



An Audit Report on

**Amerigroup Texas, Inc. and Amerigroup
Insurance Company, a Managed Care
Organization**

November 2018

Report No. 19-011



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Overall Conclusion

Amerigroup Texas, Inc. and Amerigroup Insurance Company (Amerigroup) accurately reported medical (fee-for-service) and prescription expenses totaling approximately \$1.7 billion in its financial statistical reports for fiscal year 2016; however, it should improve its processes to ensure that it accurately reports other medical expenses and administrative expenses. Specifically, it should improve its processes to ensure it reports only allowable expenses and classifies expenses in the appropriate line items.

Amerigroup complied with certain requirements in administering the Texas Medicaid program. Specifically, it paid claims for eligible members, according to the Health and Human Services Commission's (Commission) eligibility data. In addition, it paid claims to enrolled providers, and it generally paid medical claims on time. However, it should ensure that its pharmacy benefits manager is paying pharmacy providers within the timeframe required by the contract.

Amerigroup should also ensure that it maintains adequate documentation to support reported expenses and the allocation methodology it used to report corporate administrative expenses. Table 1 on the next page presents a summary of the unallowable and questioned costs that Amerigroup reported on its financial statistical report for fiscal year 2016.

Background Information

Amerigroup Texas, Inc. and Amerigroup Insurance Company (Amerigroup) provides the Medicaid CHIP, STAR, STAR+PLUS, and MMP - Dual Demo programs to eight service delivery areas in Texas: Bexar, El Paso, Harris, Jefferson, Lubbock, Medicaid Rural Service Area-West, Tarrant, and Travis (see Appendix 3 for additional information on those service delivery areas).

From September 1, 2015, through August 31, 2016, Amerigroup received payments from the Health and Human Services Commission (Commission) that totaled \$2.2 billion for the STAR+PLUS program. Approximately \$1.9 billion of that funding paid for medical claims and prescription drug claims for 1,645,865 people enrolled in the STAR+PLUS program.

Source: The Commission.

Table 1

Unallowable and Questioned Costs, Per the <i>Uniform Managed Care Manual</i> , That Amerigroup Reported on Its Financial Statistical Report (FSR) for Fiscal Year 2016			
Type of Expense - FSR Line Item	Reported Costs for Fiscal Year 2016	Total Unallowable Costs Identified	Total Questioned Costs Identified
STAR+PLUS - Medical (Fee-for-Service)	\$1,324,148,253	\$ 791,443	\$ 56,370
STAR+PLUS - Prescription Expense	364,441,698	0	0
STAR+PLUS - Other Medical Expenses	41,721,726	395,825	0
Administrative Expenses ^a	270,758,845	8.8 million	7.0 million
Totals	\$2,001,070,522	\$10.0 million	\$7.0 million

^a Administrative Expenses cover all Medicaid programs and includes line items such as Salaries, Wages, and Benefits; and Corporate Allocations. \$8.7 of \$8.8 million identified unallowable costs and all of the identified questioned costs were reported under the corporate allocations line item.

Table 2 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 2

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
1-A	Amerigroup Accurately Reported Its STAR+PLUS Medical and Prescription Expenses	Low
1-B	Amerigroup Should Ensure That It Accurately Reports Other Medical Expenses	Medium
2-A	Amerigroup Should Improve Its Financial Reporting Process to Ensure That It Accurately Reports Allowable Administrative Expenses	High
2-B	Amerigroup Should Ensure That It Appropriately Allocates Corporate Costs to the Texas Medicaid Program	Medium
3-A	Amerigroup Paid Medical and Prescription Claims for Eligible STAR+PLUS Members, and It Paid Medical and Prescription Claims to Enrolled Providers	Low
3-B	Amerigroup Paid Medical Claims Timely in Fiscal Year 2016; However, It Should Work with Its Pharmacy Benefits Manager to Ensure That Prescription Claims Are Paid Within Required Timeframes	Medium

^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Summary of Subchapters and Related Issue Ratings		
Subchapter	Title	Issue Rating ^a
A subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.		

Auditors communicated other, less significant issues separately in writing to Amerigroup management.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit.

Amerigroup agreed with the recommendations addressed to it. However, it disagreed with certain findings in Chapter 2. **Amerigroup's detailed management responses** are presented immediately following the recommendations in each chapter.

Amerigroup disagrees with a number of audit findings related to unallowable costs. Although Amerigroup had multiple opportunities to address those issues during the audit, it was unable to provide appropriate documentation to change the findings.

Amerigroup also attempts to diminish the significance of findings related to unallowable administrative expenses by discussing the Health and Human Services **Commission's** administrative expense cap in its management responses. The unallowable administrative costs that Amerigroup reported in its financial statistical reports for fiscal year 2016 are due to **deficiencies in Amerigroup's** processes and internal controls. Whether Amerigroup was over or under the administrative expense cap in fiscal year 2016 does not alter its obligation to report accurate and allowable administrative expenses in its financial statistical reports.

After review and consideration of Amerigroup's management responses, the State Auditor's Office stands by its conclusions based on evidence presented and compiled during this audit.

Audit Objective and Scope

The objective of this audit was to determine whether selected financial processes and related controls at a Medicaid managed care organization (MCO) are designed and operating to help ensure (1) the accuracy and completeness of data that the MCO reports to the Commission and (2) compliance with applicable requirements.

The scope of this audit covered Amerigroup's contracts with the Commission to deliver the Texas Medicaid program. It covered Amerigroup's STAR+PLUS and Administrative Expense financial statistical reports and its reported medical claims and pharmacy claims for fiscal year 2016.

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Detailed Results

Chapter 1

Amerigroup Reported Medical and Prescription Claims Accurately in Its Financial Statistical Report for Fiscal Year 2016; However, It Should Improve Its Review Processes

Amerigroup Texas, Inc.'s and Amerigroup Insurance Company's (Amerigroup) financial reporting process provided reasonable assurance that it accurately reported to the Health and Human Services Commission (Commission) certain costs in its financial statistical report for fiscal year 2016 (see text box for more information about financial statistical reports). Specifically, Amerigroup accurately reported STAR+PLUS medical (fee-for-service) and prescription expenses totaling \$1.7 billion. However, Amerigroup should improve its reporting of other medical expenses to ensure that it reports only allowable expenses that occurred in the reporting period.

Financial Statistical Reports

The Health and Human Services Commission (Commission) receives financial statistical reports from managed care organizations (MCOs) on a quarterly and annual basis as required by the Commission's contracts with the MCOs. Those reports are the primary statements of financial results that the MCOs submit to the Commission. The Commission uses the reports to analyze the MCOs' membership, revenues, expenses, and net income by service area and program. The reports provide a basis for calculating the amount a MCO may owe the State through the experience rebate profit-sharing requirement (see Appendix 4 for information on the experience rebate).

