

# VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

## MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

### INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: Virginia Premier Health Plan, Inc.



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# Independent Accountant's Report

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

**MCO Vendor:** Virginia Premier Health Plan, Inc.  
**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:** Virginia Premier Health Plan, Inc.  
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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:** Virginia Premier Health Plan, Inc.  
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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:** Virginia Premier Health Plan, Inc.  
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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:** Virginia Premier Health Plan, Inc.  
**Period Covered:** January 1, 2019 - December 31, 2019

### 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), and audited financial statements for Virginia Premier Health Plan, Inc. (VPH) for the year ended December 31, 2019.

VPH is operated under their parent holding company, Virginia Commonwealth University Health System Authority (VCUHA), which is the sole member of VPH. VPH also receives administrative services from VCUHA. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a monthly trial balance for VCUHA.

VPH has delegated certain functions to vendors. Envision Rx provides pharmacy benefit management services. DentaQuest provides administration of the dental benefit. VSP Vision Care provides administration of the vision benefit. Public Partnerships, LLC (PPL) is the fiscal employer/agent for consumer directed services. Labcorp provides laboratory services. National Imaging Associates Inc. (NIA) provides radiology services. Beacon provides behavioral health services. Care Net provides nurse triage services. Ally Align, Care National, and Virginia Long Term Care provide Care Management services.

### Trial Balance Reconciliation

We obtained VPH'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 VPH adjusted trial balance as of December 31, 2019 of \$192,629,027 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$192,629,027. The administrative expenses including claims adjustment expenses per the VPH trial balance as of December 31, 2019 of \$192,629,027 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$192,629,027.

### 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 include plan related General and Administrative and VCUHA shared services which are 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 \$29,411,010 and \$140,947,092 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$33,255,912 and \$137,798,144 respectively. The \$695,954 net difference is unexplained; however, Medicaid expenses submitted on the quarterly filing and as shown on Appendix C are supported appropriately.

We compared total VPH 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 \$165,837,234 compared to 2019 expenses of \$170,358,102. The increase of \$4,520,868, or 2.73%, is within the specified threshold.



## Appendix B - Results

**MCO Vendor:** Virginia Premier Health Plan, Inc.  
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We inspected the accounts and expense categories included in VPHP's trial balance. We judgmentally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, we determined that \$225,056 in interest expense on late claims payments, \$27,682 in All-Payers Claims Database expense which is reimbursed separately, \$18,251 in lobbying expenses, and \$2,292 in fines and penalties should be excluded from the Underwriting Exhibit at Appendix C. In the year ending 12/31/2018 VPHP identified \$964,500 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.

VCUHSA provides VPHP with administrative services. The Administrative Services Agreement (ASA) by and between VPHP and VCUHSA effective January 2002 allows for compensation based on annual expenses. A schedule documenting payments made to VCUHSA was provided to agree to amounts included with VPHP administrative expenses. Payments made to VCUHSA were \$6,526,661.

A schedule documenting allocated costs from VCUHSA was provided to agree to amounts included with VPHP administrative expenses. Account units included on this schedule were tested on a sample basis and were found to be allowable and appropriately allocated.

Envision Rx and PPL provide pharmacy benefit management services and fiscal employer/agent services for consumer directed services, respectively. The related expenses for these vendors was recorded to medical accounts, in full. The administrative portion of these expenses was separated using the administrative per member per month fee per each contract and reclassified to administrative expenses. The administrative fee reclassified for Envision Rx and PPL was \$24,691,684 and \$2,472,652, respectively. Ally Align, Care National, and Virginia Long Term Care provide Care Management services. The related expenses for these vendors was recorded to medical expenses, in full. As the vendors provide HCQI services they were reclassified to administrative expenses in the reclassification discussed in the next section. DentaQuest, VSP Vision Care, Labcorp, NIA, Beacon, and Care Net 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 total expenses are \$4,031,227. VSP Vision Care provides administration of the vision benefit and total expenses are \$3,879,290. Labcorp provides laboratory services and total expenses are \$1,265,513. NIA provides radiology services and total expenses are \$674,808. Beacon provides behavioral health services and total expenses are \$8,601,921. Care Net provides nurse triage services and total expenses are \$202,968. In the future, VPHP will be required to separate the administrative component of these expenses.

