

**STATE OF MINNESOTA  
ACTUARIAL SERVICES  
WORK ORDER CONTRACT**

This work order contract is between the State of Minnesota, acting through the Office of the Legislative Auditor ("State") and Wakely Consulting Group ("Contractor"). This work order contract is issued under the authority of Master Contract SWIFT Number T-1449B and is subject to all provisions of the master contract which is incorporated by reference.

**Work Order Contract**

**1. Term of Contract**

- 1.1. *Effective Date:* October 10, 2013, or the date the State obtains all required signatures, whichever is later. The Contractor must not begin work under this contract until the contract is fully executed and the Contractor has been notified by the State's Authorized Representative to begin the work.
- 1.2. *Expiration Date:* September 30, 2014, or until all obligations have been satisfactorily fulfilled, or the contract has been canceled, whichever occurs first.

**2. Contractor's Duties**

- 2.1. *Tasks and Deliverables.* The Contractor, who is not a state employee, will:
  - (A) Participate in meetings held at the request and direction of the State's Project Manager for the purpose of discussing administrative and project-specific activities, objectives, policies, practices, requirements, and roles and responsibilities under the master contract.
  - (B) Upon request of the State's Project Manager: assist with developing project assignments, statements of work, workplans, or planning-related documents; or provide timely written and verbal advice and feedback to the State on draft documents.

**3. Consideration and Payment**

- 3.1. *Consideration.* The State will pay for all services performed by the Contractor under this work order contract as follows:
  - (A) *Compensation.* The Contractor will be paid the following rates:
    - Director: Four hundred forty dollars (\$440.00) per hour, not to exceed 20 hours during the term of this contract.
    - Senior Consulting Actuary: Three hundred sixty-five dollars (\$365.00) per hour, not to exceed 20 hours during the term of this contract.
    - Consulting Actuary: Two hundred eighty-five dollars (\$285.00) per hour, not to exceed 20 hours during the term of this contract.
  - (B) *Travel Expenses.* Reimbursement for travel and subsistence expenses actually and necessarily incurred by the Contractor as a result of this work order contract will not exceed two hundred dollars (\$200.00).
  - (C) *Total Obligation.* The total obligation of the State for all compensation and reimbursements to the Contractor under this work order contract will not exceed twenty-two thousand dollars (\$22,000.00).
- 3.2. *Invoices.* The State will promptly pay the Contractor after the Contractor presents an itemized invoice for the services actually performed and the State's Authorized Representative accepts the invoiced services.

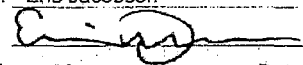
4. Project Managers

The State's Project Manager is Valerie Bombach, Principal Evaluator. The State's Authorized Representative will certify acceptance on each invoice submitted for payment.

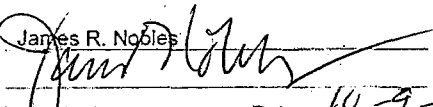
The Contractor's Project Manager is Chris Bach, Senior Consulting Actuary. If the Contractor's Project Manager changes at any time during this work order contract, the Contractor must immediately notify the State.

1. State Encumbrance Verification

Individual certifies that funds have been encumbered as required by Minnesota Statutes 2012, 16A.15.

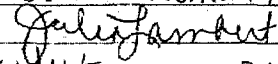
Print name: Eric Jacobson  
Signature:   
Title: Business Manager Date: 10-8-13  
SWIFT Work Order Contract No.: 3000000396

3. State

Print name: James R. Nobles  
Signature:   
Title: Legislative Auditor Date: 10-9-13

2. Contractor

The Contractor certifies that the appropriate person(s) have executed the Work Order Contract on behalf of the Contractor as required by applicable articles, bylaws, resolutions, or ordinances.

Print name: Julia Lambert  
Signature:   
Title: President Date: 10-9-2013  
Print name:  
Signature:  
Title: Date:

Distribution: Contractor  
State's Authorized Representative

## STATE OF MINNESOTA ACTUARIAL SERVICES WORK ORDER CONTRACT

This work order contract is between the State of Minnesota, acting through the Office of the Legislative Auditor (“State”) and Wakely Consulting Group (“Contractor”). This work order contract is issued under the authority of Master Contract SWIFT Number T-1449B and is subject to all provisions of the master contract which is incorporated by reference.

### Work Order Contract

#### 1. Term of Contract

- 1.1. **Effective Date:** May 19, 2014, or the date the State obtains all required signatures, whichever is later. The Contractor must not begin work under this contract until the contract is fully executed and the Contractor has been notified by the State’s Authorized Representative to begin the work.
- 1.2. **Expiration Date:** October 31, 2014, or until all obligations have been satisfactorily fulfilled, or the contract has been canceled, whichever occurs first.

#### 2. Contractor’s Duties

- 2.1. **Tasks and Deliverables.** The Contractor, who is not a state employee, will execute the tasks and duties set forth in Exhibit A, *Statement of Work: Office of the Legislative Auditor, Managed Care Organizations’ Administrative Expenses*, attached and incorporated herein by reference.

#### 3. Consideration and Payment

- 3.1. **Consideration.** The State will pay for all services performed by the Contractor under this work order contract as follows:
  - (A) **Compensation.** The Contractor will be paid the following rates, not to exceed a total of 252 hours for all services performed during the term of this contract:
    - Director: Four hundred forty dollars (\$440.00) per hour.
    - Senior Consulting Actuary: Three hundred sixty-five dollars (\$365.00) per hour.
    - Consulting Actuary: Two hundred eighty-five dollars (\$285.00) per hour.
    - Senior Actuarial Analyst: Two hundred twenty-five dollars (\$225.00) per hour.
    - Actuarial Analyst: One hundred eighty dollars (\$180.00) per hour.
  - (B) **Travel Expenses.** Reimbursement for travel and subsistence expenses actually and necessarily incurred by the Contractor as a result of this work order contract will not exceed two hundred dollars (\$200.00).
  - (C) **Total Obligation.** The total obligation of the State for all compensation and reimbursements to the Contractor under this work order contract will not exceed ninety-two thousand one hundred eighty dollars (\$92,180.00).
- 3.2. **Invoices.** The State will promptly pay the Contractor after the Contractor presents an itemized invoice for the services actually performed and the State’s Authorized Representative accepts the invoiced services. Contractor will reference invoiced hours to staff position and specific tasks in the Statement of Work.