Source: The Commission.

Chapter 1-A

Amerigroup Accurately Reported Its STAR+PLUS Medical and Prescription Expenses

Chapter 1-A
Rating:
Low ¹

The \$1.3 billion in paid medical fee-for-service expenses that Amerigroup reported in its financial statistical report for fiscal year 2016 matched the amounts in Amerigroup's claims processing system within less than 1.0 percent. In addition, the \$364.4 million in reported paid prescription expenses matched the amounts in Amerigroup's claims data within less than 0.5 percent.

Medical (Fee-for-Service) Claims Expenses. Generally, Amerigroup paid medical providers for services according to its contract with each provider. For 2 (6.7 percent) of 30 claims tested, Amerigroup paid the 2 providers more than the contracts required for the procedures included in those claims because

¹ The risk related to the issues discussed in Chapter 1-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Amerigroup increased the provider reimbursement rates without updating the contract documents. For all of fiscal year 2016, that increase resulted in Amerigroup overpaying those two providers by a total of \$56,370 for the procedure types included in those 2 claims, resulting in questioned costs.

Prescription Claims Expenses. For Amerigroup's prescription expenses, Amerigroup's pharmacy benefits manager ensured that it paid its providers according to contract requirements for all 30 claims tested. In addition, Amerigroup accurately reported medical and prescription expenses for the 60 samples tested.

Chapter 1-B

Amerigroup Should Ensure That It Accurately Reports Other Medical Expenses

Chapter 1-B
Rating:
Medium ²

Amerigroup reported \$41.7 million in Other Medical Expenses in its STAR+PLUS financial statistical report for fiscal year 2016. However, it included expenses that did not occur in the fiscal year, and it misclassified certain expenses.

Amerigroup reported \$397,054 in Personal Attendant Services expenses in the Other Medical Expenses line item. However, \$395,825 of that reported amount was for allowable medical claims payments that occurred outside the reporting period resulting in unallowable costs in the financial statistical report for fiscal year 2016, according to the *Uniform Managed Care Manual* (see text box for an explanation of unallowable and questioned costs). Amerigroup's staff followed procedures to report Personal Attendant Services expenses based on the date it paid a claim instead of the date the service was provided, which does not comply with contract requirements. This process creates a risk that Amerigroup

Unallowable Cost

The **Commission's** *Uniform Managed Care Manual* defines the cost principles that establish allowability of expenses related to selected Medicaid programs that a MCO can report on its financial statistical report (FSR). A designation of "allowable" or "unallowable" does not generally govern whether the MCO can incur a cost or make a payment; allowability reflects only what is reportable on the FSR. To be allowable, expenses must conform to the requirements of the **Commission's cost principles, which include being reasonable, allocable, and reported as they are incurred.**

Questioned Cost

According to the Code of Federal Regulations, a "questioned cost," is a cost charged that MCO management, federal oversight entities, an independent auditor, or other audit organization authorized to conduct an audit of a MCO has questioned because of an audit or other finding. A cost may be questioned because:

- There may have been a violation of a provision of a law, regulation, contract, grant, or other agreement or document governing the use of MCO funds.
- The cost is not supported by adequate documentation.
- The cost incurred appears unnecessary or unreasonable and does not reflect the actions that a prudent person would take in the circumstances.

Sources: Title 45, Code of Federal Regulations, Section 1630.2(g).

² The risk related to the issues discussed in Chapter 1-B is rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

could report Personal Attendant Services expenses in the incorrect reporting period.

Amerigroup also misclassified \$2.4 million in allowable costs related to service coordinator salaries in Administrative Expenses. Amerigroup staff did not correctly identify and reclassify salaries for 170 service coordinator employees as an Other Medical Expense. As a result, Amerigroup understated its Other Medical Expense line item by \$2.4 million and overstated the Administrative Expenses by the same amount. Misclassifying salaries for service coordinators increases the risk of Amerigroup inaccurately reporting medical costs in the STAR+PLUS financial statistical report and administrative costs in the Administrative Expense financial statistical report.

Recommendations

Amerigroup should:

- Develop and implement procedures to ensure that it reports claims based on the date of service, not the paid date.
- Improve its review process to ensure that it correctly classifies salaries for service coordinator employees.

Management's Response

Date of Service

Date of Service versus date paid is a timing difference in accounting period only. The Personal Attendant Services are allowable expenses under the contract.

Amerigroup will strengthen internal review and controls to ensure that this error does not occur in the future.

Person assigned the responsibility: Financial Accounting & Reporting Manager – Medicaid

Timeline for completion: August 29, 2019

Service Coordinator Employees

This is a coding error. These costs are included in administrative expenses and are fully allowable costs under the Amerigroup Texas Medicaid contract. The misclassification of these expenses has no cost impact on the Medicaid program.

Amerigroup will strengthen internal review and controls to ensure that this coding error does not occur in the future.

*Person assigned the responsibility: Financial Accounting & Reporting
Manager – Medicaid*

Timeline for completion: August 29, 2019

Amerigroup Should Ensure That It Accurately Reports Allowable Administrative Expenses in Its Financial Statistical Reports

Amerigroup should improve its financial reporting processes and controls to ensure that it accurately reports allowable administrative expenses in its financial statistical reports. Auditors identified \$8.8 million in unallowable administrative expenses and \$7.0 million in questioned costs that Amerigroup reported in its financial statistical report for fiscal year 2016 (see Table 3 for a summary of the unallowable and questioned costs discussed in this chapter). The inaccuracies identified may affect the calculation of Amerigroup's net income, which the Commission uses to determine whether Amerigroup owes money to the Commission under the experience rebate profit sharing requirement (see Appendix 4 and 5 for more information about experience rebates).

Table 3

Unallowable and Questioned Costs Related to Administrative Expenses			
Type of Review or Test	Report Subchapter Discussing Costs	Total Unallowable Costs Identified ^a	Total Questioned Costs Identified
Administrative Expenses - Cost Center Definition Review	2-A	\$ 6.3 million	\$ 0.0
Administrative Expenses - Data Analysis	2-A	\$473,399	\$ 0.0
Administrative Expenses - Sample Testing and Analysis	2-A	\$400,301	\$78,930
Executive Compensation	2-A	\$1.5 million	\$ 0.0
Cost Center Sample	2-B	\$119,425	\$4.1 million
Allocation Methodology	2-B	0	\$2.8 million
Totals		\$8.8 million	\$7.0 million

^a Auditors identified bonus and incentive payments to affiliate employees that were unallowable during the audit period according to the *Uniform Managed Care Manual*. The Commission updated its *Cost Principles*, which are part of the *Uniform Managed Care Manual*, in May 2018 to allow bonus and incentive payments to affiliate employees to be reported in financial statistical reports. Auditors did not include those bonus and incentive payments in this table (see Appendix 6 for more information).

