MYERS AND STAUFFER LC

Sentara Health Plans

CardinalCare
Virginia Medicaid
Managed Care Programs

Adjusted Administrative Expenses

(With Independent Accountant's Report Thereon)

For the State Fiscal Year Ended June 30, 2025

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Independent Accountant's Report

Commonwealth of Virginia
Department of Medical Assistance Services
Richmond, Virginia

We have performed the procedures enumerated in Administrative Expenses Agreed-Upon Procedures on the Adjusted Administrative Expenses of Sentara Health Plans (health plan) for the State Fiscal Year ended June 30, 2025. We applied these procedures to assist you in inspecting administrative expenses for Medicaid rate development. The health plan's management is responsible for presenting the Adjusted Administrative Expenses used by the Virginia Department of Medical Assistance Services (Department) for the purposes of Medicaid rate development.

The Department has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of inspecting 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 the Administrative Expenses Agreed-Upon Procedures and our findings are contained in the Adjusted Administrative Expenses and the Schedule of Adjustments. As agreed, materiality limits were applied as specified within the Administrative Expenses Agreed-Upon Procedures.

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 respectively, on the health plan'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 health plan 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, Mercer, and the health plan and is not intended to be, and should not be, used by anyone other than these specified parties.

Myers and Stauffer LC

Myers and Stauffer LC
Glen Allen, Virginia
December 17, 2025

Appendix A: Administrative Expense 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 to the annual statement and the quarterly filing.

11) Obtain the adjusted trial balance as of June 30, 2025. 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 period ended June 30, 2025.

12) Obtain the year-end adjusting journal entries recommended by the independent accountant. 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 Cardinal Care Acute, Cardinal Care LTSS, 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 state fiscal year ended June 30, 2025to 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. Non-recurring expenses such as start-up costs
    f. Care Coordination
    g. 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: Adjusted Administrative Expenses

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 Sentara Health Plans (SHP). The quarterly filing is for the State Fiscal Year ended June 30, 2025 and the Annual Statement and audited financial statements are for the calendar year ended December 31, 2024.

SHP receives administrative services from Sentara Health Administration, Inc. which is owned by Sentara Holdings, Inc., a sister company to SHP. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a trial balance for Sentara Health Administration, Inc.

SHP has delegated certain functions to vendors. Express Scripts, Inc. provides pharmacy benefit management (PBM) services. Kaiser Foundation Health Plan of The Mid-Atlantic States (Kaiser) provides comprehensive health services to certain CardinalCare Acute members. VSP Vision Care, Inc. (VSP) provides administration of the vision benefit. Consumer Direct Care Network Virginia, LLC (CDCN) is the fiscal employer/agent for consumer directed services. ModivCare Solutions, LLC (ModivCare) provide administration of the non-emergent transportation benefit. CareCentrix, Inc. provides administration of home infusion therapy and sleep services.

Trial Balance Reconciliation

We obtained SHP's adjusted trial balance as of June 30, 2025, and agreed the account descriptions, account numbers and ending balances for a sample of 20 accounts to the general ledger for the year ended June 30, 2025. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per SHP's adjusted trial balance as of June 30, 2025 of $773,637,527 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of $770,424,559. The difference of $3,212,968 is due to statutory accounting adjustments applied by the health plan.

Administrative Expenses

Total claims adjustment expenses and administrative expenses included in the quarterly filing and Annual Statement consist of direct and indirect expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Indirect expenses are recorded at the SHP level, and allocated to the appropriate entities and products. The total

direct and indirect Medicaid expenses submitted on the quarterly filing for Claims Adjustment and General Administrative expenses are $61,794,980 and $431,936,880 respectively.

We compared total SHP 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 State Fiscal Year ended June 30, 2024 were $533,429,231 for SHP compared to State Fiscal Year ended June 30, 2025 expenses of $493,731,860. The decrease of $39,697,371, or 7.44%, is within the specific threshold.

We inspected the accounts and expense categories included in SHP's trial balance. We judgmentally selected expense categories and accounts for further inspection from the direct and allocated expenses. Based on this inspection, we determined that $98,045 in marketing expense, $8,453 in misclassified charitable contributions related to marketing expense and $449,253 related to member gift cards should be excluded from the Underwriting Exhibit at Appendix C. Additionally, SHP identified $439,627 in start-up costs related to Cardinal Care implementation. The start-up costs have been excluded from the Underwriting Exhibit at Appendix C and amortization for a portion of start-up costs identified in the current year and in previous years has been included through a separate adjustment. However, this expense will be excluded for rate setting.

Sentara Health Administration, Inc. provides SHP with administrative services. The Administrative Services and Marketing Agreement between Optima Health Plan (currently known as SHP) and Sentara Health Plans, Inc. effective April 2005 is the applicable agreement for these arrangements and allows for an allocation of actual costs. A schedule documenting payments made to Sentara Health Administration, Inc. ($426,535,094) was provided to agree to amounts included with SHP expenses.

A schedule documenting allocated costs from Sentara Health Administration, Inc. was provided to agree to amounts included with SHP administrative expenses. Support for allocated costs was received on a sample basis and were found to include non-allowable marketing expense, charitable contribution expense, and employee gift card expense included in the previously described adjustments.

