

HEALTHY LOUISIANA

Financial Reporting Guide

Dental Benefit Plan Manager

AGREED UPON PROCEDURES

The following agreed upon procedures (AUPs) between the Dental Benefit Plan Manager Contractors (Contractors) and its independent public accountant are required to meet audit requirements of Schedule A (ending Income Statement 4th Quarter Year-to-Date [YTD]), Schedule C (YTD Profitability by Population Groups), Schedules F1–F6 (Lag Reports), Schedules H1-H6 (Total Utilization). The AUPs are in effect for the annual reporting period (or periods less than 12 months) ending each December 31, and shall be submitted by June 30 of the subsequent year.

The following items are to be included with the accountant's report:

1. AUP report.
2. Financial management letter – if available through an independent audit (not related to these AUPs) of the contractor's financial statements.
3. Report on internal controls – if available through an independent audit (not related to these AUPs) of the contractor's financial statements.

Work papers should be made available to the Louisiana Department of Health (LDH) upon request.

Procedures contained herein are established as minimum requirements. All findings from AUP shall be reported in the AUP report and attached as a PDF in Schedule P managed care organization (MCO) AUP. Adjusting entries shall be documented in Schedule Q (Annual Income Statement Reconciliation) additional procedures may be added and performed as agreed to by the Contractor and the accountant performing them without LDH approval; however, changes, deletions, or variations to the procedures specified herein will require prior approval of LDH.

Steps to provide information are as follows:

Schedule A: Income Statement

Unless directed otherwise, all AUPs for this section are to be performed on the 4th Quarter YTD Schedule A – Income Statement.

Step 1: Trace and agree reported Member Months:

- a. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 received from LDH to the membership amounts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.
- b. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 from the contractor's internal enrollment reports to the membership amounts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree the dollar amounts reported as Dental Capitation:

- a. Trace and agree each of the monthly capitation files received from LDH during the year to the proper posting in the contractor's general ledger. Obtain representation from the contractor's management that the contractor is reporting using the full accrual method. Provide contractor's explanation for any discrepancies.
- b. Trace and agree the total general ledger postings of capitation files during the year (plus/minus accruals for under-/over-payments as necessary for proper accrual-based reporting) to the 4th Quarter YTD Income Statement. Obtain and provide reconciliation for any differences other than adjustments for accrual-based reporting and a contractor's explanation for any discrepancies.

Step 3: Trace and agree the amounts reported as Covered Dental Expenses:

- a. Examine dental expenses from each of the income statement categories and select the five largest (greatest dollar amount) categories for the detailed review.
- b. For the dental categories selected in Step 3a, trace and agree selected cells to the supporting documentation used by the contractor to complete the report for the 4th Quarter YTD amounts. Provide contractor's explanation for any discrepancies.
- c. For the dental categories selected in Step 3a, trace and agree amount reported in each cell to actual claims paid and an allocation of expenses incurred but not reported (IBNR). Provide contractor's explanation for any discrepancies.
- d. For the dental categories selected in Step 3a, recalculate the allocation of IBNR expenses to each income statement to determine if they are in the same proportional amounts as received (and allowed) and/or paid claims. If they are not in the same proportion, describe the methodology used by the contractor to allocate IBNR expenses for the completion of the report and recalculate the

allocation based upon the contractor's methodology. Provide contractor's explanation for any discrepancies.

- e. For the dental categories selected in Step 3a, select two paid claims from each group.
- f. For the sample selected in Step 3e, trace and agree the classification of the covered dental expense to the classification reported within the Income Statement. Determine if the claims selected from Step 3e are included in an appropriate Income Statement-covered medical expenses category. Provide contractor's explanation for any discrepancies.

Step 4: Trace and agree the amounts reported as Dental Expense Adjustments:

- a. Trace and agree the 4th Quarter YTD Income Statement total for Reinsurance Premiums, Reinsurance Recoveries, MCO Retained Rebates, Third Party Liability Subrogation, Fraud and Abuse Recoveries, and Other Recoveries to the supporting documentation and files of the contractor. Provide contractor's explanation for any discrepancies.
- b. For Reinsurance Premiums, if applicable, recalculate the annual premium based upon the contractor's reinsurance agreement and agree to the amount reported as the 4th Quarter YTD Income Statement value. Provide contractor's explanation for any discrepancies.
- c. For Reinsurance Recoveries, if applicable, select four individual cases (an individual case is defined as a member that met the threshold of the reinsurance agreement) that resulted in a reinsurance recovery. (Note: Reinsurance recoveries that show up in the report may be selected, including recoveries not accrued from previous years.) Current year accruals should be based on a current reinsurance agreement that can be selected. The following steps are not applicable if the report does not contain dental expense adjustments.
- d. For the sample selected in Step 4c, review the individual member's claim payment history, recalculate and agree the amount reported as reinsurance recovery is consistent with the terms of the contractor's reinsurance agreement and the individual member's paid claims. Provide contractor's explanation for any discrepancies.
- e. For Third Party Liability Subrogation, cost-sharing revenue, include third party sources received on a cash basis for subrogation recovery efforts that could not be directly associated with a claim. Do not include coordination of benefit (COB) payments that are deducted from payments to providers in the normal course of claims processing. Provide contractor's explanation for any discrepancies.

