MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2019

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. Period Ending 2017 Expansion 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 Period Ending 2017 Expansion 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

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Louisiana Healthcare Connections, Inc.
Medicaid Expansion
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 July 1, 2016
through December 31, 2017

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 Louisiana Healthcare Connections, Inc. (LHCC) related to the Medicaid Expansion population for the period of July 1, 2016 through December 31, 2017. 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 Expansion MLR Reporting Guide. This criteria was used to prepare the Adjusted Medical Loss Ratio. 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.

The Member Months reported on the Adjusted Medical Loss Ratio Rebate Calculation has not been subjected to the procedures applied in the examination, and accordingly, we express no opinion on it.

The accompanying Adjusted Medical Loss Ratio were prepared for the purpose of complying with the criteria, and is not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of LHCC is presented in accordance with the Healthy Louisiana's Expansion MLR Reporting Guide, in all material respects, but does not exceed the eighty-five percent (85%) requirement for the period of July 1, 2016 through December 31, 2017.

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
October 25, 2019

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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 health plans 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 its full-risk contract with the Louisiana Department of Health (LDH). 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.

The Patient Protection and Affordable Care Act (Affordable Care Act) was signed into law on March 23, 2010. The Affordable Care Act affected Medicaid by expanding the population of individuals that were eligible for Medicaid services. Medicaid eligibility was expanded to include all individuals with incomes up to 138 percent of the federal poverty level, regardless of their age, family status or health. The Medicaid expansion population is defined as individuals whom previously were not eligible for Medicaid services, but became eligible due to the expansion of Medicaid eligibility under the Affordable Care Act.

On January 12, 2016, the Governor of Louisiana signed Executive Order JBE 16-01 which expanded Medicaid in Louisiana effective July 1, 2016. Each Medicaid Managed Care Organization now serves this expansion population in addition to the original non-expansion population. LHCC's submitted MLR under examination reflects only the Medicaid expansion activity for the period of July 1, 2016 through December 31, 2017.

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. In addition, the adjustments made reflect only changes applicable to the expenditures of the Medicaid expansion population.

Adjustment #1 – To correct a duplicated adjustment intended to adjust for HCQI costs

Louisiana Healthcare Connections, Inc., allocated their Health Care Quality Initiative (HCQI) costs within their general ledger account 5990 between their Expansion and Non-Expansion populations. When they completed their MLR submission, they excluded $7,641,675 of the $8,140,553 of this account's balance from their Line 1 Total Incurred Claims. They subsequently made an adjustment to reclassify the entire account balance of $8,140,553 to HCQI and reported this as part of their Line 8 MLR totals.

We recommend an adjustment to add back $7,641,675 to the Line 1 Total Incurred Claims of the MLR to correct this error. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation to properly report the expansion population's costs.

Adjustment #2 - To reclassify Value-Added Services and Member Incentive Payments

Louisiana Healthcare Connections, Inc., reported their Value Added Services and CentAccount Member Incentive Program costs on Line 3a: Incentive and bonus payments made to providers. Based upon the definitions and guidelines included within the Expansion MLR Reporting Guide for Value-Added Services and HCQI costs, these costs are more appropriate to be reported on Line 4: Optional Inclusion: Value-Added Services and Line 8: HCQI administrative expenses. We therefore recommend a reclassification of these expenses to the appropriate MLR lines.

We recommend an adjustment to reduce the Line 3a: Incentive and bonus payments made to providers by $9,532,778 and increase Line 4: Optional Inclusion: Value-Added Services and Line 8: HCQI administrative expenses by $8,681,995 and $850,783, respectively. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting all expenses in accordance with the MLR instructions.

Adjustment #3 - To adjust Envolve Vision (Formerly Opticare) expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported $5,594,960 in expansion population per-member-per-month vision capitation expense provided by Envolve Vision out of the total vision capitation amount of $22,610,401 reported during the MLR reporting period for both the expansion and non-expansion populations. This expansion expense represents 24.75% of the total vision expense and was utilized as our basis for allocating actual claims of $19,014,987 incurred during the MLR reporting period. This results in an allocation of $4,705,272 applicable to the expansion population and a non-claims exclusion amount of $889,688. However Louisiana Healthcare Connections, Inc., previously recognized $1,022,502 as part of their Line 5a: Non-Claims Costs, exclusion totals. As a result an adjustment is necessary decrease the reported Line 5a: Non-Claims Costs by $132,814, thereby increasing allowable incurred claim amounts. As a reference, the instructions included in the Healthy Louisiana Expansion MLR Reporting Guide clearly defines "Incurred claims costs" and "Other non-claims costs."

