

VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: Magellan Complete Care of Virginia, LLC



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Independent Accountant's Report

Virginia Department of Medical Assistance Services
600 East Broad Street
Richmond, VA 23219

MCO Vendor: Magellan Complete Care of Virginia, LLC

Period Covered: January 1, 2019 - December 31, 2019

We have performed the procedures enumerated in Appendix A on the administrative expenses for the above referenced Managed Care Organization (MCO) and period. We were asked to apply these procedures to assist you with respect to analyzing administrative expenses for Medicaid rate development. The above referenced MCO vendor'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 and C. 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 15, 2020



Appendix A - Agreed Upon Procedures

MCO Vendor: Magellan Complete Care of Virginia, LLC
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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.



Appendix A - Agreed Upon Procedures

MCO Vendor: Magellan Complete Care of Virginia, LLC
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- 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, 2019 to the annual statement for the year ended December 31, 2019 and the quarterly filing required by the Department.
- 12) Obtain the adjusted trial balance as of December 31, 2019. 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, 2019.
- 13) Obtain the year-end adjusting journal entries recommended by the independent accountant for the year ended December 31, 2019. 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
- 16) Compare administrative and claims adjustment expenses per the quarterly filing for the year ended December 31, 2019 to the prior year and obtain explanations for any fluctuations greater than 10 percent and \$100,000. Determine and document whether the MCO's explanation is consistent with supporting documentation.



Appendix A - Agreed Upon Procedures

MCO Vendor: Magellan Complete Care of Virginia, LLC
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- 17) Scan administration expense accounts allocated to the Medicaid line of business for the below types of expenses. Select 15 to 20 accounts from this scan and from Step 15 and request the general ledger and a description of the account contents. If these documents are inconclusive as to the nature of the expense, request invoices for no more than five entries. Confer with the assigned senior manager/partner to select samples and document the reasoning.
 - a) Non-allowable expenses as defined either by the MCO contract with DMAS or by CMS Publication 15. Examples of non-allowable expenses include: lobbying, contributions/donations, income tax, management fees for non-Virginia operations, and management fees for the sole purpose of securing an exclusive arrangement.
 - b) Non-recurring expenses such as start-up costs and expenses reimbursed separately from the MCO rate such as the health insurer fee.
 - c) HCQI Expenses
 - d) Fraud Reduction and Recovery Expenses
- 18) Agree the summary work paper of related party transactions from the MCO from Step 8 to the trial balance. Obtain agreements or other supporting documentation for payments to or costs allocated from affiliates or parent companies and determine if exclusivity payments or special contractual arrangements are included. Ensure the regulations within CMS Publication 15-1, Chapter 10 have been applied.
- 19) Agree the summary work paper of delegated vendor transactions from the MCO from Step 9 to the trial balance. For vendors with subcapitated arrangements and the Pharmacy Benefit Manager (PBM), obtain agreements and ensure that medical and administrative expenses were appropriately separated on the quarterly filing. For the PBM, collect information regarding where all costs (claims payments, ingredient cost, dispensing fees, rebates, sales tax, spread pricing, administrative payment, and other) are included on the trial balance and collect information regarding spread pricing, if applicable.
- 20) Prepare a narrative that summarizes the MCOs' methodology for reporting reinsurance premiums and reinsurance recoveries. Include both reinsurance amounts per the annual statement, as well as the allocation methodology to the Medicaid line of business. Agree amounts to the trial balance or document the trial balance account these amounts are included in.



Appendix B - Results

MCO Vendor: Magellan Complete Care of Virginia, LLC
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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) and the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement) for Magellan Complete Care of Virginia, LLC (MCC of Virginia) for the year ended December 31, 2019. MCC of Virginia did not have audited financial statements as of the date of this report.

MCC of Virginia is a wholly owned subsidiary of Magellan Healthcare, Inc. (Magellan Healthcare). MCC of Virginia receives administrative services from Magellan Healthcare. MCC of Virginia has administrative expenses from two other related parties, Magellan Rx Management, LLC (MRx) and National Imaging Associates Inc. (NIA), which are both owned by Magellan Healthcare. MRx provides prescription benefit management for MCC of Virginia. NIA provides utilization review services for certain radiology services. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a schedule of allocated expenses for Magellan Health, as well as agreements set with Magellan Healthcare, MRx, and NIA.

MCC of Virginia has delegated certain functions to vendors. DentaQuest provides administration of the dental benefit. VSP Vision Care provides administration of the vision benefit. ACES\$ is the fiscal employer/agent for consumer directed services. Veyo provides administration of the non emergent transportation benefit. Shared Health provides administrative services and technology solutions to support the billing, enrollment and administration of the CCC Plus program.

