MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

February 21, 2017

Via Electronic Mail

Louisiana Department of Health
Steve Annison, Medicaid Program Manager
628 N. 4th Street
Baton Rouge, LA 70802

Re: Issuance of Amended Report and Louisiana Healthcare Connections 2012 MLR Examination Report Transmittal

Issuance of Amended Report

This letter is to inform you that certain corrections required that Myers and Stauffer LC amend and reissue the final 2012 MLR examination report for Louisiana Healthcare Connections (LHCC). We previously issued this report dated October 5, 2016 as part of the final report packet submitted to the Louisiana Department of Health (LDH) on January 19, 2017. On February 20, 2017, Myers and Stauffer LC determined that the report included within the report packet did not match the draft report submitted and approved by LDH and instead contained a previous, invalid version of the report. Therefore, we request that LDH disregard the previous version of this report and accept this amended report containing the following modifications from the report dated October 5, 2016:

- The Independent Accountant's Report section was revised to ensure compliance with updated American Institute of Certified Public Accountants (AICPA) standard wording.
- The sixth sentence of paragraph two of the Independent Accountant's Report contains the additional statement: *"This amended report, which supersedes the original report dated October 5, 2016, presents the amended results for LHCC's Medical Loss Ratio Rebate Calculation for the period of February 1, 2012 through December 31, 2012. Our previous report should not be relied upon."*
- The date of the report was changed to October 12, 2016 to match the draft report submitted and approved by LDH.
- Minor wording corrections and the addition of Adjustment #7 were made within the Schedule of Adjustments and Comments section of the report to match the draft report submitted and approved by LDH.
- The Adjusted Medical Loss Ratio Rebate Calculation contains an updated table to reflect Adjustment #7 that now accurately matches the draft report submitted and approved by LDH.

Louisiana Healthcare Connections 2012 MLR Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Louisiana Healthcare Connections 2012 Medical Loss Ratio (MLR) report. As a courtesy to LDH and other readers, we have also included the Louisiana Healthcare Connection management's response letter, in addition to our examination report, as part of this transmittal packet. Myers and Stauffer LC, in no manner, expresses an opinion on the accuracy, truthfulness, or validity of the statements presented within the management's response letter.

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

Kind Regards,

Myers and Stauffer LC

Myers and Stauffer

133 Peachtree St NE, Ste 3150 | Atlanta, GA 30303
PH 404.524.0775 | PH 866.758.3586 | FX 404.524.0782
www.mslc.com

Louisiana Healthcare Connections, Inc.
Report on Medical Loss Ratio Rebate Calculation
(With Independent Accountant's Report Thereon)

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

For the period of February 1, 2012
through December 31, 2012

Prepared by:

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Accountant's Report

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of Louisiana Healthcare Connections, Inc. (LHCC) for the period of February 1, 2012 through December 31, 2012. LHCC's management is responsible for presenting the Medical Loss Ratio Rebate Calculation in accordance with the criteria set forth in Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation 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 judgement, 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. This amended report, which supersedes the original report dated October 5, 2016, presents the amended results for LHCC's Medical Loss Ratio Rebate Calculation for the period of February 1, 2012 through December 31, 2012. Our previous report should not be relied upon.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation presents fairly, in all material respects, LHCC's compliance with the criteria set forth in Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation requirements, and exceeds the eighty-five percent (85%) requirement.

This report is intended solely for the information and use of the Louisiana Department of Health and LHCC 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
October 12, 2016

Organizational Background

Louisiana Healthcare Connections, Inc. (LHCC), a Louisiana Corporation, is a wholly owned subsidiary of Healthy Louisiana Holdings, LLC (HLH). LHCC was incorporated in October 2009 and began enrolling Medicaid members in the Bayou Health program on February 1, 2012. LHCC is currently one of five providers that offer services on a full-risk basis.

HLH was formed as a joint venture between Centene Corporation (Centene) and Louisiana Partnership for Choice and Access, LLC (LPC&A). Centene purchased LPC&A's interest in the joint venture on October 31, 2012, making Centene the sole owner of HLH and LHCC wholly owned by Centene.

