MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS
1977 - 2017

June 29, 2017

Via Electronic Mail

Louisiana Department of Health
Steve Annison, Medicaid Program Manager
628 N. 4th Street
Baton Rouge, LA 70802

Re: Amerigroup Louisiana, Inc. 2015 MLR Examination

This letter is to inform you that Myers and Stauffer LC has completed the examination of Amerigroup Louisiana, Inc.'s 2015 Medical Loss Ratio (MLR) report. As a courtesy to LDH and other readers, we have also included Amerigroup Louisiana, Inc. management's response letter, in addition to our examination report, as part of this transmittal packet. Myers and Stauffer LC, in no manner, expresses an opinion on the accuracy, truthfulness, or validity of the statements presented within the management's response letter.

Please contact us at the phone number below if you have questions.

Kind Regards,

Myers and Stauffer LC

Myers and Stauffer LC

Amerigroup Louisiana, Inc.
Report on Medical Loss Ratio Rebate Calculation
(With Independent Accountant's Report Thereon)

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

For the period of January 1, 2015
through December 31, 2015

Prepared by:

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Accountant's Report

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of Amerigroup Louisiana, Inc. (AGP) for the period of January 1, 2015 through December 31, 2015. AGP's management is responsible for presenting the Medical Loss Ratio Rebate Calculation in accordance with the criteria set forth in the Healthy Louisiana's (Formerly Bayou Health) MCO Financial Reporting Guide. Our responsibility is to express an opinion on the Medical Loss Ratio Rebate Calculation based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Adjusted Medical Loss Ratio Rebate Calculation is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Medical Loss Ratio Rebate Calculation. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Medical Loss Ratio Calculation, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of AGP presents fairly, in all material respects, AGP's compliance with the criteria set forth in the Healthy Louisiana's MCO Financial Reporting Guide and exceeds the eighty-five percent (85%) requirement for the period ended December 31, 2015.

This report is intended solely for the information and use of the Louisiana Department of Health and AGP 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
June 20, 2017

Organizational Background

Amerigroup Louisiana, Inc. (AGP) 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 through the Healthy Louisiana program. AGP is currently one of five providers that offer services on a full-risk basis. 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.

During our examination we noted certain matters involving costs, that in our determination did not meet the definitions of allowable medical expenses 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.

Adjustment #1 –To remove Litigation and Settlement expenses from Medical Expense

Amerigroup Louisiana, Inc., included $391,270 of litigation and settlement expenses on Line 8 as Medical Expenses. These expenses do not meet definition of incurred claims nor do they meet the definition of Healthcare Quality Initiative (HCQI) expenses as defined in Appendix A: Healthy Louisiana – Prepaid Medical Loss Ratio (MLR) Rebate Calculation Instructions. These expenses should be classified as "Other non-claim costs".

We recommend an adjustment to remove $391,270 as non-medical expenses from Line 8. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable expenses.

Adjustment #2 –To remove Utilization Management Expense from HCQI Expenses

Amerigroup Louisiana, Inc., included $763,298 in Utilization Management expenses on Line 14 as Healthcare Quality Initiative (HCQI) expenses. Utilization Management expenses are specifically identified as an exclusion to the HCQI expenses in the Appendix A: Healthy Louisiana – Prepaid Medical Loss Ratio (MLR) Rebate Calculation Instructions under the Exclusions section, Item G, "All retrospective and concurrent utilization review." In addition, these expenses must not be included in incurred claims as identified in the Adjustments to Incurred Claims section, Item 3B of the MLR instructions. These expenses should be classified as "Other non-claim costs".

We recommend an adjustment to remove $763,298 as non-allowable HCQI expenses from Line 14. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses.

Adjustment #3 –To adjust revenue amounts to capitated payment documentation

Amerigroup Louisiana, Inc., reported revenue amounts that did not reflect all capitation payments received for its members applicable to the covered dates of service for the period ending December 31, 2015. We have identified additional payments, some of which were retroactive payments paid subsequent to December 31, 2015, which were not included in the reported Line 1 totals.

The Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions state that a MCO must report the total capitation payments received from LA Medicaid for each MLR reporting year. We therefore recommend that the Line 1

Capitation Payments and the Line 3 Premium Taxes be adjusted to reflect the reported payment information through May 31, 2016, for the covered dates of service for the period ending December 31, 2015. We also recommend that the Line 8 Medical Expense be increased for the associated Full Medicaid Payments (FMP) expense amounts. LDH has informed us that both the capitation payments and the expenses incurred are allowable for MLR recalculation purposes.

We recommend that adjustments of $27,051,832 be added to Line 1 Capitation Payments, $608,666 be added to Line 3 Premium Taxes and $17,950,821 be added to Line 8 Medical Expenses of the MLR to reflect the updated and reported capitation payment amounts. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting revenues to reflect accurate MLR revenue amounts for the dates of service for the MLR reporting period at the MLR filing date, and if necessary, submit a revised MLR whenever significant member retro-eligibility or rate adjustments occur.

Adjustment #4 –To adjust Express Scripts, Inc. pharmacy expense to actual incurred medical expense

Amerigroup Louisiana, Inc., included $116,237,782 in Pharmacy expenses incurred on Line 8 as Medical expenses. Myers and Stauffer conducted a webinar with Express Scripts, Inc. (ESI), to determine if the amounts claimed on the MLR reflected the amounts paid by ESI to their pharmacy vendors. Our testing revealed that the payment amounts made by ESI to providers differed from the amount invoiced to Amerigroup. This practice is referred to as spread pricing in the industry. The difference between the amount paid to the provider and the invoiced amount should be considered "Other non-claims costs". This requirement is addressed in CMS MLR Guidance issued 7.18.11 (Q&A #19), 5.13.11 (Q&A #12), and 2/10.12 (Q&A #20). CMS Guidance states that an "issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees…For example, when a pharmacy benefit manager (PBM) pays a retail pharmacy one amount for prescription drugs covered by the plan and charges the issuer a higher amount (the retail spread), the issuer may only claim the amounts paid by the PBM to the retail pharmacy as incurred claims." Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the instructions included in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions clearly defines "Incurred claims costs" and "Other non-claims costs".

