



**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 CHIP 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 CHIP Medical Loss Ratio (MLR) report for the period of January 1, 2017 through June 30, 2017.

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

Kind Regards,

Myers and Stauffer LC

**Magnolia Health Plan, Inc.  
Mississippi Children's Health Insurance Plan  
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:**





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## 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 Children's Health Insurance Plan 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 D: 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 D: 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  
November 15, 2018



## Organizational Background

Magnolia Health Plan, Inc. (Magnolia), a Mississippi corporation, is a wholly owned subsidiary of Centene Corporation. Magnolia began servicing Medicaid members in the Mississippi Children's Health Insurance Program (CHIP) effective January 1, 2015.

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, and vision services to members in the program.



## Schedule of Adjustments and Comments

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 \$84,171 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 Solution, Inc. The instructions included in Exhibit D: 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 \$28,057 (\$84,171 divided by 75% multiplied by 25%) for the remaining unreported rebate amount. This requirement is addressed in Exhibit D: 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 D: 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 D: 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 \$69,319 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.



## Schedule of Adjustments and Comments

### **Adjustment #3 – To adjust related party expenses to supporting documentation**

Magnolia initially reported related party expenses for Envolve Dental, Inc. of \$3,315,558 on line 8 (Total Net Medical Expenses from the Income Statement) and \$383,282 on line 11 (Incurred claim adjustment exclusions) resulting a net claimed amount of \$2,932,276 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 \$3,279,390. The difference of \$347,114 will be added to Line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. This requirement is addressed in Exhibit D: 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 \$4,113,293 on line 8 (Total Net Medical Expenses from the Income Statement) and \$672,869 on line 11 (Incurred claim adjustment exclusions) resulting a net claimed amount of \$3,440,424 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 \$3,524,596. The difference of \$84,172 will be added to Line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. This requirement is addressed in Exhibit D: 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 \$18,581 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 D: Medical Loss Ratio (MLR) instructions. First, they reported \$18,581 on line 11 (Incurred claim adjustment exclusions), thereby reducing the amounts remaining in Medical expenses to \$0 on the MLR. Next, they reported \$17,549 on line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) of the MLR. Our review of



## Schedule of Adjustments and Comments

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 \$9,317 as allowable HCQI/HIT expense applicable to Magnolia, \$6,983 as potentially allowable allocated overhead expenses as non-claims cost, and \$2,281 of non-allowable profit margin expense. Therefore, the proposed adjustments to correct these adjustments is to reverse the \$17,549 from line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) and add \$9,317 to line 13 (HCQI/HIT Administrative Expenses). The allocated overhead expense amount of \$6,983 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 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.

### **Adjustment #6 – To adjust related party expenses to supporting documentation**

Magnolia initially reported related party expenses for Nurtur of \$21,864 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 D: Medical Loss Ratio (MLR) instructions. First, they reported \$21,864 on line 11 (Incurred claim adjustment exclusions), thereby reducing the amounts remaining in Medical expenses to \$0 on the MLR. Next, they reported \$8,661 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 \$10,665 as allowable HCQI/HIT expense applicable to Magnolia, \$7,994 as potentially allowable allocated overhead expenses as non-claims cost, and \$3,205 of non-allowable profit margin expense. Therefore, the proposed adjustments to correct these adjustments is to reverse the \$8,661 from line 14 (Adjustments or Exclusions to HCQI/HIT Meaningful Use Expense) and add \$10,665 to line 13 (HCQI/HIT Administrative Expenses). The allocated overhead expense amount of \$7,994 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





## Schedule of Adjustments and Comments

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 amounts**

Magnolia reported the per-member-per-month capitation expense for radiology services provided by NIA as a medical expense of \$339,517 for CHIP on line 8 (Total Net Medical Expenses from the Income Statement) of the MLR. Magnolia also reported an exclusion of \$77,276 on line 11 (Incurred Claim Adjustment Exclusions) of the MLR resulting in a net medical expense claimed total of \$262,241. Actual claims paid related to the MLR reporting period were provided by Magnolia on behalf of NIA totaling \$5,175,610 with CHIP receiving an allocation of 9.61 percent or \$497,138. Therefore, the proposed adjustment is to add \$234,897 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 D: 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 #8 – 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 \$42,170 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 D: Medical Loss Ratio (MLR), section C.



## Schedule of Adjustments and Comments

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 #9 – 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 \$17,805 from line 13 (HCQI and HIT administrative expenses from Income Statement) of the MLR. This requirement is addressed in Exhibit D: 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.



Magnolia Health Plan, Inc.  
 Mississippi Children's Health Insurance Plan  
 Adjusted Medical Loss Ratio (MLR) Rebate Calculation  
 For the Period Ended June 30, 2017

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
<b>Capitation Revenue and New Enrollee Adjustments</b>				
1	Total YTD Capitation Payments	\$ 27,863,658	\$ -	\$ 27,863,658
2	Less: Health Insurer Tax	\$ -	\$ -	\$ -
3	Less: Allocation for premium taxes and other revenue-based assessments	\$ 835,910	\$ -	\$ 835,910
4	NET Current YTD MLR Revenue	\$ 27,027,748	\$ -	\$ 27,027,748
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	\$ 27,027,748	\$ -	\$ 27,027,748
<b>MLR Medical and Administrative Expense Adjustments</b>				
8	Total Net Medical Expenses from CCO Income Statement	\$ 26,247,455	\$ 568,807	\$ 26,816,262
<b>MLR Expense Adjustments defined in Exhibit D</b>				
9	Incurred claim adjustment additions	\$ -	\$ -	\$ -
10	Incurred claim adjustment deductions	\$ -	\$ -	\$ -
11	Incurred claim adjustment exclusions	\$ 1,073,993	\$ -	\$ 1,073,993
12	Adjusted Net Medical Expenses	\$ 25,173,462	\$ 568,807	\$ 25,742,269
<b>Health care quality improvement (HCQI) and health care information technology and meaningful use expenses</b>				
13	HCQI and HIT administrative expenses from Income Statement	\$ 460,917	\$ (39,993)	\$ 420,924
14	Adjustments or exclusions to HCQI/HIT meaningful use expenses	\$ 26,210	\$ (26,210)	\$ -
15	Adjusted HCQI/HIT expenses	\$ 487,127	\$ (66,203)	\$ 420,924
16	Other Non-Claims Costs (For Reporting Purposes Only. Not included in Numerator.) <sup>1</sup>	\$ 1,323,504	\$ 126,466	\$ 1,449,970
17	Total adjusted current YTD MLR expenditures	\$ 25,660,589	\$ 502,604	\$ 26,163,193
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	\$ 25,660,589	\$ 502,604	\$ 26,163,193
21	MLR percentage achieved	94.9%	1.9%	96.8%
22	MLR percentage requirement for rebate calculation	85.0%	85.0%	85.0%
23	Percentage below 85% requirement	0.0%	0.0%	0.0%
24	Dollar amount of rebate requirement	-	-	\$ -
<b>Reconciliation of Prior Year New Enrollee Capitation Exclusion</b>				
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	\$ -	\$ -	\$ -

<sup>1</sup> 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.