



**COLORADO DEPARTMENT  
OF HEALTH CARE POLICY &  
FINANCING**

**Denver Health Medical Plan  
Health Maintenance Organization Region 5  
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: Denver Health Medical Plan (DHMP) Health Maintenance Organization (HMO) Region 5

Dear Ms. Cui:

We are pleased to provide the annual report for DHMP HMO Region 5 operating in Adams, Arapahoe, Denver, and Jefferson counties. Our review covers costs reported by DHMP HMO Region 5 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

Denver Health Medical Plan

## Background

DHMP HMO Region 5 is contracted with the state of Colorado to manage and administer physical health and behavioral health services to Medicaid beneficiaries in Adams, Arapahoe, Denver, and Jefferson counties. DHMP is paid on a per member per month (PMPM) basis for services.

DHMP has an administrative services contract with their related-party, Denver Health and Hospital Authority (DHHA), for leased office space, administrative functions, leased employees, and a nurse call line. DHMP pays various rates for the services provided under the contract. On a monthly basis, DHMP records an estimate for administrative services expense, and the estimates are periodically trued up to actual cost. Allocations are performed to distribute the administrative service expense across lines of business based on relevant allocation statistics.

DHMP has a subcapitated medical contract with their related-party, DHHA, for medical services. Under this agreement, payments are made on a PMPM basis for each eligible member; however, DHMP reports the fee-for-service equivalent for encounters on the MRT.

DHMP HMO Region 5 contracts with Colorado Access, a Regional Accountable Entity, to cover its members' behavioral health services. DHMP HMO Region 5 passes through payments from the Department for its members' behavioral health services, and Colorado Access is at risk to cover those services. A separate MRT is filed by Colorado Access to report on the DHMP HMO Region 5 members' behavioral health services; and the behavioral health MRT for DHMP HMO Region 5 members' is not covered in this report.

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

*Table 1. Non Related-Party Subcontractors*

Vendor Name	Services Provided
MedImpact	Claims processing, utilization management, and other metrics as required by the Department contract.
Sequoia	Reinsurance.
HM Life	Reinsurance.

DHMP HMO Region 5 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 DHMP on the SFY 2023 MRT for DHMP HMO Region 5 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.

Allocation methodologies applicable to administrative expenses are as follows.

DHMP records administrative expenses for multiple lines of business operated by the entity. The five primary lines of business established in the accounting system for expense distribution are CHP+, Commercial, Exchange, Medicaid Choice, and Medicare. Allocations of administrative expense are necessary to assign shared costs to these distinct lines of business.

*Table 4. Allocation Methodology – Administrative Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Salaries and Temporary Staffing</b>	<p><b>Description:</b> All DHMP staff are employed by DHHA and leased to DHMP at DHHA's actual cost, in accordance with the administrative services agreement between DHMP and DHHA. Salaries and temporary staffing expenses are allocated across the DHMP lines of business based on department-specific allocation metrics. Some departments are allocated based on membership while others are allocated based on a different metric specific to their work. Additionally, managers have identified employees whose work effort is different from that of the rest of the department, and these individuals are allocated on an employee-by-employee basis for increased accuracy. Allocation metrics utilized by DHMP to distribute salaries and staffing costs include member months, 20% per line of business, paid medical claims count, pharmacy claims count, grievance and appeal claims count, number of calls, and case management cases.</p> <p><b>Observations:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>
<b>Other Administrative Expenses</b>	<p><b>Description:</b> When possible, DHMP directly assigns other administrative expenses to a specific line (or lines) of business at the time of expense recording, based on which line(s) of business incurred the expense. For expenses applicable to multiple lines of business, DHMP allocates cost using an allocation statistic to reasonably distribute expense. For example, shared costs for vendors that charge on a PMPM basis will be allocated based on member months.</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
Incentive and Provider Payments	<p><b>Description:</b> The reported Incentive and Provider Payments consist of a 5% bonus applied to the medical, pharmacy, and ambulance claims, which is directly identified and does not require expense allocation. For medical and pharmacy, this 5% bonus was applied for the entire SFY 2023 year. For ambulance claims, this 5% bonus was applied from July 1, 2022 to February 10, 2023. Beginning on February 11, 2023, the 5% bonus was no longer applied for ambulance claims as the claims began paying at 100% fee-for-service to DHHA.</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
Reconciliation	We reconciled the administrative cost category amounts reported on the SFY 2023 MRT to the supporting data with inconsequential variances.
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"> <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>No variances were noted between the MRT and MLR in the above expense categories.</p>

Table 7. Administrative Expense Findings

#	Brief Description	Amount	Description of Finding
1	Reporting Error	\$181,277	A reporting error of (\$181,277) was identified during our review. DHMP's accounting procedures involve recording a monthly estimate for administrative services provided by DHHA, then truing up the estimates to actual cost. An inaccurate true up entry was recorded in the accounting system, which resulted in the understatement of administrative services expense on the MRT.
2	Reclassify Non-HCQI Expense	\$5,923	Based on our review of Healthcare Quality Improvement Salaries, we identified an expense that would be more appropriately classified as Other Salaries. (42 CFR Section 438.8(e)(3))
3	HCQI Expense for Another Line of Business	\$29,016	Based on our review of Healthcare Quality Improvement Salaries, we identified an expense associated with the Medicare line of business, which should be excluded from the MRT. (42 CFR Section 438.8(e)(3))
4	Expense Incurred Outside of Reporting Period	\$3,066	A Healthcare Quality Improvement transaction sampled was partially incurred outside of the SFY 2023 reporting period. (45 CFR 75.403, MRT Instructions)
5	Unallowable Lobbying	\$38,632	We tested a transaction for dues and membership fees. This association focuses on lobbying. Per 45 CFR Section 75.450 - Lobbying costs are unallowable. The total amount paid for all transactions is \$38,632.

### 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. External Expenditures Observations

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	We reconciled the External Expenditures 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 compared the encounters reported in the MRT to the encounter claims detail incurred during SFY 2023 with the applicable run-out period and identified a reconciliation variance of \$68,459. Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions for External Expenditures cost classification and allowability were noted, except those listed in the findings below.

Table 9. External Expenditures Findings

#	Brief Description	Amount	Description of Finding
1	Reconciliation Variance - External Provider Claims	\$68,459	We identified a reconciliation variance due to DHMP reporting claims with a paid date through October 2023 instead of the run-out date of September 2023.

Table 10. Internal Expenditures Observations

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	We reconciled the Internal Expenditures 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 compared the encounters reported in the MRT to the encounter claims detail incurred during SFY 2023 with the applicable run-out period and identified a reconciliation variance of \$16,125. Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions for Internal Expenditures cost classification and allowability were noted, except those listed in the findings below.

Table 11. Internal Expenditures Findings

#	Brief Description	Amount	Description of Finding
1	Reconciliation Variance - Internal Provider Claims	\$16,125	We identified a reconciliation variance due to DHMP reporting claims with a paid date through October 2023 instead of the run-out date of September 2023.

Table 12. 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 with no variances.
<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.