<u>We recommend an adjustment to remove $132,814 from the Line 5a: Non-Claims Costs. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting all expenses in accordance with the MLR instructions.</u>

<u>Adjustment #4 – To adjust Spread pricing amounts paid to the PBM</u>

Louisiana Healthcare Connections, Inc., pays their Pharmacy Benefit Manager (PBM) an overall amount greater than the amount that their PBM pays to the pharmacy providers for the covered drugs of Louisiana Healthcare Connections, Inc.'s members. This practice is referred to as spread pricing in the industry. The Healthy Louisiana Expansion MLR Reporting Guide instructions on page 4 and 5 defines Adjustments that **must not be included** in incurred claims as, "Spread pricing amounts paid to a pharmacy benefit manager (PBM)". This spread pricing difference may be considered "Other non-claims costs."

However, since Louisiana Healthcare Connections, Inc., utilized Envolve Pharmacy, a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc., for part of the year, additional analysis beyond the scope of this examination would be required to determine the actual allowable "Other non-claims costs". Louisiana Healthcare Connections, Inc., reported $15,015,252 for the expansion spread pricing amounts paid to the PBM on Line 5d: Spread pricing amounts paid to PBM of their MLR calculation. Our examination determined that the spread pricing amounts paid to the PBM was $11,910,929. As a result, an adjustment is necessary to decrease the reported expansion spread pricing amounts paid to the PBM expenses by $3,104,323.

<u>We recommend an adjustment to reduce the exclusion Line 5d: Spread pricing amounts paid to the PBM of the MLR by $3,104,323. 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 #5 - To adjust Cenpatico Behavioral Health expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported $75,015,198 in expansion population per-member-per-month behavioral health capitation expense provided by Cenpatico Behavioral Health out of the total behavioral health capitation amount of $388,979,475 reported during the MLR reporting period for both the expansion and non-expansion populations. This expansion expense represents 19.29% of the total behavioral health expense and was utilized as our basis for allocating actual claims of $331,130,253 incurred during the MLR reporting period. This results in an allocation of $63,858,900 applicable to the expansion population and a non-claims exclusion amount of $11,156,298. However, Louisiana Healthcare Connections, Inc., previously recognized $8,856,808 as part of their Line 5a: Non-Claims Costs, exclusion totals. As a result an adjustment is necessary to increase the reported. Line 5a: Non-Claims Costs by $2,299,490, thereby decreasing allowable incurred claim amounts. As a reference, the instructions included in the Healthy Louisiana Expansion MLR Reporting Guide clearly defines “Incurred claims costs” and “Other non-claims costs.”

We recommend an adjustment to add $2,299,490 to the Line 5a: Non-Claims Costs. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting all expenses in accordance with the MLR instructions.

Adjustment #6 - To adjust the Logisticare transportation expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported $10,603,545 in expansion population per-member-per-month transportation capitation expense provided by Logisticare out of the total transportation capitation amount of $21,457,902 reported during the MLR reporting period for both the expansion and non-expansion populations. This expansion expense represents 49.42% of the total transportation expense and was utilized as our basis for allocating actual claims of $17,651,415 incurred during the MLR reporting period. This results in an allocation of $8,722,548 applicable to the expansion population and a non-claims exclusion amount of $1,880,997. However, Louisiana Healthcare Connections, Inc., previously recognized $5,670,003 as part of their Line 5a: Non-Claims Costs, exclusion totals. As a result an adjustment is necessary to decrease the reported Line 5a: Non-Claims Costs by $3,789,006, thereby increasing allowable incurred claim amounts. As a reference, the instructions included in the Healthy Louisiana Expansion MLR Reporting Guide clearly defines “Incurred claims costs” and “Other non-claims costs.”

We recommend an adjustment to remove $3,789,006 from the Line 5a: Non-Claims Costs. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting all expenses in accordance with the MLR instructions.

Adjustment #7 - To adjust NIA/Magellan radiology expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported $820,800 in expansion population per-member-per-month radiology capitation expense provided by NIA/Magellan out of the total radiology capitation amount of $11,497,814 reported during the MLR reporting period for both the expansion and non-expansion populations. This expansion expense represents 7.14% of the total radiology expense and was utilized as our basis for allocating actual claims of $10,260,206 incurred during the MLR reporting period. This results in an allocation of $732,450 applicable to the expansion population and a non-claims exclusion amount of $88,350. However, Louisiana Healthcare Connections, Inc., previously recognized $75,943 as part of their Line 5a: Non-Claims Costs, exclusion totals. As a result an adjustment is necessary to increase the reported Line 5a: Non-Claims Costs by $12,407, thereby decreasing allowable incurred claim amounts. As a reference, the instructions included in the Healthy Louisiana Expansion MLR Reporting Guide clearly defines "Incurred claims costs" and "Other non-claims costs."

