



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

**Rocky Mountain Health Plan  
Health Maintenance Organization Region 1  
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: Rocky Mountain Health Plan (RMHP) Health Maintenance Organization (HMO) Region 1

Dear Ms. Cui:

We are pleased to provide the annual report for RMHP HMO Region 1 operating in Delta, Garfield, Gunnison, Mesa, Montrose, Ouray, Pitkin, Rio Blanco, and San Miguel counties. Our review covers costs reported by RMHP HMO Region 1 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

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Rocky Mountain Health Plan

## Background

RMHP HMO Region 1 is contracted with the state of Colorado to manage and administer physical health and behavioral to Medicaid beneficiaries in Delta, Garfield, Gunnison, Mesa, Montrose, Ouray, Pitkin, Rio Blanco, and San Miguel counties. RMHP is paid on a per member per month (PMPM) basis for services.

RMHP has administrative services agreements with five related-party entities:

- United HealthCare Services, Inc. (UHS).
- Optum RX.
- Optum Tech.
- Optum Insight.
- Optum Health.

RMHP has an administrative services agreement with their related-party, UHS, for administrative and operational services. Under this agreement, payments are made based on the plan's allocated portion of UHS's expenses where the services/use of assets are shared among the company and other health plans.

RMHP has a pharmacy benefit management contract with their related-party, Optum RX, for administrative services related to pharmacy management and pharmacy claims processing for enrollees, manufacturer rebate administration, pharmacy incentive services, specialty drug pharmacy services, and durable medical equipment services. Under this agreement, payments are made based on a flat rate per claim.

RMHP has a contract with their related-party, Optum Tech, to provide software, technology infrastructure, and information technology consulting services. Under this agreement, payments are made based on the plan's allocated portion of expenses where the services/use of assets are shared among the company and other health plans.

RMHP has a contract with their related-party, Optum Insight, to provide payment integrity, subrogation, pre-pay authorization, and acutarial services. Under this agreement payments are made based on the plan's allocated portion of expenses where the services/use of assets are shared among the company and other health plans.

RMHP has a contract with their related-party, Optum Health, to provide claims processing, provider contracting, credentialing, provider relations, and call center services. Under this agreement, payments are made on a PMPM basis.

RMHP HMO Region 1 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 RMHP on the SFY 2023 MRT for RMHP HMO Region 1 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.	<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 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"> <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 3. Allocation Methodology – Administrative Expense*

Type of Expense	Description of Allocation Methodology and Observations
<b>Administrative Expense Allocation</b>	<p><b>Description:</b> RMHP allocates expenses across multiple lines of business using various allocation statistics. There are two types of administrative costs: workforce and other. Workforce costs are shared across all lines of business based on various metrics, including percent of revenue, membership, and claims volume. Other administrative costs, excluding workforce costs, which are not directly booked to the applicable line-of-business (LOB) are allocated based on percent of premium.</p> <p><b>Observations:</b> The documentation provided is consistent with the methodology described, except for isolated instances of intradepartmental expenses that were improperly allocated across lines of business. The reconciliation variance 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
<b>Provider Reinvestment</b>	<p><b>Description:</b> RMHP HMO invests funds in high performing providers. Payments are allocated among the providers based on their tier in the network, achievement of quality performance, and total cost relativity.</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 5. 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. We identified the reported expense was under-reported by \$1,246,509 in aggregate. The significant reconciliation findings are listed below.



Topic	Description of Observation
<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>No variances were noted between the MRT and MLR in the above expense categories.</p>

Table 6. Administrative Expense Findings

#	Brief Description	Amount	Description of Finding
1	Reconciliation Variance- Administrative Expense	\$(1,246,509)	We identified a reconciliation variance where Administrative expenses were under-reported in the amount of \$1,246,509. RMHP allocates expenses across multiple lines of business using various allocation statistics. The worksheets used to calculate the allocated expenses are complex. In the course of our reconciliation, we noted various manual entry errors that attributed to multiple variances.
2	Reconciliation Variance- Unallowable Administrative Expense	\$552	We identified a reconciliation variance where Unallowable Administrative expense was over-reported in the amount of \$552. RMHP allocates expenses across multiple lines of business using various allocation statistics. The worksheets used to calculate the allocated expenses are complex. In the course of our reconciliation, we noted various manual entry errors that attributed to multiple variances.
3	Reconciliation Variance- HCQI	\$(149,271)	We identified a reconciliation variance where HCQI Salaries were under-reported in the amount of \$149,271. This variance is due to a manual entry error where an incorrect allocation percentage was applied.
4	HCQI Salaries	[Unknown]	We identified instances where the job description indicated the employee performed retrospective reviews which are unallowable per 45 CFR Section 158.150 (c)(7). Additionally, we reviewed job titles and job descriptions for director-level positions and identified instances where the percentage of time allocated to HCQI activities may include responsibilities that do not meet the definition of HCQI per 45 CFR Section 158.150 (b)(1).
5	Unallowable Entertainment	\$590	We tested one transaction for entertainment in the amount of \$567. This expense is not allowable per 45 CFR Section 75.438 Entertainment. Additionally, the support provided was not sufficient to determine if payment occurred as reported. In our review of the general ledger transactions, we identified an additional entertainment expense in the amount of \$23.

#	Brief Description	Amount	Description of Finding
6	Unallowable Out of Period Expense	[Unknown]	We tested one transaction for technical information technology infrastructure support services in the amount of \$30,786. The support provided was not sufficient to determine if the expense is properly stated within the SFY 2023 reporting period.
7	Unsupported Expense	\$16,335	We tested one transaction for an internal “chargeback” for systems capital allocation in the amount of \$16,335. The transaction was not adequately supported with invoice documentation or payment documentation due to the internal mechanism for generating the expense.

### 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
<b>Reconciliation, Classification, and Allowability</b>	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 exceptions were noted.

*Table 8. Subcapitated Observations*

Topic	Description of Observation
<b>Reconciliation, Classification, and Allowability</b>	We reconciled the Subcapitated cost category amount reported on the SFY 2023 MRT to the supporting data to determine whether service dates and runout period were consistent with the MRT instructions. Based on this review, the Subcapitated cost 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. The subcapitated payment detail provided includes monthly capitated rates for each capitated member. It did not include encounter level detail. No exceptions were noted related to proper categorization of medical claims.

*Table 9. 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. No exceptions were noted.
<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, except those listed in the findings below.

Table 10. Other Medical Findings

#	Brief Description	Amount	Description of Finding
1	Estimated Provider Reinvestment Incentive	\$4,669,833	The \$4,669,833 expense for Provider Reinvestment Incentives reported in the "Incentive & Provider Payments" line of the MRT is an estimate, which at the time of this engagement had not been paid to the providers. Additionally, the payout to providers is contingent on final quality results completed by the state and included in the MLR. The PMPM rate was based on a discussion with senior leadership. The logic to determine which providers will receive payments and the formula for calculating those payments has not been finalized.