MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2018

Via Electronic Mail

Mississippi Division of Medicaid
Jennifer Wentworth, Deputy Administrator | Administration
550 High Street, Suite 1000
Jackson, Mississippi 39201

Re: Magnolia Health Plan, Inc., MS CAN MLR for the period of January 1, 2017 through June 30, 2017
Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Magnolia Health Plan, Inc., MS CAN Medical Loss Ratio (MLR) report for the period of January 1, 2017 through June 30, 2017.

Please be aware that this final report contains a minor correction made to the draft report for Adjustment #3, thereby increasing allowable incurred costs by $31.

Please contact us at the phone number below if you have questions.

Kind Regards,

Myers and Stauffer LC

Myers and Stauffer LC

DEDICATED TO GOVERNMENT HEALTH PROGRAMS
1349 W Peachtree St, Ste 1600 | Atlanta, GA 30309
PH 404.524.0775 | PH 866.758.3586 | FX 404.524.0782
www.mslc.com

Magnolia Health Plan, Inc.
Mississippi Coordinated Access Network
Report on Medical Loss Ratio Rebate Calculation
(With Independent Accountant's Report Thereon)

State of Mississippi
Division of Medicaid
Jackson, Mississippi

For the period of January 1, 2017
through June 30, 2017

Prepared by:

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Table of Contents

Independent Accountant's Report

State of Mississippi
Division of Medicaid
Jackson, Mississippi

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of Magnolia Health Plan, Inc. (Magnolia) related to the Mississippi Coordinated Access Network for the period of January 1, 2017 through June 30, 2017. Magnolia's management is responsible for presenting the Medical Loss Ratio Rebate Calculation in accordance with the criteria set forth in the contract between the Division of Medicaid and Magnolia, Exhibit C: Medical Loss Ratio (MLR) Requirements. 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 Other Non-Claims Costs amount 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 Magnolia is presented in accordance with the criteria set forth in the Exhibit C: Medical Loss Ratio (MLR) Requirements, in all material respects, and exceeds the eight-five percent (85%) requirement for the period of January 1, 2017 through June 30, 2017.

This report is intended solely for the information and use of the Mississippi Division of Medicaid, Milliman, and Magnolia 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
November 15, 2018

1349 W Peachtree St NE, Ste 1600 | Atlanta, GA 30309
PH 404.524.0775 | PH 866.758.3586 | FX 404.524.0782
www.mslc.com

Organizational Background

Magnolia Health Plan, Inc. (Magnolia), a Mississippi corporation, is a wholly owned subsidiary of Centene Corporation. Magnolia commenced operations on January 1, 2011 and was formed as a Health Maintenance Organization (HMO) for the purposes of providing comprehensive managed healthcare services to beneficiaries in Mississippi.

Magnolia provides services to members of the Mississippi Coordinated Access Network (CAN) and Children's Health Insurance Program (CHIP). Magnolia was one of two coordinated care organizations providing services in the state of Mississippi during the examination period.

Magnolia has various management agreements with both internal and external vendors to provide management, major medical, behavioral health, pharmacy, dental, non-emergency transportation, and vision services to members in the program.

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.

Adjustment #1 – To adjust Pharmacy Rebates to reflect 100% of rebates collected

Magnolia included Pharmacy rebates amount of $681,040 as a reduction to the Medical expense amount reported on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Magnolia's contract with Envolve Pharmacy Solutions, Inc. formerly (US Script, Inc.), indicates that Envolve Pharmacy Solutions, Inc. only remits 75% of the total Pharmacy rebates collected to Magnolia, with 25% being retained by Envolve Pharmacy Solutions, Inc. The instructions included in Exhibit C: Medical Loss Ratio (MLR), section B clearly state that prescription drug rebates received by the contractor must be deducted from incurred claims. Since Magnolia and Envolve Pharmacy Solutions, Inc. are related organizations, the entire rebate amount must be considered as a reduction to expenses. As a result, we recommend an adjustment to remove $227,013 ($681,040 divided by 75% multiplied by 25%) for the remaining unreported rebate amount. This requirement is addressed in Exhibit C: Medical Loss Ratio (MLR), section B.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting Pharmacy Rebates on the MLR rebate calculation to properly reduce expense by all rebate amounts.

