



Healthy Blue Nebraska
Nebraska Department of
Health and Human Services

**Managed Care Entity (MCE)
Administrative Expenses**

With Independent Accountant's Report Theron

For the period of January 1, 2021 through
December 31, 2021



**MYERS AND
STAUFFER**_{LC}
CERTIFIED PUBLIC ACCOUNTANTS



CONSULTING REPORT

June 20, 2023

Mr. Jeremy Brunssen
Deputy Director – Finance and Program Integrity
Nebraska Department of Health and Human Services
301 Centennial Mall South
Lincoln, Nebraska 68509

RE: Report on Managed Care Entity Administrative Expenses

Dear Mr. Brunssen:

We were engaged to perform consulting services on the administrative, subcapitated, and pharmacy expenses reported on the State of Nebraska’s Heritage Health MCE Financial Reporting Template (MRT) submitted by Healthy Blue Nebraska (Plan), for the calendar year ending December 31, 2021 based on applicable federal and state guidance. The Plan’s management is responsible for the information contained in the MRT, which was reported to the Nebraska Department of Health and Human Services (Department).

Our consulting engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Plan’s MRT. Accordingly, we do not express such an opinion or conclusion.

The accompanying adjustments, comments, and caveats were prepared from the information contained in the MRT and related supporting documentation submitted by the Plan for the purpose of complying with the Department’s requirements related to financial reporting and is not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Department as the oversight agency for the Nebraska Medicaid program and Optumas as the State’s actuary for managed care rate setting and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC



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Scope of Work

The Department engaged Myers and Stauffer LC to provide consulting services relating to the Plan's MRT report for the calendar year ending December 31, 2021. Specifically, the scope includes assessment of risks and test work related to direct and indirect administrative costs reported on MRT report 7 *Admin and QI Expenses*, subcapitated costs reported on MRT report 2 *Costs*, and pharmacy costs reported on the MRT report 2 *Costs* and report 9A *Incurred Overview*. The purpose of this activity is to ensure transparency and accountability in the Plan's administrative expense allocation from its corporate entity and to evaluate the allowability, methodology, and any related party costs of the reported administrative expenses. In addition, the purpose is to confirm that the Plan is in compliance with the prohibition against pharmacy spread-pricing practices and that rebates are appropriately reported.

Myers and Stauffer and the Department worked together to identify federal regulations and guidance that could be used to analyze costs for the purposes of this engagement. Select regulations and guidance applied were not specifically included in the contract language for the contract year subject to this engagement, but were applied in order to provide the Department with a basis for future regulatory and contractual changes as well as to adjust the base data for future rate setting. Adjustments based on regulations or guidance not included in the contract language for the contract year subject to this engagement include a reference to Reporting Caveat #3 in the Schedule of Adjustments and Comments.

The following procedures were designed to accomplish the objective of our engagement:

- *Request and obtain data and documentation from the Plan.*
- *Request and obtain data and documentation from the Department.*
- *Reconcile total administrative expenses reported on the MRT to supporting documentation, including the Working Trial Balance (WTB).*
- *Reconcile total pharmacy expenses reported on the MRT to supporting documentation, including the WTB.*
- *Using confirmation sample testing, validate that the plan is reporting on the encounters the actual amount paid to the pharmacies.*
- *Determine if pharmacy cost is related party or third party expense based on health plan reporting on summary listing request item.*
- *For other third party vendors, reconcile the summary listing from the Plan to the WTB. Review the contract compared to the summary listing, for testing of the administrative component of the reimbursement.*



