

The background of the cover is a blurred photograph of a medical professional in a white coat, with a large green cross overlaid on their chest. The entire image is covered with a semi-transparent green overlay that contains various medical icons: a syringe, a pill, a virus, a stethoscope, a clipboard, and a group of three people. A white diagonal line runs from the bottom left towards the top right, separating the green overlay from a dark grey area on the right side of the page.

**MARYLAND
DEPARTMENT OF HEALTH**

**Consolidated Significant Matters
HealthChoice Financial Monitoring
Report (Includes Kaiser)**

For the Calendar Year Ending December 31, 2020



**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS



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STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

April 29, 2022

Maryland Department of Health
Office of Finance, Medical Care Programs
201 West Preston Street
Baltimore, MD 21201

The purpose of this letter is to provide you with a summary of significant matters related to our agreed-upon procedures (AUP) engagement. Our AUP engagement included analyzing certain financial information of the managed care organizations (MCOs) participating in the Maryland HealthChoice Program (Program) for the year ended December 31, 2020.

We have prepared separate AUP reports for the following nine MCOs participating in the Program for the year ended December 31, 2020:

- *Aetna Better Health of Maryland, Inc.*
- *AMERIGROUP Maryland, Inc.*
- *CareFirst Community Health Plan Maryland (formerly University of Maryland Health Partners, Inc.)*
- *Jai Medical Systems Managed Care Organization, Inc.*
- *Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.*
- *Maryland Care, Inc. D/B/A Maryland Physicians Care Managed Care Organization*
- *Medstar Family Choice, Inc.*
- *Priority Partners Managed Care Organization, Inc.*
- *UnitedHealthcare of the Mid-Atlantic, Inc.*

This engagement to apply AUPs was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures was solely the responsibility of the Maryland Department of Health (MDH). Consequently, we made no representations regarding the sufficiency of the procedures described in each report either for the purpose for which the reports had been requested or for any other purpose.

Scope of Work

The MCOs manage the medical care of the Program enrollees for a capitated per member per month premium. The MCOs enter into service contracts with various health care providers to provide the required health care services to the Program enrollees. In return, the MCO pays the participating providers through fee-for-service or managed care arrangements. Monthly capitation payments to health care providers are expensed as incurred. Medical services expense includes amounts for known services rendered and an estimate for incurred but not reported services (IBNR) rendered by hospitals, physicians, and other health care providers during the year. The estimated IBNR medical services liability is actuarially determined based on relevant industry data and historical trends.

Activity for the program is reported on the HealthChoice Financial Monitoring Report (HFMR). This report is a supplemental schedule to the quarterly and annual filings made to the Maryland Insurance Administration. The report is comprised of five sections: 1) Background; 2) Expense and Utilization Structure (Incurred Basis); 3) Major Sub-Capitated Provider Schedule; 4a) Services Provided by MCOs That Exceed Services Covered in the Medicaid State Plan; 4b) Components of Incentive Payments; and 5) MCO Financial Reporting Questionnaire on federally qualified health center (FQHC) reimbursement above the market rate, trauma costs to be reimbursed by the trauma fund, MCO reimbursements for payments made for COVID vaccine administration, and payments related to the Maryland Quality Innovation Program (M-QIP) and their impact on HFMR reporting. For the year ended December 31, 2020, the HFMR included run-out of claims paid through September 30, 2021.

The primary emphasis of our test procedures consisted of verifying and reconciling financial data reported on the HFMR for the year ended December 31, 2020 to the MCOs' audited financial statements, the Annual Statement submitted to the Insurance Administration of the state of Maryland (Annual Statement), trial balances, claims databases and supporting documentation. For MCOs with programs other than the Maryland HealthChoice Program, we obtained detailed financial information broken down by operating unit to perform our test procedures.

Other procedures included:

- *Reconciliation of medical expenses paid and incurred per the Annual Statement to the IBNR lag reports, as well as the medical claims payable for known and unknown services to the financial reports.*
- *Documenting the procedures performed for receipt, processing, and reconciliation of claims for outside providers.*
- *Documenting our understanding of the administration expenses reported on the Annual Statement including allocation of expenses from other lines of business or related entities and*

reconciling and verifying financial data reported on the Annual Statement for administrative expenses.

