

BAYOU HEALTH
Financial Reporting Guide
Prepaid Health Plan

AGREED UPON PROCEDURES

The following agreed upon procedures (AUP) between the BAYOU HEALTH Contractors (Contractors) and its independent public accountant are required to meet audit requirements of Schedule A (ending Income Statement 4th Quarter Year-to-Date) and Schedules J – N (Lag Reports) of the BAYOU HEALTH Prepaid Health Plan Financial Reporting Guide (Guide). The agreed upon procedures are in effect for the annual reporting period (or periods less than 12 months) ending each December 31st, and shall be submitted by June 30th of the subsequent year.

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

1. Agreed upon procedures 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 Department of Health and Hospitals (DHH) upon request.

Procedures contained herein are established as minimum requirements. All findings from agreed upon procedures shall be reported in the agreed upon procedures report and in Schedules AD (Annual Income Statement Reconciliation) and AE (Agreed Upon Procedures Adjustment Entries). Additional procedures may be added and performed as agreed to by the Contractor and the accountant performing them without the DHH approval. However, changes, deletions or variations to the procedures specified herein will require prior approval of DHH, The steps to provide information are as follows.

Schedule A – Income Statement

Unless directed otherwise, all agreed upon procedures for this section are to be performed on the 4th Quarter Year-to-Date (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 31st received from the DHH 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 31st 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 reported Maternity Delivery Payment Count.

- a. Trace and agree the maternity delivery payment count, received and/or accrued for the 12-month period ending December 31st received from the DHH to the maternity counts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.
- b. Trace and agree the maternity delivery payment count, received and/or accrued for the 12-month period ending December 31st from the contractor's internal maternity count reports to the maternity delivery counts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

Step 3: Trace and agree the dollar amounts reported as Capitation.

- a. Trace and agree each of the monthly capitation files received from DHH 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 on an accrual or cash basis as prescribed in the Guide. Provide contractor's explanation for any discrepancies.
- b. Trace and agree that 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 4: Trace and agree the dollar amounts reported as **Maternity Delivery Payments**

- a. Trace and agree each of the monthly payment files received from DHH 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 on an accrual or cash basis as prescribed in the Guide. Provide contractor's explanation for any discrepancies.
- b. Trace and agree that the total general ledger postings of payment 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 a reconciliation for any differences other than adjustments for accrual-based reporting and a contractor's explanation for any discrepancies.

Step 5: Trace and agree the amounts reported as **Medical Expenses**.

- a. Select total hospitalization (Line 17), total outpatient services (Line 22), total physician compensation (Line 31), total other medical expenses (Line 52), and total pharmaceutical expenses (Line 55) from each of the income statement categories and the three largest (greatest dollar amount) sub category expense line items within each total category (hospitalization, outpatient, physician, other medical, and pharmaceutical).
- b. For the total categories (hospitalization, outpatient, physician, other medical, and pharmaceutical) and for the sample of sub categories selected in Step 5a, 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 total categories (hospitalization, outpatient, physician, other medical, and pharmaceutical) and for the sample of sub categories selected in Step 5a, trace and agree amount reported in each cell to actual claims paid and an allocation of expenses incurred but not reported. Provide contractor's explanation for any discrepancies.
- d. For the total categories (hospitalization, outpatient, physician, other medical, and pharmaceutical) and for the sample of sub categories selected in Step 5a, 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 total categories (hospitalization, outpatient, physician, other medical, and pharmaceutical) and for the sample of sub categories selected in Step 5a, select two paid claims from each group.
- f. For the sample selected in Step 5e, trace and agree the classification of the medical expense to the classification reported within the Income Statement. Determine the claims selected from Step 5e are included in an appropriate Income Statement medical expenses category. Provide contractor's explanation for any discrepancies.

Step 6: Trace and agree the amounts reported as **Medical Expense Adjustments**.

- a. Trace and agree the 4th Quarter YTD Income Statement total for Reinsurance Premiums, Reinsurance Recoveries, 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, 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, select four individual cases (an individual case is defined as a member that met the threshold of the reinsurance agreement and that resulted in a recovery from the reinsurance provider) 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.
- d. For the sample selected in Step 6c, review the individual members' claim payment history and recalculate and agree that the amount reported as reinsurance recovery is consistent with the terms of the contractor's reinsurance agreement and the individual members' paid claims. Provide contractor's explanation for any discrepancies.

Step 7: Trace and agree the amounts reported as **Administrative Services Expenses**.

- a. Read the BAYOU HEALTH Prepaid Health Plan 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 7a. Report the discrepancies and provide contractor's explanation for any discrepancies.

- c. Read the BAYOU HEALTH Prepaid Health Plan 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 7c. 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 92). 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 64 – 73 and lines 75 – 90. Provide reconciliation for any differences and a contractor’s explanation for any discrepancies.
- g. Select the three largest (greatest dollar amount) and one other subcategories reported as HCQI expenses (lines 64 – 73) and obtain and provide representations from the contractor’s management that the expenses are appropriately classified as HCQI expenses consistent with Step 7a and Step 7b.

