

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING
Denver, Colorado

Medicaid Regional Accountable Entity, Region 7 – Colorado Community Health Alliance 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 7 – Colorado Community Health Alliance

Dear Ms. Cui,

We are pleased to provide the annual review for the RAE operating in Central Colorado, Region 7, operating as Colorado Community Health Alliance (RAE 7). Our review covers costs reported by RAE 7 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 and Financing (Department) and Myers and Stauffer LC. This agreement calls for us to perform an annual review of costs reported by RAE 7 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 7 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

DEDICATED TO GOVERNMENT HEALTH PROGRAMS

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EXECUTIVE SUMMARY

RAE 7 operates in Region 7 (El Paso, Park, and Teller counties) providing physical health care coordination and behavioral health medical services. RAE 7 began operations on July 1, 2018 as a joint venture company owned 50 percent by Anthem Partnership Holding Company, LLC (APHC), which is an indirect wholly owned subsidiary of Anthem, Inc., and 50 percent by Colorado Community Health Alliance, LLC (CCHA). RAE 7 has a reinsurance arrangement to cede 100 percent of RAE 7's liabilities associated with the capitated behavioral health benefits under the contract with Department and 100 percent of the direct written premiums, less claims, to UNICARE Life & Health Insurance Company. UNICARE Life & Health Insurance Company is an indirect wholly owned subsidiary of Anthem, Inc. RAE 7 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 7 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 7 SFY 2021 MRT to the supporting data and found the administrative expenses reconciled to the MRT with a \$60,630 variance.

We reconciled the medical costs related to non-subcapitated expenditures reported on the RAE 7 SFY 2021 MRT to supporting data and summary schedules and found no significant variances. 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 RAE 7 SFY 2021 MRT to the supporting data and found the subcapitated expenditures reconciled to the MRT with no variance.

For administrative costs, RAE 7 provided a methodology for the allocation that was consistent with the amounts reported on the SFY 2021 MRT.

We reviewed the supporting general ledger accounts and transactions provided by RAE 7 and found RAE 7 properly classified administrative expense on the SFY 2021 MRT. Additionally, we judgmentally selected nine sample transactions from the general ledger transaction detail and found RAE 7 reported \$1,930 of unallowable expenses for costs incurred outside of SFY 2021. Additionally, RAE 7 reported \$22 for expenses that did not have sufficient payment support to determine if the expense occurred as reported.

We reviewed the claims data, summary level schedule, and general ledger detail that reconciled to the RAE 7 SFY 2021 MRT and found \$844,654 in fee-for-service (FFS) claims paid to AspenPointe, Region 7's community mental health center (CMHC), for subcapitated services, which were incorrectly reported on the non-subcapitated line of the MRT. 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.

REGIONAL ACCOUNTABLE ENTITY, REGION 7 ANNUAL REVIEW

BACKGROUND

RAE 7 was organized in 2017 and contracted with the Department to serve as a RAE in Region 7 (El Paso, Park and Teller counties) providing physical health care coordination and behavioral health medical services beginning July 1, 2018. RAE 7 is a joint venture company owned 50 percent by Anthem Partnership Holding Company, LLC, which is an indirect wholly owned subsidiary of Anthem, Inc., and 50 percent by CCHA. Effective July 1, 2018, CCHA entered into a quota share reinsurance arrangement to cede 100 percent of RAE 7's liabilities associated with the capitated behavioral health benefits under the contract with the Department and 100 percent of the direct written premiums, less claims, to UNICARE Life & Health Insurance Company. UNICARE Life and Health Insurance Company is an affiliated company that is an indirect wholly owned subsidiary of Anthem, Inc. RAE 7 has an administrative services agreement with APHC to provide various administrative, management, and support services to RAE 6 and RAE 7. In addition, APHC has an administrative services agreement with Anthem, Inc. to provide the same type of services.

RAE 7's reported subcapitated medical expenses include costs related to an agreement with AspenPointe. RAE 7 paid AspenPointe a per member per month (PMPM) of \$12.40 beginning June 1, 2020 and \$12.34 beginning January 1, 2021, which is reported on the subcapitated line of the SFY 2021 MRT.

Currently, CCHA also operates as the RAE for Region 6, which will be reported separately.

RAE 7 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 7 on the MRT for SFY 2021 are correctly classified between administrative and medical cost. Our work was performed in accordance 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 7 and a review of selected cost

types and transactions. Our assessment was based on supporting documentation provided by RAE 7 and the performance of the following procedures:

- Reconciliation of the administrative and medical costs reported on the MRT to the general ledger and associated schedules.
- Inquire of RAE 7 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 list 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 7 SFY 2021 MRT and associated general ledger transactions, supporting schedules, and claims data for SFY 2021. Through inquiry of RAE 7, we obtained an understanding of the cost reporting methodology used for the MRT reporting. We reconciled the administrative and medical cost category amounts reported by RAE 7 on the SFY 2021 MRT to the supporting data with the following results:

- Non-subcapitated Medical Expenses:

- RAE 7 provided the claims data and IBNR schedule, which reconciled to the SFY 2021 MRT with no variance.
- RAE 7 provided claims data that reconciled and supported the non-subcapitated medical claims reported on the MRT and were incurred within the SFY 2021 reporting period.
- Subcapitated Medical Expenses:
 - RAE 7 provided supporting schedules that reconciled to the SFY 2021 MRT with no 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 7 provided general ledger detail and supporting schedules that reconciled to the amount reported on the SFY 2021 MRT for administrative expenses with a variance in the amount of \$60,630.