- *Analytically comparing investment income by operating unit to comparable factors and obtaining explanations for any unusual relationships.*
- *Verification and assessment of the business purpose and valuation of related-party transactions.*
- *Verification of pharmacy rebate revenue and proper offset against pharmacy expense.*
- *Verification of the amount of rebate revenue applicable to hepatitis C drugs.*
- *Verification of non-state plan service amounts.*
- *Verification of Federally Qualified Health Center (FQHC) payments, Trauma Fund reimbursement, payments made for COVID vaccine administration, and payments related to Maryland Quality Innovation Program (M-QIP) to ensure revenue and expense is removed.*
- *Reconciliation of third-party liability (TPL) reports and proper recording of recoveries.*
- *Verification of the mathematical accuracy of the 2020 Estimated Settlement by MCO spreadsheet as of April 14, 2021 provided by the MDH regarding ACA insurer fees.*
- *Reconciliation of hepatitis C paid listing received from MDH to the amount submitted on the HFMR and review of selected transactions.*
- *Determination of the amount paid for Independent Review Organization (IRO) reviews and remove from expense.*
- *Determination of the amount paid for dues to Maryland MCO Association (MMCOA) and remove from expense.*
- *Verification that the HFMR was prepared in accordance with the risk adjustment category (RAC) definitions effective September 23, 2019.*
- *Verification of pharmacy benefit manager (PBM) expense reported on Section III of the HFMR.*
- *Updating the PBM Repricing Template using 2020 pharmacy data and documenting the procedures used by the MCO/PBM to reprice the pharmacy claims.*

Summary of MCO Results

The following adjustments were made to the HealthChoice financial data:

Gross Premium Revenue

- *Adjusted to reflect verified incentive/supplemental payments, rural access payments, 2020 value-based purchasing incentives, Maryland Quality Innovation Program (M-QIP) payments, and hepatitis C payments.*
- *Adjusted to exclude trauma fund and FQHC payments received from MDH.*

Medical Expenses Paid

- *Adjusted to exclude verified premium taxes, verified TPL recoveries, administrative component of dental sub-capitated payments, vision administrative fees, verified medical management expense, prompt pay discounts, trauma fund reimbursement, and FQHC payments.*
- *Adjusted to reflect verified pharmacy rebates.*
- *Reinsurance recoveries were adjusted to reflect verified recoveries.*

Medical Management Expense

- *Medical management expense was included with medical expenses paid and/or administrative expenses on the Plan Submitted Total column of the Underwriting Exhibit. Verified medical management expense was reclassified to its respective line on the MSLC Adjusted Total column of the Underwriting Exhibit. Medical management expense was reported separately on the Plan Submitted Total of the Underwriting Exhibit for presentation purposes only.*
- *Adjusted to exclude salaries and benefits reclassified to administrative expense, consulting fees reclassified to administrative expense, related-party profit, overhead and administrative expense, M-QIP payments disbursed to the University of Maryland Faculty Physicians (FPI), and expenses not related to the Maryland HealthChoice program.*
- *Adjusted to include verified health information technology software costs and miscellaneous other medical management expenses reclassified from administrative expense.*
- *Adjusted to include patient interpreter, patient text messaging software, mobile mammography, and other medical expenses reclassified from medical expenses paid.*

Administrative Expense

- *Adjusted to exclude non-allowable marketing expense, lobbying expense, bad debt expense, contributions, donations, business development expenses, stock based compensation, state and local income taxes, expenses not related to the Maryland HealthChoice program, claims interest, related-party profit, management fees in excess of verified costs, non-allowable consulting fees,*

non-allowable legal fees, verified medical management expense, non-allowable corporate allocation expense, pharmacy medical fees already included in medical expenses, MMCOA dues, and IRO fees paid.

- *Adjusted to include verified management fees, administrative salaries and benefits included with medical management expense, administrative component of dental sub-capitated payments, vision administrative fees, amortization of start-up costs, claims adjustment expenses, overhead and administrative expense, add-back of accrual for legal fees offset in 2018, and grievance and appeals expense.*
- *Adjusted to exclude Premium Taxes, ACA Health Insurer Fees, and MHBE Fees submitted with administrative expenses which are reported separately on Exhibit III.*

Taxes

- *Premium taxes were adjusted to agree to the HFMR reported amount and exclude MHBE fees.*
- *ACA Health Insurer Fees were adjusted to reflect the verified amount reported on the Estimated Settlement per MCO spreadsheet and exclude MHBE fees.*
- *MHBE fees were reported separately of Premium Taxes and ACA Health Insurer Fees.*

Hepatitis C Kick Payments

- *Adjusted to reflect verified kick payments per MDH.*

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Exhibit I: Schedule of AUPs for Participating MCOs

Materiality

For procedures to test claims data by rate cell and categories of service, materiality will be set at 5% percent and \$10,000 for the balance subject to the procedure.

For all other procedures, materiality will be set at \$10,000 for the balance subject to the procedure.