Sources: Amerigroup and the Commission.

Amerigroup Should Improve Its Financial Reporting Process to Ensure That It Accurately Reports Allowable Administrative Expenses

Chapter 2-A
Rating:
High³

Auditors performed data analysis and tested samples of the administrative expenses that Amerigroup reported in its financial statistical report for fiscal year 2016. That testing identified \$8.7 million in unallowable administrative expenses and \$78,930 in questioned costs.

Administrative Expenses. Amerigroup's parent company, Anthem, uses cost centers to capture administrative expenses based on support activities of specific divisions or functions. Anthem allocates those administrative expenses to the company's business units that benefit from the cost centers' services, such as Amerigroup. Amerigroup reports allocated expenses in the administrative financial statistical report under the corporate allocations line item. Auditors reviewed cost center definitions, performed data analysis on all administrative expenses, and tested a sample of administrative expenses allocated to Amerigroup to determine whether expenses were allowable, appropriate, and adequately supported.

Administrative Expenses - Cost Center Definition Review. In its financial statistical report for fiscal year 2016, Amerigroup reported administrative expenses that were allocated from 649 cost centers. Auditors reviewed the definitions (activity descriptions) for those cost centers and identified approximately \$6.3 million in unallowable administrative expenses. Specifically:

- For \$4.8 million of those expenses, the activities provided by the cost centers, such as lobbying, organization costs⁴, or costs of preparing proposals for potential contracts, were unallowable based on the *Uniform Managed Care Manual*.
- For \$1.5 million of those expenses, the activities were related to Amerigroup's implementation of the STAR Kids program and should have been reported in fiscal year 2017, based on the *Uniform Managed Care Manual*.

Administrative Expenses - Data Analysis. In addition, auditors performed data analysis **on the entire population** of administrative expenses that Amerigroup reported in its financial statistical report for fiscal year 2016.

³ The risk related to the issues discussed in Chapter 2-A is rated as High because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

⁴ According to the *Uniform Managed Care Manual*, unallowable organizational costs include expenses related to the organization or reorganization of the corporate structure of a business, resisting the reorganization of the corporate structure of a business or a change in the controlling interest in the ownership of a business, and raising capital.

That analysis identified an additional \$473,399 in expenses that were unallowable under the contract, such as lobbying costs, litigation expenses, charitable contributions, entertainment costs, and employee event expenses.

Administrative Expenses - Sample Testing and Analysis. Auditors also tested a risk-based sample of 60 administrative expenses allocated from the cost centers to Amerigroup. That testing identified an additional \$400,301 in unallowable expenses and \$78,930 in questioned costs. Specifically:

- For 5 (8 percent) of 60 expenses tested, Amerigroup reported expenses for private jet and lobbying costs, which the Commission's *Uniform Managed Care Manual* specifically prohibits as a reportable expense, resulting in unallowable costs totaling \$59,479. Based on the unallowable expenses identified in the sample tested, auditors performed further analysis and identified an additional \$123,884 in related unallowable expenses.
- For 2 (3 percent) of 60 expenses tested, Amerigroup did not incur the expense during fiscal year 2016, resulting in unallowable costs totaling \$104,879. The Commission's *Uniform Managed Care Manual* states that a MCO should report expenses in its financial statistical report based on the dates it incurred a service. Based on the unallowable expenses observed in the sample tested, auditors performed further analysis and identified an additional \$112,059 in related unallowable expenses.
- For 1 (2 percent) of 60 expenses tested, Amerigroup could not provide sufficient supporting documentation, resulting in questioned costs totaling \$78,930. The Commission's *Uniform Managed Care Manual* requires a MCO to maintain records for administrative services or functions and provide to auditors detailed records and supporting documentation for all costs reported.

Auditors determined that Amerigroup's financial reporting process lacked adequate controls to ensure that Amerigroup reported only allowable expenses. Specifically, Amerigroup's financial reporting and review processes and controls did not identify and remove the unallowable or questioned costs discussed above from its financial statistical report for fiscal year 2016.

Executive Compensation. Amerigroup inappropriately included \$1.5 million in unallowable executive compensation because the salaries for the top 5 executives at Anthem that Amerigroup reported in the corporate allocation line item exceeded the limit on executive compensation that a MCO can report in its financial statistical report. Amerigroup should have excluded

approximately \$2.1 million in executive compensation. Instead, it excluded only \$600,000.

Misclassification of Administrative Expenses. Amerigroup reported some allowable expenses in the wrong line item in its financial statistical report. Specifically:

- Amerigroup understated Salaries, Wages, and Benefits by \$1.2 million and overstated Bonuses by \$588,934 and Corporate Allocations by \$600,000.
- Amerigroup understated Legal and Professional Services and overstated Corporate Allocations each by \$1.4 million.
- Amerigroup understated other administrative expense line items by \$6.7 million and overstated Corporate Allocations by \$6.7 million.

Recommendations

Amerigroup should:

- Improve its processes and controls for reporting administrative expenses in its financial statistical reports so that it accurately reports administrative expenses and excludes unallowable costs.
- Improve its processes to ensure that it maintains records for administrative services and functions and provides support for all reported costs.
- Adjust applicable amounts on its financial statistical reports for fiscal year 2016 by the unallowable amounts that auditors identified.
- Discuss with the Commission how to resolve the identified questioned costs, including what adjustments should be made to the financial statistical reports for fiscal year 2016.

Management's Response

Chapter 2

The items identified by the auditors did not affect the calculation of Amerigroup's net income. For calculating the cost of the Medicaid program, Amerigroup's administrative expenses are limited (capped) by the Health and Human Services Commission in the Texas Medicaid contract. The excess expenses inadvertently reported in the Financial Statistical Report (FSR) did not increase the cost of the Medicaid Program and were not reimbursed to

Amerigroup by the HHSC. Amerigroup will strengthen internal review and controls to reduce coding errors in our FSR process.

Chapter 2A

Administrative Expenses

For calculating the cost of the Medicaid program, Amerigroup's administrative expenses are limited (capped) by the Health and Human Services Commission in the Texas Medicaid contract. The excess expenses inadvertently reported in the Financial Statistical Report (FSR) did not increase the cost of the Medicaid Program and were not reimbursed to Amerigroup by the HHSC.

The misclassification of these expenses has no cost impact on the Medicaid program

Amerigroup will strengthen internal review and controls to ensure that these coding errors do not occur in the future.

Administrative Expenses-Cost Center Definition Review

Amerigroup recognizes that this expense is unallowable. However, it is the position of Amerigroup that Auditors have misidentified this expenditure as a lobby expense. Irrespective on any comments made by the Anthem employees who erred in coding these payments. Amerigroup maintains that these expenditures were a corporate affiliate allocation for a contract with a law firm for consulting services that included work relating to a merger and acquisition, communications, strategy and coalition building; all consulting services.

