

**LOUISIANA DEPARTMENT OF HEALTH AND HOSPITALS**  
**Baton Rouge, Louisiana**

Independent Auditor's Report for the  
Louisiana Department of Health and Hospitals  
Adjusted Medical Loss Ratio (MLR) Rebate Calculation of Amerigroup Louisiana, Inc.

For the Calendar Year Ended December 31, 2013



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## **Independent Auditor's Report**

Louisiana Department of Health and Hospitals

### **Report on Medical Loss Ratio Rebate Calculation**

We have audited the accompanying Amerigroup Louisiana, Inc.'s (Amerigroup) Adjusted Medical Loss Ratio Rebate Calculation for the calendar year ended December 31, 2013.

### **Management's Responsibility for the Medical Loss Ratio Rebate Calculation**

Amerigroup's management is responsible for the preparation and fair presentation of the Medical Loss Ratio Rebate Calculation in accordance with the Bayou Health Financial Reporting Guide for Prepaid Organizations; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Medical Loss Ratio Rebate Calculation that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Medical Loss Ratio Rebate Calculation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Medical Loss Ratio Rebate Calculation is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the Medical Loss Ratio Rebate Calculation. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Medical Loss Ratio Rebate Calculation, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the Medical Loss Ratio Rebate Calculation in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Medical Loss Ratio Rebate Calculation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the Adjusted Medical Loss Ratio Rebate Calculation referred to above presents fairly, in all material respects, the financial position of Amerigroup for the calendar year ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America and based on criteria set forth in the Bayou Health Financial Reporting Guide for Prepaid Organizations.

Atlanta, Georgia  
January 13, 2015

## **Organization Background**

Amerigroup Louisiana, Inc., a Louisiana Corporation, is a wholly owned subsidiary of Amerigroup Corporation, which commenced operations on February 1, 2012 and is licensed as a health maintenance organization in the state of Louisiana.

On December 24, 2012, WellPoint, Inc. completed the acquisition of all of Amerigroup Corporation's outstanding shares. As a result of the acquisition, Amerigroup Louisiana is now an indirect subsidiary of WellPoint.

Amerigroup Louisiana's members include children and families served by Medicaid's TANF as well as people with disabilities. Of the five managed care organizations operating in Louisiana, Amerigroup Louisiana is one of three providers that began offering services on a full-risk basis on February 1, 2012. Amerigroup Louisiana serves children, families, seniors and people with disabilities through the BAYOU HEALTH program. Effective February 1, 2012, Amerigroup Louisiana commenced operations in New Orleans and North Shore. Effective April 1, 2012, Amerigroup Louisiana commenced operations in Baton Rouge, Lafayette, and Thibodaux; and on June 1, 2012, Amerigroup Louisiana commenced operations in the remaining regions of Alexandria, Lake Charles, Monroe and Shreveport.

Our examination was conducted from September 10, 2014 to December 15, 2014.

## Schedule of Adjustments and Comments

During our audit we noted certain matters involving internal controls and other operational matters that are presented for your consideration. These adjustments, comments and recommendations are intended to improve internal controls or result in other operating efficiencies and are summarized below.

**Management Comment #1: Medical Loss Ratio (MLR), Line 10, Incurred Claim Adjustment Exclusions:** Amerigroup Louisiana excluded \$270,286.82 of costs associated with medical expenditures on its 2013 MLR rebate calculation in error that do not meet the definition of incurred claim adjustment exclusions.

**Condition:**

Amerigroup Louisiana included \$270,286.82 of costs associated with dental services in its determination of incurred claim adjustment exclusions on the 2013 MLR rebate calculation. These costs do not meet the definition of adjustments that may or must be included in incurred claims and hence excluded from the MLR rebate calculation.

**Cause:**

Amerigroup Louisiana included costs of dental services as incurred claim adjustment exclusions due to human error. There were no indications that the error was the result of a systemic failure of internal controls or management oversight or a misunderstanding of requirements.

**Criteria:**

Bayou Health Financial Reporting Guide for Prepaid Organizations, Appendix B, Page 29, Reimbursement for Clinical Services Provided to Enrollees, Section B.3.

**Effect:**

Line 10 of the MLR rebate calculation, incurred claim adjustment exclusions, was overstated in the amount of \$270,286.82. By overstating incurred claim adjustment exclusions, the MLR percentage achieved is also understated.

**Recommendation:**

We recommend that Amerigroup Louisiana strengthen its processes and controls over the MLR rebate calculation to ensure incurred claim adjustment exclusions are properly reported.