LHCC's entire source of revenue is derived from both its full-risk contract with the Louisiana Department of Health (LDH) and from the administrative services only contract with LDH that Community Health Solutions of America, Inc. (CHS) assigned to LHCC on July 1, 2014 under the Bayou Health Shared Savings Program. LHCC completed its three-phase membership rollout for the statewide service areas during June 2012. The Plan provides coverage for a broad range of medically necessary medical services to meet its members' healthcare needs.

Our examination was conducted from March 28, 2016 to October 12, 2016.

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 – Removal of Opticare Vision Medical Expenses

Louisiana Healthcare Connections, Inc., included $3,894,633.07 in Medical Expenses on Line 6 of their MLR calculation for vision services provided by Opticare Vision Company, Inc. Opticare is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Opticare does not meet the exception to the related organization principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions clearly define "Incurred claims costs" and "Other non-claim costs".

We requested documentation supporting the actual medical expense costs incurred by Opticare Vision Company, Inc. to determine the includable amounts for the MLR calculation. Myers and Stauffer LC did not receive sufficient detailed documentation supporting Opticare Vision's medical expense for the period under review. We are including an adjustment to remove $3,894,633.07 of unsupported costs from Medical Expenses on Line 6. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expenses.

Adjustment #2 – Removal of Cenpatico Behavioral Health HCQI Expenses

Louisiana Healthcare Connections, Inc., included $564,476.70 of expenses incurred from Cenpatico Behavioral Health on Line 11 as Healthcare Quality Initiative (HCQI) costs. Cenpatico Behavioral Health is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Cenpatico does not meet the exception to the related organization principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions clearly define "Healthcare Quality Initiative" expenses as activities that improve health care quality.

We requested documentation supporting the actual HCQI costs incurred by Cenpatico to determine the includable amounts for the MLR calculation. Myers and Stauffer LC did not receive sufficient detailed documentation supporting Cepatico's HCQI expenses for the period under review, nor were we provided the opportunity to determine how much of these expenses met the definitions of HCQI. We are including an adjustment to remove $564,476.70 in unsupported costs from the HCQI Expenses on Line 11. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses.

Adjustment #3 – Removal of Nurtur Health HCQI Expenses

Louisiana Healthcare Connections, Inc., included $2,025,379.50 of expenses incurred from Nurtur Health, Inc., on Line 11 as Healthcare Quality Initiative (HCQI) costs. Nutur Health Inc., is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. Nurtur Health, Inc., does not meet the exception to the related organization principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions clearly define "Healthcare Quality Initiative" expenses as activities that improve health care quality.

We requested documentation supporting the actual HCQI costs incurred by Nutur to determine the includable amounts for the MLR calculation. Myers and Stauffer LC did not receive sufficient detailed documentation supporting Nutur's HCQI expenses for the period under review, nor were we provided the opportunity to determine how much of these expenses met the definitions of HCQI. <u>We are including an adjustment to remove $2,025,379.50 in unsupported costs from the HCQI Expenses on Line 11. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses.</u>

Adjustment #4 – Removal of NurseWise HCQI Expenses

Louisiana Healthcare Connections, Inc., included $1,608,420.54 of expenses incurred from NurseWise LP, on Line 11 as Healthcare Quality Initiative (HCQI) costs. NurseWise LP, is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. NurseWise Health, Inc., does not meet the exception to the related organization principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions clearly define "Healthcare Quality Initiative" expenses as activities that improve health care quality.

We requested documentation supporting the actual HCQI costs incurred by NurseWise to determine the includable amounts for the MLR calculation. Myers and Stauffer LC did not receive sufficient detailed documentation supporting NurseWise's HCQI expenses for the period under review, nor were we provided the opportunity to determine how much of these expenses met the definitions of HCQI. <u>We are including an adjustment to remove $1,608,420.54 in unsupported costs from the HCQI Expenses on Line 11. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses.</u>

Adjustment #5 – Adjustment to Pharmacy Medical Expenses

Louisiana Healthcare Connections, Inc., included $22,453,376.30 in Pharmacy expenses incurred from US Script, Inc., on Line 6 as Medical Expenses. US Script, Inc., is a subsidiary company of Centene Corporation and thus a related party organization to Louisiana Healthcare Connections, Inc. CMS Publication 15-1, Chapter 10 provides clear guidance on the treatment of allowable costs for related organizations. US Script, Inc., does not meet the exception to the related organization principle listed in section 1010, and therefore is limited to the claiming of actual cost amounts. In addition, the instructions included in the Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions clearly define "Incurred claims costs" and "Other non-claim costs".

