



# COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

## Colorado Community Health Alliance Regional Accountable Entity Region 7 Annual Review

For the 12-Month Period Ended June 30, 2023

June 28, 2024



June 28, 2024

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

SUBJECT: Colorado Community Health Alliance (CCHA) Medicaid Regional Accountable Entity (RAE) Region 7

Dear Ms. Cui:

We are pleased to provide the annual report for CCHA RAE Region 7 operating in El Paso, Park, and Teller counties. Our review covers costs reported by CCHA RAE Region 7 on the Managed Care Reporting Template (MRT) for the period July 1, 2022 through June 30, 2023, which corresponds to state fiscal year (SFY) 2023.

This engagement was conducted pursuant to contract #20-140826 between the Colorado Department of Health Care Policy & Financing (Department) and Myers and Stauffer LC (Myers and Stauffer). This agreement calls for us to perform an annual review of costs reported and provide an assessment of whether the administrative and medical costs were correctly classified and allowable according to applicable federal and state regulations. The results of our assessment are provided in the attached 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 examination or review engagement, the objective of which would be to express an opinion or conclusion, respectively, on the 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 managed care entity. 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

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■ <b>Table of Contents</b> .....	<b>2</b>
■ <b>Annual Review</b> .....	<b>3</b>
Background .....	3
Scope.....	4
Methodology.....	4
Assessment Criteria .....	4
Observations and Findings.....	6
Allocation Methodologies .....	6
Reconciliation, Classification, and Allowability of Costs .....	8

# Annual Review

Colorado Community Health Alliance

## Background

CCHA RAE Region 7 is contracted with the state of Colorado to manage and administer physical health care coordination and covered behavioral health services to Medicaid beneficiaries in El Paso, Park, and Teller counties. CCHA is paid on a per member per month (PMPM) basis for services.

CCHA was organized in 2017 as a joint venture owned 50% by Anthem Partnership Holding Company, LLC (APHC), which is an indirect, wholly-owned subsidiary of Elevance Health (formerly Anthem, Inc.), and 50% by Colorado Community Health Alliance, LLC (a separate legal entity from CCHA). Effective July 1, 2018, CCHA entered into a quota share reinsurance arrangement to cede 100% of RAE Region 7's liabilities associated with the capitated behavioral health benefits under the contract with the Department and 100% of the direct written premiums, less claims, to UNICARE Life & Health Insurance Company (UNICARE). UNICARE is an affiliated company that is an indirect, wholly-owned subsidiary of Elevance Health.

CCHA has an administrative services agreement with their related-party, APHC, to provide various administrative, management, and support services to RAE Region 6 and RAE Region 7. In addition, APHC has an administrative services agreement with Elevance Health to provide the same type of services.

Carelon Holdings is a wholly owned subsidiary of Elevance Health. Carelon Behavioral Health and Carelon Global Services perform certain services on behalf of CCHA. Carelon Global Services performs claims processing work, some of which is performed offshore. Carelon Behavioral Health provides services associated with the national call center, the intake team, the after-hours team, the appeals team, and the psychiatric testing team. Some departments under the Elevance Health umbrella perform services on behalf of CCHA under the Carelon name. These services are provided to multiple Elevance Health subsidiaries, not only CCHA.

The following non related-party, subcontractors were self-identified by the plan:

*Table 1. Non Related-Party Subcontractors*

Vendor Name	Services Provided
Diversus Health	Subcapitated behavioral health medical services provided by a community mental health center (CMHC).

CCHA RAE Region 7 reported its Medicaid health program costs to the Department using the Department's MRT for SFY 2023.

## Scope

This report provides our assessment of whether the amounts reported by CCHA on the SFY 2023 MRT for CCHA RAE Region 7 are correctly classified in medical and administrative cost categories and are allowable. Our work was performed in accordance with AICPA professional standards for consulting engagements. We were not engaged to and did not perform an examination or review engagement, the objective of which would be to express an opinion or conclusion, respectively, on the 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 allowability of administrative and medical costs included a high-level review of the documentation and information provided by the plan and a review of selected cost types and transactions. Our procedures included, but were not limited to, an assessment of supporting documentation provided by the plan and performance of the following procedures:

- Reconcile the administrative and medical costs reported on the MRT to the general ledger, claims data, and associated schedules as applicable.
- Inquire with the plan to identify allocated costs and allocation methodologies.
- Review allocated costs to confirm the amounts reported are consistent with the allocation methodology.
- Review the general ledger accounts and conduct a judgmental review of transaction details from select account types to assess transaction classification and allowability.
- Review the reported medical costs to assess service dates, run-out period, classification, and allowability.

