

The background features a blurred medical scene with a person lying down. A large green cross is centered over the person. Various medical icons are overlaid in a light green color, including a syringe, a pill, a virus, a stethoscope, and a group of people. A dark grey diagonal shape on the right side contains the text.

OPTIMA HEALTH PLAN

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, 2020



**MYERS AND
STAUFFER**_{LC}
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 Optima Health Plan for the period of January 1, 2020 through December 31, 2020. 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, 2021



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 16, 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 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.
- 9) 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

- 10) Reconcile total expenses and total administrative expenses per the adjusted trial balance as of December 31, 2020 to the annual statement for the year ended December 31, 2020 and the quarterly filing required by the Department.
- 11) Obtain the adjusted trial balance as of December 31, 2020. 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, 2020.
- 12) Obtain the year-end adjusting journal entries recommended by the independent accountant for the year ended December 31, 2020. 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

- 13) 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.
- 14) 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
 - g. Allowable Member Incentives
- 15) Compare administrative and claims adjustment expenses per the quarterly filing for the year ended December 31, 2020 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.



- 16) 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 14 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
 - e. Non-recurring expenses such as start-up costs
 - f. Care Coordination
 - g. COVID 19 Related Expenses
 - h. Allowable Member Incentives
- 17) Agree the summary work paper of related-party transactions from the MCO from Step 7 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.
- 18) Agree the summary work paper of delegated vendor transactions from the MCO from Step 8 to the trial balance. For vendors with sub-capitated 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.
- 19) 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

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 Optima Health Plan (OHP) for the year ended December 31, 2020. OHP did not have audited financial statements as of the date of this report.

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 Plans, Inc.

OHP has delegated certain functions to vendors. OptumRx provides pharmacy benefit management services. DentaQuest provides administration of the dental benefit. EyeMed Vision Care, LLC 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, 2020, 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, 2020. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the OHP adjusted trial balance as of December 31, 2020 of \$277,309,615 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$281,616,916. The difference of \$4,307,302 is due to a reclassification of the administrative portion of Southeastrans, Inc. non emergent transportation expenses from medical to administrative expenses. The administrative expenses including claims adjustment expenses per the OHP adjusted trial balance as of December 31, 2020 of \$277,309,615 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$277,309,615.

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 \$17,886,440 and \$146,927,591 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$17,886,441 and \$142,620,288 respectively. The \$4,307,302 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.

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 2019 were \$139,807,071 compared to 2020 expenses of \$164,814,031. The increase of \$25,006,960 is primarily due to the inclusion of \$16,396,936 in Health Insurer Fee expense in 2020, which was not applicable in 2019.

We inspected the accounts and expense categories included in OHP's trial balance. We judgmentally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, we determined that \$800,645 in interest expense on late claims payments and \$10,322 in lobbying fees should be excluded from the Underwriting Exhibit at Appendix C. 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 1, 2019, as this is the effective date for Medicaid expansion. Year two 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 administrative expenses. Payments made to SHP were \$164,814,031.

A schedule documenting allocated costs from SHP was provided to agree to amounts included with OHP administrative expenses. SHP allocates 6.5% of non IT costs to OHP based upon FTEs and directly allocates \$17,500,000 of IT costs to OHP which represents 7.8% of SHP IT costs. We judgmentally selected corporate rollup cost categories for further inspection. Based on this inspection, no expenses requiring exclusion were identified.

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 \$4,307,302 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 \$1,384,174 in spread pricing for Medicaid. An adjustment is



necessary to reclassify the spread pricing amount from medical to administrative. DentaQuest, EyeMed Vision Care, LLC, 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. The portion of DentaQuest expenses related to administration were calculated using percentages from the 2018 Medical Loss Ratio (MLR) examination resulting in a reclassification from medical to administrative expenses of \$283,152. Per the MLR examination, claims incurred by EyeMed Vision Care, LLC were slightly higher than payments made by OHP to EyeMed Vision Care, LLC, thus a reclassification is not necessary. For the purposes of the MLR examination, OHP used a re-stated basis in presenting expenses related to OptumHealth Care Solutions, Inc. combining these expenses with other transplant expenses making it difficult to identify the administrative portion of these expenses.

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 2020 is \$40,716,419. This amount included \$33,527,013 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 \$3,678,329 and recoveries of \$1,179,487 agreed to the trial balance and Annual Statement.



