

VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: Healthkeepers, Inc.



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Independent Accountant's Report

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

MCO Vendor: Healthkeepers, 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: Healthkeepers, 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: Healthkeepers, 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: Healthkeepers, 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: Healthkeepers, 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), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for Healthkeepers, Inc. for the year ended December 31, 2019.

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 utilization management and program integrity services. IngenioRx, Inc. provides prescription benefit management for HealthKeepers, Inc beginning October 1, 2019. 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 Networks Inc (ASH) provides management of chiropractic services. DentaQuest provides administration of the dental benefit. Southeastrans, Inc. provides administration of the non emergent transportation benefit. Davis Vision provides administration of the vision benefit. Express Scripts, Inc. (ESI) provided prescription benefit management through September 30, 2019.

Trial Balance Reconciliation

We obtained Healthkeepers, Inc.'s adjusted trial balance as of December 31, 2019, 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, 2019. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the Healthkeepers, Inc.'s adjusted trial balance as of December 31, 2019 of \$507,281,288 was reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$507,281,288. The administrative expenses including claims adjustment expenses per the Healthkeepers, Inc. adjusted trial balance as of December 31, 2019 of \$507,281,288 was reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement of \$507,281,288.

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 \$87,819,136 and \$121,823,155 respectively. The total direct and indirect Medicaid expenses submitted on the Annual Statement for Claims Adjustment and General Administrative expenses are \$84,278,330 and \$116,911,343 respectively. The \$8,452,618 difference is due to FAMIS, which is included in Comprehensive (Hospital and Medical) on the Annual Filing.



Appendix B - Results

MCO Vendor: Healthkeepers, Inc.
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We compared total MCC of Virginia administrative and claim adjustment expenses reported on the quarterly filing by line item for the current year and prior year and obtained explanations for any line item with a change greater than \$100,000 and 10%. Total general administrative expenses, excluding investment expenses, for 2018 were \$204,345,268 compared to 2019 expenses of \$209,642,291. The increase of \$5,297,023, or 2.59%, is within the specified threshold. All line item fluctuations within the criteria were supported by explanations from HealthKeepers, Inc.

We inspected the accounts and expense categories included in HealthKeepers, Inc.'s trial balance. This included HealthKeepers, Inc. specific and Anthem allocated expenses. We judgementally 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 expansion or the Medicaid Enterprise System (MES) conversion. HealthKeepers, Inc. identified \$132,091 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 \$177,192,263, \$5,686,663, and \$127, respectively.

Schedules documenting allocated costs from Anthem and Diversified Business Group 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. Per review of general ledger detail for IngenioRx Inc. payments are a direct pass through of expenses from CVS Caremark.

DentaQuest, Southesatrans, Inc., Davis Vision, and ESI 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, administration of the vision benefit, and pharmacy benefit management 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 accumulated with administrative expenses at the Anthem level, and allocated to HealthKeepers, Inc. using a variable proxy. 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 2019 is \$77,795,206. This amount included \$57,232,350 related to care coordination.



Appendix B - Results

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Reinsurance

HealthKeepers, Inc. pays reinsurance premiums to Anthem Health Plans of Virginia, Inc. on a per member per month (PMPM) basis, which was based on a recommendation from the Bureau of Insurance. Reinsurance recoveries are based on expenses for inpatient hospital services subject to defined limitations. Reinsurance premiums of \$15,126,668 agreed to the trial balance and the Annual Statement. Reinsurance recoveries of \$6,305,038 agreed to the trial balance and the Annual Statement.



Appendix C - Underwriting Exhibit

MCO Vendor: Healthkeepers, Inc.
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Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Claims Adjustment Expenses	\$ 33,387,844	\$ 50,890,486	\$ 3,540,806	\$ 87,819,136
General Administrative Expenses	55,075,605	61,835,737	4,911,813	121,823,155
Total Administration Expenses	\$ 88,463,449	\$ 112,726,223	\$ 8,452,619	\$ 209,642,291
Less: Self-Reported Excludable Expenses (1)	(3,840,568)	(4,948,326)	1,537	(8,787,357)
Adjusted Administration Expenses	\$ 84,622,881	\$ 107,777,897	\$ 8,454,156	\$ 200,854,934
Less: Start-up Expenses (2)	(54,427)	(72,079)	(5,585)	(132,091)
Plus: Medallion 4.0 and Medicaid Expansion Expenses (3)		547,000	-	547,000
Total Adjusted Administration Expenses	\$ 84,568,454	\$ 108,252,818	\$ 8,448,571	\$ 201,269,843
Net Premium Income (4)	\$ 1,486,268,201	\$ 1,152,785,516	\$ 62,121,175	\$ 2,701,174,892
Percentage of Adjusted Administration Expenses to Net Premium Income	5.69%	9.39%	13.60%	7.45%

(1) Expenses excluded by the MCO included lobbying expenses (\$359,348), contributions and donations (\$53,217), State and Federal income taxes (\$7,565,888), and interest on late claims payments (\$808,904).



Appendix C - Underwriting Exhibit

MCO Vendor: Healthkeepers, Inc.
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(2) HealthKeepers, Inc. identified costs associated with the implementation of the Medicaid Enterprise System (MES). These expenses will be amortized over five years beginning with implementation. However, these costs will be excluded for rate setting.

(3) 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. This adjustment is to add this amortization expense. However, this expense will be excluded from rate setting.

(4) Net Premium Income is reduced by the change in unearned premium reserves in the amount of \$21,110,167.

Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Fraud Reduction and Recovery Expenses	\$ 619,278	\$ 2,606,593	\$ 252,047	\$ 3,477,918
Healthcare Quality Improvement Expenses (HCQI)	\$ 43,331,186	\$ 32,543,971	\$ 1,920,049	\$ 77,795,206
Component of HCQI: Care Coordination expenses (5)	\$ 40,529,064	\$ 16,703,286	\$ -	\$ 57,232,350

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