Amerigroup did not contract for these services and did not utilize this law firm for any services in Texas.

Amerigroup will obtain an affidavit from the law firm that verifies that no lobbying services were provided under this contract.

In preparing the Financial Statistical Report (FSR) Amerigroup relied upon its general ledger accounts and reported 100% of the financial activity recorded in the general ledger. In addition, several of the cost centers in question allocated less than \$1,000 to the FSR, including one which allocated less than \$1. In the future Amerigroup will strengthen internal review and controls to remove excess administrative expenses from the general ledger balances before preparing the FSR.

Amerigroup will strengthen internal review and controls to ensure that these coding errors do not occur in the future.

Person assigned the responsibility: Financial Accounting & Reporting Manager – Medicaid

Timeline for completion: August 29, 2019

Administrative Expenses – Data Analysis

For calculating the cost of the Medicaid program, Amerigroup’s administrative expenses are limited (capped) by the Health and Human Services Commission in the Texas Medicaid contract. The excess expenses inadvertently reported in the Financial Statistical Report (FSR) did not increase the cost of the Medicaid Program and were not reimbursed to Amerigroup by the HHSC.

Amerigroup will strengthen internal review and controls to ensure that this coding error does not occur in the future.

Person assigned the responsibility: Financial Accounting & Reporting Manager – Medicaid

Timeline for completion: August 29, 2019

Administrative Expenses—Sample Testing and Analysis

Amerigroup executives and employees travel primarily by commercial aircraft and automobiles or at a standard allowable mileage rate. The private jet expenses were corporate affiliate allocations to Amerigroup that should not have been included in the Financial Statistical Report.

This expense did not increase the cost of the Medicaid Program and were not reimbursed to Amerigroup.

The lobbying expenses identified by the auditors was a corporate affiliate allocation for a contract with a law firm for legal services relating to a merger and acquisition that required expertise in federal statutory and regulatory compliance. This item should be classified as legal expenses.

The items identified by the auditors did not affect the calculation of Amerigroup’s net income nor impact the experience rebate profit sharing requirement. Amerigroup will discuss the questioned cost with the Health and Human Services Commission. Amerigroup will strengthen internal review and controls to ensure that these coding errors do not occur in the future.

*Person assigned the responsibility: Financial Accounting & Reporting
Manager – Medicaid*

Timeline for completion: August 29, 2019

Executive Compensation

No executives nor the five “most highly compensated employees” assigned to Amerigroup Texas met or exceeded the threshold for executive compensation. Amerigroup is the “Home Office” under the language of this provision.

Amerigroup Texas companies (Amerigroup Texas Inc, and Amerigroup Insurance Company) are considered one segment. The companies function as one business unit, managed by one management team. Employees are designated to Amerigroup companies through specific cost center designations and directly support the Texas Medicaid/Chip contracts.

The above finding on Executive Compensation applies to Anthem the national parent company of Amerigroup which is not subject to the limitation.

Amerigroup will strengthen internal review and controls to ensure that these coding errors do not occur in the future.

*Person assigned the responsibility: Financial Accounting & Reporting
Manager – Medicaid*

Timeline for completion: August 29, 2019

Management Response Footnote a. Table 3 and Appendix 6

The HHSC recognizes authorized “Employee Incentive Payments” to employees of affiliates. The annual incentive payments to Amerigroup affiliate employees are allowable expenses. The performance incentive payments are paid directly to the employees who work on the Texas Medicaid program not to an affiliate company. The auditors have misinterpreted the “Cost Principals.”

The Health and Human Services recently updated the “Cost Principles” to reflect those business practices allowable under the contract. The updated cost principles effective May 1, 2018 deleted the provision under 6.1 “Bonuses paid or payable to an affiliate are unallowable.” The provision did not prohibit incentive payments to employees. However, it was deleted due to the auditor’s interpretation of provision and confusing definitions of “affiliate.”

Auditor Follow-up Comment

Administrative Expenses – Cost Center Definition Review

Amerigroup disputes a portion of the \$6.3 million in unallowable corporate allocations that auditors identified through a review of cost center definitions. Auditors discussed the allocated lobbying costs with the Anthem employees who prepared and reported the administrative expenses in the financial statistical report audited. Those employees confirmed that the identified cost centers were for lobbying expenses and should have been excluded from the financial statistical report.

Amerigroup asserts that the costs identified by auditors as lobbying costs were actually expenses for legal services related to a merger and acquisition. However, costs related to the organization or reorganization of the corporate structure of a business are also unallowable. (See Footnote No. 4 on page 6.) In addition, Amerigroup asserts that it, “did not contract for these services and did not utilize this law firm for any services in Texas.” However, expenses related to that contract were allocated to the Texas Medicaid program.

Administrative Expenses – Sample Testing and Analysis

Auditors obtained the contract related to lobbying activities. The contract states:

1. Services. Consultant agrees to provide the following services to Anthem:
 - Provide assistance on issues of interest to Anthem by working with affiliates, WellPoint communications departments, lobbyists, and other allies, and trade association contracts.
 - Provide assistance in coalition building, grassroots issue development and overall strategy, grass-tops communications and other advocacy tactics on issues of interest to WellPoint.

The expenses tested under this contract included line item descriptions titled “2016 Lobbying Contract” and “2016 Public Affairs Lobbyist C.” Anthem employees confirmed that those payments were for lobbying expenses and should have been excluded from the financial statistical report.

Executive Compensation

Amerigroup contends that the limitation on executive compensation does not apply to Anthem, its parent company. Section VII of the contract’s cost principles states that affiliate costs must meet the same allowability requirements as those for the MCO, including the executive compensation

limitation. Anthem is considered an affiliate to Amerigroup according to Amerigroup’s contract with the Commission because it is the parent entity of Amerigroup.

Management Response Footnote a. table 3 and Appendix 6

Amerigroup contends that auditors misinterpreted the cost principle related to employee bonuses and performance incentives. The cost principle in question is titled “Employee Bonuses or Incentive Payments” and states, “Bonuses paid or payable to an affiliate are unallowable.” All bonus and incentive payments that auditors identified in Appendix 6 were paid to affiliate employees and were reported by Amerigroup under the Corporate Allocations line item on its financial statistical report.

Bonus and incentive payments to Amerigroup employees are reported under a separate bonuses line item in the financial statistical report. Auditors did not include bonus and incentive payments to Amerigroup or affiliate employees as unallowable costs in this audit report.

