



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

**Health Colorado, Inc.
Regional Accountable Entity Region 4
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: Health Colorado, Inc. (HCI) Medicaid Regional Accountable Entity (RAE) Region 4

Dear Ms. Cui:

We are pleased to provide the annual report for HCI RAE Region 4 operating in Alamosa, Baca, Bent, Chaffee, Conejos, Costilla, Crowley, Custer, Fremont, Huerfano, Kiowa, Lake, Las Animas, Mineral, Otero, Prowers, Pueblo, Rio Grande, and Saguache counties. Our review covers costs reported by HCI RAE Region 4 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

Health Colorado, Inc.

Background

HCI RAE Region 4 is contracted with the state of Colorado to manage and administer physical health care coordination and covered behavioral health services to Medicaid beneficiaries in Alamosa, Baca, Bent, Chaffee, Conejos, Costilla, Crowley, Custer, Fremont, Huerfano, Kiowa, Lake, Las Animas, Mineral, Otero, Prowers, Pueblo, Rio Grande, and Saguache counties. HCI is paid on a per member per month basis for services.

HCI is a licensed health maintenance organization founded in 2017 and jointly owned by six entities. Four owning entities are community mental health centers (CMHCs), one is a federally qualified health center (FQHC), and one is a national managed care services company. The six owning entities listed below have an equal ownership interest in HCI:

- Carelon Behavioral Health (Carelon) (a managed care services company).
- Health Solutions (a CMHC).
- San Luis Valley Behavioral Health Group (a CMHC).
- Solvista Health (a CMHC).
- Southeast Health Group (a CMHC).
- Valley-Wide Health Systems, Inc. (an FQHC).

During the reporting period, Southeast Health Group merged with Valley-Wide Health Systems, Inc. The merged entity retained its former ownership percentages, as did all other owning entities.

HCI has an administrative services agreement with their related-party Carelon for claims management, accounting/finance support, provider/network management, and other non-clinical services. Under this agreement, payments are made on a percentage of revenue basis. Additionally, HCI has a risk arrangement with Carelon for independent provider network (IPN) claims. Under the risk agreement, HCI pays Carelon a percentage of their capitation revenue to cover IPN claims.

The other owners provide health care services to Medicaid members. Services provided by the CMHCs are reported as sub-capitated medical costs on the MRT, whereas, services provided by the owning FQHCs are reported as non-subcapitated costs on the MRT. Additional payments to the owners are reported as incentive and provider payments on the MRT.

HCI RAE Region 4 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 HCI on the SFY 2023 MRT for HCI RAE Region 4 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"> ■ 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.
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.

Citation	Brief Description	Key Requirements
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 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"> 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 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 described as follows. HCI records administrative expenses for three distinct lines of business operated by the entity: RAE behavioral health, RAE physical health (care coordination), and a crisis contract.

Table 4. Allocation Methodology – Administrative Expense

Type of Expense	Description of Allocation Methodology and Observations
Qualified Taxes	<p>Description: The RAE represented that qualified taxes, including federal and state income taxes, are allocated among RAE behavioral health, RAE physical health (care coordination), and crisis contract lines of business based on the percentage of total earnings generated from the respective line of business.</p> <p>Observations: No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>
Administrative Services Agreement	<p>Description: Administrative service agreement expenses are not allocated. Rather, HCI pays a contractual percentage of revenue to Carelon, as outlined in the administrative service agreement. The administrative service agreement expense associated with the RAE behavioral health line of business is directly identified. Thus, allocation is not necessary.</p> <p>Observations: No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>
Other Administrative Expenses	<p>Description: When possible, other administrative expenses are directly assigned to one of HCI's three lines of business, based on transaction details. Direct expenses that are not allowable for reporting are excluded from the MRT, such as unallowable expense accounts and non-behavioral health lines of business. For administrative expenses that are applicable to multiple lines of business, allocation is necessary to identify the RAE behavioral health portion of expense. In this case, administrative costs are allocated across lines of business based on allocation statistics that consider the time and effort associated with each.</p> <p>Observations: 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
Independent Provider Network (IPN)	<p>Description: Under a risk agreement between HCI and Carelon, Carelon assumed the risk for IPN claims. Carelon was paid a percentage of the gross behavioral health capitation funding to pay all IPN claims submitted and accepted from the IPN, exclusive of new benefits allowed by the Department. For the year ending June 30, 2023, this exclusion includes the residential substance abuse benefit.</p> <p>Observations: No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided. HCI's cost of the IPN risk agreement with Carelon was included on Report 6A of the MRT, Incentives and Provider Payments. Refer to the observations section regarding the classification and presentation of expense.</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. No significant variances were found.
Classification and Allowability	We obtained and reviewed the MRT and associated general ledger transactions and supporting schedules. We judgmentally selected six 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 7. Administrative Expense Findings

