

The background features a blurred medical scene with a green overlay. A large white cross is centered. Various medical icons are scattered: a syringe at the top right, a pill, a virus, a stethoscope at the bottom left, and a group of three people. A white diagonal line separates the green area from the dark grey text area.

**COVENTRY HEALTH CARE
OF VIRGINIA, 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, 2023



**MYERS AND
STAUFFER**
L.C.
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 Coventry Health Care of Virginia, Inc. (Coventry) 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
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) and the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for Coventry Health Care of Virginia, Inc. (Coventry) for the year ended December 31, 2023.

Coventry is operated under their parent holding company, Aetna Health Holdings, LLC, which is a wholly owned subsidiary of Aetna, Inc. Aetna, Inc. is a wholly owned subsidiary of CVS Health Corporation. Coventry receives administrative services from Aetna Health Management, LLC (AHM) and Aetna Medicaid Administrators (AMA), which are owned by Aetna, Inc. Coventry also has administrative expenses from Caremark-PCS Health, LLC (Caremark), which is an affiliate of Aetna, Inc. Caremark 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 held with Caremark.

Coventry has delegated certain functions to vendors. Modivcare Solutions, LLC provides administration of the non-emergency transportation benefit. Vision Service Plan, Inc. (VSP) provides administration of the vision benefit. MedSolutions, Inc. provides certain radiology management functions. Public Partnerships LLC (PPL) and Consumer Direct Care Network Virginia, LLC (CDCN) are the fiscal employer/agent for consumer directed services.

Trial Balance Reconciliation

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

Total administrative expenses including claims adjustment expenses per the Coventry adjusted trial balance as of December 31, 2023 of \$243,062,913 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$243,033,795. The administrative expenses including claims adjustment expenses per the Coventry adjusted trial balance as of December 31, 2023 of \$243,062,913 were reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$243,033,795. The difference of \$29,118 between both reconciliations is due to a timing difference when the trial balance and general ledger were pulled.



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 \$111,347,945 and \$104,450,534 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$109,740,183 and \$102,656,288 respectively. Coventry identified \$3,408,304 of the variance is due to Children's Health Insurance Program (CHIP), which is included in Medicaid on the quarterly filing and in Comprehensive on the Annual Statement. The remaining variance of \$6,296 is unsupported, this amount has been included in the Underwriting Exhibit at Appendix C.

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 2022 were \$181,838,522 compared to 2023 expenses of \$215,798,479. The increase of \$33,959,957 is primarily due an increase in Healthcare Quality Improvement (HCQI) expenses, which increased by \$27,826,577. Coventry explained there were 3 factors contributing to this increase. Case Management staff increased by 88% or 61 full time equivalents as a result of the Cardinal Care Contract, increases due to Aetna Wellness on Wheels initiative, a mental health on demand phone application, and Neonatal Intensive Care Case Management, and an increase in documenting and tracking of HCQI costs across departments. These factors resulted in estimated increases in HCQI of \$5,800,000, \$5,100,000, and \$3,000,000, respectively.

We inspected the accounts included in the schedule of direct and management fee expense. Within the management fee expenses we determined that \$221,149 in lobbying expense and \$65,841 in donation and contribution expense should be excluded from the Underwriting Exhibit at Appendix C. Additionally, we determined that the Aetna Information Services account was over allocated to Medicaid by the amount of \$2,561,474. This amount 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 provides Coventry with Pharmacy Benefit Management services. The Service Agreement by and between AHM and Caremark effective October 2013 allows for a per claim administrative fee. Payments made to AMA and AHM were \$196,340,143 which includes administrative payments made to Caremark of \$5,006,958.

Schedules documenting allocated costs from AMA and AHM were provided to agree to amounts included with Coventry administrative expenses. Support for allocated costs was received on a sample



basis and were found to include non-allowable lobbying and donation and contribution expenses, included in the previously described adjustment. Coventry has not provided support for allocated costs related to administrative services provided by Caremark. Additional procedures were applied and the per claim administrative fees were determined to meet the related party exception provided for within CMS Publication 15-1: 1010.