Chapter 2-B
Amerigroup Should Ensure That It Appropriately Allocates Corporate Costs to the Texas Medicaid Program

Chapter 2-B
Rating:
Medium ⁵

As discussed in Chapter 2-A, Amerigroup uses cost centers to capture corporate costs, and its parent company, Anthem, allocates those costs to its business units. Anthem determines the cost allocation rates using a combination of fixed cost pools and variable drivers such as membership, headcount, or premium revenue.

However, Anthem’s allocation methodology did not always ensure that allocated administrative expenses were calculated accurately, were sufficiently supported, or included only reasonable costs. Auditors identified \$119,425 in unallowable allocated corporate costs and \$6.9 million in questioned allocated corporate costs that Amerigroup reported in its 2016 financial statistical report. Those unallowable and questioned costs are discussed in more detail on the next page.

⁵ The risk related to the issues discussed in Chapter 2-B is rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity’s ability to effectively administer the program audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Auditors reviewed the supporting documentation for the cost allocation methodology for a sample of 15 cost centers and determined:

- For 5 (33 percent) of 15 cost centers tested, the calculation of corporate costs allocated to Amerigroup was inaccurate, resulting in an overstatement of allowable administrative expenses of \$119,425. The errors were caused because Anthem used incorrect data to calculate its allocated corporate costs.
- For 2 (13 percent) of 15 cost centers tested, Amerigroup could not provide sufficient supporting documentation for the fixed pool calculations related to \$4.1 million in questioned costs that it reported for those cost centers in its financial statistical report.

Auditors also reviewed the cost center activities described in the cost center definitions and determined the allocation methodology for certain cost centers allocated administrative costs disproportionately to the benefits received by the Texas Medicaid program. Specifically:

- Amerigroup could not demonstrate whether the amount it allocated to the Texas Medicaid program represented an equitable distribution of costs, as required by the Uniform Managed Care Manual. As a result, Amerigroup reported \$2.4 million in questioned costs for those cost centers in its financial statistical report. Specifically, two cost centers included expenses related to requirements from other state Medicaid programs or regulatory bodies or Anthem's other lines of business.
- For all 102 cost centers capturing facilities-related expenses, Anthem allocates the difference between actual and budgeted expense to all business units, regardless of whether that facility provided a direct benefit to that business unit. Because of this, auditors could not verify that the expenses reported by Amerigroup for all 102 cost centers capturing facilities expenses provided a direct benefit, and therefore should have been allocated, to Amerigroup. As a result, Amerigroup reported \$419,253 in questioned costs for those cost centers in its financial statistical report.

Recommendations

Amerigroup should:

- Ensure that allocated corporate costs reported in its financial statistical reports are accurately calculated and sufficiently documented.

- Ensure that the methodology for calculating allocated corporate costs reported in its financial statistical reports align with the Commission's requirements.
- Adjust applicable amounts on its financial statistical reports for fiscal year 2016 by the unallowable amounts that auditors identified.
- Discuss with the Commission how to resolve the identified questioned costs, including what adjustments should be made to the financial statistical reports for fiscal year 2016.

Management's Response

Amerigroup will strengthen internal review and controls to ensure that allocated corporate costs are reported accurately and sufficiently documented.

Amerigroup will ensure that its methodology for calculating allocated corporate costs reported in its financial statistical reports align with the Commission's requirements.

Amerigroup will discuss the cost with the Health and Human Services Commission.

In addition, for calculating the cost of the Medicaid program, Amerigroup's administrative expenses are limited (capped) by the Health and Human Services Commission in the Texas Medicaid contract. The excess expenses inadvertently reported in the Financial Statistical Report (FSR) did not increase the cost of the Medicaid Program and were not reimbursed to Amerigroup by the HHSC.

The amount of the overstatement is relatively immaterial when compared to the overall cost of the Amerigroup Medicaid Program in Texas.

Amerigroup will review the current allocation methodology to improve, standardize and strengthen the process and controls. This will include maintaining sufficient documentation supporting the methodology.

Person assigned the responsibility: Financial Accounting & Reporting Manager – Medicaid

Timeline for completion: August 29, 2019

While Amerigroup Paid Medical and Prescription Claims for Eligible Members and to Enrolled Providers, It Should Improve Its Processes to Ensure That Prescription Claims are Consistently Paid Within Required Timeframes

Amerigroup paid medical and prescription claims for eligible STAR+PLUS members, and it paid medical and prescription claims to enrolled providers. Amerigroup also paid medical claims within the timeframes required by the *Uniform Managed Care Manual*. However, it should work with its pharmacy benefits manager to ensure that it consistently pays prescription claims within required timeframes.

Chapter 3-A

Amerigroup Paid Medical and Prescription Claims for Eligible STAR+PLUS Members, and It Paid Medical and Prescription Claims to Enrolled Providers

Chapter 3-A
Rating:
Low ⁶

Auditors determined that Amerigroup paid STAR+PLUS medical and prescription claims for eligible members by comparing medical and prescription claims that it paid in fiscal year 2016 to the Commission's eligibility data.

Also, Amerigroup paid STAR+PLUS medical and prescription claims to enrolled providers. Amerigroup made payments to approximately 10,000 medical providers and approximately 4,000 pharmacy providers in fiscal year 2016.

While Amerigroup made payments to enrolled providers, Amerigroup paid four providers that were not eligible to provide Texas Medicaid services. The payments to those four providers totaled \$791,443. Specifically, auditors identified one provider that Amerigroup paid a total of \$408,445 after the Health and Human Services Office of Inspector General denied that provider's enrollment for the STAR+PLUS program. Auditors also identified three long-term support service providers that Amerigroup paid \$382,998 that were not eligible to provide Texas Medicaid services. Because the four providers were not eligible to provide Medicaid services, the \$791,443 in payments to those providers are unallowable costs according to the *Uniform Managed Care Manual*.

⁶ The risk related to the issues discussed in Chapter 3-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program audited.

Recommendation

Amerigroup should adjust applicable amounts on its financial statistical reports for fiscal year 2016 by the unallowable amounts that auditors identified.

Management's Response

Amerigroup agrees with this finding. Amerigroup identified an opportunity to strengthen its processes when multiple names/providers are associated with one NPI to ensure that these payment errors do not occur in the future.

Amerigroup will discuss the cost with the Health and Human Services Commission.

Person assigned the responsibility: Director Medicaid State Operations

Timeline for completion: December 31, 2018

Amerigroup Paid Medical Claims Timely in Fiscal Year 2016; However, It Should Work with Its Pharmacy Benefits Manager to Ensure That Prescription Claims Are Paid Within Required Timeframes

Chapter 3-B
Rating:
Medium ⁷

Amerigroup generally paid its medical providers within the required timeframes in fiscal year 2016. However, it should work with its pharmacy benefits manager to ensure that it consistently pays prescription claims within the required timeframes. The *Uniform Managed Care Manual* requires MCOs to (1) pay in total or part of a claim or (2) deny in total or part of a claim within the following specified timeframes:

- Medical claim – Within 30 days of receiving a clean claim (see textbox for information about clean claims).
- Nursing facility claim – No later than 10 days after receiving a clean claim.
- Pharmacy claim – No later than 18 days after receiving a clean claim submitted electronically.