We requested documentation supporting the actual pharmacy expense costs incurred by US Script, Inc., to determine the includable amounts for the MLR calculation. Myers and Stauffer sampled pharmacy expense general ledger transactions and compared these expense amounts to US Script's claims documentation. The results of our analysis indicate US Script was charging Louisiana Healthcare Connections, Inc., their actual cost plus a markup of 0.1646%. We are including an adjustment to remove $36,988.24 (Pharmacy expense total of $22,453,376.30 multiplied by 0.1647%) from Medical expenses included on line 6. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expenses.

Adjustment #6 – Adjustment to Fraud, Waste, Abuse

Louisiana Healthcare Connections, Inc. included $73,090.12 in Fraud, Waste and Abuse account expenses on Line 11 as Healthcare Quality Initiative (HCQI) costs. The Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions for HCQI costs, section C.9 specifically excludes fraud prevention activities from quality improving activities, other than fraud detection/recovery expenses up to the amount recovered that reduces incurred claims.

We did not identify any fraud related recoveries during our examination. We are including an adjustment to remove $73,090.12 from HCQI expenses included on Line 11. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses.

Adjustment #7 – Adjustment for Reinsurance Expense in Excess of Recoveries

Louisiana Healthcare Connections, Inc. included a net amount of $2,960,782.01 in Reinsurance premium expenses that exceeded the Reinsurance recovery amounts on Line 6 as Medical Expenses. The total reinsurance premium expenses reported were $5,390,313.55, while the reinsurance recoveries were ($2,429,531.54). The Bayou Health's MCO Financial Reporting Guide's Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions do not specifically identify reinsurance expense as an allowable clinical service expenditure and therefore absent specific instructions, these expenses should be classified as "Other non-claim costs". In addition, this excess expense amount cannot be considered as HCQI costs based on the Appendix B: Bayou Health- Prepaid Medical Loss Ratio (MLR) Rebate Calculation instructions for HCQI, section C.1, which excludes expenditures that are designed primarily to control or contain costs. The primary purpose of reinsurance is to minimize or reduce the risk exposure of the organization.

We are including an adjustment to remove $2,960,782.01 from Medical expenses included on Line 6. We also recommend that Louisiana Healthcare Connections, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable clinical service expenses.

The following table summarizes:

- LHCC's reported Medical Loss Ratio Rebate Calculation data
- Myers and Stauffer's adjusted Medical Loss Rebate Calculation Data utilizing documentation obtained from LHCC

MLR Line #	MLR Line Description	Reported MLR Feb 2012 through Dec 2012	Adjustments	Adjusted MLR Feb 2012 through Dec 2012
Revenue and New Enrollee Adjustments				
1	Total YTD Capitation and Maternity Payments	$275,669,408	$0	$275,669,408
2	**Less**: Premium tax	6,203,460	0	6,203,460
3	Net YTD MLR Revenue	$269,465,949	$0	$269,465,949
4	**Less**: Adjustment attributed to new enrollees	$0	$0	$0
5	**Adjusted MLR Capitation Revenue**	**$269,465,949**	**$0**	**$269,465,949**
MLR Medical and Administrative Expense Adjustments				
6	Total Net Medical Expenses from I/S	$250,784,815	($6,892,403)	$243,892,412
7	**Add**: Incurred claim adjustment additions	0	0	0
8	**Less**: Incurred claim adjustment deductions	0	0	0
9	**Less**: Incurred claim adjustment exclusions	0	0	0
10	**Adjusted Net Medical Expenses**	**$250,784,815**	**($6,892,403)**	**$243,892,412**
11	**Add**: HCQI and HIT expenses	$8,451,776	($4,271,367)	$4,180,409
12	Adjustments or Exclusions to HCQI/HIT	0	0	0
13	**Adjusted HCQI/HIT expenses**	**$8,451,776**	**($4,271,367)**	**$4,180,409**
14	Total Adjusted current YTD MLR Expenditures	$259,236,591	($11,163,770)	$248,072,821
15	**Add:** Adj. attributed to new enrollees	$0	0	0
16	**Total Adj. MLR Expenses**	**$259,236,591**	**($11,163,770)**	**$248,072,821**
17	**MLR percentage achieved**	**96.2%**	**-4.1%**	**92.1%**
18	MLR percentage requirement	85.0%		85.0%
19	Percentage above requirement	11.2%		7.1%
20	**Dollar amount of rebate requirement**	**$0**		**$0**

