

COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING
Denver, Colorado

Rocky Mountain Health Maintenance Organization, Inc., dba Rocky Mountain Health Plans

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: Rocky Mountain Health Maintenance Organization, dba Rocky Mountain Health Plans

Dear Ms. Cui:

We are pleased to provide the annual review for Rocky Mountain Health Maintenance Organization, Inc. (RMHMO), dba Rocky Mountain Health Plans (RMHP). Our review covers costs reported by RMHP PRIME 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 RMHP PRIME 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 RMHP PRIME 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 regional accountable entities (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

TABLE OF CONTENTS

- Executive Summary 1
- RMHP PRIME – Annual Review..... 3
 - Background 3
 - Scope..... 3
 - Methodology..... 3
 - Assessment Criteria 4
 - Observations and Findings..... 5
 - Reconciliation of MRT 5
 - Allocation Methodologies 6
 - Classification of Administrative Costs 7
 - Classification of Medical Costs 7

EXECUTIVE SUMMARY

RMHMO, d/b/a RMHP, is licensed as a health maintenance organization (HMO). RMHP received its Certificate of Authority to operate as an HMO from the Colorado Division of Insurance on January 1, 1974. Authority to operate as a federally qualified HMO was granted on December 31, 1975. RMHP is a wholly owned subsidiary of United HealthCare Services, Inc. (UHS), a management corporation that provides services to RMHP under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated. RMHP has a health plan called RMHP PRIME that provides physical healthcare services. RMHP PRIME is a product within the Community & State (C&S) line of business (LOB). RMHP PRIME is contracted with the state of Colorado to provide managed care services and prescription drug coverage for members who reside in Garfield, Gunnison, Mesa, Montrose, Pitkin, and Rio Blanco counties.

RMHP PRIME reported administrative costs include actual costs allocated from UHS for administrative and operational services. RMHP PRIME provides physical health coverage and allocates direct expenses to RAE 1 related to BH capitation, for members who receive both physical health and behavioral health services.

This report contains the results of our assessment of the administrative and medical costs reported by RMHP PRIME 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 RMHP PRIME SFY 2021 MRT to the supporting data and found the administrative expenses reconciled to the MRT with a \$72,855 variance.

We reconciled the medical cost categories related to non-subcapitated, incurred but not reported (IBNR), and subcapitated medical expenses reported on the SFY 2021 MRT to supporting data and summary schedules with no variance. We reconciled the Incentive and Provider Payments and Third-Party Liability Recoveries on the SFY 2021 MRT to supporting data with no significant variance.

For administrative and medical costs, RMHP PRIME provided a methodology for the allocation that was consistent with the amounts reported on the SFY 2021 MRT.

We reviewed the general ledger accounts and transaction detail that reconciled to the RMHP PRIME SFY 2021 MRT and confirmed the accounts were properly classified as administrative expenses except for \$78,449 of quality expenses that were reported in both the Healthcare Quality Improvement line of the MRT as well as the Professional Services line of the MRT, causing the professional services line to be overstated. We judgmentally reviewed eleven sample transactions from the general ledger transaction detail and nine sample transactions were accurately recorded, allowable according to Federal Acquisition Regulation (FAR), and payment occurred as reported. For the remaining two sample transactions, we found RMHP PRIME reported \$1,295 for litigation support and alcoholic beverages that are unallowable per FAR Cost Principles.

We reviewed the claims data, summary level schedule, and general ledger detail that reconciled to the RMHP PRIME SFY 2021 MRT and determined the reported medical costs were appropriately classified as medical expenses. For all 28 non-subcapitated claim samples tested, the provider was not listed on the Office of Inspector General's (OIG) excluded entity list. We identified two of the 28 claims tested were not categorized using the category of service hierarchy in the SFY 2021 MRT. Of the \$3,209,502 "Incentive & Provider Payments" reported on the MRT, \$3,114,288 is an estimated provider incentive, which at the time of this engagement had not yet been paid to the providers.