Modivcare Solutions, LLC, PPL, and CDCN expenses are appropriately split between administrative and medical on the trial balance. These vendors provide administration of the non-emergency transportation benefit and fiscal employer/agent services for consumer direct services, respectively. MedSolutions, Inc. expenses are recorded in full to administrative. This vendor provides utilization management for radiology services. VSP provides administration of the vision benefit. Although the contract between VSP and Coventry provides for a separate administrative fee, the expenses were recorded to medical services expenditures in full. The general ledger and accounts payable ledger were used to separate and reclassify the administrative fee of \$957,921. This amount has been included in the Underwriting Exhibit at Appendix C.

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 HCQI expenses allocated to Medicaid in 2023 are \$58,223,144. This amount includes \$40,000,276 related to care coordination.

Reinsurance

Coventry stated there was no reinsurance premium expense nor were there recoveries related to 2023. This is consistent with 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. There were no aggregate write-ins related to the Medicaid noted on the quarterly filing.



COVENTRY HEALTH CARE OF VIRGINIA, INC.
APPENDIX C: UNDERWRITING EXHIBIT

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
Administrative Expense					
Claims Adjustment Expenses	\$ 22,791,730	\$ 35,338,577	\$ 39,618,777	\$ 13,598,861	\$ 111,347,945
General Administrative Expenses	\$ 21,810,044	\$ 31,345,242	\$ 33,910,794	\$ 17,384,454	\$ 104,450,534
Total Administrative Expenses	\$ 44,601,774	\$ 66,683,819	\$ 73,529,571	\$ 30,983,315	\$ 215,798,479
Less: Self-Reported Excludable Expenses *	\$ (3,803,701)	\$ (2,403,977)	\$ (5,895,850)	\$ (5,964,062)	\$ (18,067,590)
Adjusted Administrative Expenses	\$ 40,798,073	\$ 64,279,842	\$ 67,633,721	\$ 25,019,253	\$ 197,730,889
Adjustment 1: Reclass VSP administrative expense from medical.	\$ 405,728	\$ 385,863	\$ 166,330	\$ -	\$ 957,921
Adjustment 2: Agree allocation of Aetna Information Services to the supported allocation percentage.	\$ (521,815)	\$ (813,938)	\$ (912,504)	\$ (313,217)	\$ (2,561,474)
Adjustment 3: Agree as filed administrative expense to supported expenses.	\$ 6,296	\$ -	\$ -	\$ -	\$ 6,296
Adjustment 4: Agree self-excluded lobbying expenses to supported amounts.	\$ (41,406)	\$ (46,118)	\$ (108,963)	\$ (24,662)	\$ (221,149)
Adjustment 5: Agree self-excluded donation and contribution expenses to supported amounts.	\$ (13,266)	\$ (20,664)	\$ (24,134)	\$ (7,776)	\$ (65,840)
Total Adjusted Administrative Expenses	\$ 40,633,610	\$ 63,784,985	\$ 66,754,450	\$ 24,673,598	\$ 195,846,643
Net Premium Income	\$ 570,376,061	\$ 814,350,601	\$ 1,027,391,092	\$ 355,245,185	\$ 2,767,362,939
Adjustment 6: Remove unearned premium reserves not relating to the current period.	\$ 6,204,392	\$ 43,372,810	\$ (19,118,515)	\$ (9,911,665)	\$ 20,547,022
Total Adjusted Revenues	\$ 576,580,453	\$ 857,723,411	\$ 1,008,272,577	\$ 345,333,520	\$ 2,787,909,961
Percentage of Adjusted Administration Expenses to Net Premium Income	7.05%	7.44%	6.62%	7.14%	7.02%