Medical claims. Amerigroup paid 99.9 percent of the approximately 3.8 million medical claims within the required timeframe in fiscal year 2016. Those medical claims totaled approximately \$984.9 million. The *Uniform Managed Care Manual* includes a performance requirement that MCOs adjudicate 98 percent of medical claims within 30 days. Auditors performed data analysis on medical claims and identified 3,900 medical claims totaling approximately \$6.7 million that Amerigroup paid after the 30-day payment timeframe required by the *Uniform Managed Care Manual*.

Clean Claims

Title 28, Texas Administrative Code, Section 21.2802(6), defines a clean claim as follows:

- For nonelectronic claims, a claim submitted by a physician or a provider for medical care or health care services rendered to an enrollee under a health care plan or to an insured person under a health insurance policy that includes required data elements and the amount paid by a health plan.
- For electronic claims, a claim submitted by a physician or a provider for medical care or health care services rendered to an enrollee under a health care plan or to an insured person under a health insurance policy using the ASC X12N 837 format and in compliance with all applicable federal laws related to electronic health care claims, including applicable implementation guides, companion guides, and trading partner agreements.

⁷ The risk related to the issues discussed in Chapter 3-B is rated as Medium because they present risks or results that if not addressed could substantially affect the audited entity's ability to effectively administer the program audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Nursing facility claims. Amerigroup paid more than 98.4 percent of 72,632 nursing facility claims within the required timeframe in fiscal year 2016. Those nursing facility claims totaled approximately \$2.5 million. The *Uniform Managed Care Manual* includes a performance requirement that MCOs adjudicate 98 percent of nursing facility claims within 10 days. It paid 1,189 nursing home claims totaling \$161,132 after the 10-day payment requirement.

Pharmacy claims. Amerigroup's pharmacy benefits manager paid about 3.5 million prescription claims totaling approximately \$406.2 million in fiscal year 2016. It paid 90.6 percent of those claims within the required timeframe. The pharmacy benefits manager paid 327,311 prescription claims totaling approximately \$54.9 million after the 18-day payment requirement.

Recommendation

Amerigroup should work with its pharmacy benefits manager to ensure that it pays prescription claims within the required timeframes.

Management's Response

Amerigroup previously identified the issue regarding timely payments by the pharmacy benefits manager and placed them on corrective action. The issue was resolved prior to the start of this audit.

*Person assigned for Monitoring: Staff Vice President Medicaid
Pharmacy Oversight*

Timeline for completion: Ongoing

In regards to the medical provider payments, Amerigroup's contract with HHSC requires timely adjudication of 99% claims within 30 days, which Amerigroup has met. It is not possible to pay a claim before it is adjudicated.

Amerigroup processes more than 12 million claims annually from providers serving Texas Medicaid and CHIP members. We adjudicate more than 99% of claims within 30 days and 85.4% within 7 days. For NF claims, we adjudicate more than 98% of claims within 10 days of receipt. Across all Texas programs, SAs, and claim types, we adjudicate claims in an average of 5 days.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether selected financial processes and related controls at a Medicaid managed care organization (MCO) are designed and operating to help ensure (1) the accuracy and completeness of data that the MCO reports to the Health and Human Services Commission (Commission) and (2) compliance with applicable requirements.

Scope

The scope of this audit covered Amerigroup Texas, Inc. and Amerigroup Insurance Company's (Amerigroup) contracts with the Commission to deliver the Texas Medicaid program. It covered Amerigroup's STAR+PLUS and Administrative Expense financial statistical reports and its reported medical claims and pharmacy claims for fiscal year 2016.

Methodology

The audit methodology included selecting a MCO based on risk by obtaining and reviewing information from the Commission. Additionally, the audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating results of the tests, and interviewing management and staff at Amerigroup.

Data Reliability and Completeness

Auditors assessed the reliability of data used in the audit and determined the following:

- For medical claims data managed by Amerigroup's claims processing system and pharmacy claims data from Amerigroup's subcontractor's pharmacy benefits system, auditors reconciled claims data to claim payment totals reported on Amerigroup's financial statistical reports and to medical claims and prescription claims reported to the Commission. In addition, auditors reconciled payroll data to Amerigroup's general ledger. Auditors determined that the medical claims data and prescription claims data, payroll data, and Amerigroup's general ledger was sufficiently reliable for the purposes of this audit.

- Auditors relied on Amerigroup’s parent company, Anthem’s, Sarbanes-Oxley controls work on general and application controls for Amerigroup’s claims processing system and financial accounting system. Auditors determined that data from those information systems was sufficiently reliable for the purposes of this audit.

Sampling Methodology

For the samples discussed below, auditors applied a nonstatistical sampling methodology primarily through random selection. Auditors selected the following samples:

- To test for allowability, appropriateness, and adequate support, auditors selected nonstatistical, random samples through random selection designed to be representative of the population. Specifically, auditors selected:
 - ♦ Thirty medical claims from Amerigroup’s claims system.
 - ♦ Twenty-five employees’ (including service coordinators) salary, wages, and benefits expenditures from Amerigroup’s payroll system.
- Test results for the samples listed above may be projected to the population, but the accuracy of the projection cannot be measured.
- To test for allowability, appropriateness, and adequate support, auditors selected a nonstatistical risk-based sample. The sample items were not generally representative of the population; therefore, it would not be appropriate to project the test results to the population.
 - ♦ Thirty prescription claims from Amerigroup’s pharmacy benefits manager’s claims system.
 - ♦ Three of 14 transactions related to personal attendant services from Amerigroup’s Non System Payment report.
 - ♦ Fifteen cost centers from Amerigroup’s general ledger.
 - ♦ Sixty administrative expenses from Amerigroup’s general ledger.

Information collected and reviewed included the following:

- The Commission’s STAR+PLUS contracts with Amerigroup.
- The Commission’s STAR+PLUS member eligibility records for Amerigroup.
- Amerigroup’s medical claims and prescription claims data.

- Amerigroup’s policies and procedures.
- Amerigroup’s 334-day STAR+PLUS and 210-day administrative expense financial statistical reports for fiscal year 2016.
- Amerigroup’s payroll and human resources records for fiscal year 2016.
- Amerigroup’s supporting documentation for calculating reported allocated corporate costs for fiscal year 2016.
- External audit reports and consultant reports on Amerigroup’s claims processing system, financial accounting system, and select third-party vendor systems.
- Amerigroup’s contracts with selected providers.
- Amerigroup’s pharmacy benefits manager’s contracts with selected pharmacy providers.

