June 30, 2017

Via Electronic Mail

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

Re: Louisiana Healthcare Connections, Inc., 2015 MLR Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Louisiana Healthcare Connections, Inc.'s, 2015 Medical Loss Ratio (MLR) report. As a courtesy to LDH and other readers, we have also included Louisiana Healthcare Connections, 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

DEDICATED TO GOVERNMENT HEALTH PROGRAMS 133 Peachtree St NE, Ste 3150 | Atlanta, GA 30303
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Louisiana Healthcare Connections, 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
1977 - 2017

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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 Louisiana Healthcare Connections, Inc. (LHCC) for the period of January 1, 2015 through December 31, 2015. LHCC'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 LHCC presents fairly, in all material respects, LHCC'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 LHCC 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 29, 2017

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Organizational Background

Louisiana Healthcare Connections, Inc. (LHCC), a Louisiana Corporation, is a wholly owned subsidiary of Healthy Louisiana Holdings, LLC (HLH). LHCC was incorporated in October 2009 and began enrolling Medicaid members in the Bayou Health program on February 1, 2012. LHCC is currently one of five providers that offer services on a full-risk basis.

HLH was formed as a joint venture between Centene Corporation (Centene) and Louisiana Partnership for Choice and Access, LLC (LPC&A). Centene purchased LPC&A's interest in the joint venture on October 31, 2012, making Centene the sole owner of HLH and LHCC wholly owned by Centene.

LHCC's entire source of revenue is derived from both its full-risk contract with the Louisiana Department of Health (LDH) and from the administrative services only contract with LDH that Community Health Solutions of America, Inc. (CHS) assigned to LHCC on July 1, 2014 under the Bayou Health Shared Savings Program and terminated on January 31, 2015. LHCC completed its three-phase membership rollout for the statewide service areas during June 2012. The Plan provides coverage for a broad range of medically necessary medical services to meet its members' healthcare needs.

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 Reinsurance expense in excess of recoveries

Louisiana Healthcare Connections, Inc., included a net amount of $5,663,426 in Reinsurance premium expenses that exceeded the Reinsurance recovery amounts on Line 8 as Medical Expenses. The Healthy Louisiana MCO Financial Reporting Guide and MLR instructions do not specifically identify reinsurance expense as an allowable clinical service expenditure and therefore absent specific instructions, these expenses should be classified as "Other non-claim costs". In addition, this excess expense amount cannot be considered as Healthcare Quality Initiative (HCQI) costs based on the MLR instructions for HCQI, which specifically excludes expenditures that are designed primarily to control or contain costs. The primary purpose of reinsurance is to minimize or reduce the risk exposure of the organization.

We recommend an adjustment to remove $5,663,426 from Medical Expenses included on Line 8. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable clinical service expenses and to properly classify non-claims cost.

Adjustment #2 –To remove Fraud, Waste, and Abuse expense in excess of recoveries

Louisiana Healthcare Connections, Inc., included $1,257,449 in Fraud, Waste, and Abuse expenses on Line 8 as Medical Expenses. These expenses do not meet definition of incurred claims as defined in Appendix A: Healthy Louisiana – Prepaid Medical Loss Ratio (MLR) Rebate Calculation Instructions. In addition, the instructions for HCQI, Exclusions section 1H, specifically excludes fraud prevention activities from quality improving activities, other than fraud detection/recovery expenses up to the amount recovered that reduced incurred claims. We did not identify any fraud related recoveries during our examination. As a result, these expenses should be classified as "Other non-claim costs".

We are recommending an adjustment to remove $1,257,449 from the Medical expenses included on Line 8. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable expenses.

Adjustment #3 – To adjust NurseWise, LP related party expenses to documented costs

Louisiana Healthcare Connections, Inc., reported related party expenses for NurseWise, LP of $3,343,420 on Line 14 as Healthcare Quality Initiative (HCQI) costs. These costs reflect LHCC's costs from their per-member-per-month (PMPM) arrangement with NurseWise, and did not reflect the actual costs incurred by NurseWise. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Since they do not meet the exception to the related organization principle listed in section 1010, they are limited to claim the actual cost amounts for this vendor. In addition, the instructions in the Healthy Louisiana MCO Financial Reporting Guide Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions define the allowable "Healthcare Quality Initiative" expenses.

NurseWise submitted documentation supported $1,488,910 as allowable HCQI expense applicable to LHCC. The remaining $1,854,510 relates to amounts identified as overhead, corporate allocated overhead and profit margin amounts. We requested documentation supporting the overhead and corporate overhead amounts incurred by NurseWise to determine how much, if any, of these amounts meet the definitions of HCQI. However, we were not provided sufficient detailed expense documentation to assess these amounts and allocations. The profit margin amount is not allowable as medical expense based on CMS's treatment of allowable costs for related organizations.

