

The background features a blurred medical scene with a green overlay. A large white cross is centered. Various medical icons are scattered: a syringe at the top right, a pill, a virus, a stethoscope at the bottom left, and a group of three people. A dark grey diagonal band runs from the top right to the bottom left, containing the text.

MOLINA HEALTHCARE OF
VIRGINIA, INC.

Virginia Department of Medical
Assistance Services

**Managed Care Organization (MCO)
Administrative Expenses**

With Independent Accountant's Report Thereon

For the Calendar Year Ending December 31, 2021



**MYERS AND
STAUFFER** LLC
CERTIFIED PUBLIC ACCOUNTANTS



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Independent Accountant's Report

Virginia Department of Medical Assistance Services
Richmond, VA

We have performed the procedures enumerated in Appendix A on the administrative expenses for Molina Healthcare of Virginia, Inc. (Molina) for the period of January 1, 2021 through December 31, 2021. We applied these procedures to assist you with respect to analyzing administrative expenses for Medicaid rate development. The above referenced Managed Care Organization (MCO)'s management is responsible for the accuracy and completeness of the financial information.

The Virginia Department of Medical Assistance Services (Department) has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of analyzing administrative expenses for Medicaid rate development. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our procedures are contained within Appendix A and our findings are contained in Appendices B through D. As agreed, materiality limits were applied as specified within the Agreed-Upon Procedures Program.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion on the MCO's administrative expenses. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the MCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Department, and is not intended to be, and should not be, used by anyone other than this specified party.

Myers and Stauffer LC
Glen Allen, VA
May 18, 2022



Appendix A: Agreed Upon Procedures

Preliminary Work

- 1) Conduct an entrance call with DMAS and Mercer, DMAS' actuary for MCO rate setting. Gain an understanding of information needed by Mercer for rate setting purposes. Determine if either DMAS or Mercer have initial concerns requiring special attention.
- 2) Send an initial request list to each MCO to include, but not limited to, a survey containing a questionnaire, Board of Directors minutes, organizational charts, working trial balance, adjusting journal entries, audited financial statements, reconciliation of the working trial balance and the quarterly reporting, support for the allocation of administrative expenses and net premium income to the Medicaid line of business and between each Medicaid product, cost allocation worksheet summarizing quarterly reporting information and MCO reported adjustments, schedule of related-party transactions, related-party agreements, narrative surrounding reinsurance reporting, etc.
- 3) Conduct an entrance call with appropriate MCO personnel to include (a) determination of MCO personnel who should be contacted during the course of our procedures for information, explanations, documents, etc., and (b) location and availability of the information requested.
- 4) Briefly document the entity's accounting procedures and internal control per MCO responses on the survey. Emphasis should be placed on the ability of the system(s) to generate reliable cost, revenue, and statistical information.
- 5) Read Board of Directors minutes from the beginning of the report period through the current date. Document matters impacting the scope of these procedures such as discussions related to administrative costs and non-allowable or non-recurring costs as described in Step 16. Obtain copies or excerpts of pertinent sections, and file in work papers. Cross-reference matters discussed in the minutes to the related work papers.
- 6) Obtain the audited financial statements including related footnotes. Document matters impacting the scope of these procedures such as the opinion, notes that may provide information regarding non-allowable or non-recurring costs as described in Step 17, and/or related parties.
- 7) Obtain the names of all related parties from the MCO. Inspect the organizational chart, the annual statement submitted to the Virginia Bureau of Insurance (annual statement), and audited financial statements for related parties not identified by the MCO.
- 8) Obtain a summary work paper of related-party transactions from the MCO. Ensure it contains all related parties identified by the MCO and any additional related parties identified through Step 7. Cross-reference procedures performed with respect to items on the summary work paper to other applicable work papers or indicate the procedures performed on the summary work paper.



- 9) Obtain the names of all delegated vendors from the MCO. Inspect the organizational chart, the annual statement, and audited financial statements for delegated vendors not identified by the MCO.
- 10) Consider whether any specific information has come to our attention concerning the existence of possible fraud or prohibited acts. Fraud risk factors for this procedure include: discrepancies in accounting records, conflicting or missing evidential matter, threatened financial stability or profitability, and lack of an effective corporate compliance program. If fraud risk factors are identified, document those risk factors or conditions and our response to them.

