

The background features a blurred medical scene with a green overlay. A large white cross is centered over a person's arm. Various medical icons are scattered throughout, including a syringe, a pill, a stethoscope, a microscope, and a group of people. A white diagonal line runs from the bottom left towards the top right, separating the background from the text area.

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, 2022 through
December 31, 2022



**MYERS AND
STAUFFER**
L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CONSULTING REPORT

May 31, 2024

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, 2022 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, 2022. 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 2022 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 2022.

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 January 25, 2022 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	\$107,663,400	\$(152,901)	\$107,510,499
Total Revenue	\$889,793,162	\$0	\$889,793,162
Percentage of Total Expenses to Total Revenues	12.1%		12.1%
Member Months	1,528,414	0	1,528,414
Per Member Per Month Expenses	\$70.44		\$70.34
Clinical Expenditures			
Service	As-Filed	Adjustment	As-Adjusted
Non Subcapitated Rx	\$166,895,922	\$(28,296)	\$166,867,626
Pharmacy Rebates	\$449,084	\$523,053	\$972,137
Total Rx Expenditures	\$166,446,838	\$(551,349)	\$165,895,489
Subcapitated Non-Emergency Transportation	\$3,237,767	\$(1,731,173)	\$1,506,594
Subcapitated PCP	\$2,818,948	\$0	\$2,818,948
Subcapitated Vision	\$4,747,038	\$13,725	\$4,733,313
Non Subcapitated Non-Emergency Transportation	\$2,908,026	\$0	\$2,908,026



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #1 – To adjust Admin Expense from Envolve Vision to contracted amount and to adjust subcapitated expenses paid to Envolve Vision to claims paid.

The plan supplied claims lag tables to support the claims paid for calendar year 2022. The subcapitated vision expense was adjusted to the claims amount paid by the related party vision vendor. Additionally, the administrative cost was adjusted to the contracted rate and based on the membership reported in the MRT. (CMS Pub. 15-1, Chapter 10 and 45 CFR 158.140(b)(3))

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin Expenses	Total Administrative Expenses	\$(5,255)
2. Costs	Subcapitated Vision	\$(13,725)

Adjustment #2 – To adjust expenses reported for National Imaging Associates (NIA) to cost.

The plan supplied a profit and loss report for NIA for calendar year 2022. The administrative expense reported in the MRT for the related party vendor exceeded the related party vendor's costs. The adjustment of \$126,277 removed the amount paid to the related party above the related parties cost. (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Admin Expenses	Total Administrative Expenses	\$(126,277)

Adjustment #3 – To adjust subcapitated expenses paid to Medical Transportation Management (MTM) to verified claims paid amount and reclassifying the remaining amount paid to MTM to administrative cost.

The plan supplied a claims lag table to support the claims paid by MTM. This adjustment reclassified the amount paid to MTM exceeding the verified claims paid by MTM to administrative cost. The reclassification amount was determined by taking the expenses reported on the MRT for Non Emergent Transportations and comparing it to the verified claims expense for MTM. (45 CFR § 158.140(b)(3))

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Subcapitated Non-Emergency Transportation	\$(1,731,173)
7. Admin Expenses	Total Administrative Expenses	\$1,731,173



Adjustment #4 – To adjust rebates reported to amounts verified by CVS Caremark for 2022 utilization.

The plan reported pharmacy rebates using the business unit trial balance, Account 5097 – INT-Pharmacy rebates. During our procedures, it was determined that this expense was less than total rebates collected by the PBM, CVS Caremark. The adjustment of \$523,023 increased the rebates reported on Report 9b to amounts verified by CVS Caremark. (45 CFR § 158.140(b)(1))

Proposed Adjustment(s):		
Report	Category	\$ Amount
9b. Paid Overview	Pharmacy Rebates	\$523,023

Adjustment #5 – To reclassify pharmacy rate guarantees from medical to admin expense as they are retained by the PBM.

During the review of the pharmacy contracts with CVS Caremark, it was noted that the pharmacy provider contracts contained discount rate guarantees and dispensing fee guarantees. Non-subcapitated expense should be representative of the pharmacy cost paid to the pharmacy provider. The net amount of rate guarantees \$28,296, which are retained by the PBM, CVS Caremark, are being reclassified to total administrative expense on Report 7. (42 CFR § 438.8(e)(2))

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Non-Subcapitated Rx	\$(28,296)
7. Admin Expenses	Total Administrative Expenses	\$28,296

Adjustment #6 – To adjust the management fee expenses paid to Centene Management Company and included in the MRT to verified costs.

