

The background features a blurred image of a person in a hospital bed, overlaid with a green geometric pattern of lines and various medical icons such as a syringe, a pill, a virus, a stethoscope, and a group of people. A large green cross is centered over the person's chest.

Nebraska Total Care, Inc.

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**
L.C.
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 Nebraska Total Care, Inc. (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



Table of Contents

| | |
|---|---|
| ■ Table of Contents..... | 1 |
| ■ Scope of Work..... | 2 |
| ■ Reporting Caveats..... | 4 |
| ■ Schedule of Adjustments and Comments..... | 5 |



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.

Reporting Caveat #2 – Envolve Pharmacy Solutions, LLC Settlements

The State of Nebraska entered into a settlement agreement, in the amount of \$29,343,907.91, with the health plan regarding pharmacy benefit manager (PBM) practices. The agreement was effective on December 29, 2021 and encompasses the reporting period. The Centene Corporation is the owner of the health plan and the PBM subsidiary, Envolve Pharmacy Solutions. The settlement amount was not allocated by reporting period, line of business, nor did it clearly identify the impact related to pharmacy paid claims, any applicable penalty, or other factors developed within the settlement calculation. Therefore, the settlement was not considered for the purposes of the MRT.



Schedule of Adjustments and Comments

| Schedule of Adjustments and Comments | | | |
|--|-----------------|-------------------|--------------------|
| Administrative Expenses | | | |
| | As-Filed | Adjustment | As-Adjusted |
| Total Administrative Expenses | \$84,272,065 | \$(3,166,369) | \$81,105,696 |
| | | | |
| Total Revenue | \$732,366,679 | \$0 | \$732,366,679 |
| | | | |
| Percentage of Total Expenses to Total Revenues | 11.5% | | 11.1% |
| | | | |
| Member Months | 1,354,222 | 0 | 1,354,222 |
| | | | |
| Per Member Per Month Expenses | \$62.23 | | \$59.89 |
| Clinical Expenditures | | | |
| Service | As-Filed | Adjustment | As-Adjusted |
| Non Subcapitated Rx | \$136,874,642 | \$0 | \$136,874,642 |
| Pharmacy Rebates | \$64,982 | \$49,783 | \$114,765 |
| Total Rx Expenditures | \$136,809,660 | \$(49,783) | \$136,759,877 |
| | | | |
| Subcapitated Lab and Radiology | \$3,043,677 | \$0 | \$3,043,677 |
| Subcapitated Other Professional | \$138,857 | \$(132,314) | \$6,543 |
| Subcapitated PCP | \$2,672,601 | \$0 | \$2,672,601 |
| Subcapitated Vision | \$5,289,139 | \$(1,055,875) | \$4,233,264 |
| Subcapitated UNMC Supplemental Payment | \$7,044,093 | \$0 | \$7,044,093 |
| Non Subcapitated Non-Emergency Transportation | \$3,630,172 | \$(908,744) | \$2,721,428 |



Adjustment #1 – To adjust to remove advertising and public relations costs.

During inspection of the Business Unit Trial Balance for Nebraska Total Care Inc. (NETC), Account 6472 – Promotional Items, we found this account contained non-allowable marketing and advertising expenses. An adjustment was made to remove this expense. (45 CFR § 75.421 and 45 CFR § 75.467)

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(16,269) |

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

During inspection of the Business Unit Trial Balance for NETC, Account 6476 - Charitable contributions and 6477 Sponsorships we found these accounts contained non-allowable contribution and donation expenses. During inspection of the Business Unit Trial Balance for NETC, 6478 Political Contributions we found these accounts contained non-allowable lobbying expenses. An adjustment was made to remove these expenses. (45 CFR § 75.434 and 45 CFR § 75.450)

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|-------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(123,650) |

Adjustment #3 – To reclassify nurse advice and outreach, provided by Envolve People Care (EPC), to administrative expense.

NETC booked the full amount of expense for EPC to medical expenses. EPC provides nurse advice line services which are administrative in nature. EPC expenses were included in the Business Unit Trial Balance for Nebraska Total Care Inc. Account 5243 - INT-Nurse outreach other. (45 CFR § 158.140(b)(3))

| Proposed Adjustment(s): | | |
|-------------------------|---------------------------------|-------------|
| Report | Category | \$ Amount |
| 2. Costs | Subcapitated Other Professional | \$(132,314) |
| 7. Admin Expenses | Total Administrative Expenses | \$132,314 |

Adjustment #4 – To adjust nurse advice and outreach fees to EPC allocated costs.

