

COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING
Denver, Colorado

Medicaid Regional Accountable Entity, Region 4 – Health Colorado, Inc. 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: Medicaid Regional Accountable Entity (RAE), Region 4 – Health Colorado, Inc.

Dear Ms. Cui:

We are pleased to provide the annual review for the RAE operating in Southeastern Colorado, Region 4, as Health Colorado, Inc. (RAE 4). Our review covers costs reported by RAE 4 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 4 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 4 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

TABLE OF CONTENTS

- Executive Summary 1
- Regional Accountable Entity, Region 4 – Annual Review 2
 - Background 2
 - Scope..... 2
 - Methodology..... 2
 - Assessment Criteria 3
 - Observations and Findings..... 4
 - Reconciliation of MRT 4
 - Allocation Methodologies 5
 - Classification of Administrative Costs 6
 - Classification of Medical Costs 7

EXECUTIVE SUMMARY

RAE 4 operates in Region 4 (Southeastern and Central Colorado) providing physical health care coordination and behavioral health medical services. RAE 4 is paid on a per member per month (PMPM) basis for care coordination services, and on a capitated basis to provide behavioral health services. RAE 4 is a licensed health maintenance organization (HMO) that is jointly owned by six health care providers that provide behavioral health services to RAE 4 members in Region 4. RAE 4 ownership consists of the following: one federally qualified health center (FQHC) - Valley-Wide Health Systems, Inc.; four Community Mental Health Centers (CMHC) - Health Solutions, San Luis Valley Behavioral Health Group, Solvista Health and Southeast Health Group; and a national managed behavioral health care company, Beacon. In addition to Beacon's ownership stake, RAE 4 contracts with Beacon for administrative and support services under a management services agreement. RAE 4 reported its Medicaid behavioral health program costs to the Department using the Department's MRT for SFY 2021.

This report contains the results of our assessment of the administrative and medical costs reported by RAE 4 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 4 SFY 2021 MRT to the supporting data and found the administrative expenses reconciled to the SFY 2021 MRT with no significant variance.

We reconciled the medical costs related to non-subcapitated, IBNR, and subcapitated medical expenses reported on the SFY 2021 MRT to supporting data and summary schedules with no significant variance. Additionally, all reported medical costs dates of service occurred during SFY 2021 and claims were paid within the MRT reporting run out time period.

RAE 4 does not allocate any of the medical costs reported on the SFY 2021 MRT, and administrative cost amounts RAE 4 reported on the SFY 2021 MRT were consistent with the allocation methodology provided.

We reviewed the general ledger accounts and transaction detail that reconciled to the RAE 4 SFY 2021 MRT. We judgmentally reviewed six sample transactions from the general ledger transaction detail and five sample transactions were accurately recorded, allowable according to FAR, and payment occurred as reported. The remaining sample transaction for a net total amount of \$699 was identified as unallowable expenses because it was not sufficiently supported.

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 on the MRT. We selected a random sample of 20 non-subcapitated claims and 14 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 the using category of service hierarchy in the SFY 2021 MRT.

REGIONAL ACCOUNTABLE ENTITY, REGION 4 ANNUAL REVIEW

BACKGROUND

RAE 4 was organized in June 2017 and contracted with the Department to serve as a RAE in Region 4 (Alamosa, Baca, Bent, Chaffee, Conejos, Costilla, Crowley, Custer, Fremont, Huerfano, Kiowa, Lake, Las Animas, Mineral, Otero, Prowers, Pueblo, Rio Grande, and Saguache Counties) providing physical health care coordination and behavioral health medical services beginning July 1, 2018.