Procedures and tests conducted included the following:

- Recalculated and reconciled selected medical expense and administrative expense line-items in Amerigroup’s financial statistical reports for fiscal year 2016 to Amerigroup’s claims systems, Amerigroup’s pharmacy benefits manager’s prescription claims systems, and Amerigroup’s general ledger.
- Performed data analysis to determine whether Amerigroup and its pharmacy benefits manager paid medical and prescription claims for eligible STAR+PLUS members.
- Performed data analysis to determine whether Amerigroup and its pharmacy benefits manager paid medical and prescription claims to enrolled providers.
- Tested to determine whether Amerigroup and its pharmacy benefits manager accurately paid providers and reported expenses in its financial statistical reports.
- Tested to determine whether expenses reported in the Other Medical Expenses line items were allowable, appropriate, and adequately supported.
- Tested to determine whether expenses reported in the Salary, Wages, and Benefits line item were allowable, appropriate, and adequately supported.

- Performed data analysis to determine whether Amerigroup reported allowable expenses in the Bonus line item.
- Reviewed cost centers to determine whether amounts reported were allowable and appropriate.
- Performed data analysis on administrative expenses to determine whether amounts reported were allowable and appropriate.
- Tested administrative expenses to determine whether amounts reported were allowable, appropriate, and adequately supported.
- Reviewed Amerigroup's corporate allocation methodology to determine whether it is accurate, reasonable, and adequately supported.

Criteria used included the following:

- The General Appropriations Act (84th Legislature).
- Title 48, Code of Federal Regulations, Part 31.
- Title 41, United States Code, Sections 1127 and 4304.
- Texas Government Code, Chapters 531, 533, 536.
- Title 1, Texas Administrative Code, Chapter 353.
- The Commission's Uniform Managed Care Contract.
- The Commission's Uniform Managed Care Manual.
- The Commission's Uniform Managed Care Claims Manual.
- The Commission's Uniform Managed Care Pharmacy Claims Manual.
- The Commission's Uniform Managed Care Nursing Facility Claims Manual.

Project Information

Audit fieldwork was conducted from March 2018 through September 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Arby James Gonzales, CPA, CFE (Project Manager)
- Sonya Tao, CFE (Assistant Project Manager)
- Charlotte Carpenter, CPA
- Chase Dierschke
- Teri Lynn Incremona, CFE
- Scott Labbe, CPA
- Elijah Marchlewski
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 4 provides a description of the issue ratings presented in this report.

Table 4

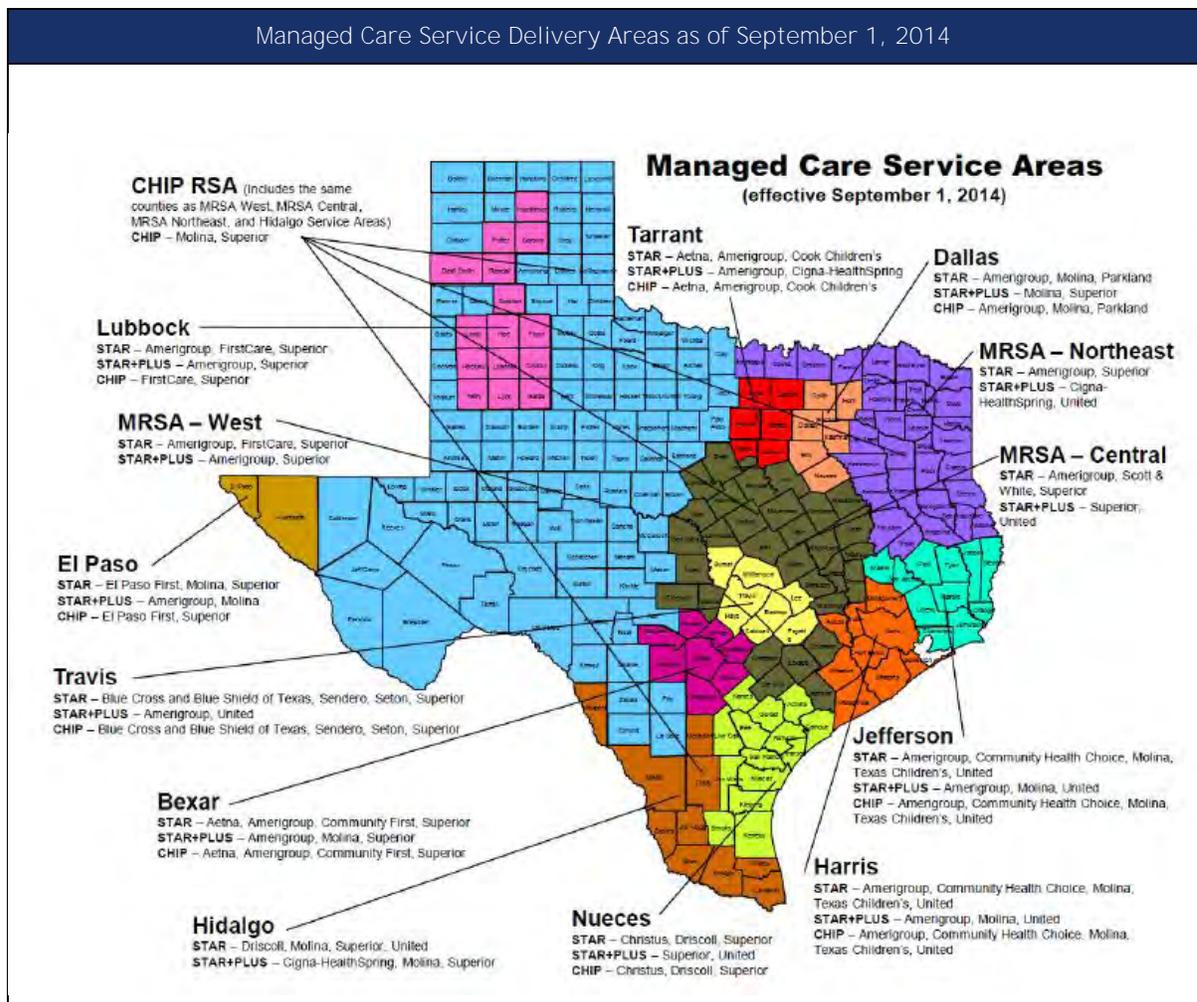
Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Amerigroup's Service Delivery Areas for STAR+PLUS

Amerigroup Texas, Inc. and Amerigroup Insurance Company (Amerigroup) provides Medicaid STAR+PLUS services to eight service delivery areas in Texas through its contracts with the Health and Human Services Commission. Those eight service delivery areas are: Bexar, El Paso, Harris, Jefferson, Lubbock, Medicaid Rural Service Area (MRSA) - West, Tarrant, and Travis.