The Management Agreement between Centene and the plan effective January 1, 2017 provides for a percentage of the plan's revenues. The plan provided an allocation of Centene's calendar year 2022 costs using calendar year 2023 information, as historical information was not available. This allocation totaled to \$88,063,320. The plan recorded management fees of \$89,844,208 in the business unit trial balance for the plan, Account 4046 INT-Management fee. An adjustment of \$1,780,888 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	\$(1,780,888)

May 24, 2024

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, 2022.

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 Admin Expense from Envolve Vision to contracted amount and to adjust subcapitated expenses paid to Envolve Vision to claims paid.

The plan supplied claims lag tables to support the claims paid for calendar year 2022. The subcapitated vision expense was adjusted to the claims amount paid by the related party vision vendor. Additionally, the administrative cost was adjusted to the contracted rate and based on the membership reported in the MRT. (CMS Pub. 15-1, Chapter 10 and 45 CFR 158.140(b)(3))

Adjustment #1 Response:

The adjustment notation is due to timing.

Adjustment #2 – To adjust expenses reported for National Imaging Associates (NIA) to cost.

The plan supplied a profit and loss report for NIA for calendar year 2022. The administrative expense reported in the MRT for the related party vendor exceeded the related party vendor's costs. The adjustment of \$126,277 removed the amount paid to the related party, above the related parties cost. (CMS Pub. 15-1, Chapter 10)

Adjustment #2 Response:

In 2022, the NIA contract was an administrative only agreement. NETC has accounted for all costs within the administrative costs.

Adjustment #3 – To adjust subcapitated expenses paid to Medical Transportation Management (MTM) to verified claims paid amount and reclassifying the remaining amount paid to MTM to administrative cost.

The plan supplied a claims lag table to support the claims paid by MTM. This adjustment reclassified the amount paid to MTM exceeding the verified claims paid by MTM to administrative cost. The reclassification amount was determined by taking the expenses reported on the MRT for Non-Emergent Transportations and comparing it to the verified claims expense for MTM. (45 CFR §158.140(b)(3))

Adjustment #3 Response:

The MRT includes a restated amount of \$363,112 for medical transportation costs incurred in 2022; however, this was not paid until 2023. These dollars represent transportation costs. Additionally, \$287,165 of the costs reported in the MRT as transportation are related to non-MTM vendors. The remaining difference is due to the fact that the reclass of administrative expenses began in July 2022. Going forward, administrative costs will be reported in administrative expenses.

Adjustment #4 – To adjust rebates reported to amounts verified by CVS Caremark for 2022 utilization.

The plan reported pharmacy rebates using the business unit trial balance, Account 5097 – INT-Pharmacy rebates. During our procedures, it was determined that this expense was less than total

rebates collected by the PBM, CVS Caremark. The adjustment of \$523,023 increased the rebates reported on report 9b to amounts verified by CVS Caremark. (45 CFR §158.140(b)(1))

Adjustment #4 Response:

The proposed rebate adjustment is due to timing. The difference is due to the prior period and subsequent period adjustments that need to be factored into the GL when reconciling to CVS rebate payment amounts.

Adjustment #5 – To reclassify pharmacy rate guarantees from medical to admin expense as they are retained by the PBM.

During the review of the pharmacy contracts with CVS Caremark, it was noted that the pharmacy provider contracts contained discount rate guarantees and dispensing fee guarantees. Non-subcapitated expense should be representative of the pharmacy cost paid to the pharmacy provider. The net amount of rate guarantees \$28,296, which are retained by the PBM, CVS Caremark, are being reclassified to total administrative expense on report 7. (42 CFR §438.8(e)(2))

Adjustment #5 Response:

NETC disagrees with the \$28,296 adjustment because the plan received no financial benefit from the dollars recouped by the PBM. These recouped dollars were based on contract terms between the provider pharmacies and CVS which had no impact on the discount rate guarantees between NETC and CVS.

Adjustment #6 – To adjust the management fee expenses paid to Centene Management Company and included in the MRT to verified costs.

The management agreement between Centene and the plan effective January 1, 2017, provides for a percentage of the plan's revenues. The plan provided an allocation of Centene's calendar year 2022 costs using calendar year 2023 information, as historical information was not available. This allocation totaled to \$88,063,320. The plan recorded management fees of \$89,844,208 in the business unit trial balance for the plan, Account 4046 INT-Management fee. An adjustment of \$1,780,888 was necessary to record Centene expenses at cost. (CMS Pub. 15-1, Chapter 10)

Adjustment #6 Response:

The management fee for 2022 was based on a state-approved methodology that reflected a percentage of premiums. We are unable to retroactively modify the 2022 allocations due to the accounting set-up that was in place at that time. This methodology has been updated for 2023 going forward.