Trial Balance

Obtain the adjusted trial balance as of December 31, 2020 and agree a sample of descriptions, account numbers and ending balances per the adjusted trial balance to the general ledger for the year ended December 31, 2020.

Agree total expenses per the adjusted trial balance as of December 31, 2020 to the HFMR for the year ended December 31, 2020.

Agree total expenses per the adjusted trial balance as of December 31, 2020 to the Annual Statement submitted to the Insurance Administration of the State of Maryland (Annual Statement) for the year ended December 31, 2020.

Agree total expenses per the adjusted trial balance as of December 31, 2020 to the audited financial statements for the year ended December 31, 2020.

HealthChoice Financial Monitoring Report

Verify that the HFMR was prepared in accordance with the RAC definitions included in the HFMR instructions revised as of September 23, 2019.

For each of the categories on the HFMR for the year ended December 31, 2020, perform the following:

Member Months

Agree the line labeled "Total" on each regional HFMR schedule for the column labeled "Member Months" to the Query Reports.

Recalculate the line labeled "Grand Total" on the Statewide HFMR for the column labeled "Member Months" based on the amounts reported on the regional HFMRs.



Haphazardly select five categories for “Member Months” from each regional HFMR schedule and agree the balances to the Query Reports. If errors are noted, MDH will determine if scope should be expanded.

Earned Premiums

Agree the line labeled “Total” on each regional HFMR schedule for the column labeled “Earned Premiums” to the Query Reports.

Recalculate the line labeled “Grand Total” on the Statewide HFMR for the column labeled “Earned Premiums” based on the amounts reported on the regional HFMRs.

Haphazardly select five categories for “Earned Premiums” from each regional HFMR schedule and agree the balances to the Query Reports. If errors are noted, MDH will determine if scope should be expanded.

Agree the Incentive Payments balance per Section II – Statewide and Section IVb of the HFMR to supporting documentation.

Agree the Reinsurance Premiums balance per Section II – Statewide of the HFMR to supporting documentation.

Agree the Reinsurance Recoveries balance per Section II – Statewide of the HFMR to supporting documentation.

Expenses

Agree the line labeled “Total” on each regional HFMR schedule for the columns labeled “Hospital Inpatient Expenses”, “Hospital Outpatient: Other than Emergency Expenses”, “Hospital Outpatient: Emergency Expenses”, “Primary Care Expenses”, “Specialty Care Expenses”, “Pharmacy Expenses”, “Dental Expenses” and “Other Medical Expenses” to the Query Reports and recalculated to include IBNR amounts.

Recalculate the line labeled “Grand Total” on the Statewide HFMR for the columns labeled “Hospital Inpatient Expenses”, “Hospital Outpatient: Other than Emergency Expenses”, “Hospital Outpatient: Emergency Expenses”, “Primary Care Expenses”, “Specialty Care Expenses”, “Pharmacy Expenses”, “Dental Expenses” and “Other Medical Expenses” based on the amounts reported on the regional HFMRs.

Haphazardly select five categories from the columns labeled “Hospital Inpatient,” five categories from the columns labeled “Hospital Outpatient: Other than Emergency,” five categories for from the columns labeled “Hospital Outpatient: Emergency Department,” five categories from the columns labeled



“Primary Care,” five categories from the columns labeled “Specialty Care,” five categories from the columns labeled “Pharmacy,” five categories from the columns labeled “Dental,” and five categories from the columns labeled “Other Medical” for “Expenses” from each regional HFMR schedule and agree the balances to the query reports and recalculated to include IBNR amounts.

Haphazardly select 25 transactions from the claims database. Verify the amount of the claim that the transaction was recorded, to the year the claim was incurred, the region, and the RAC classification to the amounts recorded in the database. If errors are noted in the previous steps, and MDH determines scope should be expanded, select an additional 25 transactions from the claims database. Verify the amount of the claim that the transaction was recorded, to the year the claim was incurred, the region, and the RAC classification to the amounts recorded in the database.

Admissions/Days/Visits/Scripts

Agree the line labeled “Total” on each regional HFMR schedule for the columns labeled “Visits”, “Admissions”, “Days” and “Scripts” to the Query Reports.

Recalculate the line labeled “Grand Total” on the Statewide HFMR for the columns labeled “Visits”, “Admissions”, “Days” and “Scripts” for all categories based on the amounts reported on the regional HFMRs.

Haphazardly select five hospital inpatient categories for “Admission,” five hospital inpatient categories for “Days,” five hospital outpatient: other than emergency categories for “Visits,” five hospital outpatient: emergency department categories for “Visits,” five primary care categories for “Visits,” five specialty care categories for “Visits,” five pharmacy categories for “Scripts,” and five dental categories for “Visits” from each regional HFMR schedule and agree the balances to the query reports. If errors are noted in previous steps, and MDH determines scope should be expanded, select an additional five transactions per applicable HFMR category and agree balances to query reports.