**Management Comment #2: Medical Loss Ratio (MLR), Line 12, Health Care Quality Improvement (HCQI) and Health Care Information Technology (HIT) Administrative Expenses:** Amerigroup Louisiana included \$1,938,653.17 of costs associated with administrative and support services provided by its parent organization, Amerigroup Corporation, on its 2013 MLR rebate calculation that do not meet the definition of expenditures associated with activities that improve health care quality.

**Condition:**

Amerigroup Corporation entered into an administrative services agreement with Amerigroup Louisiana to provide certain administrative and support services. Services provided include such activities as payroll administration, budgeting and cash management, claims adjudication, network development and maintenance, and the administering of a compliance program. In return, Amerigroup Louisiana pays Amerigroup Corporation an administrative and support services fee on a monthly basis. The monthly fee is an accumulation of a percent of premium revenue fee, a per-member-per-month (PMPM) fee, an additional services fee, and a risk margin fee. Amerigroup Corporation allocates the administrative and support services fee based on mapping of corporate departments to respective HCQI line items on the quarterly financial reports submitted to Louisiana DHH. The services provided, as per the administrative services agreement, do not meet the definition of HCQI expenses, as defined in the Financial Reporting Guide. The cost of services meet the definition of other administrative expenses which are not to be included as HCQI expenses on the MLR calculation. Amerigroup Corporation allocated \$1,938,653.17 in total of administrative and support services fees to Amerigroup Louisiana that were included on its 2013 MLR rebate calculation.

**Cause:**

Amerigroup Corporation stated that it believed that departments in which costs were allocated met the definition of HCQI related activities. Although departments in which costs were allocated do appear to meet the definition of HCQI, the costs themselves do not meet the definition.

**Criteria:**

Bayou Health Financial Reporting Guide for Prepaid Organizations, Section 2.01, Schedule A, Income Statement, pages 9-11 and Appendix B, MLR Rebate Calculation, page 32.

**Effect:**

Line 12 of the MLR rebate calculation, HCQI and HIT administrative expenses from Income Statement, was overstated in the amount of \$1,938,653.17. By overstating HCQI expenses, the MLR percentage achieved is also overstated.

**Recommendation:**

We recommend that Amerigroup Corporation and Amerigroup Louisiana revise its processes for reporting costs associated with its administrative and support services agreement to ensure HCQI expenses on the MLR rebate calculation includes costs associated with activities that specifically improve health care quality.

**AMERIGROUP LOUISIANA, INC.**  
**ADJUSTED MEDICAL LOSS RATIO REBATE CALCULATION**  
**FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2013**

<b>MLR Line #</b>	<b>MLR Line Description</b>	<b>Reported FY 2013</b>	<b>Adjustments</b>	<b>Adjusted FY 2013</b>
<b>Revenue and New Enrollee Adjustments</b>				
1	Capitation and Maternity Payments	\$419,952,581		\$419,952,581
2	Less: Premium tax	\$9,448,933		\$9,448,933
3	Net YTD MLR Revenue	\$410,503,648		\$410,503,648
4	Less: Adj. attributed to new enrollees	\$0		\$0
5	Add: Adj. attributed to new enrollees	\$0		\$0
6	<b>Adjusted MLR Capitation Revenue</b>	<b>\$410,503,648</b>	<b>\$0</b>	<b>\$410,503,648</b>
<b>MLR Medical and Administrative Expense Adjustments</b>				
7	Net Medical Expenses from I/S	\$364,313,643		\$364,313,643
8	Plus: Incurred claim adj. additions	\$5,668,896		\$5,668,896
9	Less: Incurred claim adj. deductions	0		
10	Less: Incurred claim adj. exclusions	\$2,284,164	(\$270,287)	\$2,013,877
11	<b>Adjusted Net Medical Expenses</b>	<b>\$367,698,375</b>	<b>\$270,287</b>	<b>\$367,968,662</b>
12	Plus: HCQI and HIT expenses	\$7,077,877	(\$1,938,653)	\$5,139,224
13	Adj. or Exc. to HCQI/HIT	\$0		\$0
14	Adjusted HCQI/HIT expenses	\$7,077,877	(\$1,938,653)	\$5,139,224
15	<b>Adjusted MLR Expenses</b>	<b>\$374,776,252</b>	<b>(\$1,938,653)</b>	<b>\$373,107,886</b>
16	Less: Adj. attributed to new enrollees	\$0		\$0
17	Add: Adj. attributed to new enrollees	\$0		\$0
18	<b>Total Adj. MLR Expenses</b>	<b>\$374,776,252</b>	<b>(\$1,668,366)</b>	<b>\$373,107,886</b>
19	<b>MLR percentage achieved</b>	<b>91.3%</b>		<b>90.9%</b>
20	MLR percentage requirement	85.0%		85.0%
21	Percentage above requirement	6.3%		5.9%
22	Dollar amount of rebate requirement	\$0		\$0