2021 MRT with no significant variance. The IBNR for both internal and external provider expenses was reported in the Total External Provider Expenses Line of the SFY 2021 MRT. DHMP advised the expenses were reported this way because the MRT did not include a line for IBNR in the Internal Provider section of the SFY 2021 MRT.
 - DHMP provided claims data that reconciled and supported the external medical claims reported on the MRT were incurred within the SFY 2021 reporting period.
 - DHMP provided claims data that supported the external provider medical claims paid date range was within the required run out time frame for the SFY 2021 MRT.
- Internal Provider Medical Expenses:
 - DHMP provided the claims data, which reconciled to the Internal Provider Medical Expense reported on the SFY 2021 MRT with no significant variance.
 - DHMP provided claims data that reconciled and supported the internal provider medical claims reported on the MRT were incurred within the SFY 2021 reporting period.
 - DHMP provided claims data that supported the internal provider medical claims paid date range was within the required run out time frame for the SFY 2021 MRT.
- Reinsurance Recoveries:
 - DHMP provided supporting schedules, which reconciled to the amounts reported as Reinsurance Recoveries in the SFY 2021 MRT with no variance.
- Incentive and Provider Payments:
 - DHMP did not report Incentive and Provider Payments in the SFY 2021 MRT.
- Third Party Liability Recoveries:
 - DHMP provided supporting schedules, which reconciled to the amounts reported as Third Party Liability Recoveries in the SFY 2021 MRT with no variance.
- Administrative Expenses:
 - DHMP provided Income Statement detail and supporting schedules, which reconciled to the amount reported for administrative expenses in the SFY 2021 MRT with no significant variance.

Assessment: The amounts reported on the DHMP SFY 2021 MRT for external and internal provider medical expenses, and IBNR, were consistent with the claims detail and supporting summary schedules provided by DHMP. The IBNR for both internal and external provider medical expenses were reported in the External Provider Medical Expense section of the SFY 2021 MRT. The amounts reported on the MRT for Third-Party Liability Recoveries, reconciled to the SFY 2021 MRT supporting data with no variance.

The amounts reported for administrative expenses on the SFY 2021 MRT reconciled to the supporting schedules with no variance.

Allocation Methodologies

Allocation Methodology for Administrative Expenses

DHMP reported allocated administrative costs related to overhead expenses that were allocated to the line of business (LOB) based on a variety of data dependent upon the type of account being allocated. DHMP cost allocation methods are based on vendor and activity, and assigned on an invoice basis by the DHMP Finance Department.

For salary and temporary staffing allocations, DMHP self-identified an over reported amount of \$599,634 due to errors in the allocation calculations for amounts reported in the SFY 2021 MRT, which included:

- Healthcare Quality Improvement Salaries increase of \$1,090,960.
- Management Salaries decrease of \$421,242.
- Medical Management increase of \$12,276.
- Other Salaries decrease of \$1,281,628.

DMHP has a Capitation Agreement with DHHA, where DHHA provides hospital and provider health services for DHMP members. DHMP reported QI costs that included \$5,631,814 allocated from DHHA for expenses that were already represented in the expense for the Capitation Agreement that was reported in the Medical Expense section of the MRT.

Allocation Methodology for Medical Expenses

DHMP indicated that there is no allocation of medical expenses and the DHMP medical expenses reporting methodology is consistent with the reported amount.

Assessment: For administrative costs, DHMP provided a methodology for the allocation of non-salary administrative expenses that was consistent with the amounts reported on the SFY 2021 MRT. DMHP over reported \$599,634 in salaries on the SFY 2021 MRT. Additionally, DHMP reported QI costs that included \$5,631,814 allocated from DHHA for expenses that were already represented in the expense for the Capitation Agreement between DHMP and DHHA. We recommend DMHP ensure allocation methodologies are accurate prior to reporting on the MRT as well as remove any duplicate expenses from the MRT.

Classification of Administrative Costs

We reviewed the supporting income statement accounts and transactions provided by DHMP and found DHMP properly classified non-salary administrative expense on the SFY 2021 MRT. However, as mentioned in the Allocation Methodologies section above, DMHP over reported salary and temporary staffing expenses, due to an error in the allocation methodology as well as reported duplicate DHHA

Activities that Improve Healthcare Quality costs which are considered unallowable. Additionally, during our sample selection process, we found the Value-added Services expense were over reported by \$10,000, due to a calculation error.

We judgmentally selected six general ledger transactions to establish if the transactions were accurately recorded, allowable according to the Federal Acquisition Regulation (FAR) cost principles, and whether payment occurred as reported. We observed the following:

- Four transactions for Software, Value-added Services, Compensation, and Temporary staffing, and one partial transaction for professional association dues, totaling \$112,495, were allowable according to FAR, accurately recorded, and payment occurred as reported.
- One expense for Professional Association dues, in the amount of \$9,465, was properly supported, but not allowable because the expense was not incurred during the SFY 2021 MRT reporting period.
- One transaction related to Professional Association Dues, in the amount of \$2,599, was incurred within SFY 2021 and the payment occurred as reported. However, the invoice indicated that 1% of the expense is for Lobbying. The cost of certain influencing activities is an unallowable cost per 45 CFR § 75.450. The portion of the expenses identified as unallowable lobbying expenses totaled \$26.
 - We reviewed the general ledger transactions related the above sample item and identified an additional \$28,149 in unallowable lobbying expense, of which one percent (\$281) were reported in the SFY21 MRT.
 - Additionally, in the review of the general ledger transactions related to the above sample item we identified \$30,449 in unsupported lobbying expenses that were reported in the SFY21 MRT.

Assessment: Based on our review of the general ledger accounts and transactions, we found DHMP reported \$307 of unallowable expenses for lobbying expense and \$9,465 for professional association dues that incurred outside of the SFY 2021 MRT reporting period. We also observed that DMHP reported \$30,499 in unsupported lobbying expenses and over-reported Value-added Services expenses by \$10,000 on the SFY 2021 MRT. We recommend DHMP maintain supporting documentation for expenses, exclude unallowable expenses and costs incurred outside the SFY in future MRT reporting.

Classification of Medical Costs

We reviewed the claims data, summary level schedules, and general ledger transaction detail that reconciled to the SFY 2021 MRT, to assess whether the medical costs were appropriately classified. Based on this review, we determined that DHMP's medical cost reporting methodology is consistent with the amount reported on the SFY 2021 MRT.

For External Provider medical expenses, we selected a random sample of 24 claims from the claims data and verified that the provider was not listed on the Office of Inspector General's (OIG) excluded entity

list and the claims were appropriately categorized using the category of service hierarchy on the SFY 2021 MRT.

For Internal Provider medical expenses, we selected a random sample of 22 claims from the claims data and verified that the provider was not listed on the OIG's excluded entity list and the claims were appropriately categorized using the category of service hierarchy on the SFY 2021 MRT.

Assessment: We reviewed the claims data, summary level schedules, and general ledger transaction detail that reconciled to the DHMP SFY 2021 MRT and determined the amount reported was consistent with the medical cost reporting methodology.