Step 5: Trace and agree the amounts reported as Administrative Services Expenses:

- a. Read the Healthy Louisiana Dental Benefit Financial Reporting Guide Instructions for guidance on administrative expenses that are *allowable* and *excludable* from Health Care Quality Improvement (HCQI) expenses.
- b. Obtain and review the contractor's definition of HCQI *allowable* and *excludable* expenses policy and compare to item(s) from Step 5a. Report the discrepancies and provide contractor's explanation for any discrepancies.
- c. Read the Healthy Louisiana Dental Benefit Financial Reporting Guide Instructions for guidance on Methods Used to Allocate Expenses.
- d. Obtain and review the contractor's allocation methodologies and compare to item(s) from Step 5c. Report the discrepancies and provide contractor's explanation for any discrepancies.
- e. Obtain and review the contractor's summarized general ledger and agree to total administrative expense (line 50). Provide reconciliation for any differences and a contractor's explanation for any discrepancies.
- f. Trace and agree supporting documentation to the dollar amounts reported in lines 29–35 and lines 37–48. Provide reconciliation for any differences and a contractor's explanation for any discrepancies.
- g. Select the three largest (greatest dollar amount) and one other sub-categories reported as HCQI expenses (lines 29–35) and obtain and provide representations from the contractor's management that the expenses are appropriately classified as HCQI expenses consistent with Step 5a and Step 5b.

Step 6: Trace and agree the amounts reported as Non-operating Income (Loss), Income Taxes, Premium Tax Assessments, and Other:

- a. Trace and agree the 4th Quarter YTD Income Statement Total for Loss, Income Taxes, Premium Tax Assessments, and Other to the supporting documentation and files of the contractor. Provide contractor's explanation for any discrepancies.
- b. Obtain representation from the contractor's management that line 55 (Income Taxes) includes all State, Federal, and Local Income Taxes and that these taxes are not reported as an administrative expense within lines 37–48. Review the general ledger account descriptions for administrative expenses within lines 37-48 and confirm no descriptions are labeled State, Federal, and Local Income Taxes. Provide contractor's explanation for any discrepancies.

- c. Obtain representation from the contractor's management line 56 (Premium Tax Assessments) includes all State Premium Tax Assessments and that these taxes are not reported as an administrative expense within lines 37–48. The contractor should calculate the 5.50% premium tax and the auditor should confirm the accuracy of this calculation in accordance with contract requirements and agree the amount calculated to line 56. Provide contractor's explanation for any discrepancies.

Step 7: Identify, trace, and agree the amount and payment methodology for Related Party Transactions reported within Schedule A – Income Statement. The term Related Party refers to any entity(ies) that is(are) associated with the contractor by any form of common, privately held ownership, control, or investment.

- a. Obtain and provide a list of transactions between the contractor and any related party reported within Schedule A – Income Statement. The list of transactions must include the name of related party, relationship to contractor, description of transaction (a series of transactions for the same purpose can be listed as one transaction), total dollar amount reported within Schedule A – Income Statement, and payment/contract terms.
- b. For related party administrative service expenses, identify those expenses that are allocated to the contractor. For all allocated administrative service expenses, report whether the allocation is based on cost or cost plus. If cost plus, report the percentage above cost.
- c. From the list of transactions in Step 7a, select the three highest dollar amount transactions and one other transaction. (Note: include a series of transactions as one transaction for this selection.)
- d. For the sample of transactions selected in Step 7c, recalculate the total dollar amount reported within Schedule A – Income Statement based upon the payment/contract terms of the agreement between the contractor and related party. List discrepancies and provide contractor's explanation for such discrepancies.

Schedule C: Total Profitability Statement

ACT 421 populations added to reports that are segmented by the below listed rate cells and subtotals. Vendors are to document data for each population and ensure expenses align appropriately.

- a. ACT 421 CMO
- b. LaCHIP Affordable Plan
- c. Medicaid Children/CHIP

- d. Medicaid Adult
- e. Medicaid Expansion Children
- f. Medicaid Expansion Adult

Step 1: Trace and agree reported Member Months:

- a. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 received from LDH to the membership amounts reported in the 4th Quarter YTD Total Profitability Statement. Provide contractor's explanation for any discrepancies.
- b. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 from the contractor's internal enrollment reports to the membership amounts reported in the 4th Quarter YTD Total Profitability Statement. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree the dollar amounts reported as Dental Capitation:

- a. Trace and agree each of the monthly capitation files received from LDH during the year to the proper posting in the contractor's general ledger. Obtain representation from the contractor's management that the contractor is reporting using the full accrual method. Provide contractor's explanation for any discrepancies.
- b. Trace and agree the total general ledger postings of capitation files during the year (plus/minus accruals for under-/over-payments as necessary for proper accrual-based reporting) to the 4th Quarter YTD Total Profitability Statement. Obtain and provide reconciliation for any differences other than adjustments for accrual-based reporting and a contractor's explanation for any discrepancies.

