MOLINA HEALTHCARE OF VIRGINIA, LLC

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, 2023

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 Molina Healthcare of Virginia, LLC (Molina of Virginia) for the period of January 1, 2023 through December 31, 2023. 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

Myers and Stauffer LC
Glen Allen, VA
May 30, 2024

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, 2023 to the annual statement for the year ended December 31, 2023 and the quarterly filing required by the Department.

11) Obtain the adjusted trial balance as of December 31, 2023. 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, 2023.

12) Obtain the year-end adjusting journal entries recommended by the independent accountant for the year ended December 31, 2023. 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. Allowable Member Incentives

15) Compare administrative and claims adjustment expenses per the quarterly filing for the year ended December 31, 2023 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.
    c. HCQI Expenses
    d. Fraud Reduction and Recovery Expenses
    e. Care Coordination
    f. 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), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for Molina Healthcare of Virginia, LLC (Molina of Virginia) for the year ended December 31, 2023.

Molina of Virginia is a wholly owned subsidiary of Molina Healthcare, Inc. (Molina). Molina of Virginia also receives administrative services from Molina. Molina of Virginia has administrative expense from one other related party, Oceangate Reinsurance, Inc. (Oceangate), which is owned by Molina. Oceangate provides reinsurance coverage, however the contract was terminated on December 31, 2022. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a schedule of allocated expenses for Molina, as well as agreements with each related party.

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

Trial Balance Reconciliation

We obtained Molina of Virginia's adjusted trial balance as of December 31, 2023, 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, 2023. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the Molina of Virginia adjusted trial balance as of December 31, 2023 of $114,449,561 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of $116,099,018. The difference of $1,649,457 is due to a reclassification in the amount of $1,604,457 of the administrative portion of Veyo non-emergent transportation expenses from medical to administrative expenses and inclusion of fines and penalties in the amount of $45,000. The administrative expenses including claims adjustment expenses per the Molina of Virginia adjusted trial balance as of December 31, 2023 of $114,449,561 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of $114,449,563 with an immaterial $2 variance.

Administrative Expenses

Total claims adjustment expenses and administrative expenses included in the quarterly filing and Annual Statement consist of direct and indirect expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Indirect expenses are allocated to the appropriate product. The total direct and indirect Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are $46,693,369 and $60,333,894 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are $46,637,520 and $58,744,064 respectively. The difference of $1,645,679 is due to a reclassification in the amount of $1,602,491 of the administrative portion of Veyo non emergent transportation expenses from medical to administrative expenses and inclusion of fines and penalties in the amount of $45,000. The remaining difference of $1,812 is due to differences in the line of business allocations between the two reports. While administrative costs reconciled in total, the allocation for the Medicaid lines of business differed between the quarterly filing and the support. The total variance of $9,608 was included in the Underwriting Exhibit at Appendix C.

We compared total Molina of Virginia administrative and claim adjustment expenses reported on the quarterly filing by line item for the current year and prior year and obtained explanations for any line item with a change greater than $100,000 and 10%. Total general administrative expenses, excluding investment expenses, for 2022 were $121,086,858 compared to 2023 expenses of $107,027,263. The decrease of $14,059,595, or 11.61%, is driven by the termination of the vendor contract with Shared Health.

We inspected the accounts and expense categories included in Molina of Virginia's trial balance. This included Molina of Virginia's direct expenses and Molina allocated expenses. We judgmentally selected expense categories and accounts for further inspection. Based on this inspection, we determined that excluded expenses were properly stated by Molina of Virginia. They also identified $50,994 in non-recurring costs related to early termination of the Shared Health vendor contract. We determined these costs should be excluded from the Underwriting Exhibit at Appendix C. Amortization related to start-up costs identified in previous years has been included through a separate adjustment. However, this expense will be excluded for rate setting.

Molina provides Molina of Virginia with administrative services. The Services Agreement by and between Molina of Virginia and Molina effective January 1, 2021 allows for a monthly fee equal to an amount reflecting the value of the administrative services provided. Payments made to Molina were $53,047,112.

