



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

**Northeast Health Partners  
Regional Accountable Entity Region 2  
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: Northeast Health Partners (NHP) Medicaid Regional Accountable Entity (RAE) Region 2

Dear Ms. Cui:

We are pleased to provide the annual report for NHP RAE Region 2 operating in Cheyenne, Kit Carson, Lincoln, Logan, Morgan, Phillips, Sedgwick, Washington, Weld, and Yuma counties. Our review covers costs reported by NHP RAE Region 2 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

Northeast Health Partners

## Background

NHP RAE Region 2 is contracted with the state of Colorado to manage and administer physical health care coordination and covered behavioral health services to Medicaid beneficiaries in Cheyenne, Kit Carson, Lincoln, Logan, Morgan, Phillips, Sedgwick, Washington, Weld, and Yuma counties. NHP is paid on a per member per month basis for services.

NHP is a 501(c)(3) organization founded in 2017 by four members:

- North Range Behavioral Health (a community mental health center [CMHC]).
- Centennial Mental Health Center (a CMHC).
- Salud Family Health Centers (a federally qualified health center [FQHC]).
- Sunrise Community Health (an FQHC).

Each of the four founding organizations contributed capital to NHP to cover start-up costs and fund the initial reserves required for NHP to be licensed as a Limited Service Licensed Provider Network.

The founding entities provide health care services to Medicaid members. Services provided by NHP's founding CMHCs are reported as subcapitated medical costs on the MRT, whereas, services provided by their founding FQHCs are reported as non-subcapitated costs on the MRT.

NHP has a management services agreement with Carelon Behavioral Health for staffing, office space, financial services, member management, and other non-clinical services. Under this agreement, payments are made for a percentage of revenue. Carelon Behavioral Health is not a related-party to NHP.

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

*Table 1. Non Related-Party Subcontractors*

Vendor Name	Services Provided
North Colorado Health Alliance	Delegated Care Coordination Entity.

NHP RAE Region 2 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 NHP on the SFY 2023 MRT for NHP RAE Region 2 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.	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"> <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>Carelon Administrative Services Contract</b>	<p><b>Description:</b> NHP purchases administrative services from Carelon Behavioral Health for both the physical health and behavioral health funding streams (lines of business) associated with the RAE contract. Carelon is paid the same percentage of revenue for both lines of business. NHP has established separate financial accounts to record payments to Carelon for physical health and behavioral health lines of business. Payments to Carelon are recorded in the respective accounts according to the cost incurred for each line of business (physical and behavioral health), based on their revenue. NHP reports the account associated with the behavioral health line of business on the MRT. Administrative service costs associated with the physical health line of business are appropriately excluded from the MRT.</p> <p><b>Observation:</b> No exceptions were noted between the allocation methodology described by the plan and the supporting documentation provided.</p>
<b>NHP Administrative Expenses</b>	<p><b>Description:</b> NHP has established several administrative expense accounts, including salaries and benefits, purchased services, and technology to record administrative costs incurred outside of the administrative services contract with Carelon. NHP explained these expenses are allocated 78% to the behavioral health line of business and 22% to the physical health line of business for the purpose of reporting.</p> <p><b>Observation:</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>N/A</b>	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 Medical Loss Ratio (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 variances were found.
<b>Classification and Allowability</b>	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.
<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	Unallowable Lobbying Expense	\$5,893	One of the sampled transactions tested was a payment to Frontline Public Affairs, a lobbying organization. The criteria at 45 CFR Section 75.450(a) specifies lobbying expense as unallowable.
2	Unallowable Lobbying Expense	\$7,765	One of the sampled transactions tested was a payment to the Colorado Association of Health Plans, a lobbying organization. The criteria at 45 CFR Section 75.450(a) specifies lobbying expense as unallowable.
3	Inconsistency Between MRT and MLR Reports	\$(7,287,257)	<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> </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>	<p>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.</p> <p>Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions related to categorization were noted.</p>

*Table 9. Subcapitated Observations*

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	<p>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.</p> <p>Additionally, the data were analyzed by service category to identify proper categorization of medical claims. No exceptions related to categorization were noted.</p>

*Table 10. Other Medical Observations*

Topic	Description of Observation
<b>Reconciliation</b>	<p>We reconciled the other medical cost category amounts reported on the SFY 2023 MRT to the supporting data. Variances were found between the supporting documentation and what was reported on the MRT.</p>
<b>Classification and Allowability</b>	<p>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.</p>

Table 11. Other Medical Findings

#	Brief Description	Amount	Description of Finding
1	Unsupported and Improperly Classified Incentive & Provider Payments (Funded with Capitation Rates)	\$1,000,000	The RAE incorrectly classified Behavioral Health Incentive Payments (BHIP) as incentives and provider payments "funded with capitation rates." However, BHIP is an incentive payment from the state and should be reported as an incentive "funded with incentive payments from the state" on the MRT. Additionally, the documentation provided indicates the amount reported was based on an estimate, and documentation was not provided to support actual expense incurred during the reporting period. Therefore, the reported expense is not sufficiently supported.
2	Unallowable Incentive & Provider Payments (Funded with Capitation Rates)	\$3,116,420	The RAE reported Key Performance Indicator (KPI) and Performance Pool incentives associated with the RAE's physical health (care coordination) line of business on the MRT. These payments are not allowable on the MRT, as they are received separate from the RAE BH line of business and should not be considered in the establishment of behavioral health rates. The unallowable expense reported for each category is as follows: <ul style="list-style-type: none"> <li>■ KPI: \$675,640</li> <li>■ Performance Pool: \$2,440,780</li> </ul>
3	Unallowable Incentive & Provider Payments (Funded with Incentive Payments from the State)	\$1,699,634	The RAE reported American Rescue Plan Act (ARPA) incentive payments on the MRT, which are pass-through grant funds received for high intensity outpatient funding. The expense is not allowable on the MRT, due to being grant funding received outside of the RAE BH line of business, and should not be considered in the establishment of behavioral health rates.