Assessment: The amounts reported in RAE 7 SFY 2021 MRT for non-subcapitated, IBNR, and subcapitated medical expenses were consistent with the claims detail and supporting summary schedules provided by RAE 7. The amounts reported for administrative expenses on the SFY 2021 MRT were over reported in the amount of \$60,630.

Allocation Methodologies

Allocation Methodology for Administrative Expenses

CCHA has an administrative services agreement with APHC to provide various administrative, management, and support services to RAE 6 and RAE 7. In addition, APHC has an administrative services agreement with Anthem, Inc. to provide the same type of services. According to the terms of the agreement between CCHA and APHC, CCHA pays APHC a \$6 admin PMPM rate for the services provided. The \$6 admin PMPM rate is an estimated rate used for internal accounting purposes that covers administrative support provided by Anthem, Inc. to CCHA. The estimate was trued-up to actual Anthem, Inc. administrative expenses on a quarterly basis as per the administrative services agreement between APHC and Anthem, Inc. The actual administrative expense incurred was reported in the SFY 2021 MRT. The expenses related to these administrative management and support services were allocated to RAE 7 in an amount equal to the direct and indirect costs incurred in providing these services. These costs support the operations for RAE 7 and include:

- Salaries and benefits.
- Information technology.
- Advertising.
- Consulting services.
- Rent.
- Utilities.
- Accounting.
- Underwriting.

- Product development.

RAE 7 is one of many lines of business (LOBs) that Anthem, Inc. supports and owns. Anthem, Inc. supports and directly pays for administrative services for the Colorado RAE Medicaid LOB, which is made up of RAE 6 and RAE 7, and allocates administrative costs to the Colorado Medicaid LOB using activity drivers such as membership, head count, and premiums as determined by cost center leadership. The costs are then assigned to RAE 6 and RAE 7 based on head count and member months. Allocated costs are identified by cost centers and account numbers in the Anthem, Inc. general ledger. The allocation methodologies are audited and updated annually by Anthem, Inc. and material changes must be approved by the CFOs. In addition to the cost where an activity driver must be used for purposes of allocation to Anthem's LOB, Anthem, Inc. records administrative expenses to three cost centers for expenses that are directly related to the Colorado RAE Medicaid LOB.

Allocation Methodology for Medical Expenses

Through inquiry of RAE 7, we noted that the subcapitated medical expenses reported in the SFY 2021 MRT were allocated to each category of service in the based on monthly billed charges for each risk group's service category.

Assessment: For administrative and medical costs, RAE 7 provided a methodology for the allocation of expenses that was consistent with the amounts reported on the SFY 2021 MRT.

Classification of Administrative Costs

We reviewed the supporting general ledger accounts and transactions provided by RAE 7 and found RAE 7 properly classified administrative expense on the SFY 2021 MRT.

We judgmentally selected nine 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:

- Seven transactions related to IT Services, Phone, Translation Services, Software, Staffing, and Public Relations, totaling \$17,783, were properly reported. All transactions reviewed were allowable according to FAR, accurately recorded, and payment occurred as reported.
- One transaction related to Subscriptions was allowable according for FAR and the payment was supported. However, a portion of the total expense was incurred outside of SFY 2021. The portion incurred outside SFY 2021 totaled \$1,930.
- For one expense for Business Counseling in the amount of \$22, sufficient support was not provided to determine the payment occurred as reported.

Assessment: Based on our review of the general ledger accounts and transactions, we found RAE 7 reported \$1,930 of unallowable expenses for costs incurred outside of SFY 2021. RAE 7 reported \$22 for expenses that did not have sufficient payment support to determine if the expense occurred as

reported. We recommend RAE 7 exclude unallowable expenses and costs incurred outside the SFY as well as maintain sufficient supporting documentation of expenses 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. We identified 6,590 claims reported in the SFY 2021 MRT, totaling \$844,654, that were incorrectly reported as fee-for-service (FFS) claims on the non-subcapitation line of the MRT. The claims were paid to AspenPointe, although CCHA entered into a PMPM agreement effective June 1, 2020.

Except for the AspenPointe claims erroneously reported as FFS claims on the non-subcapitation line of the SFY 2021 MRT, the medical cost reporting methodology is consistent with the amount reported in the SFY 2021 MRT.

In addition, for non-subcapitated medical expenses we selected a random sample of 20 non-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 the 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. We determined the amount reported is consistent with the medical cost reporting methodology, with the exception of \$844,654 of FFS claims paid to AspenPointe for subcapitated services, which were incorrectly reported on the non-subcapitated line of the SFY 2021 MRT.