- *Review and determine where related party administrative costs are reported on the MRT and ensure amounts reported reflect actual cost of the related party based on agreements or other supporting documentation from affiliates or parent companies.*
- *Review administrative expense allocation methodologies for reasonableness, reconcile to supporting documentation, scan detailed documentation for non-allowable expenses, and ensure any related party profit component is excluded from administrative cost.*
- *Determine if the allocation of administrative expense to the Heritage Healthcare program was proper if the Plan is participating in multiple markets.*
- *Follow-up with the Plan, as necessary, to complete analysis.*
- *Prepare draft reports of the findings and recommendations and submit to the Department for review.*
- *If deemed appropriate by the Department, we recommend the report be issued to the Plan and an exit conference be scheduled to discuss the findings and recommendations. If applicable, the Plan may submit formal responses in writing.*
- *We will review and incorporate appropriate comments, questions, or other information received by the Department and/or the Plan to finalize the report.*



Reporting Caveats

Reporting Caveat #1 – Regulations and Guidance Utilized for Testing

The indicated adjustments are based on federal regulations in place as of the date of this report published by the Centers for Medicare and Medicaid Services (CMS) for Medicaid Managed Care Medical Loss Ratio (MLR), federal Uniform Administrative Cost Requirement Principles, and CMS related party provider cost reporting regulations. The service contract for calendar year 2021 did not include direct references to these specific federal regulations. The indicated adjustments provide a representation of the impact to the MLR that these regulations would have had if applied to calendar year 2021.



Schedule of Adjustments and Comments

Schedule of Adjustments and Comments			
Administrative Expenses			
	As-Filed	Adjustment	As-Adjusted
Total Administrative Expenses	\$40,481,841	\$(1,413,314)	\$39,068,500
Total Revenue	\$519,365,416	\$0	\$519,365,416
Percentage of Total Expenses to Total Revenues	7.8%		7.5%
Member Months	1,281,770	0	1,281,770
Per Member Per Month Expenses	\$31.58		\$30.48
Clinical Expenditures			
Service	As-Filed	Adjustment	As-Adjusted
Non Subcapitated Rx	\$92,151,248	\$(3,528,699)	\$88,622,549
Pharmacy Rebates	\$175,600	\$501,140	\$676,740
Total Rx Expenditures	\$91,975,648	\$(4,029,839)	\$87,945,809
Total Subcapitated Expenditures	\$0	\$0	\$0



Adjustment #1 – To adjust to remove interest payments for late claims.

During inspection of the trial balance for Healthy Blue Nebraska, Account 501310, Interest Paid on Claims, was found to contain non-allowable interest expenses related to late claims payments. An adjustment was made to remove this expense. (45 CFR § 75.441)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin Expenses	Total Administrative Expenses	\$(392,657)

Adjustment #2 – To adjust to remove contributions and donations.

During inspection of the trial balance for Healthy Blue Nebraska, Account 799500, Inter-MBU Cost Allocations, was found to contain the total management fee expenses paid to Healthy Blue Nebraska's parent company, Elevance Health. These management fees are supported by allocated costs through cost centers and accounts. During inspection of these allocated accounts, non-allowable contributions and donations were discovered. These Elevance Health accounts include: 699010 Non-Deductible Char Contrib, 699020 Deductible Char Contrib, 699026 Sponsorships - Health Related, 699028 Sponsorships – Education, and 699029 Charitable Contribution – Unallowable. An adjustment was made to remove these expenses. (45 CFR § 75.434)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin Expenses	Total Administrative Expenses	\$(21,302)

Adjustment #3 – To adjust to remove lobbying expenses.

During inspection of the trial balance for Healthy Blue Nebraska, Account 799500, Inter-MBU Cost Allocations, was found to contain the total management fee expenses paid to Healthy Blue Nebraska's parent company, Elevance Health. These management fees are supported by allocated costs through cost centers and accounts. During inspection of these allocated accounts, non-allowable lobbying expenses were discovered. These Elevance Health accounts include: 699030 Contribution Politic and 691015 Memberships-Non Indiv-Lobbying. An adjustment was made to remove these expenses. (45 CFR § 75.450)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin Expenses	Total Administrative Expenses	\$(26,737)



Adjustment #4 – To adjust to remove marketing and advertising expenses.