4. Project Managers

The State's Project Manager is Valerie Bombach, Principal Evaluator. The State's Authorized Representative will certify acceptance on each invoice submitted for payment.

The Contractor's Project Manager is Chris Bach, Senior Consulting Actuary. If the Contractor's Project Manager changes at any time during this work order contract, the Contractor must immediately notify the State.

1. State Encumbrance Verification

Individual certifies that funds have been encumbered as required by Minnesota Statutes 2012, 16A.15.

Print name: Eric Jacobson

Signature: [Signature]

Title: Business Manager Date: 5-22-14

SWIFT Work Order Contract No.: 3000000492

3. State

Print name: James R. Nobles

Signature: [Signature]

Title: Legislative Auditor Date: 5-29-14

2. Contractor

The Contractor certifies that the appropriate person(s) have executed the Work Order Contract on behalf of the Contractor as required by applicable articles, bylaws, resolutions, or ordinances.

Print name: Julia Lambert

Signature: [Signature]

Title: President Date: 5-23-2014

Print name: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_ Date: \_\_\_\_\_

Distribution: Contractor State's Authorized Representative

## Statement of Work

### Office of the Legislative Auditor: Managed Care Organizations' Administrative Expenses

#### Project Summary

The Office of the Legislative Auditor (OLA) is conducting a program evaluation of *Managed Care Organizations' Administrative Expenses*. As part of this work, OLA is: (1) auditing and analyzing financial data reported by managed care organizations to the State of Minnesota for public health care programs; and (2) seeking to determine whether the State of Minnesota pays for unreasonable or unnecessary administrative costs for managed care.<sup>1</sup>

#### Objectives

The objectives of this Statement of Work are to compile, synthesize, and provide to OLA the information described in the itemized tasks and deliverables below. OLA will use the Contractor's work product and other information to:

1. Determine whether the Minnesota Department of Human Services' (DHS) methods for setting payment rates for managed care administrative services comply with federal and state requirements and laws for the Medical Assistance program.<sup>2</sup> Specifically, does DHS, through its actuary, use appropriate and sufficient financial data sources pertinent to the provision of Medical Assistance services for Medical Assistance recipients.
2. Assess whether DHS takes sufficient steps to review and control administrative costs when developing payment rates for managed care organizations.
3. Identify alternative methods for determining payment rates for managed care administrative services.

#### Scope of Work

For purposes of this Contract, "managed care organizations" (MCOs) are health maintenance organizations licensed under *Minnesota Statutes* 2013, chapter 62D, and include: Blue Plus, HealthPartners, Inc., Medica, and UCare Minnesota. In addition, "administrative expenses and investment income" includes: all expenses pertinent to cost containment, claims adjustment, general administrative, and investments; and investment earnings and income.

#### Contractor's Duties

The Contractor will execute the following tasks and deliverables under the authority of and in accordance with this Contract, SWIFT Number 300000492. The hours and timeframe for the Contractor's tasks are estimated. The Contractor will provide technical advice to OLA regarding setting capitation payment rates under the federal Medicaid program; this advice must address federal and state regulations, and rate-setting standards and practices of the American Academy of Actuaries, the Society of Actuaries, and the Actuarial Standards Board.

Task	Description and Deliverables	Approximate Hours and Timeframe
1	A. Compile, document, and briefly explain federal and Minnesota state requirements (laws, statutes, regulations, and guidelines) for agencies (or their actuaries) for calculating capitation payment rates for managed care organizations participating in Minnesota's Medical Assistance programs, effective calendar year 2014. These tasks include addressing: <ol style="list-style-type: none"> <li>i. Requirements for state agencies and actuaries to compute the administrative portion—or "load"—of capitation payments. Compare and contrast any differences between setting the administrative expense portion, the medical expense portion, and/or the entire capitation payment. Identify any distinctions made for profit, non-profit, or county-based purchasing entities.</li> <li>ii. Requirements for actuaries to certify the rate-setting methods/processes used.</li> </ol>	Wakely Lead: Chris Bach  Start: 5/21/14 Finish: 7/18/14  Estimated Hours: 60

<sup>1</sup> See OLA project description for the evaluation *Managed Care Organizations' Administrative Expenses*.

<sup>2</sup> Key references include, but are not limited to: *Minnesota Statutes* 2013, 256B.69, subs. 5(i), 5(j), 5(k), and 9(a); *U.S. Code of Federal Regulations*: 42 CFR 438.6(c)(1); 42 CFR 438.6(c)(3)(ii); 42 CFR 438.6(c)(4)(ii)(A)(B); and 42 CFR 438.812.