We made numerous attempts to obtain the actual incurred medical expense for the dates of service covered under this examination period from ESI, however, we have not been provided verifiable amounts. Myers and Stauffer LC utilized cash disbursement journal information received from Amerigroup and ESI, which were available to us unrelated to our specific requests, to estimate the proper recording of actual incurred medical expense. As a result of our analysis, we estimated the difference between actual incurred claims cost and the amount reported on the MLR was $6,894,601.

We recommend an adjustment to remove an estimated amount of $6,894,601 from the Medical expenses included on Line 8 of the MLR. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claim expenses. We recommend that Amerigroup Louisiana, Inc., improve its subcontractor oversight and require its subcontractors to provide all relevant information for future MLR submissions.

Adjustment #5 –To adjust Line 12 Incurred claim adjustment exclusions

Amerigroup Louisiana, Inc., included an adjustment of $410,446 on Line 12 of their MLR calculation. During our examination, it was determined that they had already made an adjustment to remove $409,916 of this amount on Line 11 for their Enhanced Benefit adjustments and duplicated their intended adjustment amount.

We recommend an adjustment to reverse $409,916 of the amount reported on Line 12 of the MLR. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs and adjustments on the MLR rebate calculation properly.

Amerigroup Louisiana, Inc.

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	**Total YTD Capitation Payments**	$ 582,062,655	$ 27,051,832	$ 609,114,487
2	**Less: Health Insurer Provider Fee**	$ 11,655,733	$ -	$ 11,655,733
3	**Less: Premium tax component of reported revenue**	$ 11,400,699	$ 608,666	$ 12,009,365
4	**NET Current YTD MLR Revenue**	$ 559,006,223	$ 26,443,166	$ 585,449,389
5	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	$ -	$ -	$ -
6	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 25 below.	$ -	$ -	$ -
7	**Adjusted Current YTD MLR Capitation Revenue**	**$ 559,006,223**	**$ 26,443,166**	**$ 585,449,389**
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses from Income Statement	$ 510,684,597	$ 10,664,950	$ 521,349,547
	MLR Expense Adjustments defined in Appendix A			
9	Incurred claim adjustment additions	$ 5,649,047	$ -	$ 5,649,047
10	Incurred claim adjustment deductions	$ -	$ -	$ -
11	Less: Enhanced Benefit Expense	$ 3,047,520	$ -	$ 3,047,520
12	Less: Incurred claim adjustment exclusions	$ 410,446	$ (409,916)	$ 530
13	**Adjusted Net Medical Expenses**	$ 512,875,678	$ 11,074,866	$ 523,950,544
	Health care quality improvement (HCQI) and health care information technology and meaningful use expenses			
14	HCQI and HIT administrative expenses from Income Statement	$ 11,526,612	$ (763,298)	$ 10,763,314
15	Adjustments or exclusions to HCQI/HIT meaningful use expenses	$ -	$ -	$ -
16	**Adjusted HCQI/HIT expenses**	$ 11,526,612	$ (763,298)	$ 10,763,314
17	**Total adjusted current YTD MLR expenditures**	$ 524,402,290	$ 10,311,568	$ 534,713,858
18	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees.	$ -	$ -	$ -
19	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 26 below.	$ -	$ -	$ -
20	**Total Adjusted MLR expenses**	**$ 524,402,290**	**$ 10,311,568**	**$ 534,713,858**
21	**MLR percentage achieved**	**93.8%**	**(2.5%)**	**91.3%**
22	**MLR percentage requirement for rebate calculation**	85.0%		85.0%
23	**Percentage below 85% requirement**	0.0%		0.0%
24	**Dollar amount of rebate requirement**	$ -		$ -
Reconciliation of Prior Year New Enrollee Capitation Exclusion				
25	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	$ -	$ -	$ -
26	Less: Prior year incurred claims for excluded New Enrollees	$ -	$ -	$ -
27	**Total Net Adjustment for New Enrollees from prior years**	**$ -**	**$ -**	**$ -**

Amerigroup Louisiana, Inc.

Management Response

Amerigroup RealSolutions in healthcare

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Amerigroup Response:

Amerigroup disagrees with this finding. We believe the CMS MLR Guidance is specific to Commercial and Medicare lines of business and is not applicable to Medicaid medical loss ratio rebate calculations. CMS issued Medicaid specific guidance last year (Mega Reg), giving the individual States, and not CMS, the authority to develop specific requirements related to MLR calculations. The Mega-Reg does not provide for adherence to the CMS MLR Guidance on which the auditors rely, nor does it exclude third party profit margin from the Medicaid rebate calculation. In Louisiana, our contract language and MLR report instructions require us to exclude "Amounts paid to third party vendors for network development, administrative fees, claims processing and utilization management".

We have complied with our contract by excluding the administrative portion of the fees paid to Express Scripts from medical expense. The State has not prohibited the inclusion of spread pricing from the MLR calculation process, and the state has not adopted the use of the CMS MLR Guidance for the Medicaid managed care program. Absent formal guidance from the State on these types of limitations in the MLR calculation process, we do not believe that the auditors have the authority to exclude spread pricing from the MLR calculation.