### **Healthcare Quality Improvement Expenses (HCQI)**

HCQI expenses were identified by VPHP through review of trial balance accounts. Salaries expenses for support staff were identified through review of job descriptions and were included with administrative expenses on the quarterly filing. This expense totaled to \$3,596,012 for Medicaid. Other salaries and contracted services expenses were identified through review of the trial balance and identification of full account balances. These accounts were included with medical expenses on the quarterly filing. A reclassification of \$33,654,142 is necessary for these accounts. This includes the expenses for Ally Align, Care National, and Virginia Long Term Care. Total HCQI expense allocated to Medicaid in 2019 is \$37,250,154. This amount includes \$12,661,429 of expense related to care coordination.





## Appendix B - Results

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### Reinsurance

Reinsurance expense of \$6,014,043 was agreed to the trial balance and annual statement. Reinsurance recoveries of \$2,420,664 was agreed to the trial balance and annual statement. Expenses have been included in Total Revenues on the quarterly filing while recoveries were netted against Medical Expenses.



## Appendix C - Underwriting Exhibit

**MCO Vendor:** Virginia Premier Health Plan, Inc.  
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### Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Claims Adjustment Expenses	\$ 16,047,530	\$ 12,561,671	\$ 801,809	\$ 29,411,010
General Administrative Expenses	76,904,963	60,199,601	3,842,528	140,947,092
Total Administration Expenses	\$ 92,952,493	\$ 72,761,272	\$ 4,644,337	\$ 170,358,102
Less: Self-Reported Excludable Expenses (1)	(7,944)	(6,219)	(397)	(14,560)
Adjusted Administration Expenses	\$ 92,944,549	\$ 72,755,053	\$ 4,643,940	\$ 170,343,542
Plus: Reclassified Expenses (2)	30,105,578	30,712,900	-	60,818,478
Less: Excluded Expenses (3)	(139,591)	(125,669)	(8,021)	(273,281)
Plus: Medicaid Expansion Expenses (4)		192,900	-	192,900
Total Adjusted Administration Expenses	\$ 122,910,536	\$ 103,535,184	\$ 4,635,919	\$ 231,081,639
Net Premium Income	\$ 994,401,605	\$ 781,081,470	\$ 49,856,264	\$ 1,825,339,339
Percentage of Adjusted Administration Expenses to Net Premium Income	12.36%	13.26%	9.30%	12.66%

(1) Expenses excluded by the MCO are contributions and donations.



## Appendix C - Underwriting Exhibit

**MCO Vendor:** Virginia Premier Health Plan, Inc.  
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(2) Envision Rx provides pharmacy benefit management services. Administrative fees of \$24,691,684 for this vendor were recorded in medical costs. PPL provides fiscal employer/agent services for consumer directed services. Administrative fees of \$2,472,652 for this vendor were recorded in medical costs. HCQI expenses totaling \$33,654,142 were recorded in medical costs. This adjustment is to reclassify these expenses.

(3) Interest on late claims payments of \$225,056, All-Payers Claims Database expenses of \$27,682, lobbying expenses of \$18,251, and fines and penalties of \$2,292

(4) In the period ending December 31, 2018, VPHP identified expenses related to Medicaid Expansion of \$964,500 related to salaries, benefits, and consulting. These expenses have been amortized over five years beginning January 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.

### Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Fraud Reduction and Recovery Expenses (5)	\$ -	\$ -	\$ -	\$ -
Healthcare Quality Improvement Expenses (HCQI)	\$ 24,812,111	\$ 12,340,008	\$ 98,035	\$ 37,250,154
Component of HCQI: Care Coordination expenses (6)	\$ 5,758,607	\$ 6,902,822	\$ -	\$ 12,661,429

(5) VPHP identified \$150,981 in fraud reduction and recovery expenses however support was not provided for this amount.

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