Trial Balance Reconciliation

- 11) Reconcile total expenses and total administrative expenses per the adjusted trial balance as of December 31, 2021 to the annual statement for the year ended December 31, 2021 and the quarterly filing required by the Department.
- 12) Obtain the adjusted trial balance as of December 31, 2021. For a sample of 20 accounts, trace the account titles, account numbers, and ending balances for the administrative expenses per the adjusted trial balance to the general ledger for the year ended December 31, 2021.
- 13) Obtain the year-end adjusting journal entries recommended by the independent accountant for the year ended December 31, 2021. Inspect the entries affecting administration expense accounts for propriety. Ensure postings of adjustments to the trial balance, if adjusting journal entries have not been posted to the general ledger at year end.

Administrative Expenses

- 14) Determine how the MCO allocated the administration expenses and net premium income among the various lines of business. Determine how the MCO allocated the administration expenses for the Medicaid line of business to Medallion 4.0, CCC Plus, and any other products included by the MCO in the Medicaid line of business. Determine if any trial balance accounts are allocated between administration and medical expenses.
 - a. Document this understanding through a narrative.
 - b. Document the MCO's support for these allocations.
 - c. Request supporting documentation for the elements of any allocation basis utilized by the MCO and ensure it agrees.
- 15) Document the cost allocation worksheet provided by the MCO in response to the request list. Trace the following elements to the support provided for allocations. Request additional support, as needed, if the self-reported amounts are not full account balances.
 - a. Self-Excluded Expenses
 - b. Healthcare Quality Improvement Expenses (HCQI)
 - c. Fraud Reduction and Recovery Expenses
 - d. Non-recurring expenses such as start-up costs
 - e. Care Coordination
 - f. COVID 19 Related Expenses

Appendix B: Results

Source of Information

Our procedures were performed to determine allowable administrative expenses for the purpose of Medicaid rate development. Our procedures were not performed to determine whether such administrative expenses were properly reported for purposes of the Bureau of Insurance of the Commonwealth of Virginia.

We used the quarterly filing required by the Department (quarterly filing), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for Molina Healthcare of Virginia, Inc. for the year ended December 31, 2021.

Molina Healthcare, Inc. (Molina) completed its acquisition of Magellan Complete Care on December 31, 2020 and Magellan Complete Care became known as Molina Healthcare of Virginia, Inc. (Molina of Virginia). Molina of Virginia is a wholly owned subsidiary of Molina. Molina of Virginia also receives administrative services from Molina. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a schedule of allocated expenses for Molina.

Molina of Virginia has delegated certain functions to vendors. Magellan Rx Management, LLC (MRx) provides pharmacy benefit management services. DentaQuest, LLC provides administration of the dental benefit. VSP Vision Care, Inc. (VSP) provides administration of the vision benefit. ACES\$ Financial Management Services is the fiscal employer/agent for consumer directed services. Veyo, LLC provides administration of the non-emergent transportation benefit.

Trial Balance Reconciliation

We obtained Molina of Virginia's adjusted trial balance as of December 31, 2021, and agreed the account descriptions, account numbers and ending balances for a sample of 20 accounts to the general ledger for the year ended December 31, 2021. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the Molina of Virginia adjusted trial balance as of December 31, 2021 of \$113,880,836 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$117,358,190. The difference of \$3,477,354 is due to a reclassification of the administrative portion of Veyo, LLC non-emergent transportation expenses from medical to administrative expenses, with an additional \$2 variance. The administrative expenses including claims adjustment expenses per the Molina of Virginia adjusted trial balance as of December 31, 2021 of \$113,880,836 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$113,880,838, within a \$2 variance.

Administrative Expenses

Total claims adjustment expenses and administrative expenses included in the quarterly filing and Annual Statement consist of direct and indirect expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Indirect



expenses are allocated to the appropriate product. The total direct and indirect Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are \$33,963,733 and \$83,394,457 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$33,963,733 and \$79,917,105 respectively. The \$3,477,352 difference in General Administrative expenses is due to a reclassification of the administrative portion of Veyo, LLC non emergent transportation expenses from medical to administrative expenses.