Delivery-Related Expenses

Obtain a narrative that summarizes the methodology for reporting delivery related expenses on the HFMR.

Haphazardly select five claims from the paid claims database and obtain the original submitted to the plan. Verify that the transaction was recorded to the year the claim was incurred, the paid amount was correct and verify that the transaction contained a delivery procedure code. If errors are noted, MDH will determine if scope should be expanded.



Administrative Component of Dental Sub-Capitated Payment

Agree the Administrative Component of Dental Sub-Capitated Payments per Section III of the HFMR to supporting documentation.

Medical Management Expense

Agree the line labeled Medical Management Expense per Section II – Statewide of the HFMR to supporting documentation.

Ensure that medical management expense is reported in accordance with the NAIC Guidelines.

Pharmacy Rebates

Review Statewide Worksheet of the HFMR to verify Rebate Revenue reported is accurate. Verify the amount of the Rebate Revenue that relates to Hepatitis C Drugs. Verify that Rebate Revenue has been properly offset against Pharmacy Expense.

Pharmacy Benefit Manager (PBM) Expense

Review Section III, Part E of the HFMR to verify if PBM expense information reported is accurate.

Non-State Plan Services

Document the procedures used to determine the amounts reported on Section IVa of the HFMR for Non-State Plan Services and verify the amounts reported are correct.

Trauma Fund

Determine that the costs reimbursed through the trauma fund were properly reflected on Section V of the HFMR.

Federally Qualified Health Center (FQHC) Visits

Determine that the State paid portion of FQHC visit payments were properly reflected on Section V of the HFMR.

COVID Vaccine Administration

Determine that payments made for COVID Vaccine Administration practices were properly reflected on Section V of the HFMR.

Maryland Quality Innovation Program (M-QIP)

Determine that payments related to the M-QIP were properly reflected on Section V of the HFMR.



Investments

Agree the investment income balance per the trial balance for the year ended December 31, 2020 to the annual statement and audited financial statements and explain any variances.

Review the investments that produce investment income reported by the MCO and determine if investment income has been properly allocated among the various payor sources and the amount allocated to the HealthChoice program is correct.

Administrative Expenses

Obtain an understanding of the nature of the administration expenses reported on the analysis of operation of lines of business on the annual statement.

Compare administration expenses for the year ended December 31, 2020 to the prior year and obtain explanations for any changes greater than 10%.

Obtain an understanding of any trial balance account allocated between administration and medical expenses, and document the procedure for the allocation.

Obtain a listing of payments to or costs allocated from affiliates or parent companies, and agree this list to the audited financial statements prepared by the Provider's independent accountant for the year ended December 31, 2020.

Medical Expenses/Incurred But Not Reported (IBNR)

Obtain documentation of the procedures regarding the receipt, processing and reconciliation of claims from outside providers.

Obtain and review the independent Service Organization Report (SOC2) report, if applicable.

Agree unpaid expense per Section II – Statewide of the HMFR to supporting documentation. Determine if unpaid expenses include items other than IBNR. Obtain IBNR report and opinion from independent actuary firm.

Cost Avoidance and Third-Party Liability (TPL) Recoveries

Review the policies and procedures for cost-avoidance and post-payment recoveries to assess the compliance of effort to maximize third-party payments.

Test the accuracy of the quarterly TPL reports submitted by the Provider and verify that recoveries are properly recorded in Section II - Statewide the HFMR.



EXHIBIT I: SCHEDULE OF AUPs FOR PARTICIPATING MCOs

Report the total TPL recovery amount received for services provided during Fiscal Year (FY) 2020, collected during 2020, and the total TPL recovery amount received for services provided during FY 2020 collected through September 30, 2021.

Non-allowable Expenses

Independent Review Organization (IRO) Review Expense

Determine the amount paid for IRO reviews, if any, and remove from expense.

Maryland Managed Care Organization Association (MMCOA) Dues

Determine the amount paid for dues to the MMCOA and remove from expense.

Special Projects

Affordable Care Act (ACA) Insurer Fees

Verify the mathematical accuracy of the 2020 HC Estimated Settlement by MCO as of April 14, 2021 spreadsheet provided by the MDH regarding ACA insurer fees.

Hepatitis C

Reconcile hepatitis C paid listing received from MDH to the amounts submitted on the HFMR.

Haphazardly select 10 transactions from the listing and obtain the pharmacy expenses paid related to the applicable treatment period.