Step 3: Trace and agree the amounts reported as Covered Dental Expenses:

- a. Examine dental expenses from each of the income statement categories and select the two largest (greatest dollar amount) categories for the detailed review.
- b. For the dental categories selected in Step 3a, trace and agree selected cells to the supporting documentation used by the contractor to complete the report for the 4th Quarter YTD amounts. Provide contractor's explanation for any discrepancies.
- c. For the dental categories selected in Step 3a, trace and agree amount reported in each cell to actual claims paid and an allocation of expenses incurred but not reported (IBNR). Provide contractor's explanation for any discrepancies.

Schedule F1–F6: Lag Reports

Given that the estimation of medical expenses and accruals is a key component to the accuracy of the amounts reported within the Income Statement, Schedules F1–F6 (Lag Reports) are included within the AUPs:

Step 1: Trace and agree the amounts paid for each month (Total Paid by Month–Column AN) for the most recent 12-month period ending December 31.

- a. Trace and agree each monthly amount to the supporting documentation used by the contractor to complete each lag report. Provide contractor's explanation for any discrepancies.
- b. Trace and agree each monthly amount to the monthly check register or claims system monthly summary. Provide contractor's explanation for any discrepancies.
- c. Obtain representation from the contractor's management that medical cost is reported net of third party liability and COB. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree the amounts paid in the individual cells for the most recent 12-month incurred period ending December 31.

- a. For the claims paid and incurred on Schedules F1–F6, trace and agree four cells from each lag report (a total of 24 cells) to the supporting documentation used by the contractor to complete the lag report. Provide contractor's explanation for any discrepancies.
- b. Validate the amounts within the 4th Quarter lag report that have not materially changed from the prior quarter. Specifically, trace and agree amounts reported in lines 4–37 to the corresponding paid and incurred months within the 3rd Quarter lag reports. Provide contractor's explanation for material discrepancies.

Step 3: Trace and agree the amounts that comprise the individual cells.

- a. For the sample selected in Step 2a, select three claims from each cell (a total of 72 claims).
- b. For the sample selected in Step 3a, verify the claim is reported in the correct month of service by tracing and agreeing to the date of service on the claim. Provide contractor's explanation for any discrepancies.
- c. For the sample selected in Step 3a, verify the claim is reported in the correct month of payment by tracing and agreeing to the claim payment system or underlying check register. Provide contractor's explanation for any discrepancies.

- d. For the sample selected in Step 3a, verify the claim is reported in the appropriate lag report (inpatient, outpatient, professional, specialized behavioral health, other medical, or pharmaceutical) by tracing and agreeing type of service to the hard/electronic copy of the claim. Provide contractor's explanation for any discrepancies.
- e. For the sample selected in Step 3a, verify the claim is related to a Healthy Louisiana Medicaid Dental beneficiary by tracing and agreeing to the contractor's member eligibility system. Provide contractor's explanation for any discrepancies.
- f. For the sample selected in Step 3a, verify the claim was paid in accordance with the terms of the applicable provider contract in effect at the date of service. Provide contractor's explanation for any discrepancies.

Step 4: Trace and agree the Global/Sub-Capitation Payments. (Line 39-Global/Sub-Capitation Payments) for the most recent 12-month incurred period ending December 31. This step is not applicable if the lag report does not contain sub-capitation payments.

- a. Trace and agree each monthly amount to the supporting documentation used by the contractor to complete the lag report. Provide contractor's explanation for any discrepancies.
- b. Trace and agree each monthly amount to the general ledger. Provide contractor's explanation for any discrepancies.
- c. In the event there are no sub-capitation payments, obtain documentation from the contractor confirming the contractor did not have payments of this nature during the reporting period.

Step 5: Trace and agree the amounts reported as settlements. This step is not applicable if the lag report does not contain sub-capitation payments.

- a. Settlements should include payments to or refunds from providers that cannot be linked to a specific claim adjudicated through the payment system.

Step 6: Report on the contractor's current estimate of remaining liability, incurred but not reported expenses.

- a. Obtain and read the contractor's policy, procedures, and methodologies for estimating IBNR.
- b. Trace and agree the IBNR on line 42 (IBNR) to the supporting models. Provide contractor's explanation for any discrepancies.

Schedule H1-H6: Total Utilization

Step 1: Trace and agree a representative sample of the units reported in the utilization report aligns with detailed claims data by month of service. Provide contractor's explanation for any discrepancies.