<u>We recommend an adjustment to remove $1,854,510 as unsupported costs and non-allowable profit margin from HCQI Expenses on Line 14. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable and properly supported HCQI expenses.</u>

<u>Adjustment #4 – To adjust Nurtur Health, Inc. related party expenses to documented costs</u>

Louisiana Healthcare Connections, Inc., reported related party expenses for Nutur Health, Inc., of $5,029,914 on Line 14 as Healthcare Quality Initiative (HCQI) costs. These costs reflect LHCC's costs from their per-member-per-month (PMPM) arrangement with Nurtur, and did not reflect the actual costs incurred by Nurtur. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Since they do not meet the exception to the related organization principle listed in section 1010, they are limited to claim the actual cost amounts for this vendor. In addition, the instructions in the Healthy Louisiana MCO Financial Reporting Guide Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions define the allowable "Healthcare Quality Initiative" expenses.

Nurtur submitted documentation supported $2,511,853 as allowable HCQI expense applicable to LHCC. The remaining $2,518,061 relates to amounts identified as overhead, corporate allocated overhead and profit margin amounts. We requested documentation supporting the overhead and corporate overhead amounts incurred by Nurtur to determine how much, if any, of these amounts meet the definitions of HCQI. However, we were not provided sufficient detailed expense documentation to assess these amounts and allocations. The profit margin amount is not allowable as medical expense based on CMS's treatment of allowable costs for related organizations.

<u>We recommend an adjustment to remove $2,518,061 as unsupported costs and non-allowable profit margin from HCQI Expenses on Line 14. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable and properly supported HCQI expenses.</u>

Adjustment #5 – To adjust Opticare vision expenses to the actual incurred medical expense

Louisiana Healthcare Connections, Inc., reported the per-member-per-month capitation expense for vision expenses provided by Opticare Vision Company, Inc., as a medical expense of $11,071,347 on Line 8 of their MLR calculation. Actual claims paid related to the MLR reporting period were provided totaling $7,857,989. Therefore, the proposed adjustment removes $3,213,358 from the allowable medical expense calculation. This amount, or a portion thereof (after subjection to related organization cost principles) would 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". 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".

The amount removed from medical cost for this adjustment may be considered allowable as "Other non-claims costs". However, since Opticare is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc., additional analysis beyond the scope of this examination would be required to determine the actual allowable "Other non-claims costs". CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Opticare does not meet the exception to the related organizations listed in section 1010, and therefore is limited to the claiming of actual cost amounts exclusive of any profit margin.

<u>We recommend an adjustment to remove $3,213,358 as non-medical expenses from Line 8. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims in medical expenses and to properly classify non-claims cost.</u>

Adjustment #6 – To adjust Logisticare transportation expense to the actual incurred medical expense

Louisiana Healthcare Connections, Inc., reported the per-member-per-month capitation expense for transportation services provided by Logisticare as a medical expense of $6,210,792 on Line 8 of their MLR calculation. Actual claims paid related to the MLR reporting period were provided by Logisticare totaling $4,972,565. Therefore, the proposed adjustment removes $1,238,227 from the allowable medical expense calculation. This 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". 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 recommend an adjustment to remove $1,238,227 as non-medical expenses from Line 8. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expense.

Adjustment #7 – To adjust Magellan Health radiology expense to actual incurred medical expense

Louisiana Healthcare Connections, Inc., reported the per-member-per-month capitation expense for radiology services provided by NIA/Magellan Health as a medical expense of $5,704,160 on Line 8 of their MLR calculation. Actual claims paid related to the MLR reporting period were provided by Magellan Health totaling $5,074,239. Therefore, the proposed adjustment removes $629,921 from the allowable medical expense calculation. This 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". 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 recommend an adjustment to remove $629,921 of non-medical expenses from Line 8. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expense.

Adjustment #8 – To adjust US Script pharmacy expense to actual incurred medical expense

Louisiana Healthcare Connections, Inc., included $221,570,755 in Pharmacy expenses incurred from US Script, Inc., on Line 8 as Medical expenses. Our testing revealed that the payment amounts made by US Script, Inc., to providers differed from the amount invoiced to Louisiana Healthcare Connections, Inc. This practice is referred to as spread pricing in the industry. The difference between the amount paid to the provider and the invoiced amount may be considered "Other non-claims costs". However, since US Script Inc., is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc., additional analysis beyond the scope of this examination would be required to determine the actual allowable "Other non-claims costs". CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. US Script, Inc., does not meet the exception of related organizations principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation Instructions clearly define "Incurred claims costs" and "Other non-claim costs".