A schedule documenting allocated costs from Molina was provided to agree to amounts included with Molina of Virginia administrative expenses. Support for allocated costs was received on a sample basis and were found to be allowable. The reinsurance agreement with Oceangate was terminated on December 31, 2022 and the expense of $(413) relates to run out.

CVS, VSP, and ACES$ expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the pharmacy benefit, administration of the vision benefit, and fiscal employer/agent services for consumer directed services, respectively. Veyo provides administration of the non-emergent transportation benefit. The expenses are recorded to a medical account and the administrative component, totaling $1,602,491 has been appropriately reclassified to administrative for the purposes of the quarterly filing.

Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are calculated by Molina through review and analysis of the departments containing HCQI expenses, including both Molina of Virginia's direct expenses and Molina allocated 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 other shared services costs. Total HCQI expense allocated to Medicaid in 2023 is $31,241,617. This amount included $12,679,491 related to care coordination.

Reinsurance

Reinsurance expense of $(413) was agreed to the trial balance and has been included in Net Premium Income on the quarterly filing. Reinsurance recoveries of $3,891,971 were agreed to the trial balance and have been offset against Medical Services Expenditures on the quarterly filing. Both reinsurance premiums and recoveries agree to the Annual Statement.

Total Revenues

Total revenues were agreed to the trial balance. Amounts reported as change in unearned premium reserves and aggregate write-ins were inspected to determine appropriateness for rate setting purposes. The change in unearned premium reserves included reserves related to prior and future periods which were removed for the purposes of this report. Aggregate write-ins included directed payments, vaccine administration revenues, and nursing home transition bonus revenues, which were also removed for the purposes of this report.

Underwriting Exhibit for the Year Ending December 31, 2023

	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
Administrative Expense						
Claims Adjustment Expenses	$ 5,929,016	$ 7,103,791	$ 23,077,756	$ 10,582,806	$ 46,693,369	$ 362,213
General Administrative Expenses	$ 8,822,966	$ 14,312,231	$ 25,570,361	$ 11,628,336	$ 60,333,894	$ 1,061,266
Total Administrative Expenses	**$ 14,751,982**	**$ 21,416,022**	**$ 48,648,117**	**$ 22,211,142**	**$ 107,027,263**	**$ 1,423,479**
Less: Self-Reported Excludable Expenses *	$ (522,761)	$ (914,435)	$ (2,327,014)	$ (926,142)	$ (4,690,352)	$ (336,973)
Adjusted Administrative Expenses	**$ 14,229,221**	**$ 20,501,587**	**$ 46,321,103**	**$ 21,285,000**	**$ 102,336,911**	**$ 1,086,506**
Adjustment 1: Remove IT contract termination fee.	$ (6,246)	$ (14,010)	$ (21,017)	$ (9,043)	$ (50,316)	$ (678)
Adjustment 2: Include amortized start-up costs related to Expansion, Electronic Visit Verification, Fiscal Employer Agent transition, the MES conversion, and the behavioral health redesign.	$ 17,290	$ 69,084	$ 74,283	$ 128,741	$ 289,398	$ 1,957
Adjustment 3: Adjust to agree to supported amounts by Medicaid line of business.	$ 945,190	$ (950,880)	$ 7,687	$ 3,375	$ 5,372	$ 4,236
Total Adjusted Administrative Expenses	**$ 15,185,455**	**$ 19,605,781**	**$ 46,382,056**	**$ 21,408,073**	**$ 102,581,365**	**$ 1,092,021**
Total Revenues	$ 247,291,607	$ 337,534,561	$ 555,438,627	$ 275,127,115	$ 1,415,391,910	$ 14,893,552
Adjustment 4: Remove unearned premium reserves not relating to the current period.	$ (7,738,125)	$ 5,188,801	$ (17,030,149)	$ 800,339	$ (18,779,134)	$ -
Adjustment 5: Remove directed payments included in aggregate write ins.	$ (60,181,069)	$ (83,496,819)	$ (55,867,631)	$ (57,645,255)	$ (257,190,774)	$ -
Adjustment 6: Remove COVID vaccine and nursing home transition bonus revenue included in aggregate write ins.	$ (10,029)	$ (24,857)	$ (28,176)	$ (12,034)	$ (75,096)	$ (995)
Total Adjusted Revenues	**$ 179,362,384**	**$ 259,201,686**	**$ 482,512,671**	**$ 218,270,165**	**$ 1,139,346,906**	**$ 14,892,557**
Percentage of Adjusted Administration Expenses to Adjusted Revenues	8.47%	7.56%	9.61%	9.81%	9.00%	7.33%