Louisiana Healthcare Connections, Inc.
Management Response

December 20, 2016

Via Electronic Mail

Louisiana Department of Health
Steve Annison, Medicaid Program Manager
628 N. 4th Street
Baton Rouge, LA 70802

Re: Louisiana Healthcare Connections Management Response to 2012 MLR Examination Report

This letter is to inform you to our formal response to the 2012 MLR Examination Report dated October 5, 2016 from Myers and Stauffer LC.

LHCC's commitment to improving the health outcomes of its members extends to all aspects of its business. LHCC has implemented a collection of best practices that allow us to provide an integrated approach to healthcare delivery and welcomes the ability to highlight those practices.

On November 1, 2016, LHCC received a draft of the proposed MLR Audit Report for the 2012 MLR Rebate Calculation for the period from February 1, 2012 to December 31, 2012 (the "Report") from Myers and Stauffer, LC ("M&S"). Subsequent to receipt of the Report, LHCC and M&S representatives participated in a conference call to discuss the Report's conclusions. LHCC is in agreement with M&S' that LHCC does not owe an MLR rebate to the State of Louisiana; however, it disagrees with M&S' conclusory adjustments addressed herein.

1. **<u>LHCC's Response to Adjustment #1</u>**

   M&S determined that (a) the associated medical costs related to Opticare Vision Company, Inc. ("Opticare") were not supported by adequate information provided by LHCC for inclusion into the MLR calculation and (b) this internal company did not meet the related company exception set forth in CMS publication 15.1 (Chapter 10), §1010 ("1010 Exception").

   LHCC remains committed to providing an integrated approach to healthcare, which is supported and encouraged by the Louisiana Department of Health ("LDH"), to its members and the citizens of Louisiana. Its partnership with Opticare is integral to that approach. LHCC submitted all requested documentation to M&S and received no communication that the documentation submitted was deficient for the needs of the MLR calculation. LHCC asserts that throughout the course of the audit M&S failed to request from LHCC the very documentation which it referenced in the companies conference call as necessary to substantiate the inclusion of such costs.

During the parties' conference call, LHCC offered to produce the necessary documentation to support its reported medical expenses. LHCC is confident that if the additional documentation was reviewed, the costs would be included in the MLR calculation. Further, M&S failed to request any documentation from LHCC concerning the 1010 Exception. There is no reference to the 1010 Exception in the state's guidance to the health plans on the MLR rebate calculation. The 1010 Exception is part of a CMS publication with the stated goal of providing guidance on provider reimbursement. As such, LHCC did not reasonably expect it to be applied in a Medicaid MLR rebate setting.

Finally, LHCC believes that the proper analysis concerning the inclusion of these costs would be a comparison of the cost paid to Opticare, a related company, to the fair market value ("FMV") cost that would have been incurred if LHCC or any other party had engaged an unrelated third party to provide these services. LHCC asserts there is tremendous value in providing an integrated healthcare approach and would like to continue to pass that value on to the citizens of Louisiana. It is our understanding that M&S would consider a FMV analysis <u>if agreed to by all affected parties.</u>

2. <u>LHCC's Response to Adjustment #2</u>

M&S determined that (a) the associated medical costs related to Cenpatico Behavioral Health, LLC ("CBH") were not supported by adequate information provided by LHCC for inclusion into the MLR calculation and (b) this internal company did not meet the related company exception set forth in CMS publication 15.1 (Chapter 10), §1010.

LHCC remains committed to providing an integrated approach to healthcare, which is supported and encouraged by LDH, to its members and the citizens of Louisiana. Its partnership with CBH is integral to that approach. LHCC submitted all requested documentation to M&S and received no communication that the documentation submitted was deficient for the needs of the MLR calculation. LHCC asserts that throughout the course of the audit M&S failed to request from LHCC the very documentation which it referenced in the companies conference call as necessary to substantiate the inclusion of such costs.

