



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

**Kaiser Permanente 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: Kaiser Permanente (KP) Child Health Plan Plus (CHP+)

Dear Ms. Cui:

We are pleased to provide the annual report for KP CHP+ operating in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties. Our review covers costs reported by KP 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

Kaiser Permanente

## Background

KP CHP+ is contracted with the state of Colorado to manage and administer health care services to Medicaid beneficiaries in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, Jefferson counties. KP is paid on a per member per month (PMPM) basis for services.

KP has an Administrative Services Agreement with their related-party, Kaiser Permanente Insurance Company, for administrative services including pharmaceutical services, invoice payment, human resources, risk management and insurance, cash management, and retirement services. Under this agreement, payments are either paid on a PMPM basis or at cost.

KP has an Intercompany Information Technology (IT) Services Agreement with their related-party, Kaiser Foundation Hospitals (KFH), for purchasing, disposition, and management of IT equipment, hardware and software, and other IT services. Under this agreement, payments are made at actual cost or estimated monthly cost. Monthly reimbursement to KFH is made via an intercompany chargeback method and are trueed-up of actual costs.

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

*Table 1. Non Related-Party Subcontractors*

Vendor Name	Services Provided
MedImpact	Pharmacy Benefit Manager (PBM) Services.
Permanente Medical Group P.C. (PMG)	Medical benefits for members.

KP has a contract with Permanente Medical Group P.C. (PMG) for medical benefits for members. Under this agreement, PMG is paid a PMPM and direct reimbursement for other facility expenses. Additionally, KP reports allocated internal costs for utilization and non-utilization expenses.

KP 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 KP on the SFY 2023 MRT for KP 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 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.

*Table 4. Allocation Methodology – Administrative Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Administrative Expense Allocation</b>	<p><b>Description:</b> Kaiser operates multiple lines of business that share administrative costs. KP utilizes a cost allocation application to track and allocate the administrative expense data. Allocation statistics are used to assign costs to the Colorado region. Once assigned to a region, overhead expenses are added to direct costs. An additional allocation assigns regional costs to specific lines of business including the CHP+ health plan. For the purpose of preparing the MRT, KP uses a pre-defined internal classification to group the expenses.</p> <p><b>Observations:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>

*Table 5. Allocation Methodology – Medical Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Overhead Allocation Related to PMG</b>	<p><b>Description:</b> Within the KP data systems, internal medical costs are allocated using a cost accounting allocation process, allocating costs to lines of business, products, etc. based on utilization. Overhead Costs related to PMG are reported in the medical cost lines.</p> <p><b>Observations:</b> The plan explained clinic expenses paid by KP include Labor for nurses and other mid-level clinicians who provide patient care for Permanente Medical Group. PMG only employs physicians.</p>
<b>PMG Capitation Allocation</b>	<p><b>Description:</b> KP uses related encounter detail to allocate capitation payments to the services classes.</p> <p><b>Observations:</b> We observed the capitation payments were reported in the Non Subcapitated Expenditures section of the MRT, but the allocation methodology was not observed in the course of this engagement.</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 with no variance identified.
<b>Classification and Allowability</b>	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.
<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 - Unallowable Expense	\$15	We tested one transaction for a Holiday Party in the amount of \$15 that was not allowable per 45 CFR Section 75.438 Entertainment costs.
2	Testing Exception - Incurred outside reporting period	\$1,772	We tested one transaction for medical management. \$1,772 of the expense was incurred outside of SFY2023 and is, therefore, unallowable per 45 CFR Section 75.403.
3	Inconsistency between MRT and MLR Reports	[Various]	<p>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:</p> <ul style="list-style-type: none"> <li>■ Activities that improve health care quality.</li> <li>■ Community benefit expenditures.</li> <li>■ Fraud prevention activities.</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. FFS Claims Expenditures Observations

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	We reconciled the Fee-For-Service (FFS) Claims 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. Based on this review, an inconsequential variance was identified in the FFS Claims Expenditures cost. Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions related to FFS Claims Expenditures cost classification and allowability were noted, except those listed in the findings below.

Table 9. FFS Claims Expenditures Findings

#	Brief Description	Amount	Description of Finding
1	Medical Cost Classification	\$7,290,752	Medical expense for Permanente Medical Group (PMG) totaling \$7,290,752 was reported in the FFS Claims Expenditures section of the MRT. This includes subcapitated arrangements as well as internal medical expenses which would be more appropriately reported in the sub-capitation expense section. Additionally, a portion of the internal medical expenses are for quality incentives which would be more appropriately reported on Report 6A, Incentive and Provider Payments. Documentation was not provided to quantify or support the portion associated with quality incentives, and these arrangements are not specific to the CHP+ line of business. Rather, the incentives are applicable to the entire region and a portion is allocated to CHP.

Table 10. Subcapitated Observations

Topic	Description of Observation
N/A	KP did not report expense in the subcapitated cost category on the SFY 2023 MRT.

Table 11. 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 variance identified.
<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.