<p><b>1</b> <b>(cont.)</b></p>	<p>iii. Requirements for MCOs to certify data for use by agencies (or their actuaries) to set capitation payment rates.</p> <p>iv. Acceptable data sources (financial or other) for computing the administrative portion of capitation payments.</p> <p>v. Any distinctions in the above requirements as they pertain to profit, non-profit, and county-based purchasing entities.</p> <p>B. Prepare and submit a draft written report regarding 1A tasks to OLA for review and comment.</p> <p>C. Prepare and submit a final written report regarding 1A tasks to OLA. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p>	<p>Draft Due: 7/7/14</p> <p>Final Due: 7/18/14</p>
<p><b>2</b></p>	<p>A. Compile, document, and briefly explain current standards (general and Medicaid-specific) of the American Academy of Actuaries, Society of Actuaries, and Actuarial Standards Board for:</p> <p>i. Computing the administrative portion—or “load”—of capitation payments. Compare and contrast any differences between setting the administrative expense portion, the medical expense portion, and/or the entire capitation payment. Identify any distinctions made for for-profit, non-profit, or county-based purchasing entities.</p> <p>ii. Acceptable data sources (financial or other) for computing the administrative portion of capitation payments. (Task should address appropriate time series and expense types.)</p> <p>iii. Treating investment income and capital gains when computing capitation payments. Identify any distinctions made for for-profit, non-profit, or county-based purchasing entities.</p> <p>iv. Analyzing and treating “profit” or “net earnings” when computing capitation payments. Identify any distinctions for for-profit, non-profit, or county-based purchasing entities. (Is analysis of MCO profit permissive or mandatory, and must past year profit be reflected in current rate?)</p> <p>B. Identify and describe acceptable data sources used for trending/inflation indexing for the administrative portion of capitation payments for MCOs—non-profit and for-profit—serving public programs.</p> <p>C. Prepare and submit to OLA a draft written report regarding tasks 2A and 2B.</p> <p>D. Prepare and submit to OLA a final written report regarding tasks 2A and 2B. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p>	<p>Wakely Lead: Julia Lerche</p> <p>Start: 5/21/14 Finish: 7/18/14</p> <p>Estimated Hours: 60</p> <p>Draft Due: 7/7/14</p> <p>Final Due: 7/18/14</p>
<p><b>3</b></p>	<p>A. For the ten states listed below, obtain information regarding capitation payment rate-setting requirements and methods pertaining to administrative expenses under the federal Medicaid program, by program, for contract year 2014. Contractor will obtain the information through statutory review, independent research, and interviews with state representatives. Specifically, for California, Florida, Michigan, Nevada, New Jersey, New York, South Carolina, Texas, Vermont, and Virginia, determine:</p> <p>i. Whether the state uses a risk-based capitation payment approach. For those states that do use this payment approach, conduct the research listed in sections ii and iii below.</p> <p>ii. The names of the managed care organizations used by the state for its Medicaid program, and whether they are for-profit or non-profit organizations.</p> <p>iii. Statutory or regulatory requirements, if any, regarding the calculation of capitation payment rates, including:</p> <p>a. Form of capitation payment. That is, do they employ separate methods for determining administrative share vs. medical share of capitation payments.</p> <p>b. Use of base rates, or rebasing of rates, for administrative expenses.</p> <p>c. Application of separate “indexing,” such as for inflation, applied to the administrative expense portion and, if so, what is the index factor and source data for the index.</p> <p>d. Use of MCO bids to help determine administrative payment portion.</p> <p>e. Mandatory source data for developing the administrative portion of rates.</p> <p>f. Use of unique administrative expense filing form.</p> <p>g. Itemized “allowable” or “unallowable” expenses and, if so, what are they.</p> <p>h. Direct application of FARS, 48 CFR, part 31.603 (or 31.703).</p> <p>i. Limits on allowable “profit.” (If no state law, determine practices regarding amount allowed for “contributions to reserves.”)</p> <p>j. Allowability or application of “negative underwriting margin.”</p> <p>k. Use of Risk Adjustment.</p> <p>l. Treatment of investment income and capital gains in rate-setting method.</p> <p>m. Treatment of profit or net earnings in rate-setting method.</p> <p>n. Maximum/limit on “administrative load” (different than ACA requirements) or increase in administrative load.</p> <p>o. Contracting requirements for actuary (for example, the actuary must be independent of the MCO or the state agency must rotate or periodically re-solicit for an actuary).</p> <p>p. Use of open, public meetings to discuss rate-setting (that is, what is transparency of the process used).</p> <p>q. Any other statute, method or practice used to identify or define unallowable administrative expenses and control Medicaid costs.</p>	<p>Wakely Lead: Sharon Leach</p> <p>Start: 5/21/14 Finish: 7/18/14</p> <p>Estimated Hours: 90</p>

Pursuant to Minnesota Statutes 2013, 3.979, this document is classified as Not Public.

<p><b>3 (cont.)</b></p>	<p>The State will provide the Contractor with select public information listed in Task 3(A)(iii) specific to Minnesota (for contract year 2014) and other available information and documentation deemed necessary for completing Tasks 3(B) and 3(C) below.</p> <p>B. Compare the requirements of the ten other states with Minnesota's statutes, rules, and select information used for contract year 2014. The report must include an assessment regarding:</p> <ul style="list-style-type: none"> <li>i. Whether Minnesota's approach and resources used for determining the administrative portion of its capitation payments is in compliance with federal and Minnesota laws.</li> <li>ii. The range of trend factors—or "index"—applied to the administrative portion of the payment rates set in other ten sample states, and a comparison of these trend factor amounts to industry standards.</li> <li>iii. The range of profit margins built into the MCO capitation payment rates set in other ten sample states, and a comparison of these factors to industry standards.</li> </ul> <p>C. Prepare and submit a draft report addressing tasks 3A through 3B to OLA for review and approval of format. The report also must include an assessment regarding:</p> <p>D. Prepare and submit to OLA a final report addressing tasks 3A through 3B. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p> <p>Note: In executing the tasks in this section, the Contractor will identify and update the State's Project Manager regarding any information or practices that are classified as "not public."</p>	<p>Draft Due: 7/7/14 Final Due: 7/18/14</p>
<p><b>4</b></p>	<p>Respond throughout the duration of the project to the State Project Manager's questions of a technical nature related to the scope and tasks of this Statement of Work. <i>The State's Project Manager will compile and submit written questions on a periodic basis, as needed, throughout the project to the Contractor. For information provided under this task, the State will be solely responsible for, and will review and approve, all responses provided by Contractor personnel, and will determine the sufficiency of the scope, appropriateness, and application of the responses provided in relation to the intended purpose.</i> The Contractor will:</p> <ul style="list-style-type: none"> <li>A. Provide timely, written responses—within five business days—to OLA questions via e-mails or other written communication (or, as a last resort, telephone calls).</li> <li>B. Provide sufficient responses that help OLA determine adherence to (and deviation from) required actuarial principles and practices.</li> </ul>	<p>Wakely Lead: Chris Bach  Start: 5/21/14 Finish: 8/1/14  Estimated Hours: 0-20</p>
<p><b>5</b></p>	<p>Provide input and feedback on documents, reports, and information developed and/or provided by OLA within a time period agreed to by both the OLA Project Manager and the Contractor, but no more than seven business days. The nature and scope of these requests may require written feedback, comparison, or verification of rate-setting methods, assumptions, computations, activities, and reports of Minnesota DHS staff or the DHS actuary under contract.</p>	<p>Wakely Lead: Chris Bach  Start: 5/21/14 Finish: 8/1/14  Estimated Hours: 0-20</p>
<p><b>6</b></p>	<p>Submit biweekly status reports to the State's Project Manager that are updates of progress and descriptions of activities under this work plan. Progress should be documented by using a copy of this work plan and adding a successive entry below the pertinent task, including the date completed and any problems encountered in executing the task(s).</p>	<p>Wakely Lead: Chris Bach  Start: 5/21/14 Finish: 8/1/14  Estimated Hours: 2</p>