<u>We recommend an adjustment to add $12,407 to the Line 5a: Non-Claims Costs We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting all expenses in accordance with the MLR instructions.</u>

Adjustment #8 –To adjust reported tax amount to documented costs

Louisiana Healthcare Connections, Inc., did not report an amount on Line 17: Other taxes and licensing and regulatory fees. Louisiana Healthcare Connections, Inc., provided documentation that during the examination that supported the federal income tax amount of $12,656,053 and complies with 42 CFR § 438.8(f)(3) Federal, State, and local taxes and licensing and regulatory fees. This amount will be reported on Line 17 and results in a reduction to overall denominator in the MLR calculation. Louisiana Healthcare Connections, Inc., was unable to provide sufficient documentation during the examination to support their additional request to report State and Local Tax amounts of $1,536,590, and was therefore excluded from this adjustment.

<u>We recommend an adjustment to add an additional $12,656,053 attributable to Line 17: Other taxes and licensing and regulatory fees of the MLR. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to accurately report its Federal, State, and local taxes and licensing and regulatory fees.</u>

Louisiana Healthcare Connections, Inc.
Medicaid Expansion Adjusted Medical Loss Ratio (MLR) Rebate Calculation
For the Period Ending December 31, 2017

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
MLR Medical and Administrative Expense Adjustments				
1	**Total Incurred Claims**	**$ 758,878,663**	**$ 7,641,675**	**$ 766,520,338**
	Adjustments to Incurred Claims			
2	**Deductions:**			
2a	Prescription drug rebates	$ 2,394,225	$ -	$ 2,394,225
2b	Prompt pay discounts	$ -	$ -	$ -
2c	Overpayment recoveries received from providers	$ -	$ -	$ -
3	**Inclusions:**			
3a	Incentive and bonus payments made to providers	$ 9,532,778	$ (9,532,778)	$ -
3b	Fraud reduction expenses	$ 408,375	$ -	$ 408,375
4	Optional Inclusion: Value-Added Services	$ -	$ 8,681,995	$ 8,681,995
5	**Exclusions:**			
5a	Non-Claims Costs	$ 15,624,806	$ (1,609,923)	$ 14,014,883
5b	Prior year MLR rebates paid to LDH	$ -	$ -	$ -
5c	Payments to delegated vendors exceeding amount paid to providers	$ -	$ -	$ -
5d	Spread pricing amounts paid to PBM	$ 15,015,252	$ (3,104,323)	$ 11,910,929
5e	Reinsurance premiums exceeding reinsurance recoveries	$ 2,152,143	$ -	$ 2,152,143
6	Other: Incurred claims assumed	$ -	$ -	$ -
7	**Adjusted Incurred Claims**	**$ 733,633,390**	**$ 11,505,138**	**$ 745,138,528**
	Health Care Quality Improvement (HCQI) Expenses			
8	HCQI administrative expenses	$ 9,907,013	$ 850,783	$ 10,757,796
9	Exclusions to HCQI	$ 920,123	$ -	$ 920,123
	Health Information Technology (HIT) Expenses			
10	HIT administrative expenses	$ -	$ -	$ -
11	Exclusions to HIT expenses	$ -	$ -	$ -
12	External Quality Review (EQR) related expenses	$ -	$ -	$ -
13	**Total Adjusted MLR Numerator**	**$ 742,620,280**	**$ 12,355,921**	**$ 754,976,201**
Capitation Revenue and New Enrollee Adjustments				
14	**Expansion Healthy Louisiana Premium Revenue**	**$ 1,042,776,984**	**$ -**	**$ 1,042,776,984**
	Revenue Adjustments			
15	Less: Health Insurance Provider Fee (HIPF)	$ -	$ -	$ -
16	Less: Premium tax component of reported revenue	$ 57,352,734	$ -	$ 57,352,734
17	Less: Other taxes and licensing and regulatory fees	$ -	$ 12,656,053	$ 12,656,053
18	**Total Adjusted MLR Denominator**	**$ 985,424,250**	**$ (12,656,053)**	**$ 972,768,197**

Line #		Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
19	**MLR Percentage Achieved**	**75.36%**	**2.25%**	**77.61%**
20	MLR Percentage Requirement for Rebate Calculation	85.00%		85.00%
21	Percentage Below 85% Requirement	9.64%	(2.25%)	7.39%
22	**Dollar Amount of Rebate Requirement**	**$ 94,990,333**	**$ (23,113,567)**	**$ 71,876,766**

Line #		Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
23	**MLR Percentage Achieved**	**75.36%**		**77.61%**
24	MLR Percentage Requirement for Refund Calculation	95.00%		95.00%
25	Percentage Above 95% Requirement	0.00%		0.00%
26	**Dollar Amount of Refund Requirement**	**$ -**	**$ -**	**$ -**

27	**MLR Member Months**	1,925,005		1,925,005

Louisiana Healthcare Connections, Inc.