Express Scripts, Inc., Kaiser, CDCN, and CareCentrix, Inc. provide PBM services, comprehensive health services to certain CardinalCare Acute members, fiscal employer/agent for consumer directed services, home infusion therapy and sleep services, respectively, and the related expenses are appropriately split between administrative and medical on the trial balance. ModivCare provides administration of the non-emergent transportation benefit and capitated expenses are recorded to medical and administrative accounts based on vendor invoicing. The vendor certification was utilized to verify the health plans reported amount and a reclassification from medical to administrative of $7,737,111 was necessary as a result. VSP provides administration of the vision benefit and expenses are recorded to medical in full. The vendor certification was utilized to determine the medical portion and a reclassification of the administrative portion of $1,217,417 was necessary as a result.

Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are calculated by SHP through review and analysis of the departments containing HCQI expenses. Departments containing HCQI expense are analyzed to determine the amount of cost

associated with HCQI and the percentage of that cost associated with each of the five categories (Improve Health Outcomes, Wellness and Health Promotion, Prevent Hospital Readmission and Improve Patient Safety/Reduce Medical Errors and Health Information Technology). This expense is allocated to Medicaid using the same allocation basis for each department utilized for total department costs. Total HCQI expense allocated to Medicaid in 2025 is $143,579,249. This amount included $120,467,825 related to care coordination.

Reinsurance

Reinsurance premiums totaling $204,892,176 paid to Kaiser ($194,420,812) and Swiss RE Life and RGA Reins Co ($10,471,364) agreed to the trial balance and were included in Net Premium Income on the quarterly filing. Reinsurance premiums relating directly to the Medicaid product were $194,420,812 for Kaiser and $3,655,875 for Swiss RE Life and RGA Reins Co. Reinsurance recoveries of $104,010,938 agreed to the trial balance and were offset against Medical Services Expenditures on the quarterly filing. SHP reported that recoveries relating directly to the Medicaid product have occurred in the amount of $8,737,369.

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 health plan appropriately reported the change in unearned premium reserves as relating to prior and future periods, and as such, they have been excluded for the purposes of this report. Aggregate write-ins included care clinic revenues. The plan appropriately included directed payments in net premium income, which were removed for the purposes of this report.

SENTARA HEALTH PLANS
APPENDIX C: ADJUSTED ADMINISTRATIVE EXPENSES

Line #	Line Description	Cardinal Care Acute FAMIS & FAMIS MOMS	Cardinal Care Acute Non Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non Expansion	Cardinal Care LTSS Expansion	Total Medicaid
1	**Administrative Expense**	-	-	-	-	-	-
1.1	Claims Adjustment Expenses	$ 821,389	$ 16,376,711	$ 14,940,698	$ 22,250,637	$ 7,405,545	$ 61,794,980
1.2	General Administrative Expenses	$ 7,046,030	$ 140,482,528	$ 128,164,135	$ 117,227,926	$ 39,016,261	$ 431,936,880
1.3	**Total Administrative Expenses**	**$ 7,867,419**	**$ 156,859,239**	**$ 143,104,833**	**$ 139,478,563**	**$ 46,421,806**	**$ 493,731,860**
1.4	Less: Self-Reported Excludable Expenses *	$ (225,981)	$ (4,515,842)	$ (4,140,637)	$ (4,640,388)	$ (1,546,451)	$ (15,069,299)
1.5	**Adjusted Administrative Expenses**	**$ 7,641,438**	**$ 152,343,397**	**$ 138,964,196**	**$ 134,838,175**	**$ 44,875,354**	**$ 478,662,561**
1.6	Adjustments to Administrative Expenses	$ 191,503	$ 3,826,971	$ 3,510,841	$ 1,014,294	$ 338,042	$ 8,881,651
1.7	**Total Adjusted Administrative Expenses**	**$ 7,832,941**	**$ 156,170,368**	**$ 142,475,037**	**$ 135,852,469**	**$ 45,213,396**	**$ 487,544,212**
2	**Net Premium Income**	-	-	-	-	-	-
2.1	Net Premium Income	$ 83,534,188	$ 1,676,560,528	$ 1,560,851,507	$ 2,139,496,719	$ 705,148,910	$ 6,165,591,852
2.2	Adjustments to Net Premium Income	$ -	$ (489,953,482)	$ (450,943,965)	$ (311,441,953)	$ (190,180,906)	$ (1,442,520,306)
2.3	**Total Adjusted Revenues**	**$ 83,534,188**	**$ 1,225,238,001**	**$ 1,111,858,408**	**$ 1,827,914,677**	**$ 526,978,585**	**$ 4,775,523,859**
2.4	Percentage of Adjusted Administration Expenses to Net Premium Income	9.38%	12.75%	12.81%	7.43%	8.58%	10.21%
3	**Separately Identified Expenses included in Adjusted Administrative Expenses**	-	-	-	-	-	-
3.1	Healthcare Quality Improvement Expenses (HCQI)	$ 1,811,653	$ 36,122,750	$ 32,970,509	$ 54,530,450	$ 18,143,887	$ 143,579,249
3.2	Fraud Reduction and Recovery Expenses	$ 61,653	$ 1,232,070	$ 1,130,294	$ 1,954,624	$ 651,432	$ 5,030,075
3.3	Start Up / Other Non Recurring Expenses	$ 9,615	$ 192,136	$ 176,265	$ 46,210	$ 15,401	$ 439,625
3.4	Care Coordination expenses as defined within the MCO contract	$ 1,374,237	$ 27,462,468	$ 25,193,911	$ 49,829,990	$ 16,607,218	$ 120,467,825
3.5	Allowable Member Incentives	$ 9,894	$ 197,714	$ 181,381	$ 45,200	$ 15,064	$ 449,253