Myers and Stauffer LC utilized cash disbursement journal information received from Louisiana Healthcare Connections, Inc., and US Script, which were available to us unrelated to our specific request, to estimate the proper recording of actual incurred medical expense. As a result of our analysis, we estimated the difference between actual incurred claims and the amount reported on the MLR was $19,014,657. Louisiana Healthcare Connections, Inc., submitted documentation contending that part of the difference should be considered as Healthcare Quality Initiative (HCQI) expenses. However, this documentation was insufficient for us to evaluate.

We recommend an adjustment to remove an estimated amount of $19,014,657 from Medical expenses included on Line 8 of the MLR as a non-allowable markup expense. We also recommend that Louisiana Healthcare Connections, Inc., revise it processes for reporting costs on the MLR rebate calculation properly to only include allowable claim and HCQI expenses. We recommend that Louisiana Healthcare Connections, Inc., improve its subcontractor oversight and require its subcontractors to provide all relevant information for future MLR submissions.

Adjustment #9 – To adjust Pharmacy Rebates to reflect 100% of rebates collected

Louisiana Healthcare Connections, Inc., included Pharmacy rebates amount of $2,715,199 as a reduction to the Medical expense amount reported on Line 8 of the MLR. Louisiana Healthcare Connections, Inc., contract with US Script, Inc., indicates that US Script only remits 75% of the total Pharmacy rebates collected to Louisiana Healthcare Connections, Inc., with 25% being retained by US Script. The instructions included in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation Instructions clearly state that prescription drug rebates received by the MCO must be deducted from incurred claims. Since Louisiana Healthcare Connections, Inc., and US Script are related organizations the entire rebate amount must be considered as a reduction to expenses. As a result, we recommend an adjustment of $905,066 for the remaining unreported rebate amount.

We recommend an adjustment to remove $905,066 ($2,715,199 divided by 75% multiplied by 25%) from Medical Expenses included on Line 8 of the MLR. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting Pharmacy Rebates on the MLR rebate calculation to properly reduce expense by all rebates.

Adjustment #10 – To adjust Cenpatico behavioral health expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported the per-member-per-month capitation expense for behavioral expenses provided by Cenpatico Behavioral Health, Inc., as a medical expense of $15,480,320 on Line 8 of their MLR calculation. Actual claims paid related to the MLR reporting period were provided totaling $12,102,651. Therefore, the proposed adjustment removes $3,377,669 from the allowable medical expense calculation. This amount, or a portion thereof (after subjection to related organization cost principles) may 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". 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".

The amount removed from medical cost for this adjustment may be considered allowable as "Other non-claims costs". However, since Cenpatico is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc., additional analysis beyond the scope of this examination would be required to determine the actual allowable "Other non-claims costs". CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Cenpatico does not meet the exception to the related organizations listed in section 1010, and therefore is limited to the claiming of actual cost amounts exclusive of any profit margin.

<u>We recommend an adjustment to remove $3,377,669 of non-medical expenses from Line 8 of the MLR. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims in medical expenses and to properly classify non-claims cost.</u>

<u>Adjustment#11 – To adjust for administrative costs included in the corporate HCQI allocation</u>

Louisiana Healthcare Connections, Inc., included expenses originally incurred by their parent company, Centene Corporation, which were subsequently allocated to Louisiana Healthcare Connections, Inc. They have included $14,718,320 of Healthcare Quality Initiative (HCQI) expenses on Line 14 of their submitted MLR related to this allocation. These expenses were recorded in their general ledger account "Centene Account 5990 – Care Coordination". We received documentation for these expenses, as well as an explanation of the types of costs contained within these allocations. Our review determined that certain costs did not meet the HCQI definitions outlined in the MLR instructions. These costs were for things such as Prior Authorization Expense and Concurrent Review Expense, clinical program and policy development, and oversight functions. Therefore, the proposed adjustment removes $4,500,854 from the allowable HCQI expense calculation. This amount should be considered "Other non-claims costs". The instructions included in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions clearly defines "HCQI costs" and "Other non-claims costs".

<u>We recommend an adjustment to remove $4,500,854 from HCQI Expenses included on Line 14 of the MLR. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable and properly supported HCQI expenses.</u>

Louisiana Healthcare Connections, Inc.

