

VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: Optima Health Plan



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Independent Accountant's Report

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

MCO Vendor: Optima Health Plan
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

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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

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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

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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

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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), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for Optima Health Plan (OHP) for the year ended December 31, 2019.

OHP is operated under their parent holding company, Sentara Healthcare. Optima Health Plan also receives administrative services from Sentara Health Plans, Inc. (SHP), which is owned by Sentara Healthcare. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a trial balance for Optima Health Plan, as well as a separate trial balance for Sentara Health Plan.

OHP has delegated certain functions to vendors. OptumRx provides pharmacy benefit management services. DentaQuest provides administration of the dental benefit. EyeMed provides administration of the vision benefit. Public Partnerships, LLC (PPL) is the fiscal employer/agent for consumer directed services. Southeastrans, Inc. provides administration of the non emergent transportation benefit. OptumHealth Care Solutions, Inc. provides administration of the organ and bone marrow transplant benefit.

Trial Balance Reconciliation

We obtained OHP'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 OHP adjusted trial balance as of December 31, 2019 of \$235,144,998 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$239,494,512. The difference of \$4,349,514 is due to a reclassification of the administrative portion of Southeastrans, Inc. non emergent transportation expenses from medical to administrative expenses with \$4,312,802 related to Medicaid, \$36,707 related to Medicare, and a remaining immaterial variance of \$5. The administrative expenses including claims adjustment expenses per the OHP adjusted trial balance as of December 31, 2019 of \$235,144,998 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$235,144,997 within an immaterial 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 recorded at the SHP level, and allocated to the appropriate entities and products. The total direct and indirect Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are \$10,524,150 and \$129,282,917 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$10,524,150 and \$124,970,115 respectively. The \$4,312,802 difference in General Administrative expenses is due to a reclassification of the administrative portion of Southeastrans, Inc. non emergent transportation expenses from medical to administrative expenses.



Appendix B - Results

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We compared total OHP 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 \$107,232,335 compared to 2019 expenses of \$139,807,071. The increase of \$32,574,736 is primarily due increased membership. This is evidenced by an increase of 624,260 member months, from 2,351,793 in 2018 to 2,976,053 in 2019. HCQI costs increased significantly which is due to a change in methodology. In 2018, OHP elected the optional method of recording 0.8% of premium income as HCQI. In 2019, OHP has identified actual HCQI expenses through departmental review and analysis.

We inspected the accounts and expense categories included in OHP's trial balance. We judgementally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, we determined that \$13,046 in All-Payers Claims Database expense which is reimbursed separately and \$10,246 in lobbying expense should be excluded from the Underwriting Exhibit at Appendix C. In the year ending 12/31/2018 OHP identified \$3,227,500 in start-up costs related to Medicaid expansion. These expenses have been amortized over a five year period beginning January 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.

SHP provides OHP with administrative services. The Administrative Services and Marketing Agreement between OHP and SHP effective April 2005 allows for an allocation of actual costs. A schedule documenting payments made to SHP was provided to agree to amounts included with SHP of Virginia administrative expenses. Payments made to SHP were \$136,403,137.

A schedule documenting allocated costs from SHP was provided to agree to amounts included with OHP administrative expenses. SHP allocates 10% of costs to OHP based upon corporate support. We judgementally selected corporate rollup cost categories for further inspection. Based on this inspection, we determined that Corporate Services-Administration and Corporate Services-Advocacy cost categories contained unallowable donations expense and lobbying expense, respectively. The amount of these expenses related to Medicaid is \$7,694 and \$20,752, respectively.

PPL provides fiscal employer/agent services for consumer directed services and expenses are appropriately split between administrative and medical on the trial balance. Southeastrans, Inc. provides administration of the non emergent transportation benefit. The expenses are recorded to a medical account and the administrative component, totaling \$4,312,802 has been appropriately reclassified to administrative for the purposes of the quarterly filing. Optum Rx provides pharmacy benefit management services and the administrative fee and pharmacy per member per month fee are appropriately split between administrative and medical on the trial balance. Optum Rx returned the pharmacy portion of the survey, identifying \$19,547,623 in spread pricing for Medicaid. Amounts provided by Optum Rx agreed to the OHP trial balance. An adjustment is necessary to reclassify the spread pricing amount from medical to administrative. DentaQuest, EyeMed, and OptumHealthCare Solutions, Inc. expenses are recorded to medical accounts. The contracts were inspected and provided a single per member per month fee with no separation for administrative fees. DentaQuest provides administration of the dental benefit and expenses related to Medicaid are \$3,570,251. EyeMed provides administration of the vision benefit and expenses related to Medicaid are \$2,604,535. OptumHealth Care Solutions, Inc. provides administration of the organ and bone marrow transplant benefit and expenses related to Medicaid are \$11,267,072. In the future, OHP will be required to separate the administrative component of these expenses.