Review the pharmacy expenses in correlation with MDH's instructions for hepatitis C therapy MCO payment process and determine proper classification.

Pharmacy Benefit Manager Repricing Template

Update the PBM Data Request template using 2020 Pharmacy data. Document the procedures used by the MCO/PBM to reprice the pharmacy claims.



Exhibit II: Consolidated Underwriting Exhibit

| Consolidated Underwriting Exhibit | | | | | |
|---|------------------------------|--|-----------------------------|---|----------------------------|
| Services for the Calendar Year Ending December 31, 2020 | | | | | |
| Reported Through September 30, 2021 | | | | | |
| (MARYLAND HEALTHCHOICE BUSINESS ONLY) | | | | | |
| | | | Plan Submitted Total | | MSLC Adjusted Total |
| Revenues | | | | | |
| | Gross Premium Revenue | | \$ 6,410,145,605 | | \$ 6,442,153,746 |
| | Less Reinsurance Premiums | | \$ 7,922,195 | | \$ 7,922,195 |
| | Net Premium Revenue | | \$ 6,402,223,410 | | \$ 6,434,231,551 |
| Medical Expenses | | | | | |
| | Medical Expenses Paid | | \$ 5,298,175,211 | | \$ 5,229,297,627 |
| | Medical Expenses Unpaid | | \$ 5,241,693 | | \$ 5,241,693 |
| | Gross Medical Expenses | | \$ 5,303,416,904 | | \$ 5,234,539,320 |
| | Less Reinsurance Recoveries | | \$ 8,837,000 | | \$ 8,827,031 |
| | Net Medical Expenses | | \$ 5,294,579,904 | | \$ 5,225,712,289 |
| Medical Management Expenses | | | | | |
| | Medical Management Expense | | \$ 105,515,007 | * | \$ 88,493,259 |
| Administrative Expenses | | | | | |
| | Administrative Expenses | | \$ 483,301,934 | | \$ 418,546,921 |
| Taxes | | | | | |
| | Premium Taxes | | \$ 159,521,107 | | \$ 136,663,953 |
| | ACA Health Insurer Fees | | \$ 146,374,468 | | \$ 134,058,386 |
| | MHBE Assessment Fees | | \$ 3,816,463 | | \$ 53,995,280 |
| Net Underwriting Gain (Loss) | | | | | |
| | Net Underwriting Gain (Loss) | | \$ 314,629,534 | | \$ 376,761,464 |
| Additional Data | | | | | |
| | Member Months | | 14,995,972 | | 14,995,972 |
| | Total Deliveries | | 24,458 | | 24,458 |
| | Total Hep C Kick Payments | | 3,344 | | 3,448 |
| <i>*Medical Management is included in submitted Medical and/or Administrative Expenses. Shown separately for presentation purposes.</i> | | | | | |



Exhibit III: Comparison of IBNR Independent Estimate

**Comparison of IBNR Independent Estimate
Services for the Calendar Year Ending December 31, 2020
Reported Through September 30, 2021**

| | Plan Submitted | Miller & Newberg, Inc. Actuarial Estimate |
|------------------------|-----------------------|--|
| Total (9 Plans) | \$ 6,944,537 | \$ 5,737,269 |

The estimates prepared by Miller & Newberg, Inc. were based upon statutory accounting practices. Estimates were made only of Incurred But Not Reported (IBNR) claims, which are the liability for future payments on claims which have already occurred, but have not yet been reported to the MCO's. IBNR may also include future development (or additional costs) associated with reported claims. IBNR does not include known or identifiable claims that remain unpaid as of the valuation date.

Note: Variances between submitted IBNR on Exhibits II and III are as follows:

| | Submitted per Financial Template | Actuarial Estimate | Variance |
|--------------|---|---------------------------|-----------------------|
| MCO A | \$ 2,262,611 | \$ 1,743,939 | \$ (518,672) |
| MCO B | \$ 851,422 | \$ 871,160 | \$ 19,738 |
| MCO C | \$ 368,598 | \$ 257,036 | \$ (111,562) |
| MCO D | \$ 50,000 | \$ 14,718 | \$ (35,282) |
| MCO E | \$ (35,084) | \$ - | \$ 35,084 |
| MCO F | \$ - | \$ - | \$ - |
| MCO G | \$ 1,436 | \$ - | \$ (1,436) |
| MCO H | \$ 795,214 | \$ 948,838 | \$ 153,624 |
| MCO I | \$ 2,650,340 | \$ 1,901,578 | \$ (748,762) |
| Total | \$ 6,944,537 | \$ 5,737,269 | \$ (1,207,268) |