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	**Total YTD Capitation Payments**	$ 1,146,595,457	$ -	$ 1,146,595,457
2	**Less: Health Insurer Provider Fee**	$ 13,742,484	$ -	$ 13,742,484
3	**Less: Premium tax component of reported revenue**	$ 25,431,491	$ -	$ 25,431,491
4	**NET Current YTD MLR Revenue**	$ 1,107,421,482	$ -	$ 1,107,421,482
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**	**$ 1,107,421,482**	**$ -**	**$ 1,107,421,482**
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses from Income Statement	$ 987,240,900	$ (35,299,773)	$ 951,941,127
	MLR Expense Adjustments defined in Appendix A			
9	Incurred claim adjustment additions	$ -	$ -	$ -
10	Incurred claim adjustment deductions	$ -	$ -	$ -
11	Less: Enhanced Benefit Expense	$ 5,206,132	$ -	$ 5,206,132
12	Incurred claim adjustment exclusions	$ -	$ -	$ -
13	**Adjusted Net Medical Expenses**	$ 982,034,768	$ (35,299,773)	$ 946,734,995
	Health care quality improvement (HCQI) and health care information technology and meaningful use expenses			
14	HCQI and HIT administrative expenses from Income Statement	$ 23,167,596	$ (8,873,425)	$ 14,294,171
15	Adjustments or exclusions to HCQI/HIT meaningful use expenses	$ -	$ -	$ -
16	**Adjusted HCQI/HIT expenses**	$ 23,167,596	$ (8,873,425)	$ 14,294,171
17	**Total adjusted current YTD MLR expenditures**	$ 1,005,202,364	$ (44,173,198)	$ 961,029,166
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**	**$ 1,005,202,364**	**$ (44,173,198)**	**$ 961,029,166**
21	**MLR percentage achieved**	**90.8%**	**(4.0%)**	**86.8%**
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**	**$ -**	**$ -**	**$ -**

Louisiana Healthcare Connections

Management Response

June 28, 2017

Via Electronic Mail

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

Re: Louisiana Healthcare Connections, Inc.'s ("LHCC") Management Response to 2015 MLR Examination Report

Please accept this letter as LHCC's formal response to the 2015 MLR Examination Report dated June X, 2017 prepared by Myers and Stauffer LC.

LHCC's commitment to improving the health outcomes of its members extends to all aspects of its business. LHCC has implemented a collection of best practices that allows us to provide an integrated approach to healthcare delivery and welcomes the ability to highlight those practices.

On June 8, 2017, LHCC received a draft of the proposed MLR Audit Report for the 2015 MLR Rebate Calculation for the period from January 1, 2015 to December 31, 2015 (the "Report") from Myers and Stauffer, LC ("M&S"). Subsequent to receipt of the Report, LHCC and M&S representatives participated in a conference call to discuss the Report's conclusions. LHCC is in agreement with M&S' that LHCC does not owe an MLR rebate to the State of Louisiana; however, it disagrees with M&S' conclusory adjustments addressed herein.

1. **<u>LHCC's Response to Adjustment #2</u>**

M&S determined that in reviewing fraud detection and recovery expenses, LHCC included expenses that exceeded related claim recoveries per the MLR instructions for HCQI costs, section C.9.

LHCC's fraud, waste and abuse ("FWA") operations include a third party pre-payment review of claims that prevents the likelihood of claims being incorrectly paid and then subsequently, if successful, recouped from providers by LHCC. These preventive costs are excluded as Medical expenses by M&S. Conversely, 'pay and chase' activities are included in the MLR calculation. LHCC's implemented FWA process is supported by LDH.

LHCC proposes that rejected claims by its third party vendor for FWA activity be considered claim recoveries for the purpose of these instructions and included as a Medical expenses in the MLR calculation. M&S is open to this interpretation, but requires LDH guidance on the issue. LHCC encourages future inclusion of these costs as being more beneficial to all involved versus the less efficient "pay and chase" system and accurately reflects a proper Medical expense.

2. **LHCC's Response to Adjustment #9**

   LHCC receives pharmacy rebates on a routine basis. LHCC's PBM, an affiliated party, retains twenty-five percent (25%) of the rebates received and the remainder is credited to LHCC. M&S took exception to the exclusion of 100% of the rebates and thus proposed an adjustment to our MLR calculation.

   During our review meeting with M&S on June 27, 2017, we discussed how the rebates would be handled if LHCC's PBM is an unrelated party. In such circumstances, M&S acknowledged that those rebates retained by the PBM are considered as Medical expenses. Thus, Medical expenses are allowed when the PBM is a third-party but rejected if it's an affiliated party under the same set of facts as it relates to pharmacy rebates.

   LHCC proposes that the proper calculation for pharmacy rebates should be consistent regardless of its PBM relationship and that only the portion of the rebate received by it should be included in the MLR calculation.

3. **LHCC's Response to Adjustments #5, #6, #7, #10**

   M&S concludes that each of these adjustments is justified under CMS MLR Guidance 2.10.12 (Q&A #20). During our review meeting on June 27, 2017 with M&S, LHCC requested clarification why the suggested excluded costs are not allowable in the MLR rebate calculation. M&S agreed to provide further clarification on this issue. As of the date of this correspondence, LHCC has not received the requested information. As a result, we cannot agree with the proposed adjustments.

We welcome the opportunity to discuss these matters in further detail.

Kind Regards,

Louisiana Healthcare Connections, Inc.