COVENTRY HEALTH CARE OF VIRGINIA, INC.
APPENDIX C: UNDERWRITING EXHIBIT

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
Separately Identified Expenses included in Adjusted Administrative Expenses					
Healthcare Quality Improvement Expenses (HCQI)	\$ 8,668,738	\$ 5,062,235	\$ 39,185,156	\$ 5,307,015	\$ 58,223,144
Fraud Reduction and Recovery Expenses	\$ 422,124	\$ 115,174	\$ 720,030	\$ 120,743	\$ 1,378,071
Start Up / Other Non Recurring Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Care Coordination expenses as defined within the MCO contract	\$ 3,238,298	\$ 3,229,907	\$ 30,145,984	\$ 3,386,086	\$ 40,000,275
Allowable Member Incentives	\$ -	\$ -	\$ -	\$ -	\$ -

* Medicaid expenses excluded by the MCO include lobbying expenses (\$169,899); contribution/donation expenses (\$401,000); State and Federal income taxes (\$11,453,465); State Premium taxes (\$634,045); accruals for future losses (\$1,145,415), fines and penalties (\$309,641), and marketing (\$3,954,126).



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 – Reclassify VSP administrative expense from medical.

Coventry filed 100% of VSP expense under medical. An adjustment was made to reclassify administrative capitation fees from medical to administrative. (42 CFR § 438.8(e)(2))

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$405,728	\$385,863	\$166,330	\$0	\$957,921

Adjustment #2 – To agree allocation of Aetna Information Services to the supported allocation percentage.

Coventry allocated 1.8% of Aetna Information Services, Cost Center 797001, to Virginia Medicaid, based on revenue. The total Cost Center was \$237,213,600 however Coventry was unable to support this amount with detail. The detail instead supported a Cost Center amount of \$93,681,199. An adjustment was made to agree the Virginia Medicaid allocation to the supported amount. (45 CFR § 75.405)

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$521,815)	(\$813,938)	(\$912,504)	(\$313,217)	(\$2,561,474)

Adjustment #3 – Agree as filed administrative expense to supported expenses.

Coventry support included administrative expenses totaling \$44,608,070 related to Medallion 4.0 Non-Expansion. The submitted amount for Medallion 4.0 Non-Expansion totaled \$44,601,774. An adjustment was made to agree to supported expenses.



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$6,296	\$0	\$0	\$0	\$6,296

Adjustment #4 – To agree self-excluded lobbying expenses to supported amounts.

Coventry excluded lobbying fees allocated through cost centers 11419, 11421, 81300, 81406, and 86350. Additional lobbying to be excluded was identified in cost centers 790087, 790135, 792098, and 790199. An adjustment was made to exclude the additional amounts included in Coventry's support. (45 CFR § 75.450)

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$41,406)	(\$46,118)	(\$108,963)	(\$24,662)	(\$221,149)

Adjustment #5 – To agree self-excluded donation and contribution expenses to supported amounts.

Coventry excluded charitable contributions expenses allocated through cost centers 81150 and 81152. The filed adjustment was allocated based on the incorrect revenue amounts. Additional donation and contribution expense was identified in cost centers 790112 and 792098. An adjustment was made to allocate the exclusion based on verified revenue amounts and exclude the additional amounts included in Coventry's support. (45 CFR § 75.434)

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
(\$13,266)	(\$20,664)	(\$24,134)	(\$7,776)	(\$65,840)

Adjustment #6 – Remove unearned premium reserves not relating to the current period.

Coventry included unearned premium reserves related to periods prior to January 1, 2023 and subsequent to December 31, 2023 based on their financial reporting procedures. An adjustment of \$20,547,022 was made to remove all unearned premium reserves not related to the period under review, for the purpose of administrative reporting.



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Proposed Adjustment				
Medallion 4.0 Non-Expansion	Medallion 4.0 Expansion	CCC Plus Non-Expansion	CCC Plus Expansion	Total Medicaid
\$6,204,392	\$43,372,810	(\$19,118,515)	(\$9,911,665)	\$20,547,022