## Assessment Criteria

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

*Table 2. Assessment Criteria*

Citation	Brief Description	Key Requirements
Code of Federal Regulations (CFR) Title 45 Section 75	Subpart E identifies cost principles applicable to federal awards.	<p>Based on our professional experience, areas which are generally unallowable and are regularly included in administrative expenses include the following from CFR Title 45 Section 75.420-475 – General Provisions for selected areas of costs:</p> <ul style="list-style-type: none"> <li>■ 75.421 – Advertising and public relations.</li> <li>■ 75.423 – Alcoholic beverages.</li> <li>■ 75.432 – Conferences.</li> <li>■ 75.434 – Contributions and donations.</li> <li>■ 75.435 – Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.</li> <li>■ 75.438 – Entertainment costs.</li> <li>■ 75.441 – Fines, penalties, damages, and other settlements.</li> <li>■ 75.450 – Lobbying.</li> <li>■ 75.467 – Selling and marketing costs.</li> </ul>
CFR Title 42 Section 413.9(a)	Cost related to patient care, principle.	<ul style="list-style-type: none"> <li>■ All payments to providers of services must be based on the reasonable cost of services covered.</li> </ul>
CFR Title 42 Section 413.13(a)	Definitions.	<ul style="list-style-type: none"> <li>■ Reasonable cost means cost actually incurred, to the extent that cost is necessary for the efficient delivery of the service.</li> </ul>
CFR Title 42 Section 413.17	Cost to related organizations.	<ul style="list-style-type: none"> <li>■ Costs to related organizations must be reported at cost or fair market value.</li> <li>■ Provides guidance for demonstrating convincing evidence for fair market value.</li> </ul>
CFR Title 42 Section 413.24	Adequate cost data and cost finding.	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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 non-profit 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.</li> </ul>

Citation	Brief Description	Key Requirements
CFR Title 45 Section 75.504	Frequency of audits.	<ul style="list-style-type: none"> <li>■ Audits must be performed annually.</li> </ul>
CFR Title 45 Section 75.508	Auditee responsibilities.	<ul style="list-style-type: none"> <li>■ The auditee must prepare appropriate financial statements, including a schedule of expenditures of federal awards in accordance with Section 75.510 Financial Statements.</li> </ul>
CFR Title 45 Section 75.512(b)(1)	Data collection.	<ul style="list-style-type: none"> <li>■ 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 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.</li> </ul>

In addition to the criteria above, the Department has identified certain items of expense, if reported in the MRT, are subject to criteria set forth by the Centers for Medicare & Medicaid Services (CMS) final rule for the medical loss ratio (MLR).

*Table 3. Criteria Applicable to Specific Report Lines*

Citation	Brief Description	Key Requirements
Title 42, Chapter IV, Subchapter C, Part 438, Subpart A, Section 438.8	MLR standards.	<ul style="list-style-type: none"> <li>■ Fraud prevention activities.</li> <li>■ Health care quality improvement (HCQI) – salaries.</li> <li>■ HCQI – non-salaries.</li> <li>■ Community benefit expenditures.</li> <li>■ Qualified taxes.</li> </ul>

Though the criteria in the CMS final rule are applicable to the expense categories above, Myers and Stauffer did not perform procedures related to the plan’s MLR report. MLR reports are provided to the Department separately from the MRT and are not addressed in this report.

## Observations and Findings

The observations and findings that resulted from our procedures, given the assessment criteria previously outlined, are contained in this section.

## Allocation Methodologies

Allocations used to report medical and administrative expenses on the MRT were evaluated as part of our procedures. The tables below summarize allocation methodology(ies) described by the plan and

observed in the supporting documentation. Additionally, any exceptions identified related to cost allocations are included.