Appendix B - Results

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Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are calculated by OHP through review and analysis of the departments containing HCQI expenses. Departments containing HCQI expense are analyzed to determine the amount of cost associated with HCQI and the percentage of that cost associated with each of the five categories (Improve Health Outcomes, Wellness and Health Promotion, Prevent Hospital Readmission and Improve Patient Safety/Reduce Medical Errors and Health Information Technology). This expense is allocated to Medicaid using the same allocation basis for each department utilized for total department costs. Total HCQI expense allocated to Medicaid in 2019 is \$36,579,396. This amount included \$24,520,229 related to care coordination.

Reinsurance

OHP pays reinsurance premiums to RGA Reinsurance Company on a PMPM basis. Reinsurance recoveries are based on expenses for inpatient hospital services subject to defined limitation; however, the MCO advises that no recoveries relating directly to the Medicaid product have occurred to date. Reinsurance premiums of \$2,815,745 and recoveries of \$629,693 agreed to the Annual Statement.



Appendix C - Underwriting Exhibit

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Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Claims Adjustment Expenses	\$ 3,446,057	\$ 6,829,581	\$ 248,512	\$ 10,524,150
General Administrative Expenses	71,258,460	55,987,220	2,037,237	129,282,917
Total Administration Expenses	\$ 74,704,517	\$ 62,816,801	\$ 2,285,749	\$ 139,807,067
Less: Self-Reported Excludable Expenses (1)	(4,579,642)	(2,415,577)	(87,897)	(7,083,116)
Adjusted Administration Expenses	\$ 70,124,875	\$ 60,401,224	\$ 2,197,852	\$ 132,723,951
Less: Reclassified Expenses (2)	8,731,004	10,436,956	379,663	19,547,623
Less: Excluded Expenses (3)	(7,265)	(42,912)	(1,561)	(51,738)
Plus: Medicaid Expansion Expenses (4)	-	613,225	32,275	645,500
Total Adjusted Administration Expenses	\$ 78,848,614	\$ 71,408,493	\$ 2,608,229	\$ 152,865,336
Net Premium Income	\$ 850,353,295	\$ 859,931,670	\$ 31,290,802	\$ 1,741,575,767
Percentage of Adjusted Administration Expenses to Net Premium Income	9.27%	8.30%	8.34%	8.78%

(1) Expenses excluded by the MCO included related party management fees in excess of cost (\$5,321,947), contributions and donations (\$6), and interest for late claims payments (\$1,761,163).



Appendix C - Underwriting Exhibit

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(2) Optum Rx provides pharmacy benefit management services. The pharmacy portion of the survey, completed by Optum Rx, identifies \$19,547,623 in spread pricing for Medicaid. This adjustment is to reclassify the spread pricing amount from medical to administrative.

(3) Excluded expenses include \$13,046 in All-Payers Claims Database expense which is reimbursed separately and \$10,246 in lobbying expense. Excluded expenses also include \$7,694 in donations expense and \$20,752 in lobbying expense allocated from SHP.

(4) In the year ending December 31, 2018 OHP identified \$3,227,500 in start-up costs related to Medicaid expansion. These expenses have been amortized over a five year period beginning January 2019, the effective date for Medicaid expansion. This is the first year of amortization. However, this expense will be excluded from rate setting.

Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Fraud Reduction and Recovery Expenses	\$ 500,059	\$ 583,748	\$ 21,241	\$ 1,105,048
Healthcare Quality Improvement Expenses (HCQI)	\$ 23,840,820	\$ 12,291,325	\$ 447,251	\$ 36,579,396
Component of HCQI: Care Coordination expenses (5)	\$ 20,686,599	\$ 3,699,070	\$ 134,560	\$ 24,520,229

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