## AMENDMENT No. 1

**Work Order Contract Start Date:** May 19, 2014  
**Original Contract Expiration Date:** October 31, 2014  
**Current Contract Expiration Date:** October 31, 2014  
**Requested Contract Expiration Date:** NA

**Contract Amount:** Not to exceed \$92,180.00  
**Original Contract:** Not to exceed \$92,180.00  
**Previous Amendment(s) Total:** \$ 0.00  
**This Amendment:** NA

This amendment is by and between the State of Minnesota, through the Office of the Legislative Auditor ("State") and Wakely Consulting Group ("Contractor") and is effective upon obtaining all required signatures.

### Recitals

1. The State has a contract with the Contractor identified as **Swift Work Order Contract Number 3000000492** to provide actuarial-related services as outlined in attached Exhibit A, *Statement of Work: Office of the Legislative Auditor, Managed Care Organizations' Administrative Expenses*.
2. The above Work Order Contract is being amended to extend Contractor time deadlines for completing Contractor's tasks and duties identified in Clause 2.
3. The State and the Contractor are willing to amend the above Work Order Contract as stated below.

### Contract Amendment

In this Amendment, changes to pre-existing Work Order Contract language will use strike through for deletions and underlining for insertions.

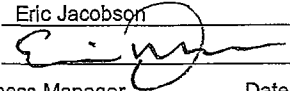
**REVISION 1.** Clause 2. "Contractor's Duties" is amended to reflect changes to deliverable deadlines as follows:

2.1 *Tasks and Deliverables.* The Contractor, who is not a state employee, will execute the tasks and duties set forth in **Revised** Exhibit A, *Statement of Work: Office of the Legislative Auditor, Managed Care Organizations' Administrative Expenses*, attached and incorporated herein by reference.

Except as amended herein, the terms and conditions of the Original Master Contract Swift Number T-1449B and Work Order Contract Swift Number 3000000492 remain in full force and effect.

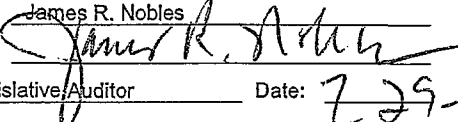
#### 1. State Encumbrance Verification

*Individual certifies that funds have been encumbered as required by Minnesota Statutes 2012, 16A.15.*

Print name: Eric Jacobson  
Signature:   
Title: Business Manager Date: 7-25-14

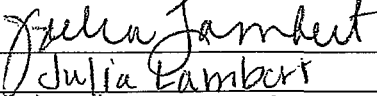
SWIFT Work Order  
Contract No.: 3000000492

#### 3. State

Print name: James R. Nobles  
Signature:   
Title: Legislative Auditor Date: 7-29-14

#### 2. Contractor

*The Contractor certifies that the appropriate person(s) have executed the Work Order Contract on behalf of the Contractor as required by applicable articles, bylaws, resolutions, or ordinances.*

Print name: Julia Lambert  
Signature:   
Title: President Date: 7-28-2014

Distribution: Contractor  
State's Authorized Representative



## Statement of Work

### Office of the Legislative Auditor:

### Managed Care Organizations’ Administrative Expenses

**Project Summary**

The Office of the Legislative Auditor (OLA) is conducting a program evaluation of *Managed Care Organizations’ Administrative Expenses*. As part of this work, OLA is: (1) auditing and analyzing financial data reported by managed care organizations to the State of Minnesota for public health care programs; and (2) seeking to determine whether the State of Minnesota pays for unreasonable or unnecessary administrative costs for managed care.<sup>1</sup>

**Objectives**

The objectives of this Statement of Work are to compile, synthesize, and provide to OLA the information described in the itemized tasks and deliverables below. OLA will use the Contractor’s work product and other information to:

1. Determine whether the Minnesota Department of Human Services’ (DHS) methods for setting payment rates for managed care administrative services comply with federal and state requirements and laws for the Medical Assistance program.<sup>2</sup> Specifically, does DHS, through its actuary, use appropriate and sufficient financial data sources pertinent to the provision of Medical Assistance services for Medical Assistance recipients.
2. Assess whether DHS takes sufficient steps to review and control administrative costs when developing payment rates for managed care organizations.
3. Identify alternative methods for determining payment rates for managed care administrative services.

**Scope of Work**

For purposes of this Contract, “managed care organizations” (MCOs) are health maintenance organizations licensed under *Minnesota Statutes* 2013, chapter 62D, and include: Blue Plus, HealthPartners, Inc., Medica, and UCare Minnesota. In addition, “administrative expenses and investment income” includes: all expenses pertinent to cost containment, claims adjustment, general administrative, and investments; and investment earnings and income.

**Contractor’s Duties**

The Contractor will execute the following tasks and deliverables under the authority of and in accordance with this Contract, SWIFT Number 3000000492. The hours and timeframe for the Contractor’s tasks are estimated. The Contractor will provide technical advice to OLA regarding setting capitation payment rates under the federal Medicaid program; this advice must address federal and state regulations, and rate-setting standards and practices of the American Academy of Actuaries, the Society of Actuaries, and the Actuarial Standards Board.

<u>Task</u>	<u>Description and Deliverables</u>	<u>Approximate Hours and Timeframe</u>
1	A. Compile, document, and briefly explain federal and Minnesota state requirements (laws, statutes, regulations, and guidelines) for agencies (or their actuaries) for calculating capitation payment rates for managed care organizations participating in Minnesota’s Medical Assistance programs, effective calendar year 2014. These tasks include addressing:	Wakely Lead: Chris Bach Start: 5/21/14 Finish: <del>7/18/14</del> 8/1/14

<sup>1</sup> See OLA project description for the evaluation *Managed Care Organizations’ Administrative Expenses*.

