

# VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

## MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

### INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: Coventry Health Care of Virginia, Inc.



# Table of Contents

<b>Independent Accountant's Report .....</b>	<b>1</b>
<b>Appendix A: Agreed Upon Procedures .....</b>	<b>2</b>
<b>Appendix B: Results .....</b>	<b>5</b>
<b>Appendix C: Underwriting Exhibit .....</b>	<b>8</b>



# Independent Accountant's Report

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

**MCO Vendor:** Coventry Health Care of Virginia, 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:** Coventry Health Care of Virginia, 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:** Coventry Health Care of Virginia, 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:** Coventry Health Care of Virginia, 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:** Coventry Health Care of Virginia, 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) for Coventry Health Care of Virginia, Inc. for the year ended December 31, 2019. Coventry Health Care of Virginia, Inc. did not have audited financial statements as of the date of this report.

Coventry Health Care of Virginia, Inc. (Coventry) is operated under their parent holding company; Aetna Health Holdings, LLC which is a wholly owned subsidiary of Aetna, Inc. Coventry receives administrative services from Aetna Health Management, LLC (AHM), and Aetna Medicaid Administrators (AMA), which are owned by Aetna, Inc. Coventry has administrative expenses from Caremark Rx, L.L.C. which is a sister company to Aetna Inc. Caremark Rx, L.L.C. provides prescription benefit management for Coventry. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a trial balance for Coventry, support for the management fee payments, as well as agreements set with Caremark Rx, L.L.C.

Coventry has delegated certain functions to vendors. Logisticare provides administration of the non emergent transportation benefit. DentaQuest provides administration of the dental benefit. VSP Vision Care provides administration of the vision benefit. EviCore provides certain radiology management functions.

### Trial Balance Reconciliation

We obtained Coventry's adjusted trial balance as of December 31, 2019 as well as a schedule of allocated expenses for AMA, as the majority of the administrative costs flow through AMA. We 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 Coventry adjusted trial balance as of December 31, 2019 of \$148,120,926 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$148,120,927 within an immaterial \$1 variance. The administrative expenses including claims adjustment expenses per the Coventry adjusted trial balance as of December 31, 2019 of \$148,120,926 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$148,120,926.

### Administrative Expenses

Total claims adjustment expenses and administrative expenses included in the Annual Statement consist of two basic components, direct expenses and management fee expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Management fee expenses are recorded at the AHM and AMA level, and allocated to the appropriate entities and products. The total direct and management fee allocated Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are \$78,938,625 and \$63,536,310, respectively. The total direct and indirect Medicaid expenses submitted on the Annual



## Appendix B - Results

**MCO Vendor:** Coventry Health Care of Virginia, Inc.  
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Statement for Claims Adjustment and General Administrative expenses are \$78,938,625 and \$61,144,402 respectively. The \$2,391,908 difference in General Administrative expenses is unexplained. Coventry was unable to support the amount by line of business on the quarterly filing. An adjustment was necessary to agree costs for the Medicaid line of business to supported amounts. This resulted in negative adjustments to CCC Plus and DSNP and a positive adjustment to Medallion. The net adjustment was equal to the \$111,818, which is attributed to an other line of business.

We compared total Coventry 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 \$82,096,075 compared to 2019 expenses of \$142,474,935. The increase of \$60,378,860 is primarily due to a significant increase in membership resulting from Medicaid expansion. This is evidenced by an increase of 787,770 in Medallion 4.0 member months, from 538,985 in 2018 to 1,326,755 in 2019.

We inspected the accounts included in the schedule of allocated expenses for AMA. We judgmentally selected accounts for further inspection from the management fee expense. Based on this inspection, we determined that \$13,841 in All-Payers Claims Database expense which is reimbursed separately, \$16,000 of donations expense, and \$108,446 of lobbying expense should be excluded from the Underwriting Exhibit at Appendix C. Coventry provided a schedule showing AHM expenses allocated to the Virginia Medicaid line of business. We inspected the expense categories and identified \$136,567 of lobbying expense and \$35,306 of donations expense should be excluded from the Underwriting Exhibit at Appendix C.

AMA and AHM provide Coventry with administrative services. The Management Services Agreement (MSA) by and between AMA and Coventry effective March 2016 allows for an administrative fee equal to a percent of revenues. The MSA by and between AHM and Coventry effective January 2014 provides for an administrative fee equal to a percent of revenues with a year end true up to allocated costs. Caremark Rx, L.L.C. provides Coventry with Pharmacy Benefit Management services. The Service Agreement by and between AHM and CaremarkPCS Health, L.L.C. effective October 2013 allows for a per claim administrative fee. Payments made to AMA were \$91,001,529 which include fees paid to Caremark Rx, L.L.C. of \$932,683. Cost allocations from AHM were \$10,519,882; however, this expense was reported at \$10,466,681. An adjustment of \$53,201 is necessary, applicable to the Medallion line of business.

Schedules documenting allocated costs from AMA and AHM were provided to agree to amounts included with Coventry administrative expenses. Coventry self excluded a large portion of management fees in excess of cost. These allocated costs were reviewed and found to be allowable with the exceptions previously noted. Caremark Rx, L.L.C. met the related party exception provided for within CMS Publication 15-1: 1010 thus an adjustment is not needed.