ROCKY MOUNTAIN HEALTH PLANS- PRIME

ANNUAL REVIEW

BACKGROUND

RMHMO, d/b/a RMHP, is licensed as an HMO. RMHP received its Certificate of Authority to operate as an HMO from the Colorado Division of Insurance on January 1, 1974. Authority to operate as a federally qualified HMO was granted on December 31, 1975. RMHP is a wholly owned subsidiary of UHS, a management corporation that provides services to RMHP under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated. RMHP has a health plan called RMHP PRIME that provides physical healthcare services. RMHP PRIME is a product within the Community & State (C&S) line of business (LOB). RMHP PRIME is contracted with the state of Colorado to provide managed care services and prescription drug coverage for members who reside in Garfield, Gunnison, Mesa, Montrose, Pitkin, and Rio Blanco counties. RMHP also provides behavioral health coverage under the RAE 1, which is another product within the C&S LOB that will be reported separately.

RMHP PRIME's reported administrative costs include employee compensation, occupancy, depreciation, marketing, utilization review and case management services, professional fees, and other administrative services which are an allocation of expenses shared by all UHS affiliated LOBs. In addition to the allocation of shared expenses, RMHP PRIME reported administrative expenses include payments to UHS affiliate OptumRx for administrative pharmacy benefit services.

RMHP PRIME allocates direct expenses to RAE 1 related to BH capitation, which is included in the PRIME product for members who receive both Physical health and behavioral health services.

RMHP PRIME 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 RMHP PRIME 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 RMHP PRIME and UHS and a review of

selected cost types and transactions. Our assessment is based on supporting documentation provided by RMHP PRIME and UHS 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 RMHP PRIME 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 RMHP PRIME SFY 2021 MRT and associated general ledger transactions, supporting schedules and claims data for SFY 2021. Through inquiry of RMHP PRIME, 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 RMHP PRIME SFY 2021 MRT to the supporting data with the following results:

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

- RMHP PRIME provided claims data that reconciled and supported the non-subcapitated medical claims reported on the MRT were incurred within the SFY 2021 reporting period.
- RMHP PRIME provided claims data that supported the non-subcapitated medical claims paid date range was within the required run out period for SFY 2021 MRT reporting.
- Subcapitated Medical Expenses:
 - RMHP PRIME provided supporting schedules, which reconciled to the amounts reported as subcapitated medical expense on the SFY 2021 MRT with no variance.
- Incentive and Provider Payments:
 - RMHP PRIME provided supporting schedules, which reconciled to the amounts reported as Incentive and Provider payments expense on the SFY 2021 MRT with no significant variance.
- Third-Party Liability Recoveries:
 - RMHP PRIME provided supporting schedules, which reconciled to the amounts reported as Third-Party Liability Recoveries on the SFY 2021 MRT with no significant variance.
- Administrative Expenses:
 - RMHP PRIME provided general ledger detail, which reconciled to the amount reported for administrative expenses on the SFY 2021 MRT with a net variance of \$72,855.
 - After inquiry of RMHP PRIME it was found that the cause of the Administration Expense variance was due to a formula error in which RMHP PRIME double reported \$78,449 of quality expenses in both the Healthcare Quality Improvement line of the MRT as well as the Professional Services line of the MRT. Additionally the Operations Expense line of the MRT was underreported in the amount of \$5,594.

Assessment: The amounts reported on the RMHP PRIME SFY 2021 MRT for non-subcapitated, IBNR, and subcapitated medical expenses were consistent with the claims detail and supporting summary schedules provided by RMHP PRIME. The amounts reported on the MRT for Incentive and Provider Payments and Third-Party Liability Recoveries, reconciled to the SFY 2021 MRT supporting data with no significant variance. The amounts reported for administrative expenses on the SFY 2021 MRT were over reported by \$72,855.