<sup>2</sup> Key references include, but are not limited to: *Minnesota Statutes* 2013, 256B.69, subds. 5(i), 5(j), 5(k), and 9(a); *U.S. Code of Federal Regulations*: 42 CFR 438.6(c)(1); 42 CFR 438.6(c)(3)(ii); 42 CFR 438.6(c)(4)(ii)(A)(B); and 42 CFR 438.812.

<p><b>1</b> <b>(cont.)</b></p>	<ul style="list-style-type: none"> <li>i. Requirements for state agencies and actuaries to compute the administrative portion—or “load”—of capitation payments. Compare and contrast any differences between setting the administrative expense portion, the medical expense portion, and/or the entire capitation payment. Identify any distinctions made for profit, non-profit, or county-based purchasing entities.</li> <li>ii. Requirements for actuaries to certify the rate-setting methods/processes used.</li> <li>iii. Requirements for MCOs to certify data for use by agencies (or their actuaries) to set capitation payment rates.</li> <li>iv. Acceptable data sources (financial or other) for computing the administrative portion of capitation payments.</li> <li>v. Any distinctions in the above requirements as they pertain to profit, non-profit, and county-based purchasing entities.</li> </ul> <p>B. Prepare and submit a draft written report regarding 1A tasks to OLA for review and comment.</p> <p>C. Prepare and submit a final written report regarding 1A tasks to OLA. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p>	<p>Estimated Hours: 60</p>     <p>Draft Due: 7/7/14 Final Due: <del>7/18/14</del> 8/1/14</p>
<p><b>2</b></p>	<p>A. Compile, document, and briefly explain current standards (general and Medicaid-specific) of the American Academy of Actuaries, Society of Actuaries, and Actuarial Standards Board for:</p> <ul style="list-style-type: none"> <li>i. Computing the administrative portion—or “load”—of capitation payments. Compare and contrast any differences between setting the administrative expense portion, the medical expense portion, and/or the entire capitation payment. Identify any distinctions made for for-profit, non-profit, or county-based purchasing entities.</li> <li>ii. Acceptable data sources (financial or other) for computing the administrative portion of capitation payments. (Task should address appropriate time series and expense types.)</li> <li>iii. Treating investment income and capital gains when computing capitation payments. Identify any distinctions made for for-profit, non-profit, or county-based purchasing entities.</li> <li>iv. Analyzing and treating “profit” or “net earnings” when computing capitation payments. Identify any distinctions for for-profit, non-profit, or county-based purchasing entities. (Is analysis of MCO profit permissive or mandatory, and must past year profit be reflected in current rate?)</li> </ul> <p>B. Identify and describe acceptable data sources used for trending/inflation indexing for the administrative portion of capitation payments for MCOs—non-profit and for-profit—serving public programs.</p> <p>C. Prepare and submit to OLA a draft written report regarding tasks 2A and 2B.</p> <p>D. Prepare and submit to OLA a final written report regarding tasks 2A and 2B. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p>	<p>Wakely Lead: Julia Lerche</p> <p>Start: 5/21/14 Finish: <del>7/18/14</del> 8/1/14</p> <p>Estimated Hours: 60</p> <p>Draft Due: 7/7/14 Final Due: <del>7/18/14</del> 8/1/14</p>
<p><b>3</b></p>	<p>A. For the ten states listed below, obtain information regarding capitation payment rate-setting requirements and methods pertaining to administrative expenses under the federal Medicaid program, by program, for contract year 2014. Contractor will obtain the information through statutory review, independent research, and interviews with state representatives. Specifically, for California, Florida, Michigan, Nevada, New Jersey, New York, South Carolina, Texas, Vermont, and Virginia, determine:</p> <ul style="list-style-type: none"> <li>i. Whether the state uses a risk-based capitation payment approach. For those states that do use this payment approach, conduct the research listed in sections ii and iii below.</li> <li>ii. The names of the managed care organizations used by the state for its Medicaid program, and whether they are for-profit or non-profit organizations.</li> <li>iii. Statutory or regulatory requirements, if any, regarding the calculation of capitation payment rates, including: <ul style="list-style-type: none"> <li>a. Form of capitation payment. That is, do they employ separate methods for determining administrative share vs. medical share of capitation payments.</li> <li>b. Use of base rates, or rebasing of rates, for administrative expenses.</li> <li>c. Application of separate “indexing,” such as for inflation, applied to the administrative expense portion and, if so, what is the index factor and source data for the index.</li> <li>d. Use of MCO bids to help determine administrative payment portion.</li> <li>e. Mandatory source data for developing the administrative portion of rates.</li> <li>f. Use of unique administrative expense filing form.</li> <li>g. Itemized “allowable” or “unallowable” expenses and, if so, what are they.</li> <li>h. Direct application of FARS, 48 CFR, part 31.603 (or 31.703).</li> <li>i. Limits on allowable “profit.” (If no state law, determine practices regarding amount allowed for “contributions to reserves.”)</li> <li>j. Allowability or application of “negative underwriting margin.”</li> <li>k. Use of Risk Adjustment.</li> <li>l. Treatment of investment income and capital gains in rate-setting method.</li> <li>m. Treatment of profit or net earnings in rate-setting method.</li> </ul> </li> </ul>	<p>Wakely Lead: Sharon Leach</p> <p>Start: 5/21/14 Finish: <del>7/18/14</del> 8/1/14</p> <p>Estimated Hours: 90</p>