During the parties' conference call, LHCC offered to produce the necessary documentation to support its reported medical expenses. LHCC is confident that if the additional documentation was reviewed, the costs would be included in the MLR calculation. Further, M&S failed to request any documentation from LHCC concerning the 1010 Exception. There is no reference to the 1010 Exception in the state's guidance to the health plans on the MLR rebate calculation. The 1010 Exception is part of a CMS publication with the stated goal of providing guidance on provider reimbursement. As such, LHCC did not reasonably expect it to be applied in a Medicaid MLR rebate setting.

Finally, LHCC believes that the proper analysis concerning the inclusion of these costs would be a comparison of the cost paid to CBH, a related company, to the FMV cost that would have been incurred if LHCC or any other party had engaged an unrelated third party to provide these services. LHCC asserts there is tremendous value in providing an integrated healthcare approach and would like to continue to pass that value on to the **citizens** of Louisiana. It is our understanding that M&S would consider a FMV analysis <u>if agreed to by all affected parties.</u>

3. **<u>LHCC's Response to Adjustment #3</u>**

M&S determined that (a) the associated medical costs related to Nurtur Health, Inc. ("Nurtur") were not supported by adequate information provided by LHCC for inclusion into the MLR calculation and (b) this internal company did not meet the related company exception set forth in CMS publication 15.1 (Chapter 10), §1010.

LHCC remains committed to providing an integrated approach to healthcare, which is supported and encouraged by LDH, to its members and the citizens of Louisiana. Its partnership with Nurtur is integral to that approach. LHCC submitted all requested documentation to M&S and received no communication that the documentation submitted was deficient for the needs of the MLR calculation. LHCC asserts that throughout the course of the audit M&S failed to request from LHCC the very documentation which it referenced in the companies conference call as necessary to substantiate the inclusion of such costs.

During the parties' conference call, LHCC offered to produce the necessary documentation to support its reported medical expenses. LHCC is confident that if the additional documentation was reviewed, the costs would be included in the MLR calculation. Further, M&S failed to request any documentation from LHCC concerning the 1010 Exception. There is no reference to the 1010 Exception in the state's guidance to the health plans on the MLR rebate calculation. The 1010 Exception is part of a CMS publication with the stated goal of providing guidance on provider reimbursement. As such, LHCC did not reasonably expect it to be applied in a Medicaid MLR rebate setting.

Finally, LHCC believes that the proper analysis concerning the inclusion of these costs would be a comparison of the cost paid to Nurtur, a related company, to the FMV cost that would have been incurred if LHCC or any other party had engaged an unrelated third party to provide these services. LHCC asserts there is tremendous value in providing an integrated healthcare approach and would like to continue to pass that value on to the citizens of Louisiana. It is our understanding that M&S would consider a FMV analysis <u>if agreed to by all affected parties.</u>

4. **<u>LHCC's Response to Adjustment #4</u>**

M&S determined that (a) the associated medical costs related to NurseWise, LP ("NurseWise") were not supported by adequate information provided by LHCC for inclusion into the MLR calculation and (b) this internal company did not meet the related company exception set forth in CMS publication 15.1 (Chapter 10), §1010.

LHCC remains committed to providing an integrated approach to healthcare, which is supported and encouraged by LDH, to its members and the citizens of Louisiana. It's partnership with Nursewise is integral to that approach. LHCC submitted all requested documentation to M&S and received no communication that the documentation submitted was deficient for the needs of the MLR calculation. LHCC asserts that throughout the course of the audit M&S failed to request from LHCC the very documentation which it referenced in the companies conference call as necessary to substantiate the inclusion of such costs.

During the parties' conference call, LHCC offered to produce the necessary documentation to support its reported medical expenses. LHCC is confident that if the additional documentation was reviewed, the costs would be included in the MLR calculation. Further, M&S failed to request any documentation from LHCC concerning the 1010 Exception. There is no reference to the 1010 Exception in the state's guidance to the health plans on the MLR rebate calculation. The 1010 Exception is part of a CMS publication with the stated goal of providing guidance on provider reimbursement. As such, LHCC did not reasonably expect it to be applied in a Medicaid MLR rebate setting.