NETC provided an allocation of the administrative expenses incurred by EPC related to Nebraska Heritage Health which totaled to \$147,362. Total fees related to EPC per the Business Unit Trial Balance for NETC Account 5241 - INT-Nurse triage, Account 5242 - INT-Health mgmt cap other, and Account 5243 - INT-Nurse outreach other were \$276,528. An adjustment of \$129,166 was necessary to record EPC expenses at cost. (CMS Pub. 15-1, Chapter 10)



| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|-------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(129,166) |

Adjustment #5 – To adjust to agree subcapitated expenses paid to Envolve Vision to claims paid.

NETC booked a capitated amount for Envolve Vision within medical expenses. The adjustment amount of \$1,055,875 was calculated using lag tables provided by Envolve Vision for calendar year 2021. (45 CFR § 158.140(b)(3))

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|---------------|
| Report | Category | \$ Amount |
| 2. Costs | Subcapitated Vision | \$(1,055,875) |
| 7. Admin Expenses | Total Administrative Expenses | \$1,055,875 |

Adjustment #6 – To adjust the administrative portion of subcapitated expenses paid to Envolve Vision to their allocated costs.

NETC supplied a profit and loss report for Envolve Vision for calendar year 2021. Sales and marketing costs were excluded from Envolve Vision's administrative expenses and member months were used to allocate the remaining costs to Nebraska Heritage Health. The non-claims portion of the expense recorded related to Envolve Vision was previously reclassified through Adjustment #5. (CMS Pub. 15-1, Chapter 10)

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|-------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(817,234) |

Adjustment #7 – To adjust to agree subcapitated expenses paid to Medical Transportation Management, Inc. (MTM) to claims paid.

NETC booked the full amount of expense for MTM to medical expenses. MTM expenses were included in the Business Unit Trial Balance for NETC, Account 5330 – Transportation expense. The adjustment amount of \$908,744 was calculated using lag tables provided by MTM for calendar year 2021. (45 CFR § 158.140(b)(3))

| Proposed Adjustment(s): | | |
|-------------------------|---|-------------|
| Report | Category | \$ Amount |
| 2. Costs | Subcapitated Non-Emergency Transportation | \$(908,744) |
| 7. Admin Expenses | Total Administrative Expenses | \$908,744 |



Adjustment #8 – To adjust to agree rebates to amounts identified by Caremark PCS Health LLC (Caremark).

NETC reported pharmacy rebates using the Business Unit Trial Balance for NETC, Account 5097 – INT-Pharmacy rebates. During our procedures, it was determined that this expense was less than total rebated collected by the PBM, Caremark. (45 CFR § 158.140(b)(1))

| Proposed Adjustment(s): | | |
|-------------------------|------------------|-----------|
| Report | Category | \$ Amount |
| 9B. Paid Overview | Pharmacy Rebates | \$49,783 |

Adjustment #9 – To adjust to agree management fee expenses paid to Centene Management Company, LLC (Centene) to allocated costs.

The Management Agreement between Centene and NETC effective January 1, 2017 provides for a percentage of NETC revenues. NETC provided an allocation of Centene’s calendar year 2021 costs using calendar year 2023 information, as historical information was not available. This allocation totaled to \$72,923,200. NETC recorded management fees of \$77,083,331 in the Business Unit Trial Balance for NETC, Account 4046 INT-Management fee. An adjustment of \$4,160,131 was necessary to record Centene expenses at cost. (CMS Pub. 15-1, Chapter 10)

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|---------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(4,160,131) |

Adjustment #10 – To adjust to remove advertising and public relations costs included in Centene allocated costs.