Figure 1 is a regional map that shows the location of all the managed care service delivery areas, including Amerigroup's service delivery areas as of September 1, 2014.

Figure 1



Source: The Commission.

Calculating Experience Rebates

Texas Government Code, Section 533.014, requires the Health and Human Services Commission (Commission) to adopt rules that ensure that managed care organizations (MCOs) share profits they earn through the Medicaid managed care program. Title 1, Texas Administrative Code, Section 353.3, states that each MCO participating in Medicaid managed care must pay to the State an experience rebate calculated according to the graduated rebate method described in the MCO's contract with the Commission. The Commission has incorporated profit-sharing provisions into its contracts with MCOs that require MCOs to share certain percentages of their net income before taxes with the Commission. The General Appropriations Act (84th Legislature), Rider 13, page II-88, requires that experience rebates the Commission receives from MCOs be spent on funding services for Medicaid.

According to the Commission's contracts with MCOs, a MCO must pay an experience rebate to the Commission if the MCO's net income before taxes exceeds a certain percentage, as defined by the Commission, of the total revenue the MCO receives each fiscal period. The experience rebate is calculated in accordance with a tiered rebate method that the Commission defines (see Table 5). The tiers are based on the consolidated net income before taxes for all of the MCO's Medicaid program and Children's Health Insurance Program service areas that are included in the scope of the contract, as reported on the MCO's financial statistical reports (which the Commission reviews and confirms through annual agreed-upon procedures engagements performed by its contracted audit firms).

Table 5

Tiers for Experience Rebates		
Pre-tax Income as a Percent of Revenues	MCO Share	The Commission's Share
Less than or Equal to 3 percent	100 percent	0 percent
Greater than 3 percent and Less than or Equal to 5 percent	80 percent	20 percent
Greater than 5 percent and Less than or Equal to 7 percent	60 percent	40 percent
Greater than 7 percent and Less than or Equal to 9 percent	40 percent	60 percent
Greater than 9 percent and Less than or Equal to 12 percent	20 percent	80 percent
Greater than 12 percent	0 percent	100 percent

Source: The Commission's *Uniform Managed Care Terms and Conditions*.

Calculation of the Experience Rebate Amerigroup Owed for Fiscal Year 2016

Based on Amerigroup Texas, Inc. and Amerigroup Insurance Company's (Amerigroup) unaudited financial statistical report for fiscal year 2016, the Health and Human Services Commission (Commission) calculated the experience rebate amount that Amerigroup owed the Commission for that fiscal period. Table 6 shows the Commission's calculation of the income that is subject to the tiered rebate methodology described in Appendix 4.

Table 6

The Commission's Calculation of Amerigroup's Income Subject to Experience Rebate for Fiscal Year 2016	
Unaudited Pre-tax Net Income	\$189,871,891
Admin Cap Impact: Expenses Reduced ^a	\$17,721,257
Cap-adjusted Pre-tax Net Income	\$207,593,148
Pre-implementation Costs	\$0
Adjusted Income Subject to Experience Rebate	\$207,593,148
^a The Admin Cap is a calculated maximum amount of administrative expenses that can be deducted from revenues for purposes of determining income subject to the experience rebate. While administrative expenses may be limited by the Admin Cap to determine experience rebates, all valid allowable expenses will continue to be reported on the financial statistical reports. The Admin Cap does not affect financial statistical reporting, but it may affect any associated experience rebate calculation. For fiscal year 2016, the \$17,721,257 amount is the difference between Amerigroup's Admin Cap of \$253,037,588 and its reported administrative expenses of \$270,758,845.	

Source: The Commission.

Table 7 shows the Commission’s calculation of the experience rebate that Amerigroup owed the State for fiscal year 2016.

Table 7

The Commission’s Calculation of Amerigroup’s Experience Rebate for Fiscal Year 2016					
Tiers - Percent of Revenue	Upper Rev Limit	Net Income	Amerigroup’s Share	State’s Share	State’s Share Percentage
Less than or Equal to 3 percent	\$116,095,595	\$116,095,595	\$116,095,595	\$ 0	0 percent
Greater than 3 percent and Less than or Equal to 5 percent	\$193,492,658	\$77,397,063	\$61,917,650	\$15,479,413	20 percent
Greater than 5 percent and Less than or Equal to 7 percent	\$270,889,721	\$14,100,491	\$8,460,295	\$5,640,196	40 percent
Greater than 7 percent and Less than or Equal to 9 percent	\$348,286,784	\$ 0	\$ 0	\$ 0	60 percent
Greater than 9 percent and Less than or Equal to 12 percent	\$464,382,378	\$ 0	\$ 0	\$ 0	80 percent
Greater than 12 percent	No Limit	\$ 0	\$ 0	\$ 0	100 percent
Totals		\$207,593,148	\$186,473,539	\$21,119,609	

Source: The Commission.

Bonus and Incentive Payments Paid to Affiliate Employees

Auditors performed data analysis on the entire population of administrative expenses that Amerigroup Texas, Inc. and Amerigroup Insurance Company's (Amerigroup) reported in its financial statistical reports for fiscal year 2016 and identified approximately \$5.0 million in bonus and incentive payments to affiliate employees. The Health and Human Services Commission's (Commission) Cost Principles (which is part of the *Uniform Managed Care Manual*) state that, "bonuses paid or payable to an Affiliate are unallowable." As a result, the \$5.0 million in bonus and incentive payments that auditors identified in Amerigroup's financial statistical reports for fiscal year 2016 are considered unallowable.

However, in May 2018 the Commission removed the provision stating that bonuses paid or payable to an Affiliate are unallowable from the Cost Principles. The Commission also added a provision to the Cost Principles in May 2018 to allow incentive payments to "individuals whose activities support the MCO in the execution of its responsibilities under the Texas managed care contract(s)."

As a result of the changes to the Cost Principles, auditors did not include the \$5.0 million in bonus and incentive payments in the unallowable costs in Tables 1 and 3 of this report.

Related State Auditor's Office Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
18-015	An Audit Report on The Health and Human Services Commission's Management of Its Medicaid Managed Care Contract with Superior HealthPlan, Inc. and Superior HealthPlan Network, and Superior's Compliance with Reporting Requirements	January 2018
17-025	An Audit Report on HealthSpring Life and Health Insurance Company, Inc., a Medicaid STAR+PLUS Managed Care Organization	February 2017
17-007	An Audit Report on Medicaid Managed Care Contract Processes at the Health and Human Services Commission	October 2016

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Health and Human Services Commission

Dr. Courtney N. Phillips, Executive Commissioner

Amerigroup Texas, Inc. and Amerigroup Insurance Company

Ms. Tisch Scott, Plan President



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