CCHA's administrative services are obtained through a related party agreement with APHC. APHC delivers administrative services and support to CCHA through other related entities, Elevance Health (formerly Anthem) and Carelon. CCHA pays APHC on a PMPM basis. Then, costs are trued up to CCHA's portion of actual costs incurred by Elevance Health and Carelon. As a result, CCHA's reported administrative expense is an allocation of the actual costs incurred by Elevance Health and Carelon for providing administrative services to multiple entities, including CCHA. CCHA provided the following description of the administrative cost allocation methodology:

*“Elevance Health has established guidelines for cost allocations to promote an allocation process that is clearly defined through methodologies that are reasonable and consistently applied. Allocations should assign costs to the areas consuming the services or resources in proportion to their usage. The allocation methodology should be based on relevant driver data with careful consideration of the associated costs and benefit (i.e., accuracy, materiality, manageability, and complexity). Corporate resources should be structured to align with the divisions supported and the functions performed. All allocations must comply with Intercompany Services Agreements and Government reporting regulations, where applicable.*

*“Administrative expenses are captured in cost centers and allocated to the lines of business supported by each specific cost center using a variable proxy such as membership or headcount. If the proxy does not provide a reasonable allocation, then a fixed allocation method based on relevant driver data is used. Percentages for these fixed allocations are based on utilization levels for the various business segments such as historical data, claims count, number of providers, management estimation of resources, time studies, etc. Fixed allocation percentages are reviewed and updated at least once a year, as necessary, to reflect current activity levels.*

*“Cost centers represent administrative departments that are aligned based on management responsibility for the activity and the functions performed. For example, a cost center can provide support to a single state, a geographical region, a specific claims system, or it can support the entire enterprise. Administrative functions performed by cost centers include claims, customer service, enrollment, sales, marketing, actuarial, health care management, finance, legal, human resources, etc. The cost center managers identify the lines of business that are supported by each cost center and work with their financial staff to create allocation definitions that will assign the administrative expenses to the appropriate business segments.”*

After allocating behavioral health administrative costs to CCHA according to the methodology described above, a final allocation is necessary to distribute expenses between RAE Region 6 and RAE Region 7. MRT administrative expenses are allocated between RAE Region 6 and RAE Region 7 using the percent to total of the administrative expenses reported to the State in CCHA's quarterly financial report submissions.



*Table 4. Allocation Methodology – Administrative Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Health Care Quality Improvement Costs</b>	<p><b>Description:</b> CCHA uses cost centers (departments) to capture costs that are allocated from Elevance Health (Anthem) and Carelon Services (DBG). Each cost center's activities are evaluated to determine what portion of expenses, if any, meet the definition of a quality improvement (QI) expense. Cost centers are then assigned a QI percentage between 0% and 100%. This percentage is applied uniformly across all expenses, both salary and non-salary, for that cost center.</p> <p><b>Observations:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>

Allocation methodologies applicable to medical expenses are described below.

*Table 5. Allocation Methodology – Medical Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Subcapitated Medical Expense</b>	<p><b>Description:</b> CCHA's subcapitation allocation methodology distributes the subcapitation paid amount among the MRT categories according to the proportion of billed charges in each category.</p> <p><b>Observations:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>
<b>Incentives and Provider Payments</b>	<p><b>Description:</b> CCHA tracks incentives and provider payments on a calendar year basis, and reports 50% of incentives associated with calendar year 2022 and 50% of incentives associated with calendar year 2023 in order to align with SFY 2023. The allocation was based on the various categories of services using the quarterly non-subcapitated expenditure from Report 2A as the cost driver.</p> <p><b>Observations:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>

## Reconciliation, Classification, and Allowability of Costs

### Administrative Costs

We reviewed the general ledger transaction detail and other supporting documentation that reconciled to the SFY 2023 MRT to assess whether the administrative costs were appropriately classified and allowable. We also identified whether variances exist in certain types of administrative expenses between the MRT and MLR report filed with the Department.