* Medicaid expenses excluded by the health plan include related party management fees in excess of cost ($11,073,344), lobbying expenses ($32,346), and unsupported medical expenses ($3,963,609). Per review of support, unsupported medical expenses were comprised of interest on late claims expense ($3,000,962) and marketing expense ($962,647).

Appendix D: Schedule of Adjustments

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 – To remove member gift card expenses.

SHP separately identified member gift card expenses related to member incentives and COVID-19. Gift cards are an excluded expense for the purposes of rate setting and will be removed.

Table 1. Proposed Adjustment #1 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
($9,894)	($197,714)	($181,381)	($45,200)	($15,064)	($449,253)

Adjustment #2 – To remove 2025 start-up costs.

SHP identified $439,627 in start-up expenses related to Cardinal Care implementation. This expense is being amortized over five years based on implementation date of the program. The 2025 expense were removed in total. See Adjustment #3 for the related adjustment to add back the amortization costs. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Table 2. Proposed Adjustment #2 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
($9,615)	($192,136)	($176,265)	($46,210)	($15,401)	($439,627)

Adjustment #3 – To include amortized start-up costs related to MES, PRSS, Cardinal Care, and Project Horizon.

SHP 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 $78,317 related to MES, $3,378,994 related to Cardinal Care, $15,230 related to PRSS, and $1,139,969 related to Project Horizon, respectively. (CMS Pub. 15-1: §2132 – Start-Up Costs)

Table 3. Proposed Adjustment #3 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
$20,186	$403,397	$370,074	$96,637	$32,207	$922,501

Adjustment #4 – To remove unallowable charitable contributions and donations expense.

During the inspection of departments 23120001 Network Contracting – SHP VA and 11860001 Outreach, Community, SHOH – SHP VA – Health Plan, amounts were found that included expenses coded to the charitable contributions category. An analysis of the provided by the health plan supported the costs were unallowable, and were miscoded sponsorships, which are unallowable and an adjustment was made to remove these expenses. (45 CFR § 75.434)

Table 4. Proposed Adjustment #4 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
($117)	($2,334)	($2,141)	($2,896)	($965)	($8,453)

Adjustment #5 – To remove unallowable marketing expense.

During the inspection of departments 11860001 Outreach, Community, SDOH – SHP VA- Health Plan and 23880000 SHP CMO Admin – Health Plan, amounts were found that included expenses coded to the marketing category. An analysis of these costs provided by the health plan supported that a portion of these costs were non-allowable and an adjustment was made to remove these expenses. (45 CFR § 75.421)

Table 5. Proposed Adjustment #5 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
($2,491)	($49,774)	($45,663)	($88)	($29)	($98,045)

Adjustment #6 – To reclassify the administrative portion of VSP expenses from medical expense.

SHP reported the full amount of capitated expense for VSP as medical expenses. SHP was unable to provide support to separate out the administrative component of these expenses. The reclassification amount of $1,217,417 was calculated using the vendor certification provided by the vendor. (45 CFR § 158.140(b)(3))

Table 6. Proposed Adjustment #6 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
$26,303	$525,630	$482,210	$137,461	$45,813	$1,217,417

Adjustment #7 – To reclassify the administrative portion of ModivCare expenses from medical expense.

SHP reported the capitated expense related to ModivCare separated between medical and administrative accounts based on vendor invoicing. The vendor certification provided by the vendor was utilized to verify the medical and administrative split and determine that a reclassification of $7,737,111 was necessary. (45 CFR § 158.140(b)(3))

Table 7. Proposed Adjustment #7 to Line 1.3 – Total Administrative Expenses

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
$167,131	$3,339,902	$3,064,007	$874,590	$291,481	$7,737,111

Adjustment #8 – To remove directed payments included in net premium income.

SHP included directed payments within net premium income. An adjustment of ($1,442,520,306) was made to remove directed payments from total revenue for the purposes of this report.

Table 8. Proposed Adjustment #8 to Line 2.1 – Net Premium Income

Cardinal Care FAMIS	Cardinal Care Acute Non-Expansion	Cardinal Care Acute Expansion	Cardinal Care LTSS Non-Expansion	Cardinal Care LTSS Expansion	Total Medicaid
($0)	($489,953,482)	($450,943,965)	($311,441,953)	($190,180,906)	($1,442,520,306)