



August 13, 2021

Via Electronic Mail

Georgia Department of Community Health  
Kim Morris, Director of Reimbursement  
2 Peachtree Street, NW  
Atlanta, GA 30303-3159

Re: Adjusted Medical Loss Ratio Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of CareSource Adjusted Medical Loss Ratio for the period ended June 30, 2019. As a courtesy to the Georgia Department of Community Health and other readers, the health plan management's response letter is included, if provided, 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

The background features a blurred image of a person's face and hands, overlaid with a green geometric pattern of lines and shapes. Various medical icons are scattered throughout, including a syringe, a pill, a stethoscope, a microscope, a group of people, and a cross. The text is positioned on the right side of the page, set against a dark grey background.

**CareSource  
Medicaid Care Management Organization**

**Report on Adjusted Medical Loss Ratio  
With Independent Accountant's Report Thereon**

For the State Fiscal Year Ending June 30, 2019  
Paid through November 30, 2019



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State of Georgia  
Georgia Department of Community Health  
Atlanta, Georgia

### **Independent Accountant's Report**

We have examined the accompanying Adjusted Medical Loss Ratio of CareSource for the state fiscal year ending June 30, 2019. CareSource's management is responsible for presenting the Medical Loss Ratio (MLR) Reporting in accordance with the criteria set forth in the Code of Federal Regulations (CFR) 42 § 438.8 and other applicable federal guidance (criteria). This criteria was used to prepare the Adjusted Medical Loss Ratio. Our responsibility is to express an opinion on the Adjusted Medical Loss Ratio 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 is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Adjusted Medical Loss Ratio. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Adjusted Medical Loss Ratio, 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.

Appendix A includes a description and explanation of the credibility adjustment applied to the Adjusted Medical Loss Ratio for CareSource. This credibility adjustment was applied in accordance with 42 CFR 438.8(h), and the amounts discussed in Appendix A were calculated using formulas presented in the Centers for Medicare & Medicaid Services (CMS) federal guidance. The application of the credibility adjustment depends upon evidence about the Adjusted Medical Loss Ratio and proper calculation of the CMS credibility adjustment formula. We believe that the evidence we obtained and the calculation of the CMS credibility adjustment formula is sufficient and appropriate to provide a reasonable basis for our opinion.

The accompanying Adjusted Medical Loss Ratio was prepared for the purpose of complying with the criteria, and is not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio is presented in accordance with the above referenced criteria, in all material respects, and the Adjusted Medical Loss Ratio Percentage Achieved exceeds the CMS requirement of eighty-five percent (85%) for the Low Income Medicaid and Breast and Cervical Cancer (LIM+BCC) and PeachCare for Kids® (PCK) populations, and the Adjusted Medical Loss Ratio Percentage Achieved does not exceed the CMS requirement of eighty-five percent (85%) for the Planning for Healthy Babies (P4HB) population for the state fiscal year ending June 30, 2019.



This report is intended solely for the information and use of the Georgia Department of Community Health, Guidehouse, and CareSource and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC  
Atlanta, Georgia  
August 5, 2021



Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through November 30, 2019

Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through November 30, 2019			
<b>GF Medicaid (excluding PCK) + P4HB</b>			
Line Description	As-Filed Amounts	Adjustment Amounts	Adjusted Amounts
<b>Reporting Requirement</b>	<b>SFY2019</b>		
42 CFR 438.8(k) (1) (i) Total incurred claims.	\$575,337,680	(\$6,916,855)	\$568,420,825
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$7,303,570	\$2,159,179	\$9,462,749
42 CFR 438.8(k) (1) (iv) Non-claims costs.	\$63,900,278	\$0	\$63,900,278
42 CFR 438.8(k) (1) (v) Premium revenue.	\$623,173,137	\$0	\$623,173,137
42 CFR 438.8(k) (1) (vi) Taxes, licensing and regulatory fees.	\$3,175,831	\$0	\$3,175,831
42 CFR 438.8(k) (1) (viii) Any credibility adjustment applied.	N/A	0%	0.0%
42 CFR 438.8(k) (1) (ix) The calculated MLR.	94.0%	-0.8%	93.2%
42 CFR 438.8(k) (1) (x) Any remittance owed to the State, if applicable.	N/A	N/A	N/A
42 CFR 438.8(k)(1) (xiii) The number of member months.	2,432,041	0	2,432,041
<b>LIM + BCC</b>			
Line Description	As-Filed Amounts	Adjustment Amounts	Adjusted Amounts
<b>Reporting Requirement</b>	<b>SFY2019</b>		
42 CFR 438.8(k) (1) (i) Total incurred claims.	\$574,166,205	(\$6,824,648)	\$567,341,557
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$7,278,514	\$2,185,906	\$9,464,421
42 CFR 438.8(k) (1) (iv) Non-claims costs.	\$63,501,366	\$0	\$63,501,366
42 CFR 438.8(k) (1) (v) Premium revenue.	\$619,629,852	\$0	\$619,629,852
42 CFR 438.8(k) (1) (vi) Taxes, licensing and regulatory fees.	\$3,158,300	\$0	\$3,158,300
42 CFR 438.8(k) (1) (viii) Any credibility adjustment applied.	N/A	0%	0%
42 CFR 438.8(k) (1) (ix) The calculated MLR.	94.3%	-0.7%	93.6%
42 CFR 438.8(k) (1) (x) Any remittance owed to the State, if applicable.	N/A	N/A	N/A
42 CFR 438.8(k)(1) (xiii) The number of member months.	2,327,891	0	2,327,891
<b>PCK</b>			
Line Description	As-Filed Amounts	Adjustment Amounts	Adjusted Amounts
<b>Reporting Requirement</b>	<b>SFY2019</b>		
42 CFR 438.8(k) (1) (i) Total incurred claims.	\$37,537,463	(\$447,732)	\$37,089,730
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$263,604	\$40,306	\$303,910
42 CFR 438.8(k) (1) (iv) Non-claims costs.	\$3,791,454	\$0	\$3,791,454
42 CFR 438.8(k) (1) (v) Premium revenue.	\$36,939,809	\$0	\$36,939,809
42 CFR 438.8(k) (1) (vi) Taxes, licensing and regulatory fees.	\$184,307	\$0	\$184,307
42 CFR 438.8(k) (1) (viii) Any credibility adjustment applied.	N/A	1.5%	1.5%
42 CFR 438.8(k) (1) (ix) The calculated MLR.	102.8%	0.4%	103.2%
42 CFR 438.8(k) (1) (x) Any remittance owed to the State, if applicable.	N/A	N/A	N/A
42 CFR 438.8(k)(1) (xiii) The number of member months.	208,886	0	208,886



Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through November 30, 2019

Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through November 30, 2019			
P4HB			
Line Description	As-Filed Amounts	Adjustment Amounts	Adjusted Amounts
Reporting Requirement	SFY2019		
42 CFR 438.8(k) (1) (i) Total incurred claims.	\$1,171,475	(\$92,207)	\$1,079,268
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$25,056	(\$26,727)	(\$1,672)
42 CFR 438.8(k) (1) (iv) Non-claims costs.	\$398,912	\$0	\$398,912
42 CFR 438.8(k) (1) (v) Premium revenue.	\$3,543,285	\$0	\$3,543,285
42 CFR 438.8(k) (1) (vi) Taxes, licensing and regulatory fees.	\$17,531	\$0	\$17,531
42 CFR 438.8(k) (1) (viii) Any credibility adjustment applied.	N/A	2.0%	2.0%
42 CFR 438.8(k) (1) (ix) The calculated MLR.	33.9%	-1.4%	32.5%
42 CFR 438.8(k) (1) (x) Any remittance owed to the State, if applicable.	N/A	N/A	N/A
42 CFR 438.8(k)(1) (xiii) The number of member months.	104,150	0	104,150



## Schedule of Adjustments and Comments for the State Fiscal Year Ending June 30, 2019

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.

### **Adjustment #1 – To adjust Health Care Quality Improvement expenses based on documentation provided by the plan.**

The health plan reported Health Care Quality Initiative/Health Information Technology (HCQI/HIT) expenses as a percent allocation based on department activities and utilized actual cost for its designated departments for the reporting period. Our review of the job titles and duties performed by employees, resulted in the identification of partial job duties (e.g. utilization management) that do not meet the allowable HCQI/HIT definition. Additionally, a department was not originally assigned a HCQI/HIT allocation percentage. During our review, the department was assigned a HCQI/HIT allocation percentage. The expense was adjusted to supporting documentation reflecting revised percentages based on allowable HCQI/HIT responsibilities.

<b>Proposed Adjustment – LIM+BCC</b>	
<b>Line Description</b>	<b>Amount</b>
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$1,706,524

<b>Proposed Adjustment – PCK</b>	
<b>Line Description</b>	<b>Amount</b>
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	(\$3,748)

<b>Proposed Adjustment – P4HB</b>	
<b>Line Description</b>	<b>Amount</b>
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	(\$43,113)

### **Adjustment #2 – To adjust Health Care Quality Improvement expenses based on documentation provided by the plan.**

Health Care Quality Initiative/Health Information Technology (HCQI/HIT) expense from vendor Outcomes Incorporated was originally excluded from the reported MLR calculation in error. The expense was adjusted based on the supporting documentation.