Adjustment #2 – To reclassify reinsurance expense included in medical expense

Magnolia reported reinsurance costs as a medical expense on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Exhibit C: Medical Loss Ratio (MLR) Requirements, section B do not specifically identify reinsurance expense as an allowable clinical service expenditure, therefore absent specific instructions, these expenses should be classified as "Other Non-Claims costs". In addition, this type of expense cannot be considered as HCQI/HIT costs based on Exhibit C: Medical Loss Ratio (MLR) Requirements, section D, which explicitly excludes expenditures designed primarily to control or contain costs. The primary purpose of reinsurance is to minimize or reduce the organization's risk of exposure and therefore, is administrative in nature. The proposed adjustment is to reclassify $1,637,264 from line 8 (Total Net Medical Expenses from the Income Statement) of the MLR to line 16 (Other Non-Claims Cost) of the MLR.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia 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 #3 – To adjust related party expenses to supporting documentation

Magnolia initially reported related party expenses for Envolve Dental, Inc. of $31,120,652 on line 8 (Total Net Medical Expenses from the Income Statement) and $2,345,964 on line 11 (Incurred claim adjustment exclusions) resulting a net claimed amount of $28,774,688 on the MLR. These costs reflected Magnolia's costs from their per-member-per month (PMPM) arrangement with Envolve Dental, Inc., rather than the actual costs incurred by Envolve Dental, Inc. Based on review of the incurred claims data reported by the vendor, the actual cost incurred for dental services is $30,781,166. The difference of $2,006,478 will be added to Line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. This requirement is addressed in Exhibit C: Medical Loss Ratio (MLR), section B.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly include all allowable claims in medical expenses.

Adjustment #4 – To adjust related party expenses to supporting documentation

Magnolia initially reported related party expenses for Envolve Pharmacy Solutions, Inc. of $118,699,908 on line 8 (Total Net Medical Expenses from the Income Statement) and $19,589 on line 11 (Incurred claim adjustment exclusions) resulting a net claimed amount of $118,680,319 on the MLR. These costs reflected Magnolia's costs from their per-member-per month (PMPM) arrangement with Envolve Pharmacy Solutions, Inc., rather than the actual costs incurred by Envolve Pharmacy Solutions, Inc. Based on review of the incurred claims data reported by the vendor, the actual cost incurred for pharmacy services is $119,361,360. The difference of $681,041 will be added to Line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. This requirement is addressed in Exhibit C: Medical Loss Ratio (MLR), section B.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly include all allowable claims in medical expenses.

Adjustment #5 – To adjust related party expenses to supporting documentation

Magnolia initially reported related party expenses for Nursewise of $537,475 on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. These costs reflected Magnolia's costs from their per-member-per month (PMPM) arrangement with Nursewise, rather than the actual costs incurred by Nursewise. Magnolia made several adjustments to these expenses, but additional adjustments were necessary to reduce the expenses to Nursewise's actual expenses in accordance with CMS Publication 15-1, Chapter 10 section 1000 guidance on the treatment of allowable costs for related organizations and to properly classify HCQI and non-claims costs in accordance with the Exhibit C: Medical Loss Ratio (MLR) instructions. First, they reported $257,670 on line 11 (Incurred claim adjustment exclusions), thereby reducing the amounts remaining in Medical expenses to $279,805 on the MLR. Next, they reported $243,354 on line 14 (Adjustments or

Exclusions to HCQI/HIT Meaningful Use Expense) of the MLR. Our review of these remaining amounts indicates that these adjusted amounts are not fully supported and additional adjustments are required to accurately reflect the allowable HCQI expenses on this year's MLR.

Nursewise provided documentation that supports $269,489 as allowable HCQI/HIT expense applicable to Magnolia, $201,991 as potentially allowable allocated overhead expenses as non-claims cost, and $65,995 of non-allowable profit margin expense. Therefore, the proposed adjustments to correct these adjustments is to reverse the $243,354 from line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) and add $269,489 to line 13 (HCQI/HIT Administrative Expenses). In addition, since Magnolia did not include all accounts related to Nursewise in the line 11 exclusion, an adjustment will also be made to add $279,805 to line 11 (Incurred claim adjustment exclusions). The allocated overhead expense amount of $201,991 has been added to line 16 (Other Non-Claims Cost) of the MLR, however a complete review of the allowability of these expenses requires additional documentation from Magnolia; which is beyond the scope of the MLR examination and has not been performed. The profit margin amount is not included based on CMS treatment of allowable costs for related organizations.