Allocation Methodologies

Allocation Methodology for Administrative Expenses

RMHP PRIME reported allocated administrative costs for actual amounts from UHS under a management services agreement for workforce costs, payroll, human resources, legal, tax, member services, claim administrative services, and other general administrative costs. The actual costs were

allocated based on a workforce survey, which includes metrics such as revenue, medical, and time. Additionally non-workforce administrative expenses are allocated to the Medicaid LOB based on a percentage of premium revenue and reported as an administrative cost on the SFY 2021 MRT. This allocation methodology was consistent with the reported amount. RMHP PRIME's reported direct administrative costs are an allocation between the RAE 1 and RMHP PRIME LOB based on percentage of revenue.

Allocation Methodology for Medical Expenses

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

Assessment: For administrative costs, RMHP PRIME provided a methodology for the allocation of administrative expenses from UHS under a management services agreement that was consistent with the amounts reported on the SFY 2021 MRT. RMHP PRIME 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 reviewed the supporting general ledger accounts and transactions provided by RMHP PRIME and found RMHP PRIME properly classified administrative expense except for \$78,449 of quality expenses that were reported in both the Healthcare Quality Improvement line of the MRT as well as the Professional Services line of the MRT, causing the professional services line to be overstated.

We judgmentally selected 11 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:

- Nine transactions related to Professional Review Committees, Professional Memberships, Compensation, Travel, Specialty Benefit Services, Professional Services, and Employee Welfare for \$16,635 were allowable according to FAR, were accurately recorded, and payment occurred as reported.
- One expense for Litigation Support, in the amount of \$1,196, was not properly reported on the SFY 2021 MRT. Costs incurred in connection with any criminal, civil or administrative proceeding commenced by the Federal Government, a state, local government, or foreign government, or joined by the Federal Government, against the non-Federal entity, in a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of non-Federal entity liability are not allowable, per 45 CFR § 75.435.
- One transaction for employee meals was not properly reported on the SFY 2021 MRT. The transaction included an unallowable expense for alcoholic beverages in the amount of \$99. Costs for alcoholic beverages are unallowable per 45 CFR § 75.423.

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Assessment: Based on our review of the general ledger accounts and transactions, we found RMHP PRIME reported \$1,295 for litigation support and alcoholic beverages that are unallowable per FAR Cost Principles. Additionally RMHP PRIME misclassified \$78,449 of quality expenses that were reported in both the Healthcare Quality Improvement line of the MRT as well as the Professional Services line of the MRT. We recommend RMHP PRIME exclude unallowable expenses as well as review reported cost classifications 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 RMHP PRIME 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 amount reported on the SFY 2021 MRT.

In addition, for non-subcapitated medical expenses we selected a random sample of 28 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 by using the category of service hierarchy in the MRT. For 26 of the 28 sampled claims reviewed, no exceptions were noted. We identified two claims that were not appropriately classified per the category of service hierarchy on the MRT.

Of the \$3,209,502 "Incentive & Provider Payments" reported on the MRT, \$3,114,288 is an estimated provider incentive, which at the time of this engagement had not yet been paid to the providers. Additionally, the total payment amount is contingent on SFY 2021 Finalized Reporting with HCPF. RMHP PRIME advised that they will report actual payouts by submitting a revised MRTs for SFY 2021 after the actual payments are made.

Assessment: We reviewed the claims data, summary level schedules, and general ledger transaction detail that reconciled to the RMHP PRIME SFY 2021 MRT and determined the amount reported is consistent with the medical cost reporting methodology. We identified two claims that were not appropriately classified per the category of service hierarchy on the MRT. Additionally we identified \$3,114,288 in reported provider incentive payments that were based on an estimate. We recommend RMHP PRIME develop a process to identify and appropriately classify claims according to the MRT category of service hierarchy. We also recommend that RMHP PRIME report expenses on an incurred basis when possible, or base any needed estimates on financial statistics.