

The background features a blurred medical scene with a green overlay. A large white cross is centered. Various medical icons are scattered throughout, including a syringe, a pill, a virus, a stethoscope, and a group of people. A white diagonal line runs from the bottom left towards the top right, separating the background from the text area.

HEALTHKEEPERS, INC.

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**<sub>LC</sub>  
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 HealthKeepers, Inc. 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), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and the audited financial statements for HealthKeepers, Inc. for the year ended December 31, 2020.

HealthKeepers, Inc. is owned 92.51% by Anthem Southeast, Inc. and 7.49% by UNICARE National Services, Inc. HealthKeepers, Inc. receives administrative services from Anthem, Inc., The Anthem Companies, Inc., Anthem Health Plans of Virginia, Inc. (AHPVA), Amerigroup Corporation, and WellPoint Information Technology Services, Inc (referred to collectively as Anthem). HealthKeepers, Inc. has administrative expenses from two other related parties, Diversified Business Group and IngenioRx, Inc., which are both owned by Anthem, Inc. Diversified Business Group provides Healthcare Quality Improvement Expenses (HCQI) and program integrity services. IngenioRx, Inc. provides prescription benefit management for HealthKeepers, Inc. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a trial balance for HealthKeepers, Inc., as well as related party support.

Healthkeepers, Inc. has delegated certain functions to vendors. American Specialty Health Systems, Inc. (ASH) provides management of chiropractic services. DentaQuest, LLC provides administration of the dental benefit. Southeastrans, Inc. provides administration of the non emergent transportation benefit. Public Partnerships, LLC (PPL) is the fiscal employer/agent for consumer directed services.

### Trial Balance Reconciliation

We obtained Healthkeepers, Inc.'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 Healthkeepers, Inc.'s adjusted trial balance as of December 31, 2020 of \$763,363,065 was reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$763,363,065. The administrative expenses including claims adjustment expenses per the Healthkeepers, Inc. adjusted trial balance as of December 31, 2020 of \$763,363,065 was reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$763,363,066 within an immaterial \$1 variance.

### Administrative Expenses



Total claims adjustment expenses and administrative expenses included in the quarterly filing and Annual Statement consist of direct and indirect expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Indirect expenses are recorded at the Anthem level, and allocated to the appropriate entities and products using a variable proxy such as membership or headcounts. The total direct and indirect Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are \$103,758,052 and \$184,672,001 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$99,780,157 and \$177,504,791, respectively. The \$11,145,105 difference is due to FAMIS, which is included in Comprehensive (Hospital and Medical) on the Annual Statement.

We compared total HealthKeepers, Inc. 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 Medicaid general administrative expenses, excluding investment expenses, for 2019 were \$209,642,291 compared to 2020 expenses of \$288,430,053. The increase of \$78,787,762 is primarily due to the inclusion of \$44,319,538 in Health Insurer Fee expense in 2020, which was not applicable in 2019. The remaining increase is due to a change in PBMs, an increase in State taxes, and an increase in legal fees.

We inspected the accounts and expense categories included in HealthKeepers, Inc.'s trial balance. This included HealthKeepers, Inc. specific and Anthem allocated expenses. We judgmentally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, no expenses requiring exclusion were identified. Additionally, we asked HealthKeepers, Inc. to identify any start-up costs related to Medicaid programs or initiatives. HealthKeepers, Inc. identified \$650,371 in start-up costs related to MES implementation. These expenses have been excluded from the Underwriting Exhibit at Appendix C and will be amortized over a five year period beginning with MES implementation. However, this expense will be excluded for rate setting. In the year ending December 31, 2018, HealthKeepers, Inc. identified \$1,560,000 and \$1,175,000 in start-up costs related to Medallion 4.0 implementation and Medicaid expansion, respectively. These expenses have been amortized over a five year period beginning August, 2018 and January, 2019, respectively, as this is the effective date for each project. These amortization expenses have been added to the Underwriting Exhibit at Appendix C. However, this expense will be excluded for rate setting.