<u>This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly include only supported and allowable HCQI/HIT expenses. In addition, more sufficient documentation should be supplied in future periods in order to report cost in HCQI/HIT expenses.</u>

<u>Adjustment #6 – To adjust related party expenses to supporting documentation</u>

Magnolia initially reported related party expenses for Nurtur of $1,004,943 on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. These costs reflected Magnolia's costs from their per-member-per month (PMPM) arrangement with Nurtur, rather than the actual costs incurred by Nurtur. Magnolia made several adjustments to these expenses, but additional adjustments were necessary to adjust the expenses to Nurtur's actual expenses in accordance with CMS Publication 15-1, Chapter 10 section 1000 guidance on the treatment of allowable costs for related organizations and to properly classify HCQI and non-claims costs in accordance with the Exhibit C: Medical Loss Ratio (MLR) instructions. First, they reported $1,004,943 on line 11 (Incurred claim adjustment exclusions), thereby reducing the amounts remaining in Medical expenses to $0 on the MLR. Next, they reported $398,083 on line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) of the MLR. Our review of these remaining amounts indicates that these adjusted amounts are inaccurate and additional adjustments are required to accurately reflect the allowable HCQI expenses on this year's MLR.

Nurtur provided documentation that supports $490,201 as allowable HCQI/HIT expense applicable to Magnolia, $367,434 as potentially allowable allocated overhead expenses as non-claims cost, and $147,308 of non-allowable profit margin expense. Therefore, the proposed adjustments to correct these adjustments is to reverse the $398,083 from line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) and add $490,201 to line 13 (HCQI/HIT Administrative Expenses). The allocated overhead expense amount of $367,434 has been added to line 16 (Other Non-Claims Cost) of the MLR, however a complete review of the allowability of these expenses requires additional documentation from Magnolia; which is beyond the scope of the MLR examination and has not been performed. The profit margin amount is not included based on CMS treatment of allowable costs for related organizations.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly report all supported and allowable HCQI/HIT expenses. In addition, more sufficient documentation should be supplied in future periods in order to report cost in HCQI/HIT expenses.

Adjustment #7 – To adjust medical expense to paid claims paid amounts and properly report non-claims expense

Magnolia reported the per-member-per-month (PMPM) capitation expense for transportation services provided by MTM as a medical expense of $4,421,003 for CAN on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Magnolia also reported an exclusion of $1,017,820 on line 11 (Incurred Claim Adjustment Exclusions) of the MLR resulting in a net medical expense claimed total of $3,403,183. Actual claims paid related to the MLR reporting period were provided by Magnolia on behalf of MTM totaling $3,775,808. Therefore, the proposed adjustment is to add $372,625 of additional medical expense to line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Additionally, the difference between the reported PMPM amount from the general ledger and the actual cost incurred by the vendor of $645,195 will be reported on line 16 (Other Non-Claims Cost) of the MLR. This requirement is addressed in CMS MLR Guidance issued 7/18/11 (Q and A #19), 5/13/11 (Q and A #12), and 2/10/12 (Q and A #20). CMS Guidance states that "an issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees". Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the requirements are also stated in Exhibit C: Medical Loss Ratio (MLR) Requirements, section B.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly report accurate and allowable claims in medical expenses and to properly classify non-claims cost.

Adjustment #8 – To adjust medical expense to paid claims amounts

Magnolia reported the per-member-per-month capitation expense for radiology services provided by NIA as a medical expense of $3,195,127 for CAN on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Magnolia also reported an exclusion of $804,749 on line 11 (Incurred Claim Adjustment Exclusions) of the MLR resulting in a net medical expense claimed total of $2,390,378. Actual claims paid related to the MLR reporting period were provided by Magnolia on behalf of NIA totaling $5,175,610 with CAN receiving an allocation of 90.39 percent or $4,678,472. Therefore, the proposed adjustment is to add $2,288,094 of additional medical expense to line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. This requirement is addressed in CMS MLR Guidance issued 7/18/11 (Q and A #19), 5/13/11 (Q and A #12), and 2/10/12 (Q and A #20). CMS Guidance states that "an issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees". Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the requirements are also stated in Exhibit C: Medical Loss Ratio (MLR) Requirements, section B.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly report accurate and allowable claims in medical expenses.