During inspection of the trial balance for Healthy Blue Nebraska, Account 799500, Inter-MBU Cost Allocations, was found to contain the total management fee expenses paid to Healthy Blue Nebraska’s parent company, Elevance Health. These management fees are supported by allocated costs through cost centers and accounts. During inspection of these allocated accounts, non-allowable marketing and advertising expenses were discovered. These Elevance Health accounts include: 620083 Advertising - Direct Response - Prod & Print (Inact Jan22) and 620030 Advertising-Brand (Inact Jan22). Additionally, these Elevance Health cost centers include: 6330904500, 6330917400, 6030748000, 6090016300, 3000090300, 6030727600, 6216601000, 6030730000, 6030746800, 6030747500, 6245001000, 6030727300, 6030725300, 6030747600, 6030726500, 5500080700, 6030747100, 5500080800, 6090030000, 6030725400, 6030730300, 6030744200, 6102014200, 6030730600, 6030731000, 5212040300, 6090029600, 6037159800, & 6103017500. An adjustment was made to remove these expenses. (45 CFR § 75.467)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin Expenses	Total Administrative Expenses	\$(972,619)

Adjustment #5 – To adjust to agree the submitted rebate amount to information received from the PBM, IngenioRx.

The health plan reported pharmacy rebates using trial balance information. It was determined that this expenses was less than total rebated collected by the PBM, IngenioRx. The difference has been added to pharmacy rebates. (42 CFR § 438.8(e)(2)(ii))

Proposed Adjustment(s):		
Report	Category	\$ Amount
9B Paid Overview	Pharmacy Rebates	\$378,031

Adjustment #6 – To adjust to include rate contract guarantees reported by the PBM processing claims, CVS.

IngenioRx contracts with CVS to process pharmacy claims. CVS identified rate guarantees and reconciliations with the pharmacies on a contract level as opposed to a claim level. They estimated these rate guarantees for Healthy Blue Nebraska and Heritage Health to be \$123,109. These were added to pharmacy rebates. (42 CFR 438.8(e)(2)(ii))

Proposed Adjustment(s):		
Report	Category	\$ Amount
9B Paid Overview	Pharmacy Rebates	\$123,109



Adjustment #7 – To adjust to include pharmacy pricing guarantees.

During inspection of the trial balance for Healthy Blue Nebraska, Account 585216, Pharmacy Pricing Guarantee-Contra Claims, was found to have not been offset against pharmacy costs on the MRT. The 2022 adjusted account balance of \$(3,528,699) will be included in report 2 Non Subcapitated Rx costs. 42 CFR 438.8(e)(2)(ii)

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Non Subcapitated Rx	\$(3,528,699)



Jennifer L. Bohnhoff
Market Compliance Officer
10040 Regency Circle, Ste 100
Omaha, NE 68114

June 12, 2023

Sent via electronic mail to: Kbuchser@mslc.com

Kevin Buchser, CPA
Senior Manager
Myers and Stauffer

RE: Heritage Health Draft Reports – Healthy Blue

Dear Mr. Buchser,

We have reviewed the CMS EQR Protocol Five engagement and the Administrative Expense review for calendar year 2021.

In response to the Administrative Expense findings noted, Healthy Blue would like to reiterate Caveat #1 regarding the basis for the proposed adjustments. Healthy Blue followed the contract language which did not mention the CMS regulations used to determine the adjustments noted in this report. Healthy Blue complied with the contract for calendar year 2021.

Sincerely,

A handwritten signature in blue ink, reading "Jennifer L. Bohnhoff", written over a horizontal line.

Jennifer L. Bohnhoff
Market Compliance Officer

Cc: Libby Cutler, Beverly Gehrich, Kathy Haley, Jeremy Brunssen, Nicole Frisbie, Kris Radke, Janet Endorf-Olson, Heather Leschinsky, Zach Weber, Nina Williams, Alan Uden