



COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

DentaQuest Child Health Plan Plus 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: DentaQuest (DQ) Child Health Plan Plus (CHP+)

Dear Ms. Cui:

We are pleased to provide the annual report for DQ CHP+ operating in the State of Colorado. Our review covers costs reported by DQ CHP+ 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

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Annual Review

DentaQuest

Background

DQ CHP+ is contracted with the state of Colorado to manage and administer health care services to CHP+ eligible members to Medicaid beneficiaries in the state of Colorado. DQ is paid on a per member per month basis for services.

As of June 1, 2022 Sun Life Assurance Company of Canada – U.S. Operations Holdings LLC acquired DentaQuest Group, Inc. who is now a wholly owned subsidiary.

DQ has a Management and Services Agreement with their related-party, DentaQuest, LLC, for accounting, enrollment, legal services, human resources, claims processing, provider relations and credentialing services, and other administrative services. Under this agreement, payments are made quarterly as an allocation of administrative overhead expenses based on membership and departmental services performed. A mark-up is added to selling, general, and administrative expenses to reflect a cost-plus margin compensation.

DQ CHP+ 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 DQ on the SFY 2023 MRT for DQ CHP+ 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 1. 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.	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: <ul style="list-style-type: none"> ■ 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.	<ul style="list-style-type: none"> ■ All payments to providers of services must be based on the reasonable cost of services covered.
CFR Title 42 Section 413.13(a)	Definitions.	<ul style="list-style-type: none"> ■ 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.	<ul style="list-style-type: none"> ■ Costs to related organizations must be reported at cost or fair market value. ■ Provides guidance for demonstrating convincing evidence for fair market value.

Citation	Brief Description	Key Requirements
CFR Title 42 Section 413.24	Adequate cost data and cost finding.	<ul style="list-style-type: none"> ■ 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. ■ 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.
CFR Title 45 Section 75.504	Frequency of audits.	<ul style="list-style-type: none"> ■ Audits must be performed annually.
CFR Title 45 Section 75.508	Auditee responsibilities.	<ul style="list-style-type: none"> ■ 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.	<ul style="list-style-type: none"> ■ 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.

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 2. 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"> ■ Fraud prevention activities. ■ Health care quality improvement (HCQI) – salaries. ■ HCQI – non-salaries. ■ Community benefit expenditures. ■ Qualified taxes.

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 the allocation methodology(ies) described by the plan and observed in the supporting documentation. Additionally, any exceptions identified related to cost allocations are included.

Table 3. Allocation Methodology – Administrative Expense

Type of Expense	Description of Allocation Methodology and Observations
Administrative Expense Allocation	<p>Description: DQ operates multiple lines of business that share administrative costs. Selling, general, and administrative expenses from the parent are allocated across two levels: a) business segments, and b) contract level. Segment-level cost allocations are developed by cost center leaders to reflect how their departments support the various aspects of the business. These percentages may be determined by time studies/ workload and/or departmental metrics. Contract-level costs are allocated to specific contracts within a segment based on: contract-specific coding, cost center-level drivers, and level of service. A mark-up is added to selling, general, and administrative expenses to reflect a cost-plus margin compensation.</p> <p>Observations: The documentation provided is consistent with the methodology described. The reimbursement criteria at 42 CFR Section 413.17 specifies related-party mark-up is an unallowable expense. The mark-up is noted as an observation.</p>

Allocation methodologies applicable to medical expenses are described below.

Table 4. Allocation Methodology – Medical Expense

Type of Expense	Description of Allocation Methodology and Observations
N/A	No allocated medical expenses were identified.

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 5. Administrative Expense Observations

Topic	Description of Observation
Reconciliation	We reconciled the administrative cost category amounts reported on the SFY 2023 MRT to the supporting data. We identified the reported expense was over-reported by \$192,686 in aggregate. The significant reconciliation findings are listed below.
Classification and Allowability	We obtained and reviewed the MRT and associated general ledger transactions and supporting schedules. We judgmentally selected five 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.
Consistency with MLR	<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"> ■ Activities that improve health care quality. ■ Community benefit expenditures. ■ Fraud reduction activities. ■ Taxes, licensing, and regulatory fees. <p>We identified a variance between reports in the categories listed in the findings below.</p>

Table 6. Administrative Expense Findings

#	Brief Description	Amount	Description of Finding
1	Unallowable Related-Party Mark-Up	\$30,469	We identified a reconciliation variance in the amount of \$30,469 due to management fee mark-ups. The reimbursement criteria at 42 CFR Section 413.17 specifies related-party mark-up is an unallowable expense. The related-party mark-up paid to DentaQuest, LLC is unallowable.
2	Unsupported HCQI Expense	\$113,306	We identified a reconciliation variance in the amount of \$113,306 due to unsupported HCQI salary allocations.
3	Unsupported Depreciation Expense	\$48,287	We identified a reconciliation variance in the amount of \$48,287 due to depreciation expense that was not supported in the financial records.

#	Brief Description	Amount	Description of Finding
4	Duplicate Expense Reported	\$78,277	In our review of the general ledger transactions, we identified duplicate salary expenses in the amount of \$78,277.
5	Unsupported Expense	\$56	We tested two transactions where sufficient documentation was not provided to identify if the expense was incurred in SFY 2023, is allowable, and if payment had occurred as reported.
6	Unsupported Payment	\$58	We tested one transaction where sufficient documentation was not provided to identify if payment occurred as reported.
7	Unallowable Non-Colorado Medicaid Expense	\$15,947	In our review of the general ledger transactions, we identified unallowable expenses in the amount of \$15,947 that were associated with non-Colorado and non-Medicaid programs.
8	Inconsistency Between MRT and MLR Reports	\$232,462	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 category, which is subject to the same definitions/criteria: <ul style="list-style-type: none"> Taxes, licenses, and regulatory fees were reported in the MRT, but were not reported in the MLR.

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 7. Non-Subcapitated Observations

Topic	Description of Observation
Reconciliation, Classification, and Allowability	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. We identified an inconsequential variance. Additionally, the data were analyzed by service category to identify proper categorization of medical claims. The claims data were correctly categorized.

Table 8. Subcapitated Observations

Topic	Description of Observation
N/A	DQ did not report any subcapitated expenses in the MRT.

Table 9. Other Medical Observations

Topic	Description of Observation
N/A	DQ did not report any other medical expenses in the MRT.