Management’s Response

October 28, 2019

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 Medicaid Expansion MLR Examination Report

Please accept this letter as LHCC's formal response to the Medicaid Expansion MLR Examination Report (the "Report") prepared by Myers and Stauffer, LC ("M&S").

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 allow us to provide an integrated approach to healthcare delivery and welcomes the ability to highlight those practices.

On October 9, 2019, LHCC received a draft of the proposed MLR Audit Report for the Medicaid Expansion MLR Rebate Calculation for the period from July 1, 2016 to December 31, 2017. Subsequent to receipt of the Report, LHCC and M&S representatives participated in a conference call to discuss the Report's conclusions. LHCC agrees the audit adjustments are reasonable as recommended by Myers & Stauffer. For any adjustments that impact future reporting, we will update procedures for reporting as requested.

LHCC's Response to Adjustment #1

M&S determined that as part of the allocation between Expansion and Non-Expansion populations, LHCC inadvertently removed HCQI costs from the Expansion MLR rebate calculation.

LHCC agrees with the adjustment and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

LHCC's Response to Adjustment #2

M&S determined that allowed Value-Added Services and Member Incentive Payments were reported as Provider incentives and should be reclassified to Line 4: Optional Inclusion: Value-Added Services and Line 8: HCQI administrative expenses.

LHCC agrees with the reclassification and will adjust processes for subsequent reporting to ensure reporting in alignment with the MLR Reporting Guide.

LHCC's Response to Adjustment #3

M&S recommended an adjustment of Envolve Vision expense allocation between Expansion and Non-Expansion populations based on an alternate allocation methodology to isolate Expansion expenditures from Non-Expansion expenditures.

LHCC used a reasonable allocation methodology for direct, indirect, or subcapitated costs that cannot be specifically identified by product. However, LHCC agrees with the adjustment and methodology recommended by M&S and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

LHCC's Response to Adjustment #4

M&S recommended an adjustment to allocation between Expansion and Non-Expansion populations for amounts paid to PBM for spread pricing.

LHCC agrees with the adjustment and methodology recommended by M&S and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

LHCC's Response to Adjustment #5

M&S recommended an adjustment of Cenpatico Behavioral Health expense allocation between Expansion and Non-Expansion populations an alternate allocation methodology to isolate Expansion expenditures from Non-Expansion expenditures.

LHCC used a reasonable allocation methodology for direct, indirect, or subcapitated costs that cannot be specifically identified by product. However, LHCC agrees with the adjustment and methodology recommended by M&S and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

LHCC's Response to Adjustment #6

M&S recommended an adjustment of Logisticare transportation expense allocation between Expansion and Non-Expansion populations based on an alternate allocation methodology to isolate Expansion expenditures from Non-Expansion expenditures.

LHCC used a reasonable allocation methodology for direct, indirect, or subcapitated costs that cannot be specifically identified by product. However, LHCC agrees with the adjustment and methodology recommended by M&S and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

<u>LHCC's Response to Adjustment #7</u>

M&S recommended an adjustment of NIA/Magellan radiology expense allocation between Expansion and Non-Expansion populations based on an alternate allocation methodology to isolate Expansion expenditures from Non-Expansion expenditures.

LHCC used a reasonable allocation methodology for direct, indirect, or subcapitated costs that cannot be specifically identified by product. However, LHCC agrees with the adjustment and methodology recommended by M&S and confirms that adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

<u>LHCC's Response to Adjustment #8</u>

M&S determined that an adjustment to include federal income tax attributable to Non-Expansion population is reasonable based allocation of income amounts between Expansion and Non-Expansion populations.

LHCC confirms that the allocation methodology for federal income tax is reasonable and agrees with the adjustment and methodology recommended by M&S. Adjustments resulting from allocation between Expansion and Non-Expansion populations will not be required in future periods due to combined submission of all populations into a single MLR rebate calculation.

LHCC also confirms that the amounts related to State and Local Tax are appropriately excluded based on the Louisiana Code 100 - R.S. 47:227 allowance for income taxes owed to be credited by the amount of premium taxes paid.

We appreciate the opportunity to provide our formal responses as part of the audit process.

Kind Regards,

Louisiana Healthcare Connections, Inc.