Trial Balance Reconciliation

We obtained MCC of Virginia's adjusted trial balance as of December 31, 2019, 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, 2019. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the MCC of Virginia adjusted trial balance as of December 31, 2019 of \$78,253,629 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$81,086,304. The difference of \$2,832,675 is due to a reclassification of the administrative portion of Veyo non emergent transportation expenses from medical to administrative expenses. The administrative expenses including claims adjustment expenses per the MCC of Virginia Medicaid adjusted trial balance as of December 31, 2019 of \$78,253,629 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$78,253,629.



Appendix B - Results

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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 \$1,755,739 and \$79,330,565 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$1,755,739 and \$76,497,890 respectively. The \$2,832,675 difference in General Administrative expenses is due to a reclassification of the administrative portion of Veyo non emergent transportation expenses from medical to administrative expenses.

We compared total MCC 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 2018 were \$48,986,790 compared to 2019 expenses of \$81,086,304. The increase of \$32,099,514 is primarily due to a full year of Medallion 4.0 experience in 2019 as compared to a partial year in 2018. This is evidenced by an increase of 575,242 member months for Medallion 4.0, from 93,295 in 2018 to 668,537 in 2019. Increases in CCC Plus costs are due to HCQI enhancements and contracting with a new vendor for fiscal employer/agent for consumer directed services.

We inspected the accounts and expense categories included in MCC of Virginia's trial balance. We judgementally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, we determined that \$27,682 in All-Payers Claims Database expense which is reimbursed separately, \$5,000 in donations expense, and \$64,873 in late fees and penalties should be excluded from the Underwriting Exhibit at Appendix C. Additionally, we asked MCC of Virginia to identify any start-up costs related to Medicaid expansion or the Medicaid Enterprise System (MES) conversion. MCC of Virginia identified \$351,962 in start-up costs related to MES implementation. These expenses have been excluded from the Underwriting Exhibit at Appendix C and will be amortized over a five year period beginning with MES implementation. However, this expense will be excluded for rate setting. In the year ending 12/31/2018 MCC of Virginia identified \$311,930 in start-up costs related to Medicaid expansion. These expenses have been amortized over a five year period beginning 1/1/2019, as this is the effective date for Medicaid expansion. Year one amortization expenses have been added to the Underwriting Exhibit at Appendix C. However, this expense will be excluded for rate setting.

Magellan Health provides MCC of Virginia with financial, legal, asset management, human resources, and other administrative services. The Management Services Agreement (MSA) by and between MCC of Virginia and Magellan Health effective January 2017 allows for a monthly administrative fee equal to 5% of all capitation received by the MCC of Virginia. MRx provides MCC of Virginia with Pharmacy Benefit Management services. The Service Agreement by and between MCC of Virginia and MRx effective January 2017 allows for a per claim administrative fee and a per review or appeal fee for prior authorizations and appeals processing. MRx also provides MCC of Virginia with medical pharmacy prior authorization services and a Healthcare Effectiveness Data and Information Set (HEDIS) support program. These service agreements are effective July 2019 and April 2019 and allow for an annual fee and a per case fee and a quarterly fee and an outreach fee, respectively. NIA provides MCC of Virginia with utilization review services for certain radiology services. The Service Agreement by and between MCC of Virginia and NIA effective August 2018 allows for a per member per month fee. A schedule documenting payments made to Magellan Health, Inc., MRx, and NIA was provided to agree to amounts included with MCC of Virginia administrative expenses. Payments made to Magellan Health, MRx, and NIA were \$21,176,869, \$1,774,536, and \$357,111, respectively.



Appendix B - Results

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Although the MSA with Magellan Health allows for a monthly administrative fee equal to a percentage of revenues, in practice actual costs are allocated from Magellan Health to MCC of Virginia. A schedule documenting allocated costs from Magellan Health was provided to agree to amounts included with MCC of Virginia administrative expenses. Payments made to Magellan Health were \$21,176,869. Support for allocated costs was received on a sample basis and were found to be allowable. MRx and NIA met the related party exception provided for within CMS Publication 15-1: 1010, thus an adjustment is not needed.

DentaQuest, VSP Vision Care, and ACES\$ expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the dental benefit, administration of the vision benefit, and fiscal employer/agent services for consumer directed services. Veyo provides administration of the non emergent transportation benefit. The expenses are recorded to a medical account and the administrative component, totaling \$2,832,675, has been appropriately reclassified to administrative for the purposes of the quarterly filing. Shared Health expenses are appropriately recorded to an administrative account as this vendor provides administrative services and technology solutions to support the billing, enrollment and administration of the CCC Plus program.

Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are calculated by MCC of Virginia through review of the administrative expenses net of Program Integrity expense for the operation. Employee and non-labor expenses are separately identified. Employee expenses are identified through a review of each employee's role and assignment of a percentage of the employees time spent on HCQI activities in four categories (Improve Health Outcomes, Wellness and Health Promotion, Prevent Hospital Readmission and 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 Readmission and Improve Patient Safety/Reduce Medical Errors and Health Information Technology). For purposes of the calculation, only direct cost of MCC Virginia were considered, none of the related party cost from Magellan Health, Inc. and MRx were considered HCQI. Total HCQI expense allocated to Medicaid in 2019 is \$20,842,304. This amount included \$9,797,534 related to care coordination.

Reinsurance

Reinsurance expense of \$16,667 was agreed to the trial balances and have been included in Total Other Administrative Costs on the quarterly filing. MCC of Virginia advises that no recoveries have occurred to date. MCC of Virginia received \$106,000 from DMAS related to reinsurance which net against prescription drug expenses within Total Medical Service Expenditures on the quarterly filing.



Appendix C - Underwriting Exhibit

MCO Vendor: Magellan Complete Care of Virginia, LLC
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Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	DSNP	Total Medicaid Line of Business
Claims Adjustment Expenses	\$ 1,080,372	\$ 658,783	\$ 16,584	\$ -	\$ 1,755,739
General Administrative Expenses	51,194,032	27,348,701	705,327	82,505	79,330,565
Total Administration Expenses	\$ 52,274,404	\$ 28,007,484	\$ 721,911	\$ 82,505	\$ 81,086,304
Less: Self-Reported Excludable Expenses (1)	746,720	(1,472,345)	(62,071)	5,264	(782,432)
Adjusted Administration Expenses	\$ 53,021,124	\$ 26,535,139	\$ 659,840	\$ 87,769	\$ 80,303,872
Less: Excluded Expenses (2)	(63,557)	(33,169)	(829)	-	(97,555)
Less: Start-up Expenses (3)	(253,837)	(95,715)	(2,410)	-	(351,962)
Plus: Medicaid Expansion Expenses (4)	54,089	8,297	-	-	62,386
Total Adjusted Administration Expenses	\$ 52,757,819	\$ 26,414,552	\$ 656,601	\$ 87,769	\$ 79,916,741
Net Premium Income (5)	\$ 549,015,246	\$ 285,589,592	\$ 7,773,997	\$ -	\$ 842,378,835
Percentage of Adjusted Administration Expenses to Net Premium Income	9.61%	9.25%	8.45%	0.00%	9.49%

(1) Expenses excluded by the MCO included lobbying expenses (\$5,674), contributions and donations (\$2,500), and State and Federal income taxes (\$774,259). State and Federal income taxes were negative for CCC Plus and DSNP.

(2) All-Payers Claims Database expenses of \$27,682, donations expenses of \$5,000, and late fees and penalties of \$64,873



Appendix C - Underwriting Exhibit

MCO Vendor: Magellan Complete Care of Virginia, LLC
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(3) Magellan identified costs associated with the implementation of electronic visit verification, costs associated with the transition away from PPL as a fiscal employment agent for personal care, and for the Medicaid Enterprise System (MES) conversion. These expenses will be amortized over five years beginning with the implementation of each. However, these costs will be excluded for rate setting.

(4) Magellan identified expenses related to Medicaid Expansion of \$161,930 in IT costs for configuration changes and approximately \$150,000 in pre go-live salaries. These expenses have been amortized over five years beginning 1/1/2019, as this is the effective date for Medicaid expansion. This is the first year of amortization. However, this expense will be excluded from rate setting.

(5) Included in Net Premium Income are write ins for other health care related revenues per the quarterly filing. These write ins include patient pay revenues and FFS case review of \$29,261,315 and \$13,106,040, respectively, and reductions to revenue for minimum MLR and risk corridor of \$1,229,125 and \$19,611,990, respectively.

Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	DSNP	Total Medicaid Line of Business
Fraud Reduction and Recovery Expenses (6)	\$ 341,506	\$ 2,282	\$ -	\$ -	\$ 343,788
Healthcare Quality Improvement Expenses (HCQI)	\$ 16,288,107	\$ 4,442,366	\$ 111,831	\$ -	\$ 20,842,304
Component of HCQI: Care Coordination expenses (7)	\$ 8,815,449	\$ 957,969	\$ 24,116	\$ -	\$ 9,797,534

(6) Fraud reduction and recovery expenses of \$423,443 have been limited to recoveries of \$343,788.

(7) Care Coordination expenses are included in HCQI expenses, above.