## SCHEDULE OF ADJUSTMENTS AND COMMENTS

Proposed Adjustment – LIM+BCC	
Line Description	Amount
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$479,382

Proposed Adjustment – PCK	
Line Description	Amount
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$44,054

Proposed Adjustment – P4HB	
Line Description	Amount
42 CFR 438.8(k) (1) (ii) Expenditures on quality improving activities.	\$16,386

### Adjustment #3 – To remove interest expense from total incurred claims.

The health plan reported medical expenses that included interest on paid claims. Interest on paid claims is a non-allowable medical expense.

Proposed Adjustment – LIM+BCC	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$1,638,834)

Proposed Adjustment – PCK	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$57,413)

Proposed Adjustment – P4HB	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$3,916)



## SCHEDULE OF ADJUSTMENTS AND COMMENTS

### Adjustment #4 – To remove drug spread pricing from total incurred claims.

CareSource pays their pharmacy benefit manager (PBM) CVS Health an overall amount greater than the amount that their PBM pays to the pharmacy providers for the covered drugs of CareSource's members. This practice is referred to as spread pricing in the industry. The amount CareSource reported in incurred claims differed from the amount CVS Health reported as the amount they were paid by the health plan. This adjustment is to agree CVS Health expenses to the amount confirmed as received from the health plan by CVS Health.

Proposed Adjustment – LIM+BCC	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$5,185,814)

Proposed Adjustment – PCK	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$390,319)

Proposed Adjustment – P4HB	
Line Description	Amount
42 CFR 438.8(k) (1) (i) Total incurred claims.	(\$88,291)

# Appendix A: Credibility Adjustment

## **Credibility Adjustment Overview:**

The credibility adjustment for the medical loss ratio (MLR) was introduced and described in 42 CFR 438.8(h). A care management organization (CMO)'s MLR is dependent upon accurate estimates regarding items such as unit cost, frequency of health care use, and the health of the enrollees. These estimates are more likely to be accurate for CMO's with a larger number of member months, and less likely to be accurate for a CMO with a fewer number of member months. Random variations around the estimates disproportionately affect plans with fewer member months.

The CMO's with few member months will have more difficulty in using the actuary's assumptions to accurately calculate a target MLR percentage because of random variations between the actuary's assumptions and what is actually experienced. The credibility adjustment is used to account for random variations in the MLR that have a disproportionate effect on plans with fewer member months.

42 CFR 438.8(b) divides plans into three categories: Fully-credible (They will not receive any credibility adjustment), Partially-credible (They will be receive a partial credibility adjustment), and Non-credible (They will automatically meet the target MLR Standard).

## **Impact of the Credibility Adjustment on CareSource:**

CareSource did not have the credibility adjustment applied on their as filed 2019 MLR. Based on 42 CFR 438.8, it was determined that a partial credibility adjustment should have been applied to the 2019 MLR for the PeachCare for Kids® (PCK) and for the Planning for Healthy Babies (P4HB) population. Myers and Stauffer applied a partial credibility adjustment in the Adjusted Medical Loss Ratio for the period ending June 30, 2019 paid through November 30, 2020.

CareSource's PCK population had 208,886 member months. This is shown on the Adjusted Medical Loss Ratio on page 4 of this report. After calculation of the credibility adjustment based on the guidelines in 42 CFR 438.8(h) and the CMCS Informational Bulletin "Medical Loss Ratio (MLR) Credibility Adjustments" dated July 31, 2017, CareSource received a credibility adjustment of 1.5%. This is included on the Adjusted Medical Loss Ratio on page 4 of this report. CareSource's PCK adjusted MLR percentage achieved after the credibility adjustment is 103.2%. This is included on the Adjusted Medical Loss Ratio on page 4 of this report.

CareSource's P4HB population had 104,150 member months. This is shown on the Adjusted Medical Loss Ratio on page 5 of this report. After calculation of the credibility adjustment based on the guidelines in 42 CFR 438.8(h) and the CMCS Informational Bulletin "Medical Loss Ratio (MLR) Credibility Adjustments" dated July 31, 2017, CareSource received a credibility adjustment of 2.0%. This is included on the Adjusted Medical Loss Ratio on page 5 of this report. CareSource's P4HB adjusted MLR percentage achieved after the credibility adjustment is 32.5%. This is included on the Adjusted Medical Loss Ratio on page 5 of this report.