During inspection of the cost pool groupings within the allocation of Centene’s calendar year 2021 costs we identified expenses related to sales and marketing which were determined to be non-allowable. An adjustment was made to remove this expense. (45 CFR § 75.421 and 45 CFR § 75.467)

| Proposed Adjustment(s): | | |
|-------------------------|-------------------------------|------------|
| Report | Category | \$ Amount |
| 7. Admin Expenses | Total Administrative Expenses | \$(16,852) |



2525 N. 117th Ave, Suite 100
Omaha, Nebraska 68164

June 8, 2023

Myers & Stauffer, LC
CC: Nebraska Department of Health and Human Services

Dear Myers & Stauffer, LC,

Nebraska Total Care, Inc. (NETC) participated in an administrative expenses report review, based on applicable federal and state guidance for the calendar year ending December 31, 2021.

NETC supports the transparency and accountability of plan administrative expense allocations and strives to maintain compliance with regulations and guidance disseminated by the Department through contractual and federal regulatory requirements.

The accompanying responses were prepared for consideration to adjustments and comments provided by Myers & Stauffer, LC, from the information contained in the MRT and related supporting documentation submitted by NETC for the purpose of complying with the Department's requirements related to financial reporting. NETC will continue to partner with Medicaid Long Term Care (MLTC) and implement required and or recommended objectives that result from these administrative expenses report, based on the State's Medicaid Managed Care program guidance, going forward.

Sincerely,

Phyllis Thompson,
Plan Chief Financial Officer

Adjustment #1 – To adjust to remove advertising and public relations costs.

During inspection of the Business Unit Trial Balance for Nebraska Total Care Inc. (NETC), Account 6427 – Marketing/advertising, we found this account contained non-allowable marketing and advertising expenses. An adjustment was made to remove this expense. (45 CFR § 75.421 and 45 CFR § 75.467)

Adjustment #1 Response:

Upon further review, this line item specifically relates to expenses for member educational materials, including media, videos, and member materials. These items are not intended to “market” in the traditional sense as there is no effort to grow membership because of these expenditures. These expenditures are designed to educate and engage members about Medicaid managed care. Where there is a call to action, that is to reach out to Medicaid Long Term Care (MLTC), not the plan. Thus, we believe these expenses should be allowed.

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

During inspection of the Business Unit Trial Balance for NETC, Account 6476 – Charitable contributions and 6477 sponsorships we found these accounts contained non-allowable contribution and donation expenses. During inspection of the Business Unit Trial Balance for NETC, 6478 Political Contributions we found these accounts contained non-allowable lobbying expenses. An adjustment was made to remove these expenses. (45 CFR § 75.434 and 45 CFR § 75.450)

Adjustment #2 Response:

Going forward, NETC will work with MLTC to understand allowable costs, and adjust the classification of political contributions, and donations if necessary.

Adjustment #3 – To reclassify nurse advice and outreach, provided by Envolve People Care (EPC), to administrative expense.

NETC booked the full amount of expense for EPC to medical expenses. EPC provides nurse advice line services which are administrative in nature. EPC expenses were included in the Business Unit Trial Balance for Nebraska Total Care Inc. Account 5243 – INT – Nurse outreach other. (45 CFR § 158.140(b)(3))

Adjustment #3 Response:

Beginning in 2023, NETC will report these costs to administrative expenses.

Adjustment #4 – To adjust nurse advice and outreach fees to EPC allocated costs.

NETC provided an allocation of the administrative expenses incurred by EPC related to Nebraska Heritage Health which totaled to \$147,362. Total fees related to EPC per the Business Unit Trial Balance for NETC Account 5241 – INT – Nurse triage, Account 5242 – INT – Health mgmt. cap other,

and Account 5243 – INT – Nurse outreach other were \$276,528. An adjustment of \$129,166 was necessary to record EPC expenses at cost. (CMS Pub. 15-1, Chapter 10)

Adjustment #4 Response:

Going forward, this will no longer be an issue.

Adjustment #5 – To adjust to agree sub-capitated expenses paid to Envolve Vision to claims paid.

NETC booked a capitated amount for Envolve Vision within medical expenses. The adjustment amount of \$1,055,875 was calculated using lag tables provided by Envolve Vision for calendar year 2021. (45 CFR § 158.140(b)(3))

Adjustment #5 Response:

Beginning in 2023, NETC will report the administration portion of these costs to administrative expenses.

Adjustment #6 – To adjust the administrative portion of sub-capitated expenses paid to Envolve Vision and their allocated costs.