The Master Administrative Services Agreement effective January 2014 incorporates Anthem and HealthKeepers, Inc. as companies providing and companies receiving services. The compensation terms provide for a pass through of costs. A separate agreement with Diversified Business Group was not provided and instead a Memorandum of Understanding effective September 2016 with AIM Specialty Health was referenced. The related expenses are representative of allocated costs. The Pharmacy Benefit Management Services agreement by and between IngenioRx Inc. and CaremarkPCS Health, L.L.C. (CVS Caremark) effective October 2017 incorporates HealthKeepers, Inc. effective October 1, 2019 and allows for a per claim administrative fee. A schedule documenting payments made to Anthem, Diversified Business Group, and IngenioRx Inc. was provided to agree to amounts included with





HealthKeepers Inc.'s administrative expenses. Payments made to Anthem, Diversified Business Group, and IngenioRx Inc. were \$103,168,637, \$21,804,148, and \$479,579,510, respectively.

Schedules documenting allocated costs from Anthem, Diversified Business Group, and Ingenio Rx were provided to agree to amounts included with HealthKeepers, Inc. administrative expenses. Support for allocated costs was received on a sample basis and were found to be allowable.

DentaQuest, LLC, Southeastrans, Inc., and PPL expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the dental benefit, administration of the non emergent transportation benefit, and fiscal employer/agent services for consumer directed services. ASH expenses are appropriately recorded to an administrative account as this vendor provides management of chiropractic services.

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

HCQI expenses are a combination of allocated expenses from Anthem and Diversified Business Group totaling \$64,042,043 and \$15,697,840, respectively. HCQI expenses fall into the following five categories: improve health outcomes, activities to prevent hospital readmissions, improve patient safety and reduce medical errors, wellness and health promotion activities, and health information technology quality improvement. Total HCQI expense allocated to Medicaid in 2020 is \$79,739,883. This amount included \$58,919,961 related to care coordination.

#### **Reinsurance**

Reinsurance premiums of \$18,543,126 were agreed to the trial balance and have been included in Total Revenues on the quarterly filing. Reinsurance recoveries of \$11,634,674 were agreed to the trial balance and have been offset against Medical Service Expenditures on the quarterly filing. Both reinsurance premiums and recoveries agree to the Annual Statement.



**HEALTHKEEPERS, INC.**  
**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
<b>Administrative Expense</b>						
Claims Adjustment Expenses	\$ 3,977,896	\$ 39,463,958	\$ 17,200,494	\$ 36,488,342	\$ 6,627,363	\$ 103,758,053
General Administrative Expenses	\$ 7,167,210	\$ 70,204,756	\$ 30,598,970	\$ 64,911,258	\$ 11,789,806	\$ 184,672,000
<b>Total Administrative Expenses</b>	<b>\$ 11,145,106</b>	<b>\$ 109,668,714</b>	<b>\$ 47,799,464</b>	<b>\$ 101,399,600</b>	<b>\$ 18,417,169</b>	<b>\$ 288,430,053</b>
Less: Self-Reported Excludable Expenses *	\$ (1,924,431)	\$ (21,519,098)	\$ (12,229,107)	\$ (17,991,310)	\$ (5,026,270)	\$ (58,690,216)
<b>Reported Administrative Expenses</b>	<b>\$ 9,220,675</b>	<b>\$ 88,149,616</b>	<b>\$ 35,570,357</b>	<b>\$ 83,408,290</b>	<b>\$ 13,390,899</b>	<b>\$ 229,739,837</b>
Adjustment 1: Remove 2020 start-up costs	\$ (27,877)	\$ (253,043)	\$ (99,309)	\$ (233,845)	\$ (36,297)	\$ (650,371)
Adjustment 2: Include Medallion 4.0 and Expansion amortization	\$ -	\$ 312,000	\$ 165,533	\$ -	\$ 69,467	\$ 547,000
Adjustment 3: Remove fraud reduction and recovery expenses in excess of fraud recoveries	\$ (202,671)	\$ (1,703,690)	\$ (581,406)	\$ (423,443)	\$ (61,882)	\$ (2,973,092)
<b>Total Adjusted Administrative Expenses</b>	<b>\$ 8,990,127</b>	<b>\$ 86,504,883</b>	<b>\$ 35,055,175</b>	<b>\$ 82,751,002</b>	<b>\$ 13,362,187</b>	<b>\$ 226,663,374</b>
Net Premium Income	\$ 73,746,262	\$ 873,999,574	\$ 553,192,650	\$ 1,497,197,668	\$ 232,888,377	\$ 3,231,024,531
Adjustment 4: Include change in unearned premium reserves and reserve for rate credit	\$ -	\$ (34,543,197)	\$ (93,378,376)	\$ (48,713,960)	\$ (24,706,859)	\$ (201,342,392)
<b>Adjusted Net Premium Income</b>	<b>\$ 73,746,262</b>	<b>\$ 839,456,377</b>	<b>\$ 459,814,274</b>	<b>\$ 1,448,483,708</b>	<b>\$ 208,181,518</b>	<b>\$ 3,029,682,139</b>
Percentage of Adjusted Administration Expenses to Net Premium Income	12.19%	10.30%	7.62%	5.71%	6.42%	7.48%
<b>Separately Identified Expenses included in Adjusted Administrative Expenses</b>						
Healthcare Quality Improvement Expenses (HCQI)	\$ 2,141,383	\$ 22,713,145	\$ 8,515,005	\$ 39,421,451	\$ 6,948,899	\$ 79,739,883
Fraud Reduction and Recovery Expenses (See Adjustment 3)	\$ 3,045	\$ 25,596	\$ 8,735	\$ 6,362	\$ 930	\$ 44,668
Start-Up / Other Non Recurring Expenses	\$ 27,877	\$ 253,043	\$ 99,309	\$ 233,845	\$ 36,297	\$ 650,371
Care Coordination expenses as defined within the MCO contract	\$ 1,063,414	\$ 11,279,385	\$ 4,228,565	\$ 36,002,384	\$ 6,346,213	\$ 58,919,961
COVID 19 Related Expenses: Non Recurring	\$ 3,609	\$ 30,960	\$ 11,238	\$ 12,514	\$ 1,878	\$ 60,199
COVID 19 Related Expenses: Long Term program changes as a result of the pandemic						\$ -
Allowable Member Incentives	\$ 3,496	\$ 29,489	\$ 10,447	\$ 11,149	\$ 1,843	\$ 56,424