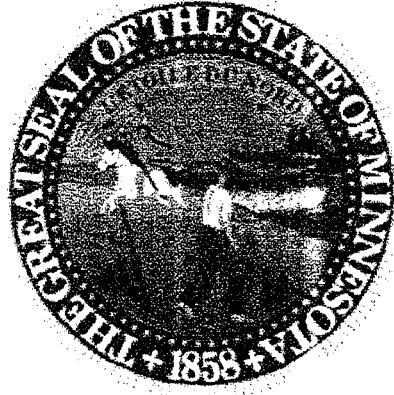
<p><b>3</b> <b>(cont.)</b></p>	<p>n. Maximum/limit on “administrative load” (different than ACA requirements) or increase in administrative load.</p> <p>o. Contracting requirements for actuary (for example, the actuary must be independent of the MCO or the state agency must rotate or periodically re-solicit for an actuary).</p> <p>p. Use of open, public meetings to discuss rate-setting (that is, what is transparency of the process used).</p> <p>q. Any other statute, method or practice used to identify or define unallowable administrative expenses and control Medicaid costs.</p> <p><i>The State will provide the Contractor with select public information listed in Task 3(A)(iii) specific to Minnesota (for contract year 2014) and other available information and documentation deemed necessary for completing Tasks 3(B) and 3(C) below.</i></p> <p>B. Compare the requirements of the ten other states with Minnesota’s statutes, rules, and select information used for contract year 2014. The report must include an assessment regarding:</p> <p>i. Whether Minnesota’s approach and resources used for determining the administrative portion of its capitation payments is in compliance with federal and Minnesota laws.</p> <p>ii. The range of trend factors—or “index”—applied to the administrative portion of the payment rates set in other ten sample states, and a comparison of these trend factor amounts to industry standards.</p> <p>iii. The range of profit margins built into the MCO capitation payment rates set in other ten sample states, and a comparison of these factors to industry standards.</p> <p>C. Prepare and submit a draft report addressing tasks 3A through 3B to OLA for review and approval of format. The report also must include an assessment regarding:</p> <p>D. Prepare and submit to OLA a final report addressing tasks 3A through 3B. The Contractor also must submit a copy of the final report that is fully sourced and referenced to workpapers.</p> <p><i>Note: In executing the tasks in this section, the Contractor will identify and update the State’s Project Manager regarding any information or practices that are classified as “not public.”</i></p>	<p>Draft Due: 7/7/14</p> <p>Final Due: 7/18/14</p> <p>8/1/14</p>
<p><b>4</b></p>	<p>Respond throughout the duration of the project to the State Project Manager’s questions of a technical nature related to the scope and tasks of this Statement of Work. <i>The State’s Project Manager will compile and submit written questions on a periodic basis, as needed, throughout the project to the Contractor. For information provided under this task, the State will be solely responsible for, and will review and approve, all responses provided by Contractor personnel, and will determine the sufficiency of the scope, appropriateness, and application of the responses provided in relation to the intended purpose.</i> The Contractor will:</p> <p>A. Provide timely, written responses—within five business days—to OLA questions via e-mails or other written communication (or, as a last resort, telephone calls).</p> <p>B. Provide sufficient responses that help OLA determine adherence to (and deviation from) required actuarial principles and practices.</p>	<p>Wakely Lead: Chris Bach</p> <p>Start: 5/21/14 Finish: 8/4/14 8/21/14</p> <p>Estimated Hours: 0-20</p>
<p><b>5</b></p>	<p>Provide input and feedback on documents, reports, and information developed and/or provided by OLA within a time period agreed to by both the OLA Project Manager and the Contractor, but no more than seven business days. The nature and scope of these requests may require written feedback, comparison, or verification of rate-setting methods, assumptions, computations, activities, and reports of Minnesota DHS staff or the DHS actuary under contract.</p>	<p>Wakely Lead: Chris Bach</p> <p>Start: 5/21/14 Finish: 8/4/14 8/21/14</p> <p>Estimated Hours: 0-20</p>
<p><b>6</b></p>	<p>Submit biweekly status reports to the State’s Project Manager that are updates of progress and descriptions of activities under this work plan. Progress should be documented by using a copy of this work plan and adding a successive entry below the pertinent task, including the date completed and any problems encountered in executing the task(s).</p>	<p>Wakely Lead: Chris Bach</p> <p>Start: 5/21/14 Finish: 8/4/14 8/21/14</p> <p>Estimated Hours: 2</p>

C-22.c

RECEIVED  
8/23/13

**\*ORIGINAL\***  
**COST**  
**PROPOSAL**

**Proposal Presented To:**



State of Minnesota  
Office of the Legislative Auditor

**In Response To:**

Minnesota Office of the Legislative Auditor  
Audit and Actuarial Services RFP

Proposal Due Date – August 23, 2013  
Proposal Due Time – 4:30 PM (Central Time)

**Presented By:**



Julia Lambert, FSA MAAA  
President  
Wakely Consulting Group  
17757 U.S. Highway 19 North, Suite 310  
Clearwater, FL 33764  
Phone: [REDACTED]  
Facsimile: 727-507-9658  
Website: [www.wakely.com](http://www.wakely.com)  
E-mail: [JuliaL@](mailto:JuliaL@) [REDACTED]

Christine Bach, ASA MAAA  
Senior Consulting Actuary  
Wakely Consulting Group  
1660 Highway 100 South, Suite 590  
Minneapolis, MN 55416  
Phone: [REDACTED]  
Facsimile: 727-507-9658  
Website: [www.wakely.com](http://www.wakely.com)  
E-mail: [ChrisB@](mailto:ChrisB@) [REDACTED]

ATTACHMENT B

COST PROPOSAL

Responder/Organization: Wakely Consulting Group, Inc.

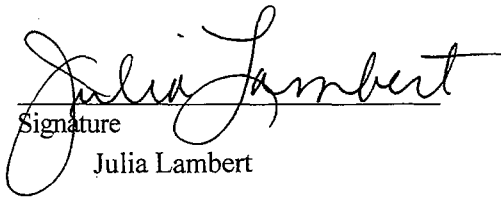
Service Category: Actuarial Services

This form must be completed and submitted separately as the sealed cost proposal. Responder must provide one hourly rate for each staff position identified in the proposal; a range of hourly compensation for a staff position will not be accepted. Do not include costs for travel and subsistence. Responder must consider all other costs in determining the proposed hourly rates. The hourly rate will be the full consideration paid for the specified time period covered by the master contract. The master contract will contain no inflationary or cost-of-living adjustment provisions. NOTE: OLA reserves the right to negotiate fee schedules with the selected Responders for the master contracts AND the work order contracts. (Attach additional sheets if more room is necessary.)