Adjustment #9 – To reclassify non-claims expense included in HCQI/HIT expenses

Magnolia reported Health Care Quality Initiative/Health Information Technology (HCQI/HIT) expenses on the MLR as a percent allocation based on member months and utilized actual cost for their five cost segments. During our examination, Magnolia submitted support for the job titles and duties performed by the employees utilized in the HCQI cost for the period under review. Myers and Stauffer informed Magnolia that all jobs included were showing 100% HCQI allocation, although not all job duties performed were HCQI related. New support was provided by the CCO to show revised percentages based on allowable HCQI responsibilities. We therefore re-calculated the HCQI/HIT expense utilizing this new information and are proposing an adjustment to reclassify $585,048 of non-claims costs from line 13 (HCQI and HIT administrative expenses from Income Statement) of the MLR to line 16 (Other Non-Claims Costs). This requirement is addressed in Exhibit C: Medical Loss Ratio (MLR), section C.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly allocate and classify HCQI/HIT and non-claim expenses.

Adjustment #10 – To adjust HCQI/HIT expenses to actual supported cost

Magnolia reported Health Care Quality Initiative/Health Information Technology HCQI/HIT expenses on the MLR as a percent allocation based on member months and utilized an expense estimate. During our examination, Magnolia submitted support for the actual HCQI/HIT cost for the period under review. Our review indicated that actual costs were lower than the amount claimed. We therefore re-calculated the HCQI/HIT expense utilizing this new information and are proposing an adjustment to remove $242,592 from line 13 (HCQI and HIT administrative expenses from Income Statement) of the MLR. This requirement is addressed in Exhibit C: Medical Loss Ratio (MLR), section C.

This is a reoccurring finding identified in prior examinations and as such, we recommend that Magnolia revise its processes for reporting costs on the MLR Rebate Calculation to properly include actual HCQI/HIT expenses.

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	**Total YTD Capitation Payments**	$ 586,701,906	$ -	$ 586,701,906
2	**Less: Health Insurer Tax**	$ -	$ -	$ -
3	**Less: Allocation for premium taxes and other revenue-based assessments**	$ 17,601,057	$ -	$ 17,601,057
4	**NET Current YTD MLR Revenue**	$ 569,100,849	$ -	$ 569,100,849
5	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	$ -	$ -	$ -
6	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 25 below.	$ -	$ -	$ -
7	**Adjusted Current YTD MLR Capitation Revenue**	**$ 569,100,849**	**$ -**	**$ 569,100,849**
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses from CCO Income Statement	$ 539,095,283	$ 3,483,961	$ 542,579,244
	MLR Expense Adjustments defined in Exhibit C			
9	Incurred claim adjustment additions	$ -	$ -	$ -
10	Incurred claim adjustment deductions	$ -	$ -	$ -
11	Incurred claim adjustment exclusions	$ 11,252,607	$ 279,805	$ 11,532,412
12	**Adjusted Net Medical Expenses**	$ 527,842,676	$ 3,204,156	$ 531,046,832
	Health care quality improvement (HCQI) and health care information technology and meaningful use expenses			
13	HCQI and HIT administrative expenses from Income Statement	$ 6,390,140	$ (67,950)	$ 6,322,190
14	Adjustments or exclusions to HCQI/HIT meaningful use expenses	$ 641,437	$ (641,437)	$ -
15	**Adjusted HCQI/HIT expenses**	$ 7,031,577	$ (709,387)	$ 6,322,190
16	**Other Non-Claims Costs (For Reporting Purposes Only. Not included in Numerator.)[1]**	$ 30,857,647	$ 3,436,932	$ 34,294,579
17	**Total adjusted current YTD MLR expenditures**	$ 534,874,253	$ 2,494,769	$ 537,369,022
18	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees.	$ -	$ -	$ -
19	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 26 below.	$ -	$ -	$ -
20	**Total Adjusted MLR expenses**	$ 534,874,253	$ 2,494,769	$ 537,369,022
21	**MLR percentage achieved**	94.0%	0.4%	94.4%
22	**MLR percentage requirement for rebate calculation**	85.0%		85.0%
23	**Percentage below 85% requirement**	0.0%		0.0%
24	**Dollar amount of rebate requirement**	$ -		$ -
Reconciliation of Prior Year New Enrollee Capitation Exclusion				
25	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	$ -	$ -	$ -
26	Less: Prior year incurred claims for excluded New Enrollees	$ -	$ -	$ -
27	**Total Net Adjustment for New Enrollees from prior years**	**$ -**	**$ -**	**$ -**

[1] Other Non-Claims Cost may be subjected to additional procedures which may result in further adjustments. Currently, this report contains only adjustments identified during the Medical Loss Ratio examination procedures.