*Table 6. Administrative Expense Observations*

Topic	Description of Observation
<b>Reconciliation</b>	We reconciled the administrative cost category amounts reported on the SFY 2023 MRT to the supporting data. No significant exceptions were noted.
<b>Classification and Allowability</b>	We obtained and reviewed the MRT and associated general ledger transactions and supporting schedules. We judgmentally selected 10 general ledger transactions to establish if the transactions were accurately recorded, allowable according to the assessment criteria, and whether payment occurred as reported. No exceptions related to administrative cost classification and allowability were identified, except those listed in the findings below.
<b>Consistency with MLR</b>	<p>We compared the following types of administrative expenses on the MRT to the MLR report filed with the Department, to determine whether variances exist:</p> <ul style="list-style-type: none"> <li>■ Activities that improve health care quality.</li> <li>■ Community benefit expenditures.</li> <li>■ Fraud reduction activities.</li> <li>■ Taxes, licensing, and regulatory fees.</li> </ul> <p>We identified a variance between reports in the categories listed in the findings below.</p>

*Table 7. Administrative Expense Findings*

#	Brief Description	Amount	Description of Finding
1	Testing Exception - Unsupported Expense	\$5,452	We tested two transactions for an internal “chargeback” for space and facilities costs. No invoice documentation or payment support was available to support the expense. The transaction was not adequately supported by source documentation due to the internal mechanism for generating the expense.
2	Testing Exception - Unallowable Travel	\$10	We tested one transaction for a private charter jet expenses which is not allowable per 45 CFR Section 75.474.
3	Testing Exception - Unallowable Professional Service Cost	\$271	We tested one transaction for a legal counsel retainer fee. Per 45 CFR Section 75.459 - Professional service costs, we do not have the level of detail of the legal services rendered; therefore, the retainer fee expense is considered unallowable.
4	Testing Exception - Unsupported Expense	\$13,905	We tested one transaction for a re-classed expense within the CO RAE Medicaid Behavioral Health department. No invoice documentation or payment support was provided to support the expense. The transaction was not adequately supported by source documentation due to the internal allocation policy for generating the expense.
5	Testing Exception - Unsupported Payment	\$459	We tested one transaction for allowable technical IT infrastructure support services. No payment documentation was provided to support that payment occurred as reported.

#	Brief Description	Amount	Description of Finding
6	Inconsistency Between MRT and MLR Reports	\$(5,557,660)	The MRT instructions specify that MLR definitions/criteria at 42 CFR Section 438.8 are applicable to certain administrative expenses in Report 7. Inconsistencies between the MRT and the MLR report were identified in the following categories, which are subject to the same definitions/criteria: <ul style="list-style-type: none"> <li>■ Taxes, licenses, and regulatory fees.</li> </ul>

### Medical Costs

We reviewed the claims data, summary level schedules, and general ledger transaction detail that reconciled to the SFY 2023 MRT to assess whether the medical costs were appropriately classified and allowable.

*Table 8. Non-Subcapitated Observations*

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	We reconciled the Non-Subcapitated cost category amount reported on the SFY 2023 MRT to supporting claims data. The claims data were analyzed to determine whether service dates and runout period were consistent with the MRT instructions. Based on this review the Non-Subcapitated cost claims documentation is consistent with the amount reported in the MRT. Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions related to categorization were found.

*Table 9. Subcapitated Observations*

Topic	Description of Observation
<b>Reconciliation</b>	The RAE Region 7 subcapitated medical expenses reported on the MRT included costs related to an agreement with the CMHC, Diversus Health (formerly AspenPointe). We reconciled the subcapitated cost category amounts reported on the SFY 2022 MRT to the supporting documentation without a variance. Additionally, the documentation supported that the date of service range was within the SFY 2022 reporting period.
<b>Classification and Allowability</b>	CCHA's subcapitation allocation methodology distributes the subcapitation paid amount among the MRT medical categories according to the proportion of billed charges in each category. No exceptions related to subcapitated cost classification and allowability were noted.

*Table 10. Other Medical Observations*

Topic	Description of Observation
<b>Reconciliation</b>	We reconciled the other medical cost category amounts reported on the SFY 2023 MRT to the supporting data. No exceptions were noted.

Topic	Description of Observation
<b>Classification and Allowability</b>	In the course of the reconciliation, we assessed whether the medical costs were appropriately classified and allowable. No exceptions related to other medical cost classification and allowability were noted.

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