



HealthKeepers, Inc.

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

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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 HealthKeepers, Inc. (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  
Glen Allen, Virginia  
December 17, 2025

# Appendix A: Administrative Expense Agreed-Upon Procedures

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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 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, 2025 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. 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

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## **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. 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.

HealthKeepers, Inc. is owned 92.51% by Anthem Southeast, Inc. and 7.49% by Wellpoint National Services, Inc. HealthKeepers, Inc. receives administrative services from Elevance Health, Inc., Elevance Health Companies, Inc., Anthem Insurance Companies, Inc., CarelonRx, Inc., and Elevance Health Information Technology Services, Inc. (referred to collectively as Elevance Health). HealthKeepers, Inc. also has administrative expenses from Carelon Services, Inc., which is owned by Elevance Health, Inc. Carelon Services, Inc. provides utilization management and program integrity services. 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. Access2Care, LLC provides non-emergency medical transport services. 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 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 the HealthKeepers, Inc.'s adjusted trial balance as of June 30, 2025 of \$947,208,656 was reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$947,208,656.

## **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 Elevance Health 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 \$87,860,581 and \$186,092,357 respectively.

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 general administrative expenses, excluding investment expenses, for 2024 were \$319,835,079 compared to 2025 expenses of \$273,952,938. The decrease of \$45,882,141, or 14.35%, is primarily due to state taxes with Medicaid income running at a loss for 2025 and negative corporate allocations for incentives, also due to Medicaid losses. 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 Elevance Health and Carelon Services, Inc. allocated expenses. We judgmentally selected expense categories and accounts for further inspection from the direct expense. Based on this inspection, we determined that \$3,364 in marketing expense should be excluded from the Underwriting Exhibit at Appendix C. In prior years, Healthkeepers, Inc. identified start-up costs related to the Medicaid Enterprise System (MES) conversion and CardinalCare. These expenses were amortized over a five year period, and 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 Elevance Health and HealthKeepers, Inc. as companies providing and companies receiving services. The compensation terms provide for a pass through of costs. A separate agreement with Carelon Services, Inc. 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. (now known as CarelonRx) and CaremarkPCS Health, L.L.C. effective October 2017 incorporates HealthKeepers, Inc. effective October 1, 2019 and allows for a per claim administrative fee. An addendum to this agreement also became effective June 1, 2020. A schedule documenting payments made to Elevance Health and Carelon Services, Inc. was provided to agree to amounts included with HealthKeepers Inc.'s administrative expenses. Payments made to Elevance Health and Carelon Services, Inc. were \$203,290,871 and \$40,445,951 respectively.

Schedules documenting allocated costs from Elevance Health and Carelon Services, Inc. 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 transferred at cost after considering the plan's self-exclusion related to Carelon Services, Inc.

Access2Care, LLC and PPL expenses are appropriately split between administrative and medical on the trial balance. These vendors provide non-emergency transportation services and fiscal employer/agent for consumer directed services.

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

HCQI expenses are accumulated with administrative expenses at the Elevance Health 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 2025 is \$81,609,019. This amount included \$56,239,021 related to care coordination.

### **Reinsurance**

HealthKeepers, Inc. pays reinsurance premiums to Anthem Health Plans of Virginia, Inc. and EyeMed Insurance Company. Reinsurance premiums of \$18,374,013 were agreed to the trial balance and they have been included in Total Revenues on the quarterly filing. Reinsurance recoveries of \$16,558,852 were agreed to the trial balance and have been offset against Medical Service Expenditures on the quarterly filing.

### **Total Revenues**

Total revenues were agreed to the trial balance. Amounts reported as change in unearned premium reserves 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. There were no aggregate write-ins noted on the quarterly filing.