Underwriting Exhibit for the Year Ending December 31, 2023	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
Separately Identified Expenses included in Adjusted Administrative Expenses						
Healthcare Quality Improvement Expenses (HCQI)	$ 2,526,829	$ 4,680,937	$ 16,630,825	$ 7,403,026	$ 31,241,617	$ 243,022
Fraud Reduction and Recovery Expenses	$ 96,786	$ 149,791	$ 261,170	$ 116,244	$ 623,991	$ 7,771
Start Up / Other Non Recurring Expenses	$ 6,246	$ 14,010	$ 21,017	$ 9,043	$ 50,316	$ 678
Care Coordination expenses as defined within the MCO contract	$ 409,537	$ 892,093	$ 7,874,284	$ 3,503,577	$ 12,679,491	$ 46,385
Allowable Member Incentives	$ 11,973	$ 27,224	$ 65,426	$ 29,598	$ 134,221	$ 1,272

* Medicaid expenses excluded by the MCO include lobbying expenses ($11,633), State and Federal income taxes ($3,257,860), local marketing ($586,065), corporate marketing ($394,116), and fines and penalties ($777,651).

Appendix D: Schedule of Adjustments and Comments

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

Adjustment #1 – Remove IT contract termination fee.

Molina of Virginia identified non-recurring costs related to early termination of an IT vendor contract. We determined this cost to be non-allowable and an adjustment was made to remove this expense. (45 CFR § 75.441)

Proposed Adjustment					
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
($6,246)	($14,010)	($21,017)	($9,043)	($50,316)	($678)

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

Molina of Virginia has identified start-up costs related to various programs in previous years. These expenses were removed each year to be amortized over a period of five years beginning with the start date of each program. Expenses included in this adjustment are $635,484 related to Medicaid Expansion, which began January 2019, $54,575 related to EVV, which began September 2020, $33,638 related to the Fiscal Employer Agent (FEA) transition, which began January 2020, $15,012 related to the behavioral health redesign, which began July 2021, $613,065 related to MES, which began April 2022, and $104,999 related to PRSS, which began April 2022. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Proposed Adjustment					
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
$17,290	$69,084	$74,283	$128,741	$289,398	$1,957

Adjustment #3 – Adjust to agree to supported amounts by Medicaid line of business.

Molina of Virginia support agreed to the quarterly filing in total but had variances in the line of business allocations. As their support was tested on a sample basis an adjustment was made to agree to support expenses.

Proposed Adjustment					
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
$945,190	($950,880)	$7,687	$3,375	$5,372	$4,236

Adjustment #4 – Remove unearned premium reserves not relating to the current period.

Molina of Virginia included unearned premium reserves related to periods prior to January 1, 2022 based on their financial reporting procedures. An adjustment of $(18,779,134) was made to remove all unearned premium reserves not related to the period under review, for the purpose of administrative reporting.

	Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
($7,738,125)	$5,188,801	($17,030,149)	$800,339	($18,779,134)	$0

Adjustment #5 – Remove directed payments included in aggregate write-ins.

Molina of Virginia included directed payments in aggregate write-ins. An adjustment of $(257,190,774) was made to remove directed payments from total revenue.

	Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
($60,181,069)	($83,496,819)	($55,867,631)	($57,645,255)	($257,190,774)	$0

Adjustment #6 – Remove COVID vaccine and nursing home transition bonus revenue included in aggregate write-ins.

Molina of Virginia included COVID vaccine revenue and nursing home transition bonus revenue in aggregate write-ins. An adjustment of $(76,091) was made to remove these revenues from total revenue.

	Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid	FAMIS
($10,029)	($24,857)	($28,176)	($12,034)	($75,096)	($995)