

COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING
Denver, Colorado

Medicaid Regional Accountable Entity, Region 2 – Northeast Health Partners, LLC Annual Review

For the 12-month Period Ended June 30, 2021





**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2021

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

SUBJECT: Medicaid Regional Accountable Entity (RAE), Region 2 – Northeast Health Partners, LLC

Dear Ms. Cui:

We are pleased to provide the annual review for the RAE operating in Northeastern Colorado, Region 2 as Northeast Health Partners, LLC (RAE 2). Our review covers costs reported by RAE 2 on the managed care organization (MCO) reporting template (MRT) for the 12-month period July 1, 2020, through 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 RAE 2 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 RAE 2 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. 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

RAE 2 operates in Region 2 (Northeastern Colorado) providing physical health care coordination and behavioral health medical services. RAE 2 is paid on a per member per month (PMPM) basis for care coordination services and on a capitated basis to provide behavioral health services to their enrolled Medicaid beneficiaries. Four entities formed RAE 2: North Range Behavioral Health, Centennial Mental Health Center, Salud Family Health Centers, and Sunrise Community Health. RAE 2 also has an employee lease agreement with North Range Behavioral Health — for all costs associated with employees including, but not limited to: salaries, fringe benefits, and employment taxes —which are paid based on a percentage of the total employment costs.

RAE 2 has a management services agreement with Beacon Health Options (Beacon) to provide various administrative and support services. RAE 2 also has a key personnel agreement with Beacon to provide a corporate financial officer (CFO) and utilization management director. RAE 2 reported its Medicaid managed care program costs to the Department using the Department's MRT.

This report contains the results of our assessment of the administrative and medical costs reported by RAE 2 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 on the RAE 2 SFY 2021 MRT to the supporting data and found the administrative expenses reconciled to the MRT with no variance.

We reconciled the medical costs related to non-subcapitated expenditures reported on the SFY 2021 MRT to supporting data and summary schedules with no variance. Additionally, all dates of service occurred during SFY 2021, and the paid date range was consistent with the MRT run out period.

We reconciled the medical costs related to subcapitated expenditures reported on the SFY 2021 MRT to the supporting data and found the subcapitated expenditures reconciled to the MRT with no significant variance. Additionally, all reported medical costs dates of service occurred during SFY 2021. However, we observed RAE 2 inappropriately reported, a net total amount of \$53,703, in subcapitated claims that were paid after the SFY 2021 MRT reporting run out time period.

We determined RAE 2 does not allocate any of the medical costs reported on the MRT. For administrative costs, RAE 2 provided a methodology for the allocation that was consistent with the amounts reported on the SYF 2021 MRT.

We reviewed the general ledger accounts and transaction detail that reconciled to the RAE 2 SFY 2021 MRT and determined the transactions were properly classified as administrative expenses. We judgmentally reviewed six sample transactions from the general ledger transaction detail of which five sample transactions were accurately recorded, allowable according to Federal Acquisition Regulation (FAR), and payment occurred as reported. We identified one unallowable sample transaction related to unallowable lobbying costs of \$10,000. During our review of general ledger administrative accounts and transactions, we found RAE 2 reported an additional \$1,841 of unallowable charitable contribution expenses in the SFY 2021 MRT.

We reviewed the claims data, summary level schedule, and general ledger detail that reconciled to the SFY 2021 MRT and determined the medical cost reporting methodology was consistent with the amount reported in the MRT. We selected a random sample of 20 non-subcapitated claims and 14 subcapitated claims from the claims data and verified the provider was not listed on the Office of Inspector General's (OIG) excluded entity list, and the claim was appropriately categorized using the category of service hierarchy in the SFY 2021 MRT.

REGIONAL ACCOUNTABLE ENTITY, REGION 2 ANNUAL REVIEW

BACKGROUND

RAE 2 was organized in June 2017 and contracted with the Department to serve as a RAE in Region 2 providing physical health care coordination and behavioral health medical services beginning July 1, 2018. RAE 2 is a limited service licensed provider network (LSLPN) jointly owned by four health care providers that provide behavioral health services to RAE 2 members in Northeast Colorado (Cheyenne, Kit Carson, Lincoln, Logan, Morgan, Phillips, Sedgwick, Washington, Weld, and Yuma Counties). RAE 2 ownership consists of two federally qualified health centers (FQHC): Sunrise Community Health and Salud Family Health Centers, and two Community Mental Health Centers (CMHC): Centennial Mental Health Center and North Range Behavioral Health. Medical services provided by their partner CMHCs are reported as subcapitated medical costs on the MRT. Medical services provided by their partner FQHCs are reported as non-subcapitated costs on the MRT. RAE 2 also has an employee lease agreement with North Range Behavioral Health for all costs associated with employees including, but not limited to, salaries, fringe benefits, and employment taxes, which are paid based on a percentage of the total employment costs.

RAE 2 contracts with Beacon for administrative and support services under a management services agreement. RAE 2 also has a Key Personnel agreement with Beacon to provide a CFO and utilization management director.

RAE 2 reported its Medicaid behavioral 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 RAE 2 on the MRT for SFY 2021 are correctly classified between administrative and medical cost. 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 RAE 2 and Beacon and a review of selected cost types and transactions. Our assessment is based on supporting documentation provided by RAE 2 and Beacon and 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 RAE 2 and Beacon 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 RAE 2 SFY 2021 MRT and associated general ledger transactions, supporting schedules, and claims data for SFY 2021. Through inquiry of RAE 2, 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 RAE 2 SFY 2021 MRT to the supporting data with the following results:

- Non-subcapitated Medical Expenses:
 - RAE 2 provided the claims data and the IBNR schedule, which reconciled to the SFY 2021 MRT total with no variance.