We compared total Molina of Virginia administrative and claim adjustment expenses reported on the quarterly filing by line item for the current year and prior year and obtained explanations for any line item with a change greater than \$100,000 and 10%. Total general administrative expenses, excluding investment expenses, for 2020 were \$107,351,743 compared to 2021 expenses of \$117,358,190. The increase of \$10,006,447 is primarily due to an increase in member months in 2021. This is evidenced by an increase of 235,222 member months, from 1,182,597 in 2020 to 1,417,819 in 2021. A secondary reason for the increase in cost was due to the acquisition of Magellan Complete Care by Molina effective December 31, 2020 which caused an increase in behavioral health administrative expenses as Magellan retained this service on a contracted basis.

We inspected the accounts and expense categories included in Molina of Virginia's trial balance. This included Molina of Virginia's direct expenses and Molina allocated expenses. We judgmentally selected expense categories and accounts for further inspection. Based on this inspection, no expenses requiring exclusion were identified. Additionally, we asked Molina of Virginia to identify any start-up costs related to the Medicaid Enterprise System (MES) conversion. Molina of Virginia identified \$252,033 in start-up costs related to Medicaid expansion, MES implementation, Provider Services Solutions (PRSS) implementation, and the behavioral health redesign. These expenses have been excluded from the Underwriting Exhibit at Appendix C and amortization for a portion of start-up costs identified in the current year and in previous years has been included through a separate adjustment. However, this expense will be excluded for rate setting.

Molina provides Molina of Virginia with administrative services. The Services Agreement by and between Molina of Virginia and Molina effective January 1, 2021 allows for a monthly fee equal to an amount reflecting the value of the administrative services provided. Payments made to Molina were \$31,993,278.

A schedule documenting allocated costs from Molina was provided to agree to amounts included with Molina of Virginia administrative expenses. Support for allocated costs was received on a sample basis and were found to be allowable, thus an adjustment is not needed.

MRx, DentaQuest, VSP, and ACES\$ expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the pharmacy benefit, administration of the dental benefit, administration of the vision benefit, and fiscal employer/agent services for consumer directed services, respectively. Veyo, LLC provides administration of the non-emergent transportation



benefit. The expenses are recorded to a medical account and the administrative component, totaling \$3,477,353 has been appropriately reclassified to administrative for the purposes of the quarterly filing.

Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are calculated by Molina of Virginia through review of the administrative expenses net of Program Integrity expense for the operation. Labor and non-labor expenses are separately identified. Labor expenses are identified through a review of each employee's role and assignment of a percentage of the employee's time spent on HCQI activities in four categories (Improve Health Outcomes, Wellness and Health Promotion, Prevent Hospital Readmissions, Improve Patient Safety/Reduce Medical Errors) based on job duties. The score is then multiplied by the total labor related expense for the employee to determine the amount of HCQI expense. The non-labor expenses are determined by looking at all the activity for the year and selecting items that fell into five categories (Improve Health Outcomes, Wellness and Health Promotion, Prevent Hospital Readmissions, Improve Patient Safety/Reduce Medical Errors, Health Information Technology). For purposes of the calculation, only direct costs of Molina of Virginia were considered and none of the related party costs from Molina were considered HCQI. Total HCQI expense allocated to Medicaid in 2021 is \$22,976,943. This amount included \$11,789,032 related to care coordination.

Reinsurance

Reinsurance expense of \$23,333 was agreed to the trial balance and has been included in Net Premium Income on the quarterly filing. Molina of Virginia advises that no recoveries have occurred to date.

Total Revenues

Total revenues were agreed to the trial balance. Amounts reported as change in unearned premium reserves and aggregate write-ins were inspected to determine appropriateness for rate setting purposes. The change in unearned premium reserves included reserves related to prior and future periods which were removed for the purposes of this report. Aggregate write-ins included directed payments and vaccine administration revenues, which were also removed for the purposes of this report. Vaccine administration revenues of \$918,921 were agreed to the trial balance and have been included in aggregate write-ins for other non-health care related revenues on the quarterly filing. These revenues have been removed from total revenues for the purposes of this report.