#	Brief Description	Amount	Description of Finding
1	Understated Quality Improvement	\$75,602	The reported HCQI expense of \$750,000 was an estimate. However, the documentation provided supports \$825,602 of HCQI expenses. The reported HCQI expense was understated by \$75,602. (42 CFR Section 438.8e(3))
2	Unallowable Prior Period Expense	\$7,866	We reviewed one legal transaction in the amount of \$7,865.63, which was incurred prior to SFY 2023. (45 CFR 75.403, MRT Instructions)
3	Unallowable Post Period Expense	\$2,034	We reviewed one community events transaction in the amount of \$2,034.25, which was incurred after SFY 2023. (45 CFR 75.403, MRT Instructions)
4	Unallowable Post Period Expense	\$3,255	We reviewed one conferences transaction in the amount of \$3,254.80, which was incurred after SFY 2023. (45 CFR 75.403, MRT Instructions)
5	Unallowable Contributions and Donations	\$5,289	We reviewed two transactions in the community events account totaling \$5,289 that were unallowable contributions and donations per 45 CFR Section 75.434.
6	Unallowable Related Party Profit	Unknown	The assessment criteria at 42 CFR Section 413.17 specifies related party markup is an unallowable expense. The portion of payments to Carelon in excess of Carelon's actual cost of providing administrative services are an unallowable expense.
7	Inconsistency between MRT and MLR Reports	Various	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"> ■ Activities that improve health care quality. ■ Taxes, licenses, and regulatory fees.

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
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. 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 significant exceptions related to non-subcapitated cost categorization were noted.

Table 9. Subcapitated Observations

Topic	Description of Observation
Reconciliation, Classification, and Allowability	We reconciled the 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 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 significant exceptions related to the Subcapitated cost categorization were noted.

Table 10. Other Medical Observations

Topic	Description of Observation
Reconciliation	We reconciled the other medical cost category amounts reported on the SFY 2023 MRT to the supporting data. The MRT reconciled to the supporting documentation without a significant variance.
Classification and Allowability	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, except those listed in the findings below.

Table 11. Other Medical Findings

#	Brief Description	Amount	Description of Finding
1	Classification and Presentation of IPN Claims Cost	\$1,721,569	<p>Under a risk agreement between HCI and Carelon, Carelon received a percentage of HCI's gross behavioral health capitation funding to pay all IPN claims submitted and accepted from the IPN, excluding the residential substance abuse benefit.</p> <p>HCI's cost of the IPN risk agreement with Carelon was included on Report 6A of the MRT, Incentives and Provider Payments. However, Carelon is a related party administrative service organization, and not a health care provider. Further, the expense is associated with provider claims and is not an incentive or provider payment. To increase accuracy and transparency, we recommend reporting Carelon's actual cost of IPN claims in the non-subcapitated medical expense section of the MRT, based on the service dates and runout period specified in the instructions for the MRT. This presentation eliminates any related party profit or loss and ensures the underlying claims expense is stated in accordance with the instructions for the MRT.</p>