DentaQuest, VSP Vision Care, and EviCore expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the dental benefit, administration of the vision benefit, and utilization management for radiology services. Logisticare provides administration of the non emergent transportation benefit. Logisticare expenses for Medallion and DSNP were recorded to medical in full. Per a statement from Logisticare the per member per month fee covers both the administrative and medical portion for all non-stretcher trips. In the future, Coventry will be required to separate the administrative component of these expenses. The contract provides for an add-on fee for stretcher services. These services have a 20% administrative fee which was recorded to medical. An adjustment of \$65,982 is necessary to reclassify this administrative fee.



## Appendix B - Results

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### Healthcare Quality Improvement Expenses (HCQI)

Medical Management expenses are accumulated with administrative expenses at the AMA level. Coventry is charged a management fee by AMA. The management fee is based on Administrative Service Agreement (ASA) rates. The ASA rates are supposed to be a representation of actual cost. Therefore, properly calculated ASA rates allow for the proper amount of Medical Management expenses allocated to Coventry Health Care of Virginia, Inc. Medicaid ASA rates were analyzed and are described above. Total Medical Management expenses for AMA in 2019 are \$27,437,793. This is comprised of \$12,049,837 of quality improvement expenses, \$14,356,454 of medical management expenses, and \$1,031,502 of expenses to improve patient safety. This amount included \$19,374,915 related to care coordination.

### Reinsurance

Reinsurance expense of \$677,188 was agreed to the trial balance and have been included in Total Revenues on the quarterly filing. Reinsurance recoveries of \$769,397 were agreed to the trial balance and have been included in Medical Service Expenditures on the quarterly filing. Both reinsurance expense and recoveries agree to the Annual Statement.



## Appendix C - Underwriting Exhibit

**MCO Vendor:** Coventry Health Care of Virginia, Inc.  
**Period Covered:** January 1, 2019 - December 31, 2019

### Administration Expenses

	CCC Plus	Medallion (1)	Total Medicaid Line of Business	DSNP
Claims Adjustment Expenses	\$ 44,934,897	\$ 34,003,728	\$ 78,938,625	\$ 2,410,884
General Administrative Expenses	47,648,119	15,888,191	63,536,310	3,152,627
Total Administration Expenses	\$ 92,583,016	\$ 49,891,919	\$ 142,474,935	\$ 5,563,511
Less: Self-Reported Excludable Expenses (2)	(20,611,198)	(28,200,482)	(48,811,680)	770,195
Adjusted Administration Expenses	\$ 71,971,818	\$ 21,691,437	\$ 93,663,255	\$ 6,333,706
Plus: Balancing Adjustment (3)	(7,075,082)	8,358,564	1,283,482	(1,395,300)
Plus: Reclassified Expenses (4)	28,099	37,883	65,982	-
Less: Excluded Expenses (5)	(119,588)	(125,469)	(245,057)	(11,902)
Total Adjusted Administration Expenses	\$ 64,805,247	\$ 29,962,415	\$ 94,767,662	\$ 4,926,504
Net Premium Income (6)	\$ 755,982,121	\$ 565,850,563	\$ 1,321,832,684	\$ 40,723,217
Percentage of Adjusted Administration Expenses to Net Premium Income	8.57%	5.30%	7.17%	12.10%

(1) Medallion expenses include Medallion 3.0, Medallion 4.0, and FAMIS.

(2) Expenses excluded by the MCO included related party expenses adjusted to cost (\$43,942,064), contributions and donations (\$286,298), State and Federal income taxes (\$1,483,441), and accruals for future losses (\$2,329,682).

(3) Coventry was unable to support the separation by line of business per the quarterly filing. An adjustment was necessary to agree costs for the Medicaid line of business to supported amounts. The net adjustment of \$111,818 relates to an other line of business.



## Appendix C - Underwriting Exhibit

**MCO Vendor:** Coventry Health Care of Virginia, Inc.  
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(4) Logisticare provides administration of the non emergent transportation benefit. A portion of administrative fees for this vendor were included in medical costs. These adjustments are to reclassify these fees.

(5) Excluded expenses include allocated from AMA of \$13,841 in All-Payers Claims Database expense which is reimbursed separately, \$16,000 of donations expense, and \$108,446 of lobbying expense. Excluded expenses also include allocated from AHM of \$136,567 of lobbying expense and \$35,306 of donations expense. In addition, a positive adjustment of \$53,201 was necessary to record AHM expenses at cost.

(6) Net Premium Income is reduced by the change in unearned premium reserves in the amount of \$23,839,290.

### Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion (1)	Total Medicaid Line of Business	DSNP
Fraud Reduction and Recovery Expenses	\$ -	\$ -	\$ -	-
Healthcare Quality Improvement Expenses (HCQI)	\$ 24,772,905	\$ 2,664,888	\$ 27,437,793	-
Component of HCQI: Care Coordination expenses (7)	\$ 17,575,973	\$ 1,798,942	\$ 19,374,915	-

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