MOLINA HEALTHCARE OF VIRGINIA, LLC
APPENDIX C: UNDERWRITING EXHIBIT

Underwriting Exhibit for the Year Ending December 31, 2021							
	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
Administrative Expense							
Claims Adjustment Expenses	\$ 589,438	\$ 949,235	\$ 1,737,109	\$ 435,527	\$ 3,711,309	\$ 37,036	\$ 110,510
General Administrative Expenses	\$ 15,986,298	\$ 24,281,375	\$ 57,542,582	\$ 13,756,253	\$ 111,566,508	\$ 1,016,652	\$ 916,174
Total Administrative Expenses	\$ 16,575,736	\$ 25,230,610	\$ 59,279,691	\$ 14,191,780	\$ 115,277,817	\$ 1,053,688	\$ 1,026,684
Less: Self-Reported Excludable Expenses *	\$ (1,238,455)	\$ (224,307)	\$ (2,759,463)	\$ (69,951)	\$ (4,292,176)	\$ (104,787)	\$ (992)
Adjusted Administrative Expenses	\$ 15,337,281	\$ 25,006,303	\$ 56,520,228	\$ 14,121,829	\$ 110,985,641	\$ 948,901	\$ 1,025,692
Adjustment 1: Remove 2021 start up costs.	\$ (36,475)	\$ (58,739)	\$ (122,684)	\$ (30,759)	\$ (248,657)	\$ (2,292)	\$ (1,084)
Adjustment 2: Include amortized start up costs related to Expansion, Electronic Visit Verification, Fiscal Employer Agent transition, and the behavioral health redesign.	\$ 95	\$ 31,403	\$ 17,796	\$ 95,694	\$ 144,988	\$ -	\$ -
Total Adjusted Administrative Expenses	\$ 15,300,901	\$ 24,978,967	\$ 56,415,340	\$ 14,186,764	\$ 110,881,972	\$ 946,609	\$ 1,024,608
Total Revenues	\$ 178,653,208	\$ 296,477,394	\$ 525,558,744	\$ 148,167,384	\$ 1,148,856,730	\$ 9,233,167	\$ 4,366,907
Adjustment 3: Remove unearned premium reserves not relating to the current period.	\$ 2,099,003	\$ 599,625	\$ (6,233,639)	\$ (4,635,440)	\$ (8,170,451)	\$ -	\$ -
Adjustment 4: Remove directed payments included in aggregate write ins.	\$ (31,703,189)	\$ (59,828,594)	\$ (31,286,010)	\$ (24,243,758)	\$ (147,061,551)	\$ -	\$ -
Adjustment 5: Remove COVID vaccine revenue included in aggregate write ins.	\$ (197,517)	\$ (478,561)	\$ (136,712)	\$ (86,177)	\$ (898,967)	\$ (19,954)	\$ -
Total Adjusted Revenues	\$ 148,851,505	\$ 236,769,864	\$ 487,902,383	\$ 119,202,009	\$ 992,725,761	\$ 9,213,213	\$ 4,366,907
Percentage of Adjusted Administration Expenses to Total Adjusted Revenues	10.28%	10.55%	11.56%	11.90%	11.17%	10.27%	23.46%
Member Months	513,077	540,242	250,955	66,008	1,370,282	43,696	3,841
Per Member Per Month Adjusted Administration Expenses	\$ 29.82	\$ 46.24	\$ 224.80	\$ 214.92	\$ 80.92	\$ 21.66	\$ 266.76
Separately Identified Expenses included in Adjusted Administrative Expenses							
Healthcare Quality Improvement Expenses (HCQI)	\$ 1,987,203	\$ 3,200,204	\$ 14,223,443	\$ 3,566,093	\$ 22,976,943	\$ 124,860	\$ 133,785
Fraud Reduction and Recovery Expenses	\$ 34,020	\$ 54,786	\$ 114,427	\$ 28,689	\$ 231,922	\$ 2,138	\$ 1,011
Start Up / Other Non Recurring Expenses	\$ 36,475	\$ 58,739	\$ 122,684	\$ 30,759	\$ 248,657	\$ 2,292	\$ 1,084
Care Coordination expenses as defined within the MCO contract	\$ 419,554	\$ 675,652	\$ 8,550,140	\$ 2,143,686	\$ 11,789,032	\$ 26,361	\$ -



