MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

May 9, 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. 2017 Non-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 2017 Non-Expansion Medical Loss Ratio (MLR) report.

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 Non-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 January 1, 2017
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 Non-Expansion population for the period of January 1, 2017 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 (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.

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.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of LHCC is presented in accordance with the Healthy Louisiana's MCO Financial Reporting Guide, in all material respects, and exceeds the eighty-five percent (85%) requirement for the period of January 1, 2017 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
April 24, 2019

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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 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 non-expansion activity for the period of January 1, 2017 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 non-expansion population.

Adjustment #1 – To adjust Cenpatico Behavioral Health expenses to incurred medical expense

Louisiana Healthcare Connections, Inc., reported $216,792,896 in non-expansion population per-member-per-month behavioral health capitation expense provided by Cenpatico Behavioral Health, Inc., on Line 1 Total Incurred Claims of their MLR calculation out of the total amount of $262,056,282 reported in their general ledger for the expansion and non-expansion populations. This non-expansion expense represents 82.73% of the total Behavioral Health expense. Actual claims incurred for the MLR reporting period were provided and totaled $225,130,687. This represents a total variance of $36,925,595 and requires an allocation between the expansion and non-expansion populations. As a result, an adjustment is necessary to reduce the reported non-expansion population expenses by $30,547,662. This amount, or a portion thereof (after subjection to related organization cost principles) may be considered “Other non-claims costs”. The Healthy Louisiana MCO Financial Reporting Guide’s Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on page 5 defines Adjustments that **must not be included** in incurred claims as, “The portion of the per-member per-month capitation payments to delegated vendors providing clinical services that exceed the amounts paid by the delegated vendor to their servicing providers (For a related party, this excess up to the actual costs incurred by the related party, may be considered non-claims costs. For non-related parties, this excess should be considered non-claims costs. For MLR reporting template, include amounts not already in Non-Claims Costs above).”

We recommend an adjustment to remove $30,547,662 of non-medical expenses by adjusting the exclusion Line 5c Payments to Delegated Vendors Exceeding Amount Paid to Providers of the MLR. This is a reoccurring finding identified in prior examinations and as such, 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.

Adjustment #2 - To adjust Spread Pricing Amounts Paid to the PBM

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 MCO Financial Reporting Guide’s Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on page 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 $17,579,804 for the non-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 $19,897,654. As a result, an additional adjustment is necessary to increase the reported non-expansion spread pricing amounts paid to the PBM expenses by $2,317,850.

<u>We recommend an adjustment to remove an additional $2,317,850 attributable to spread pricing by adjusting the exclusion Line 5d Spread Pricing Amounts Paid to the PBM 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 #3 - To remove HCQI costs attributable to their Expansion population</u>

Louisiana Healthcare Connections, Inc., properly allocated their Health Care Quality Initiative (HCQI) costs within their general ledger account 5990 between their Expansion and Non-Expansion population. However, when they completed their MLR submission, they only removed $364,873 of the $5,481,627 allocated to their Expansion population. The Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on page 1 state, "Expansion minimum and maximum Medical Loss Ratio (MLR) calculations for services July 1, 2016 through December 31, 2017 will be required for the Expansion risk corridor calculations. As a result, an additional adjustment is necessary to remove the expansion population HCQI amounts by $5,116,754.

<u>We recommend an adjustment to remove an additional $5,116,754 attributable to the expansion population's HCQI costs by reducing the Line 8 HCQI and HIT Administrative Expenses 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 the non-expansion population's HCQI costs.</u>