**OPTIMA HEALTH PLAN
APPENDIX C: UNDERWRITING EXHIBIT**

Underwriting Exhibit for the Year Ending December 31, 2020						
	FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
Administrative Expense						
Claims Adjustment Expenses	\$ 277,286	\$ 5,176,006	\$ 3,789,575	\$ 7,519,909	\$ 1,123,664	\$ 17,886,440
General Administrative Expenses	\$ 2,274,148	\$ 39,476,857	\$ 29,286,074	\$ 66,176,717	\$ 9,713,795	\$ 146,927,591
Total Administrative Expenses	\$ 2,551,434	\$ 44,652,863	\$ 33,075,649	\$ 73,696,626	\$ 10,837,459	\$ 164,814,031
Less: Self-Reported Excludable Expenses *	\$ (317,273)	\$ (5,922,436)	\$ (4,336,069)	\$ (9,828,726)	\$ (1,468,660)	\$ (21,873,164)
Reported Administrative Expenses	\$ 2,234,161	\$ 38,730,427	\$ 28,739,580	\$ 63,867,900	\$ 9,368,799	\$ 142,940,867
Adjustment 1: Reclassify spread pricing from medical expense and agree the amount included in medical expense to claims payments provided by Optum Rx	\$ 267,134	\$ 4,848,933	\$ (3,435,289)	\$ 1,206,129	\$ (1,502,733)	\$ 1,384,174
Adjustment 2: Include Expansion amortization	\$ -	\$ -	\$ 594,710	\$ -	\$ 50,790	\$ 645,500
Adjustment 3: Remove interest expense on late claims payments	\$ (9,212)	\$ (171,961)	\$ (125,900)	\$ (429,408)	\$ (64,164)	\$ (800,645)
Adjustment 4: Reclassify the administrative portion of DentaQuest expenses from medical expense	\$ 5,037	\$ 94,024	\$ 68,839	\$ 100,269	\$ 14,983	\$ 283,152
Adjustment 5: Remove lobbying fees	\$ (226)	\$ (3,955)	\$ (2,926)	\$ (2,799)	\$ (416)	\$ (10,322)
Total Adjusted Administrative Expenses	\$ 2,496,894	\$ 43,497,468	\$ 25,839,014	\$ 64,742,091	\$ 7,867,259	\$ 144,442,726
Net Premium Income	\$ 32,931,115	\$ 576,774,725	\$ 426,760,854	\$ 875,804,173	\$ 130,058,101	\$ 2,042,328,968
Percentage of Adjusted Administration Expenses to Net Premium Income	7.58%	7.54%	6.05%	7.39%	6.05%	7.07%
Separately Identified Expenses included in Adjusted Administrative Expenses						
Healthcare Quality Improvement Expenses (HCQI)	\$ 494,958	\$ 8,673,320	\$ 6,416,923	\$ 21,881,610	\$ 3,249,608	\$ 40,716,419
Fraud Reduction and Recovery Expenses	\$ 11,410	\$ 212,980	\$ 155,932	\$ 38,471	\$ 5,748	\$ 424,541
Start Up / Other Non Recurring Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Care Coordination expenses as defined within the MCO contract	\$ 191,530	\$ 3,575,225	\$ 2,617,575	\$ 23,614,134	\$ 3,528,549	\$ 33,527,013
COVID 19 Related Expenses: Non Recurring	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
COVID 19 Related Expenses: Long Term program changes as a result of the pandemic	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



**OPTIMA HEALTH PLAN
APPENDIX C: UNDERWRITING EXHIBIT**

Underwriting Exhibit for the Year Ending December 31, 2020						
	FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
Allowable Member Incentives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Medicaid expenses excluded by the MCO include related party management fees in excess of cost (\$5,476,228); and Health Insurance Fee (\$16,396,936)



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 – Reclassify spread pricing from medical expense and agree the amount included in medical expense to claims payments provided by Optum Rx.

The medical expenses of \$348,401,150 for Optum Rx includes spread pricing. Optum Rx provided amounts for claims payments to pharmacies of \$347,016,975, separated by Medicaid product. This results in a spread pricing amount of \$1,384,174, which has been reclassified from medical to administrative. Although the overall adjustment provides for a reclassification from medical to administrative the Expansion amounts show a reclassification from administrative to medical. This is to agree to the amount of claims expense by Medicaid product per Optum Rx. (45 CFR § 158.140(b)(3) and CMCS Information Bulletin: Medical Loss Ratio (MLR) Requirements Related to Third-Party Vendors 05/15/2019)

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$267,134	\$4,848,933	(\$3,435,289)	\$1,206,129	(\$1,502,733)	\$1,384,174

Adjustment #2 – Include Expansion amortization.

OHP had identified start-up costs of \$3,227,500 related to the Medicaid expansion program in the year ending December 31, 2018. These expenses were removed in the year identified to be amortized over a period of five years beginning January 1, 2019 which was the effective date for Medicaid expansion. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$-	\$-	\$594,710	\$-	\$50,790	\$645,500



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #3 – Remove interest expense on late claims payments.

During inspection of the general ledger detail for SHP, allocated expenses related to Department 2358, Claims Administration, Account 68540, Interest Expense, we found this account contained non-allowable interest expense related to late claims payments. An adjustment was made to remove this expense. (45 CFR § 75.441)

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$9,212)	(\$171,961)	(\$125,900)	(\$429,408)	(\$64,164)	(\$800,645)

Adjustment #4 – Reclassify the administrative portion of DentaQuest expenses from medical expense.

OHP booked the full amount of expense for DentaQuest to medical expenses. OHP was unable to provide support to separate out the administrative component of these expenses. The reclassification amount of \$283,152 was calculated using the verified administrative ratio for DentaQuest from the 2018 MLR examination. (45 CFR § 158.140(b)(3))

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$5,037	\$94,024	\$68,839	\$100,269	\$14,983	\$283,152

Adjustment #5 – Remove lobbying fees.

During inspection of the general ledger detail for SHP, allocated expenses related to Department 2301, Health Plan Administration, Account 67614, Company Membership Dues, we found this account contained non-allowable lobbying expenses. An adjustment was made to remove this expense. (45 CFR § 75.450)

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$226)	(\$3,955)	(\$2,926)	(\$2,799)	(\$416)	(\$10,322)