\* Medicaid expenses excluded by the MCO include Health Insurer Fee (HIF) expenses (\$44,319,538); State and Federal income taxes (\$12,928,499); interest payments for late claims payments (\$920,319); lobbying expenses (\$467,499); donations expense (\$54,360)



## 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 2020 start-up costs.**

HealthKeepers, Inc. identified start-up expenses related to Medicaid Enterprise Systems (MES). These expenses are being amortized over five years based on implementation date of the program. The 2020 expenses were removed in total. See Adjustment #2 for the related adjustment to add back the amortization costs for programs that have begun prior to the end of the period. (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
(\$27,877)	(\$253,043)	(\$99,309)	(\$233,845)	(\$36,297)	(\$650,371)

### **Adjustment #2 – Include Medallion 4.0 and Expansion amortization.**

HealthKeepers, Inc. has identified start-up costs related to various programs in the current year and 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 \$1,560,000 related to Medallion 4.0 implementation, which began August 1, 2018, and \$1,175,000 related to Medicaid Expansion, which began January 1, 2019. Expenses held for the start of the program are \$782,462 related to MES. (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
\$-	\$312,000	\$165,533	\$-	\$69,467	\$547,000



## SCHEDULE OF ADJUSTMENTS AND COMMENTS

### Adjustment #3 – Remove fraud reduction and recovery expenses in excess of fraud recoveries.

HealthKeepers, Inc. identified expenses related to fraud reduction and recovery. Identified expenses of \$3,017,760 were comprised of allocated expenses from Diversified Business Group. As fraud reduction and recovery expenses are limited to the amount of claims payments recovered through the related efforts, the expenses have been reduced to identified fraud recoveries of \$44,668. (45 CFR § 158.140(b)(2)(iv))

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$202,671)	(\$1,703,690)	(\$581,406)	(\$423,443)	(\$61,882)	(\$2,973,092)

### Adjustment #4 – Include change in unearned premium reserves and reserve for rate credit.

HealthKeepers, Inc. excluded the change in unearned premium reserves and reserve for rate credit from reported net premium income. Per review of the general ledger detail these amounts include accruals for current year MLR and Underwriting Gain rebates and risk corridor amounts due to/from HealthKeepers, Inc. The amounts reported on the quarterly filing for the FAMIS and Medallion 3.0 change in unearned premium reserves and reserve for rate credit included true ups for previous years, and thus were not included in the adjustment amounts shown below. (45 CFR § 158.130(b))

Proposed Adjustment					
FAMIS	Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$-	(\$34,543,197)	(\$93,378,376)	(\$48,713,960)	(\$24,706,859)	(\$201,342,392)