Staff Position and Professional Certification(s) (For example, Manager, Supervisor, Staff, etc.)	Hourly Rate
Director	\$440
Senior Consulting Actuary	\$365
Consulting Actuary	\$285
Senior Actuarial Analyst	\$225
Actuarial Analyst	\$180

This form must be signed by an individual authorized to legally bind the Responder; the signature must include the individual's title and the date the form was signed. The cost proposal must be open for acceptance until a master contract is signed, the RFP is cancelled, or 180 days from the final submission date of the RFP, whichever is first.

By signing this cost proposal, I do hereby certify the Responder named above wishes to enter an hourly rate for the services requested by the Office of the Legislative Auditor in its RFP for audit and actuarial services. The information submitted in this cost proposal is accurate, complete, and current as of the following date. If awarded a master contract, the hourly rates quoted above will remain in effect through the term of the master contract, unless a change is approved by the Office of the Legislative Auditor.


  
 Signature \_\_\_\_\_ President \_\_\_\_\_

8/22/13  
Date

Julia Lambert  
Print Name

September 5, 2013, 3:00 p.m.

**To:** File

**From:** Valerie Bombach

**Subj:** RFP Interview – Wakely Consulting Group, Inc.

**Location:** Office of the Legislative Auditor

**Attendees:** Wakely Consulting Group

Chris Bach, Senior Actuary  
Bob Spence, Data Analyst  
Julia Lambert (via telephone)

Office of the Legislative Auditor

Jim Nobles, Legislative Auditor  
Valerie Bombach, Program Manager  
Eric Jacobson, Business Manager

We met with Wakely staff to discuss their response to our RFP (see C-22.b and C-22.c). The following represents a general summary of the discussion and responses to key questions.

**What is your understanding and knowledge of the current issues concerning managed care and public health care programs in Minnesota?**

Wakely staff were somewhat aware of the current controversies. Bach said she had heard of the issues concerning UCare's \$30 million donation to the state.

**Explain why Wakely would be a good fit for the OLA work. What insight would your firm bring to these issues? Why have a government entity examine the financial reports of managed care organizations?**

Bach said Wakely brings extensive experience from both state and plan perspectives. Wakely employs 25 credentialed actuaries to ensure quality of work. Wakely staff—Bob in particular—have outstanding actuarial technical skills in analyzing large and small data sets. Wakely employs a rigorous internal peer review process to ensure the quality and defensibility of work. Staff also provide strong, ongoing conceptual peer review of each others' work to ensure Wakely is providing the work and services that are requested. Lambert said that the work required is very similar to the work that Wakely provides for the Medicare Advantage program. Lambert emphasized that Wakely brings multi-state experience to the table and could help compare Minnesota's policies/practices with those in other states. She also pointed out that Wakely "knows both sides" and has a lot of experience on the plan side, and that it would be important for OLA to hear a balanced view.

Bombach said that OLA is looking for a contractor who is flexible; we will have work orders, but the work also will be an iterative process. Some work may involve examining methods in other states. **Do you have any concerns about this approach to conducting the work?** Bach said that her work experience has involved this approach for other clients. Bach said that the needs of their clients vary widely, that Wakely staff would work with OLA, and that the final work product is tailored to the needs of the client.

**Do you have any concerns or thoughts about reviewing and commenting on work by other actuaries? Any practices or approaches for reconciling differences in findings?** Bach said that conceptual and technical peer review is an internal practice, as well as an expected practice of the actuary industry. She said that all of her rate reviews for states' exchanges have been peer reviews. In addition, the Medicare Bid reviews involved desk reviews and an audit process. She has reviewed and scrutinized similar information for Medicare bids and has done analysis of surplus levels but this did not involve drawing a sample of granular-level data. However, other Wakely staff may have performed granular-level audits of data when analyzing surplus levels.

**Do you have any concerns or thoughts regarding ownership and use of work product?** Bach said that this is not a problem. Lambert said that they would retain the ownership of their IBNR model. OLA staff explained the role and authority OLA, and OLA conflict of interest and independence requirements. Bach said that the Wakely staff with COI issues would not be working on this project, and that Wakely has separate, internal firewalls to ensure confidentiality of work.

**Does your firm have any work requirements pertaining to staffing or reporting that we must be aware of? Do you have any restrictions in the availability of time or staff between now and next May? When would your staff be available to begin work?**

Bach said that they do not have any minimum requirements, but would want to know OLA's time needs so that Wakely can plan and coordinate its other work obligations.

**What is the nature of Wakely's business relationship with Minnesota MCOs for the Wakely National Simulation Project? Are there any MN MCOs involved in this project, and would you consider them to be "clients"?** Lambert checked this information during the interview. She said that Minnesota was a participant in the project. It was funded by participants, and Wakely developed a model of the "average person" that health plans could refer to when considering risk adjustment under the ACA.

**In your past work re: development or examination of capitation payment rates, to what extent do you drill down in the financial reports and data reported by the MCOs?** Wakely does not have CPAs on staff and does not use CPAs in their work; however, Bach has done medical claim level statistical sampling and testing when scrutinizing data related to HEDIS measures, so she assumes the approach for administrative claims would not be much different.

**Do you have any objections to OLA contacting individuals from your previous projects?** Wakely staff did not have any objections.