NETC supplied a profit and loss report for Envolve Vision for calendar year 2021. Sales and marketing costs were excluded from Envolve Vision's administrative expenses and member months were used to allocate the remaining costs to Nebraska Heritage Health. The non-claims portion of the expense recorded related to Envolve Vision was previously reclassified through Adjustment #5. (CMS Pub. 15-1, Chapter 10)

Adjustment #6 Response:

For 2022, Envolve is operating on a "no profit/no loss" basis, with all related party health plans in lieu of the prior "risk corridor" arrangements. Under the new methodology, all amounts received by the Health Plan in excess of Envolve's operating cost and claim payment expense will be returned to the Health Plan. The prior methodology allowed for a measure of profit to be retained by Envolve. This change was, in part, to provide additional transparency between the Health Plan, Envolve and the various regulatory bodies. Each contract will be monitored monthly, as part of Envolve's month-end close process. Monthly reconciliations of the "no profit/no loss" clause will be performed and booked as deemed necessary.

Adjustment #7 – To adjust to agree sub-capitated expenses paid to Medical Transportation Management, Inc. (MTM) to claims paid.

NETC booked the full amount of expense for MTM to medical expenses. MTM expenses were included in the Business Unit Trial Balance for NETC, Account 5330 – Transportation expense. The adjustment amount of \$908,744 was calculated using lag tables provided by MTM for calendar year 2021. (45 CFR § 158.140(b)(3))

Adjustment #7 Response:

Beginning in 2023, NETC will report these costs to administrative expenses.

Adjustment #8 – To adjust to agree rebates to amounts identified by Caremark PCS Health LLC (Caremark).

NETC reported pharmacy rebates using the Business Unit Trial Balance for NETC, Account 5097 – INT – Pharmacy rebates. During our procedures, it was determined that expense was less than total rebated collected by the PBM, Caremark. (45 CFR § 158.140(b)(1))

Adjustment #8 Response:

The difference noted related to the restatement of amounts. The restatements are standard updates in the quarterly reporting process.

Adjustment #9 – To adjust to agree management fee expenses paid to Centene Management Company, LLC (Centene) to allocated costs.

The Management Agreement between Centene and NETC effective January 1, 2017, provides for a percentage of NETC revenues. NETC provided an allocation of Centene's calendar year 2021 costs using calendar year 2023 information, as historical information was not available. This allocation totaled to \$72,923,200. NETC recorded management fees of \$77,083,331 in the Business Unit Trial Balance for NETC, Account 4046 INT – Management fee. An adjustment of \$4,160,131 was necessary to record Centene expenses at cost. (CMS Pub. 15-1, Chapter 10)

Adjustment #9 Response:

The management fee for 2021 was based on a state-approved methodology that reflected a percentage of premiums. We are unable to retroactively modify the 2021 allocations due to the accounting set-up in place at that time. This methodology has been updated for 2023 going forward.

Adjustment #10 – To adjust to remove advertising and public relations costs included in Centene allocated costs.

During inspection of the cost pool groupings within the allocation of Centene's calendar year 2021 costs we identified expenses related to sales and marketing which were determined to be non-allowable. An adjustment was made to remove this expense. (45 CFR § 75.421 and 45 CFR § 75.467)

Adjustment #10 Response:

Annually, the health plan submits a marketing plan to be reviewed and approved by NE Department of Health and Human Services. 45 CFR 75.467 indicate the costs of selling and marketing are unallowed, except with prior approval by the HHS awarding agency. Marketing and advertisement strategies and costs are included within the annual marketing plan, approved by MLTC.

In response to the account that was erroneously left off the adjustment #1 for Administrative Expenses:

We are updating the draft report to incorporate the comments you've provided in the letter. As we were updating we realized the wording on Adjustment #1 included only account # 6427 - Marketing/advertising (\$178,167). We are accepting the explanation you provided in your response letter for this account and removing this portion of the adjustment. This adjustment also included account #6472 – Promotional Items (\$16,269), however this account was erroneously left out of the adjustment wording. Would you like to provide a response for this portion of the adjustment?

RE: Going forward, this will no longer be an issue.

Thank you,

Kimberly A. Betts
Compliance Manager