RAE 4 is a licensed HMO that is jointly owned by six health care providers. RAE 4 ownership consists of the following: one federally qualified health center (FQHC) - Valley-Wide Health Systems; four Community Mental Health Centers (CMHC) - Health Solutions, San Luis Valley Behavioral Health Group, Solvista Health and Southeast Health Group; and a national managed behavioral health care company, Beacon

RAE 4 has five risk partners: Solvista Health, Southeast Health Group, San Luis Valley Behavioral Health Group, Health Solutions, and Beacon who contributed funds for the initial risk-based capital reserves required for a Colorado Medicaid HMO. The four CMHC risk partners are paid capitation dollars each month based on their actual encounters submitted, and are also paid an additional distribution of two percent of the encounter payment. The fifth risk partner, Beacon, is paid a percentage of premium revenue under a management services agreement for administrative and support service

RAE 4 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 4 on the SFY 2021 MRT 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 4 and Beacon and a review of selected cost types and transactions. Our assessment is based on supporting documentation provided by RAE 4 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 4 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 4 SFY 2021 MRT and associated general ledger transactions, supporting schedules, and claims data. Through inquiry of RAE 4, 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 4 MRT to the supporting data with the following results:

- Non-subcapitated Medical Expenses:
 - RAE 4 provided claims data and the IBNR schedule which reconciled to the SFY 2021 MRT with no significant variance.

- RAE 4 provided claims data, which supported that the date of service range was within the SFY 2021 reporting period for all reconciled claims reported on the SFY 2021 MRT.
- RAE 4 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 4 provided supporting detail, which reconciled to the SFY 2021 MRT with no significant variance.
- Incentive and Provider Payments:
 - No incentive and provider payments were reported on the SFY 2021 MRT.
 - No third-party liabilities were reported on the SFY 2021 MRT.
- Administrative Expenses:
 - RAE 4 provided general ledger transactions and supporting schedules, which reconciled to the amount reported for administrative expenses on the SFY 2021 MRT with no significant variance.

Assessment: The amounts reported on the RAE 4 SFY 2021 MRT for non-subcapitated, IBNR, and subcapitated medical expenses were consistent with the claims detail and supporting summary schedules provided by RAE 4. The amounts reported on the RAE 4 SFY 2021 MRT for administrative expenses were consistent with the transaction detail and summary schedules provided by RAE 4.

Allocation Methodologies

Allocation Methodology for Administrative Expenses

RAE 4 allocated general administrative costs for purchase services, supplies, printing, telephone, rent, salaries, and benefits. The reported administrative costs for RAE 4 serve a dual purpose: 1) to support behavioral health programs that are reported on the SFY 2021 MRT, and 2) to support care coordination programs that are not reported on the SFY 2021 MRT. RAE 4 allocated administrative expenses to the MRT based on the ratio of behavioral health revenue to total revenue. Professional service costs related to certain legal and actuarial expenses, as well as costs related to the management services and key personnel agreements with Beacon, were reported on the SFY 2021 MRT at actual cost.

RAE 4 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.
- Primary care and behavioral health provider management.

- Population health management.
- Quality management.
- Claims processing.
- Compliance.
- Information technology support.
- Start-up services.
- Value-added services.

RAE 4 paid Beacon a contracted rate of 11 percent of the gross behavioral health capitation payment funding on a monthly basis and reported this expense on the Other Administrative Costs line of the SFY 2021 MRT. We recalculated this expense and found the amounts were consistent with the amounts reported on the SFY 2021 MRT.

Allocation Methodology for Medical Expenses

RAE 4 indicated that there is no allocation of medical expenses, and the RAE 4 medical expense reporting methodology is consistent with the reported amount.

Assessment: For administrative costs, RAE 4 provided a methodology for the allocation of administrative expenses that was consistent with the amounts reported on the SFY 2021 MRT. RAE 4 did not allocate any of the medical costs reported on the SFY 2021 MRT, and all medical costs were based on actual amounts incurred.

Classification of Administrative Costs

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 payment occurred as reported. We observed the following:

- Five transactions related to business meals, conferences and conventions, legal expenses, consulting fees, and board meetings in the net total amount of \$28,275 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 for a hotel expense, in the amount of \$699, was not properly reported on the SFY 2021 MRT and RAE 4 did not include sufficient detail to determine if the expense was allowable. Additionally, a portion of the total expense was incurred outside the SFY 2021 reporting period.

Assessment: Based on our review of the general ledger accounts and transactions, we identified one transaction with a net total amount of \$699 that was not sufficiently supported. We recommend RAE 4 retain sufficient supporting documentation of expenses in future MRT reporting.

Classification of Medical Costs

We reviewed the claims data and summary level schedules 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 and summary level schedules that reconciled to the SFY 2021 MRT and determined the amount reported is consistent with RAE 4's medical cost reporting methodology.