**RE: MN Office of the Legislative Auditor RFP**

**Chris Bach** [REDACTED]

**Sent: Friday, September 06, 2013 2:48 PM**

**To: Bombach, Valerie (OLA)**

**Cc: Julia Lambert** [REDACTED] **Bob Spence** [REDACTED] **Sharon**

**Leach** [sharonl@REDACTED]

Good afternoon, Valerie! Thank you again for meeting with us yesterday to discuss the proposal. We enjoyed meeting you. Here are the follow up items we promised:

- Confirmation on whether the following projects were on behalf of state or plan clients:
  - Colorado Dept. of Health Care Policy and Financing: on behalf of the state
  - Missouri Medicaid Expansion: on behalf of the state
  - Oregon: some Medicaid and health insurance exchange projects on behalf of the state; some projects on behalf of specific carriers within the state
  - Ohio Medicaid: on behalf of the association of health plans within the state
  - Indiana Medicaid: on behalf of specific carriers within the state
  - Minnesota Medicaid: on behalf of specific carriers within the state
  - Florida Medicaid: on behalf of specific carriers within the state
  - Dual SNP MA/PD plans: on behalf of various carriers in various states
  
- Additional references, particularly around rate review and surplus analyses:
  - Green Mountain Care Board of Vermont (responsible for running of Vermont health insurance exchange): Wakely performed the actuarial review of the rate filings on behalf of the exchange. In addition, Wakely performed an analysis of the surplus levels and requested contribution to surplus included in the rate filings. Based on the results of the analyses, the Board was able to determine a maximum level of contribution to surplus that was reasonable to allow in the rate development. Contacts are:

*Georgia J. Maheras, Esq.*  
*Executive Director*  
*Green Mountain Care Board*  
[REDACTED]  
[REDACTED] (c)  
[georgia.maheras@\[REDACTED\]](mailto:georgia.maheras@[REDACTED])

*Judith Henkin*  
*Health Policy Director*  
*Green Mountain Care Board*  
*89 State Street*  
*Montpelier, Vermont 05620*  
[www.gmcboard.vermont.gov](http://www.gmcboard.vermont.gov)  
[REDACTED]

- Access Health Connecticut (Connecticut's Health Insurance Exchange): Wakely performed the actuarial review of the rate filings on behalf of the exchange. Contacts are:

*Steven J. Sigal*  
*Chief Financial Officer*  
*Connecticut Health Insurance Exchange*  
*d/b/a Access Health CT*



p: [REDACTED]  
e: [REDACTED]

*Julie E. Lyons*  
*Director, Policy & Plan Management*  
*Access Health CT*

p: [REDACTED]  
e: [REDACTED]

- Minnesota health plan participation in Wakely's National Risk Simulation Study: We have confirmed that Minnesota health plans did participate in Wakely's National Risk Simulation Study. Please let us know if you would like to see a list of participating plans.
- Robert Wood Johnson Foundation: We have confirmed that Minnesota is among the RWJ network states for whom Wakely provides actuarial analysis. The RWJ network provides technical assistance to selected states (Alabama, Colorado, Illinois, Maryland, Michigan, Minnesota, New Mexico, New York, Oregon, Rhode Island and Virginia), working with newly formed health insurance exchanges, Medicaid agencies, insurance departments and other state agencies to effectively implement ACA's coverage expansions through various projects.

Please let us know if you have any further questions or if we can provide you any further information to assist in your decision. We are excited about the possibility of working with you and look forward to hearing from you soon. Have a great weekend!

Chris

**Chris Bach, ASA, MAAA, FCA**  
**Senior Consulting Actuary**  
**Wakely Consulting Group**  
**1660 Highway 100 South**  
**Suite 590**  
**Minneapolis, MN 55416**  
[REDACTED]

## Minnesota Office of the Legislative Auditor Evaluation Form – Actuary Services

**Contractor: Wakely Consulting Group** \_\_\_\_\_ **Interview Date: 9/5/13, 3:00**

Proposals will be evaluated on “best value” based on the evaluation criteria as stated below. When assessing points, use a 0-5 scale, which will then be multiplied by the weight assigned.

Points	Guidance
5	Excellent, insightful response
4	More than adequate response
3	Adequate response, no special insights
2	Inadequate response
1	Totally inadequate response
0	No response given

Factor	Weight
1. Conflict of Interest/Independence	Pass/Fail
2. Background/Experience	30%
3. Project Approach/Deliverables/Statement of Understanding	35%
4. Cost	35%

### Evaluation (RFP and Interview)

Criteria	Source	Possible Points	Points Awarded	Multiplier	Total Points
<b>1. Conflict of Interest/Independence (weighed against C-15.a)</b> A. Vendor eligible to audit the majority of MCOs: Independence issue for 2012. B. Vendor eligible to review DHS Rate-setting, or certification: Independence issue re: MN data. Eligible to review other states' laws and rate-setting requirements, practices. C. Vendor eligible to provide expertise to OLA: Y	C-22.b and C-22.a	Pass	NA		
<b>2. Relevant Background/Experience</b> A. Responder background/experience overall, including pertinent roles and responsibilities with respect to past work.	C-22.b,c,f	0-5	4.5	1.5	6.75
B. Sufficient staff and resources available for OLA timeframes; Flexibility of proposer	C-22.b,c,f	0-5	4.5	1.0	4.5
C. Complaints/actions against proposer	C-22.b and C-22.a	0-5	5	.5	2.5
<b>3. Project Approach/Deliverables/Statement of Understanding</b>					
A. Statement of Understanding, including awareness of current issues, legislative concerns, and work required	C-22.b,c,f	0-5	3.0	.5	1.5
B. Project Approach, including clearly defined methods and deliverables and appropriate statistical techniques	C-22.b,c,f	0-5	3.0	1.5	4.5
C. Realistic/Logical Workplan for completing the work, including timely and feasible deadlines	C-22.b,c,f	0-5	3.0	1.5	4.5
<b>TOTAL TECHNICAL POINTS (Project manager will calculate)</b>					
<b>4. COST (Project manager will calculate)</b>	C-22.c	35	25		25
<b>TOTAL SCORE (Project manager will calculate)</b>		65			49.5

**September 13, 2013**

OLA master contract offer

Bombach, Valerie (OLA)

Sent: Friday, September 13, 2013 10:32 AM

To: [REDACTED]

Good morning Julia and Chris -

I am pleased to extend an offer to Wakely Consulting Group for the Office of the Legislative Auditor's master contract for actuarial services. OLA accepts your proposal, and I look forward to finalizing an agreement with your firm. You may contact me at the number below or via email to discuss any questions/comments you may have at this point. As a followup to our meeting last week, OLA will require the \$2 million insurance policy. Let me know if this presents an issue for Wakely.

Regards,

Valerie Bombach

Principal Program Evaluator

Office of the Legislative Auditor  
[REDACTED]