Step 8: 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 Non-operating Income (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 97 (Income Taxes) includes all State, Federal, and Local Income Taxes and that these taxes are not reported as an administrative expense within lines 64 – 90. Review the general ledger account descriptions for administrative expenses within lines 64 – 90 and confirm that 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 98 (Premium Tax Assessments) includes all State Premium Tax Assessments and that these taxes are not reported as an administrative expense within lines 64– 90. The contractor should calculate the 2.25 percent premium tax and the auditor should confirm the accuracy of this calculation in accordance with contract requirements and agree the amount calculated to Line 98 (Premium Tax Assessments). Provide contractor’s explanation for any discrepancies.

Step 9: Identify and 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 9a, select the three highest dollar amount transactions and one other random transaction. Note: include a series of transactions as one transaction for this selection.
- d. For the sample of transactions selected in Step 9b, 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 J - N: 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 J – N (Lag Reports) are included within the agreed upon procedures.

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 31st.

- 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 (TPL) and coordination of benefits (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 incurral period ending December 31st.

- a. For the claims paid and incurred on Schedules J-N, trace and agree 4 cells from each lag report (a total of 20 cells) to the supporting documentation used by the contractor to complete the lag report. Provide contractor's explanation for any discrepancies.
- b. Validate that the amounts within the 4th Quarter lag report has not changed from the prior quarter. Specifically, trace and agree amounts reported in lines 4 through 37 to the corresponding paid and incurred months within the 3rd quarter lag reports. Provide contractor's explanation for any discrepancies.

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

- a. From the sample selected in Step 2a, select 3 claims from each cell (a total of 60 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 (hospital, outpatient, physician, other or pharmaceutical other) 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 BAYOU HEALTH Prepaid Medicaid 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/Subcapitation Payments (Line 39-Global/Subcapitation Payments) for the most recent 12 month incurral period ending December 31st. This step is not applicable if the lag report does not contain subcapitation 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 that there are no subcapitation payments, obtain representations from the contractor confirming that the contractor did not have payments of this nature during the reporting period.

Step 5: Trace and agree the amounts that comprise global/subcapitation payments. This step is not applicable if the lag report does not contain subcapitation payments.

- a. From each lag report except pharmacy select 2 cells. From each cell, select 2 (a total of 4 subcapitation payments per lag report) subcapitation payments.
- b. For the sample selected in Step 5a, recalculate the monthly payment based upon the provider contract in effect during the month of payment. Provide contractor's explanation for any discrepancies.
- c. For the sample selected in Step 5a, verify that the transaction is recorded in the correct month of service by tracing and agreeing to the invoice or check request that substantiates the check. Provide contractor's explanation for any discrepancies.
- d. For the sample selected in Step 5a, verify that the check has cleared the bank by tracing and agreeing to the bank statement. Provide contractor's explanation for any discrepancies.
- e. For the sample selected in Step 5a, verify the transaction is reported in the appropriate lag report by tracing and agreeing to the contract provider type and covered services. Provide contractor's explanation for any discrepancies.

Step 5.1: Trace and confirm the amounts that comprise the pharmacy rebates listed on the pharmaceutical lag table.

- a. From the pharmaceutical lag report, select 4 cells.
- b. For the sample selected in Step 5.1a, trace and tie the pharmacy rebate amount to the supporting documentation used by the contractor to complete the report. Please provide the contractor's explanation for any discrepancies.

Step 6: Trace and agree the amounts reported as settlements (Line 40-Settlements) of the most recent 12 month incurral period ending December 31st. This step is not applicable if the lag report does not contain settlements.

- a. Trace and agree all settlement amounts to the supporting documentation used by the contractor to complete the report. Provide contractor's explanation for any discrepancies.
- b. For the reported settlement amounts, verify the transaction is reported in the appropriate lag report by tracing and agreeing to the supporting documentation. Provide contractor's explanation for any discrepancies.
- c. In the event that there are no settlements reported, obtain representations from the contractor confirming that the contractor did not have settlements during the reporting period.

Step 7: Report on the contractor's total IBNRs (Line 42 –Current Estimate of Remaining Liability - Claims Incurred But Not Reported).

- a. Obtain and read the contractor's policy, procedures and methodologies for calculating IBNR medical claim liability.
- b. If the IBNR estimation includes a premium deficiency reserve and/or built-in cushion/reserve obtain and provide the amount for each and the methodology for calculation.
- c. Include the item(s) obtained in 7a and 7b as an attachment to the AUP report.

Step 8: Trace and agree the allocation of IBNRs (Line 42 –Current Estimate of Remaining Liability - Claims Incurred But Not Reported) by month of service.

- a. Trace and agree the IBNR reported by month for the lag triangles to the supporting documentation used by the contractor to complete the report. Provide contractor's explanation for any discrepancies.