MOLINA HEALTHCARE OF VIRGINIA, LLC
APPENDIX C: UNDERWRITING EXHIBIT

Underwriting Exhibit for the Year Ending December 31, 2021							
	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
COVID 19 Related Expenses: Non Recurring	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
COVID 19 Related Expenses: Long Term program changes as a result of the pandemic	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allowable Member Incentives	\$ 11,280	\$ 18,165	\$ 46,156	\$ 11,572	\$ 87,173	\$ 709	\$ -

* Medicaid expenses excluded by the MCO include lobbying expenses (\$7,071); contributions and donations (\$498), State and Federal income taxes (\$4,189,763), and claims interest (\$200,623).



Appendix D: Schedule of Adjustments and Comments

During our procedures we noted certain matters involving costs, that in our determination did not meet the definitions of allowable administrative expenses and other operational matters that are presented for your consideration.

Adjustment #1 – Remove 2021 start-up costs.

Molina of Virginia identified start-up expenses related to Medicaid Expansion, Medicaid Enterprise Systems (MES), Provider Services Solution (PRSS), and a behavioral health redesign. These expenses are being amortized over five years based on implementation date of the program. The 2021 expenses were removed in total. See Adjustment #3 for the related adjustment to add back the amortization costs for programs that have begun prior to the end of the period. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Proposed Adjustment						
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
(\$36,475)	(\$58,739)	(\$122,684)	(\$30,759)	(\$248,657)	\$(2,292)	(\$1,084)

Adjustment #2 – Include amortized start-up costs related to Expansion, Electronic Visit Verification (EVV), Fiscal Employer Agent transition, and the behavioral health redesign.

Molina of Virginia has identified start-up costs related to various programs in the current year and in previous years. These expenses were removed each year to be amortized over a period of five years beginning with the start date of each program. Expenses included in this adjustment are \$635,484 related to Medicaid Expansion, which began January 1, 2019, \$54,575 related to EVV, which began September 1, 2020, \$33,638 related to the Fiscal Employer Agent (FEA) transition, which began January 1, 2020, and \$14,895 related to the behavioral health redesign which began July, 2021. Expenses held for next year are \$524,343 related to MES and \$37,350 related to PRSS which both began April 4, 2022. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Proposed Adjustment						
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
\$95	\$31,403	\$17,796	\$95,694	\$144,988	\$0	\$0



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #3 – Remove unearned premium reserves not relating to the current period.

Molina of Virginia included unearned premium reserves related to periods prior to January 1, 2021 based on their financial reporting procedures. An adjustment of \$8,170,451 was made to remove all unearned premium reserves not related to the period under review, for the purpose of administrative reporting.

Proposed Adjustment						
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
\$2,099,003	\$599,625	(\$6,233,639)	(\$4,635,440)	(\$8,170,451)	\$0	\$0

Adjustment #4 – Remove directed payments included in aggregate write-ins.

Molina of Virginia included directed payments in aggregate write-ins. An adjustment of \$(147,061,551) was made to remove directed payments from total revenue.

Proposed Adjustment						
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
(\$31,703,189)	(\$59,828,594)	(\$31,286,010)	(\$24,243,758)	(\$147,061,551)	\$0	\$0

Adjustment #5 – Remove COVID vaccine revenue included in aggregate write-ins.

Molina of Virginia included COVID vaccine revenue in aggregate write-ins. An adjustment of \$(898,967) was made to remove COVID vaccine revenue from total revenue.

Proposed Adjustment						
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS	DSNP
(\$197,517)	(\$478,561)	(\$136,712)	(\$86,177)	(\$898,967)	(\$19,954)	\$0