Louisiana Healthcare Connections, Inc.
Medicaid Non-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**	**$ 1,239,486,139**	**$ -**	**$ 1,239,486,139**
	Adjustments to Incurred Claims:			
2	**Deductions:**			
2a	Prescription drug rebates	$ 4,769,323	$ -	$ 4,769,323
2b	Prompt pay discounts	$ -	$ -	$ -
2c	Overpayment recoveries received from providers	$ -	$ -	$ -
3	**Inclusions:**			
3a	Incentive and bonus payments made to providers	$ 15,912,435	$ -	$ 15,912,435
3b	Fraud reduction expenses	$ 1,303,086	$ -	$ 1,303,086
4	Optional Inclusion: Value-Added Services	$ 5,100,313	$ -	$ 5,100,313
5	**Exclusions:**			
5a	Non-Claims Costs	$ 4,750,798	$ -	$ 4,750,798
5b	Prior year MLR rebates paid to LDH	$ -	$ -	$ -
5c	Payments to delegated vendors exceeding amount paid to providers	$ -	$ 30,547,662	$ 30,547,662
5d	Spread pricing amounts paid to PBM	$ 17,579,804	$ 2,317,850	$ 19,897,654
5e	Reinsurance premiums exceeding reinsurance recoveries	$ -	$ -	$ -
6	Other: Incurred claims assumed	$ -	$ -	$ -
7	**Adjusted Incurred Claims**	**$ 1,234,702,048**	**$ (32,865,512)**	**$ 1,201,836,536**
	Health Care Quality Improvement (HCQI) and Health Information Technology (HIT) Expenses			
8	HCQI and HIT administrative expenses	$ 17,448,987	$ (5,116,754)	$ 12,332,233
9	Exclusions to HCQI and HIT expenses	$ 1,016,509	$ -	$ 1,016,509
10	External Quality Review (EQR) related expenses	$ -	$ -	$ -
11	**Adjusted Incurred Claims and Adjusted HCQI, HIT and EQR Expenses**	**$ 1,251,134,526**	**$ (37,982,266)**	**$ 1,213,152,260**
12	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees	$ -	$ -	$ -
13	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 28 below	$ -	$ -	$ -
14	**Total Adjusted MLR Numerator**	**$ 1,251,134,526**	**$ (37,982,266)**	**$ 1,213,152,260**
Capitation Revenue and New Enrollee Adjustments				
15	**Non-Expansion Healthy Louisiana Premium Revenue**	**$ 1,411,556,714**	**$ -**	**$ 1,411,556,714**
	Revenue Adjustments			
16	Less: Health Insurance Provider Fee (HIPF)	$ -	$ -	$ -
17	Less: Premium tax component of reported revenue	$ 77,635,619	$ -	$ 77,635,619
18	Less: Income taxes	$ -	$ -	$ -
19	**Net Annual MLR Revenue**	**$ 1,333,921,095**	**$ -**	**$ 1,333,921,095**
20	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	$ -	$ -	$ -
21	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 27 below	$ -	$ -	$ -
22	**Total Adjusted MLR Denominator**	**$ 1,333,921,095**	**$ -**	**$ 1,333,921,095**

Line #		Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
23	**MLR Percentage Achieved**	**93.8%**	**(2.9%)**	**90.9%**
24	MLR Percentage Requirement for Rebate Calculation	85.0%		85.0%
25	Percentage Below 85% Requirement	0.0%		0.0%
26	**Dollar Amount of Rebate Requirement**	**$ -**	**$ -**	**$ -**

Reconciliation of Prior Year New Enrollee Capitation Exclusion				
27	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	$ -	$ -	$ -
28	Less: Prior year incurred claims for excluded New Enrollees	$ -	$ -	$ -
29	**Total Net Adjustment for New Enrollees from prior years**	$ -	$ -	$ -

30	**MLR Member Months**	**4,426,829**		**4,426,829**

Credibility Adjustment Applied (*if applicable*)				
31	MLR Percentage Achieved	93.8%	(2.9%)	90.9%
32	Credibility Adjustment	0.0%	0.0%	0.0%
33	**Adjusted MLR Percentage Achieved**	**93.8%**	**(2.9%)**	**90.9%**
34	MLR Percentage Requirement for Rebate Calculation	85.0%		85.0%
35	**Percentage Below 85% Requirement**	**0.0%**		**0.0%**
36	**Dollar Amount of Rebate Requirement**	**$ -**	**$ -**	**$ -**