- Medical expenses were reported net of any third-party liability (TPL) recoveries.
 - RAE 2 provided claims data that reconciled and supported the non-subcapitated medical claims reported on the MRT were incurred within the SFY 2021 reporting period.
 - RAE 2 provided claims data that supported the non-subcapitated medical claims paid date range was within the required run out time frame for the SFY 2021 MRT.
- Subcapitated Medical Expenses:
 - RAE 2 provided claims data, which reconciled to the SFY 2021 MRT with no significant variance.
 - RAE 2 provided claims data that reconciled and supported the non-subcapitated medical claims reported on the MRT were incurred within the SFY 2021 reporting period.
 - We identified 244 claims reported on the MRT, with a net total amount of \$53,703, that were paid after the reporting period run out time frame and should be excluded from the SFY 2021 MRT reported claims expense.
 - Incentive and Provider Payments:
 - No incentive and provider payments were reported on the SFY 2021 MRT.
 - Third Party Liability Recoveries:
 - No third party liability recoveries were reported on the SFY 2021 MRT.
 - Administrative Expenses:
 - RAE 2 provided general ledger detail that reconciled to the amount reported for administrative expenses on the SFY 2021 MRT with no significant variance.

Assessment: We identified that the subcapitated claims data was inconsistent with the required run out period used for MRT reporting, resulting in RAE 2 over-reporting the claims data by a net total amount of \$53,703 on the SFY 2021 MRT.

Allocation Methodologies

Allocation Methodology for Administrative Expenses

RAE 2 allocated general administrative costs for the purchase of services, supplies, printing, telephone, rent, salaries, and benefits. The reported administrative costs for RAE 2 serve a dual purpose: 1) to support behavioral health programs reported on the MRT, and 2) to support care coordination programs that are not reported on the MRT. RAE 2 allocated administrative expenses to the SFY 2021 MRT based on the ratio of behavioral health revenue to total revenue.

RAE 2 had a management services agreement with Beacon to provide various administrative and support services including:

- Staffing.
- Office Space.

- Financial Services.
- Member Management.
- Grievances and Appeals.
- PCMP and Health Neighborhood Provider Management.
- Behavioral Health Network Provider Management.
- Population Health Management.
- Behavioral Health and Substance Use Disorder Medical Management.
- Quality Management.
- Claims Processing.
- Compliance.
- Information Technology.
- Start-Up Services.
- Value-Added Services.
- Reporting (Deliverables).

RAE 2 paid Beacon a contracted rate of nine percent of the gross behavioral health capitation payment funding on a monthly basis and reported this expense on the SFY 2021 MRT. Beacon also provided RAE 2 with staffing to fill key personnel positions through a separate cost plus agreement. The contractual agreement has a limitation for total key personnel compensation up to a maximum of \$408,030 on an annual basis. The monthly compensation amounts fluctuate based on the staffing needs of RAE 2. The actual amount incurred and reported on the SFY 2021 MRT related to this contract agreement was \$181,613.

RAE 2 has an employee lease agreement with North Range Behavioral Health where North Range Behavioral Health provides personnel services (employee leasing) for RAE 2. Costs are defined as all costs associated with employees including, but not limited to, salaries, fringe benefits, and employment taxes. RAE 2 pays North Range Behavioral Health an administrative fee for services under this agreement at a rate of 14 percent of all costs.

Allocation Methodology for Medical Expenses

RAE 2 indicated that there is no allocation of medical expenses, and the RAE 2 medical expense reporting methodology is consistent with the reported amount.

Assessment: For administrative costs, RAE 2 provided a methodology for the allocation of administrative expenses that was consistent with the amounts reported on the SFY 2021 MRT. RAE 2 did not allocate any of the medical costs reported on the MRT, and all medical costs based on actual amounts incurred.

Classification of Administrative Costs

We reviewed the supporting general ledger accounts and transactions provided by RAE 2 and found RAE 2 reported \$1,841 of unallowable charitable contribution expenses in the SFY 2021 MRT.

We judgmentally selected six general ledger transactions to establish if the transactions were accurately recorded, allowable according to the FAR cost principles, and whether payment occurred as reported.

We observed the following:

- Five transactions related to administrative services agreements, legal fees, advisory councils, conferences, and travel in the net total amount of \$26,755 were properly reported on the SFY 2021 MRT. All five transactions reviewed were allowable according to FAR, accurately recorded, and payment occurred as reported.
- One transaction, in the amount of \$10,000, was not properly reported because it was an unallowable lobbying expense. According to 45 CFR § 75.450, lobbying costs are unallowable.

Assessment: Based on our review of general ledger accounts and transactions, RAE 2 reported \$1,841 of unallowable expenses related to contributions and donations on the SFY 2021 MRT. Additionally, we identified one expense with a net total amount of \$10,000 that was related to unallowable lobbying. We recommend RAE 2 exclude unallowable expenses in future MRT reporting and develop a process for identifying unallowable expenses.

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 the medical cost reporting methodology is consistent with the amount reported in the SFY 2021 MRT, and there were no misclassified costs or transactions.

We selected a random sample of 20 non-subcapitated 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 claim was appropriately categorized by using the category of service hierarchy in the SFY 2021 MRT.

We selected a random sample of 14 subcapitated claims from the claims data and verified that the provider was not listed on the OIG's excluded entity list and the claim was appropriately categorized by using the category of service hierarchy in the SFY 2021 MRT.

Assessment: We reviewed the claims data, summary level schedules, and general ledger transaction detail that reconciled to the SFY 2021 MRT and determined the amount reported is consistent with RAE 2's medical cost reporting methodology.