## HEALTHKEEPERS, INC.

### APPENDIX C: ADJUSTED ADMINISTRATIVE EXPENSES

| Line #     | Line Description   | Cardinal Care Acute<br>FAMIS & FAMIS MOMS | Cardinal Care Acute Non<br>Expansion | Cardinal Care Acute<br>Expansion | Cardinal Care LTSS Non<br>Expansion | Cardinal Care LTSS<br>Expansion | Total Medicaid          |
|------------|--|---|--------------------------------------|----------------------------------|-------------------------------------|---------------------------------|-------------------------|
| <b>1</b>   | <b>Administrative Expense</b>  | -   | -                                    | -                                | -                                   | -                               | -                       |
| 1.1        | Claims Adjustment Expenses   | \$ (1,164,963)                            | \$ 28,372,957                        | \$ 21,124,183                    | \$ 31,661,977                       | \$ 7,866,427                    | \$ 87,860,581           |
| 1.2        | General Administrative Expenses  | \$ 12,798,016                             | \$ 70,033,141                        | \$ 40,983,851                    | \$ 46,842,406                       | \$ 15,434,942                   | \$ 186,092,357          |
| <b>1.3</b> | <b>Total Administrative Expenses</b>   | <b>\$ 11,633,053</b>                      | <b>\$ 98,406,098</b>                 | <b>\$ 62,108,034</b>             | <b>\$ 78,504,383</b>                | <b>\$ 23,301,369</b>            | <b>\$ 273,952,938</b>   |
| 1.4        | Less: Self-Reported Excludable Expenses *  | \$ 1,740,527                              | \$ 591,568                           | \$ (4,465,856)                   | \$ 1,346,437                        | \$ (3,026,555)                  | \$ (3,813,880)          |
| <b>1.5</b> | <b>Adjusted Administrative Expenses</b>  | <b>\$ 13,373,580</b>                      | <b>\$ 98,997,666</b>                 | <b>\$ 57,642,178</b>             | <b>\$ 79,850,820</b>                | <b>\$ 20,274,815</b>            | <b>\$ 270,139,058</b>   |
| 1.6        | Adjustments to Administrative Expenses   | \$ (31,730)                               | \$ 198,446                           | \$ 105,157                       | \$ 39,222                           | \$ 13,908                       | \$ 325,003              |
| <b>1.7</b> | <b>Total Adjusted Administrative Expenses</b>                                      | <b>\$ 13,341,849</b>                      | <b>\$ 99,196,112</b>                 | <b>\$ 57,747,335</b>             | <b>\$ 79,890,042</b>                | <b>\$ 20,288,723</b>            | <b>\$ 270,464,061</b>   |
| <b>2</b>   | <b>Net Premium Income</b>  | -   | -                                    | -                                | -                                   | -                               | -                       |
| 2.1        | Net Premium Income   | \$ 127,353,763                            | \$ 1,120,253,356                     | \$ 807,682,096                   | \$ 1,784,024,962                    | \$ 530,355,222                  | \$ 4,369,669,399        |
| 2.2        | Adjustments to Net Premium Income  | \$ -                                      | \$ (138,897)                         | \$ -                             | \$ -                                | \$ -                            | \$ (138,897)            |
| <b>2.3</b> | <b>Total Adjusted Revenues</b>   | <b>\$ 127,353,763</b>                     | <b>\$ 1,120,114,459</b>              | <b>\$ 807,682,096</b>            | <b>\$ 1,784,024,962</b>             | <b>\$ 530,355,222</b>           | <b>\$ 4,369,530,502</b> |
| 2.4        | Percentage of Adjusted Administration Expenses to Net Premium Income               | 10.48%                                    | 8.86%                                | 7.15%                            | 4.48%                               | 3.83%                           | 6.19%                   |
| <b>3</b>   | <b>Separately Identified Expenses included in Adjusted Administrative Expenses</b> | -   | -                                    | -                                | -                                   | -                               | -                       |
| 3.1        | Healthcare Quality Improvement Expenses (HCQI)                                     | \$ 3,533,216                              | \$ 21,449,598                        | \$ 12,470,297                    | \$ 36,984,707                       | \$ 7,171,201                    | \$ 81,609,019           |
| 3.2        | Fraud Reduction and Recovery Expenses  | \$ 109,778                                | \$ 807,078                           | \$ 434,712                       | \$ 160,246                          | \$ 57,363                       | \$ 1,569,176            |
| 3.3        | Start Up / Other Non Recurring Expenses  | \$ -                                      | \$ -                                 | \$ -                             | \$ -                                | \$ -                            | \$ -                    |
| 3.4        | Care Coordination expenses as defined within the MCO contract                      | \$ 1,259,515                              | \$ 7,646,319                         | \$ 4,445,392                     | \$ 35,922,543                       | \$ 6,965,252                    | \$ 56,239,021           |
| 3.5        | Allowable Member Incentives  | \$ -                                      | \$ 719,957                           | \$ -                             | \$ -                                | \$ -                            | \$ 719,957              |

\* Medicaid expenses excluded by the health plan include related party management fees in excess of cost (\$5,705,423), lobbying expenses (\$1,835,169), contributions (\$31,427), a positive adjustment related to State and Federal income taxes (\$9,672,980), claims interest (\$1,708,802), and marketing and advertising (\$4,206,038).

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

HealthKeepers, Inc. identified expenses related to fraud reduction and recovery totaling \$1,569,176. HealthKeepers, Inc. identified fraud recoveries totaling \$1,117,896. As fraud reduction and recovery expenses are limited to the amount of claims payments recovered through the related efforts, the excess expenses of \$451,280 have been removed. (45 CFR § 158.140(b)(2)(iv))

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 |
|---------------------|-----------------------------------|-------------------------------|----------------------------------|------------------------------|----------------|
| (\$31,571)          | (\$232,108)                       | (\$125,019)                   | (\$46,085)                       | (\$16,497)                   | (\$451,280)    |

## **Adjustment #2 – Include amortization related to MES implementation and Cardinal Care.**

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 \$2,762,341 related to MES Implementation and \$1,135,892 related to Cardinal Care Implementation. (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 |
|---------------------|-----------------------------------|-------------------------------|----------------------------------|------------------------------|----------------|
| \$0                 | \$431,868                         | \$230,861                     | \$86,250                         | \$30,667                     | \$779,646      |

## **Adjustment #3 – Remove member incentives from Net Premium Income.**

HealthKeepers, Inc. identified \$719,957 in allowable member incentives. These incentives are located in account 403510, Other Premium Refunds, which was included with Net Premium Income on both the Annual Statement and quarterly filing. As the contents of the account include expenses related to member incentives for gift cards, this account has been removed from Total Adjusted Revenues. (45 CFR § 158.130)

Table 3. Proposed Adjustment #3 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                 | (\$719,957)                       | \$0                           | \$0                              | \$0                          | (\$719,957)    |

**Adjustment #4 – Remove marketing/advertising expense.**

During inspection of cost center 4043002700 Total Rewards and M&A, we found expenses relating to marketing and advertising. We determined this cost to be non-allowable and an adjustment was made to remove this expense. (45 CFR § 75.421)

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 |
|---------------------|-----------------------------------|-------------------------------|----------------------------------|------------------------------|----------------|
| (\$159)             | (\$1,314)                         | (\$686)                       | (\$943)                          | (\$261)                      | (\$3,364)      |