Finally, LHCC believes that the proper analysis concerning the inclusion of these costs would be a comparison of the cost paid to NurseWise, a related company, to the FMV cost that would have been incurred if LHCC or any other party had engaged an unrelated third party to provide these services. LHCC asserts there is tremendous value in providing an integrated healthcare approach and would like to continue to pass that value on to the citizens of Louisiana. It is our understanding that M&S would consider a FMV analysis if agreed to by all affected parties.

5. **LHCC's Response to Adjustment #5**

M&S determined that (a) the associated medical costs related to US Script, Inc. ("US Script") were in part not supported by adequate information provided by LHCC for inclusion into the MLR calculation and (b) this internal company did not meet the related company exception set forth in CMS publication 15.1 (Chapter 10), §1010.

LHCC remains committed to providing an integrated approach to healthcare, which is supported and encouraged by LDH, to its members and the citizens of Louisiana. It's partnership with US Script is integral to that approach. LHCC submitted all requested documentation to M&S and received no communication that the documentation submitted was deficient for the needs of the MLR calculation. LHCC asserts that throughout the course of the audit M&S failed to request from LHCC the very documentation which it referenced in the companies conference call as necessary to substantiate the inclusion of such costs.

During the parties' conference call, LHCC offered to produce the necessary documentation to support its reported medical expenses. LHCC is confident that if the additional documentation was reviewed, the costs would be included in the MLR calculation.

Further, M&S failed to request any documentation from LHCC concerning the 1010 Exception. There is no reference to the 1010 Exception in the state's guidance to the health plans on the MLR rebate calculation. The 1010 Exception is part of a CMS publication with the stated goal of providing guidance on provider reimbursement. As such, LHCC did not reasonably expect it to be applied in a Medicaid MLR rebate setting.

Finally, LHCC believes that the proper analysis concerning the inclusion of these costs would be a comparison of the cost paid to US Script, a related company, to the FMV cost that would have been incurred if LHCC or any other party had engaged an unrelated third party to provide these services. LHCC asserts there is tremendous value in providing an integrated approach to healthcare and would like to continue to pass that value on to the citizens of Louisiana. It is our understanding that M&S would consider a FMV analysis <u>if agreed to by all affected parties.</u>

6. **<u>LHCC's Response to Adjustment #6</u>**

M&S determined that in reviewing fraud detection and recovery expenses, LHCC included expenses that exceeded related claim recoveries per the MLR instructions for HCQI costs, section C.9.

LHCC's fraud, waste and abuse ("FWA") operations include a third party pre-payment review of claims that prevents the likelihood of claims being paid and then having to be subsequently recouped by LHCC at a later date. These costs do not result in direct recoveries as these are prevention activities and not 'pay and chase' activities which are included in the MLR calculation. This very process implemented by LHCC is supported by LDH. LHCC proposed to M&S that claims rejected by the third party vendor for FWA activity be considered claim recoveries for the purpose of these instructions. These rejected claims would have been claims recoveries if LHCC did not manage them prior to payment. M&S is open to that interpretation, but wants LDH guidance on the issue. LHCC encourages future inclusion of these costs as being more beneficial to all involved versus the less efficient "pay and chase" system. The activities of the third party vendor exceeds any related cost.

7. **<u>LHCC's Response to Adjustment #7</u>**

M&S determined that reinsurance costs in excess of reinsurance recoveries should not be allowed in the MLR rebate calculation. M&S stated that the MLR instructions do not speak to reinsurance. As such, M&S determined that reinsurance costs were non-claim costs not allowable as such.

LHCC agrees that there is no specific guidance in the MLR instructions on the inclusion/exclusion of these costs in the MLR calculation. The guidance for "Other non-claim costs" does reference cost containment expenses and requires exclusion. Cost containment expenses are defined in statutory accounting guidance (Statement of Statutory

Accounting Principle No. 55) and include case management and utilization review. Reinsurance expenses are not part of that definition. Absent other guidance, LHCC applied the reference to cost containment expenses consistently with statutory accounting guidance. LHCC will comply with any LDH guidance or clarification of existing procedures in calculating the MLR rebate. Absent that clarification, LHCC asserts that a reasonable approach was applied when including these expenses.

Kind Regards,

Louisiana Healthcare Connections, Inc.