

Report of the Examination of

Lakeland Care, Inc.

Fond du Lac, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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February 21, 2020

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

LAKELAND CARE, INC
Fond du Lac, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The current examination of Lakeland Care, Inc. (the company or LCI) covered the period ending December 31, 2018, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operations
- Growth
- Financial Statements
- Accounts and Records
- Information Technology

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 57.26, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Lakeland Care, Inc., has received a permit to operate as a care management organization (CMO), pursuant to s. 648.05, Wis. Stat. A CMO provides long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), Wis. Stat., that are provided by a CMO that contracts with the Wisconsin Department of Health Services (DHS) under s. 46.284, Wis. Stat., and enrolls only individuals who are eligible under s. 46.286, Wis. Stat.

The company was previously formed as a Long-Term Care District under the name Lakeland Care District (the District) in April 2009 to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin's Family Care program. The District was created by resolutions adopted by Fond du Lac, Manitowoc, and Winnebago counties pursuant to s. 46.2895, Wis. Stat. The District was considered a special purpose government, separate and independent from all counties that acted to create the District. The District was permitted to operate as a CMO under ch. 648, Wis. Stat. The District was granted powers necessary to carry out the purposes of the District under ss. 46.2805 to 46.2895, Wis. Stat., which do not allow the District to issue bonds or levy a tax or assessment. The District was legally separate and fiscally independent of the counties, local, and state government.

On January 1, 2017, the company converted from a public Long-Term Care District to a private non-profit organization and changed its name from Lakeland Care District to its current name. The company operates in four Geographic Service Regions (GSR) and includes GSR 4, 9, 10, and 13. Counties under the four GSRs include:

GSR 4	GSR 9	GSR 10	GSR 13
Florence	Fond du Lac	Calumet	Brown
Forest	Manitowoc	Outagamie	Door
Langlade	Winnebago	Waupaca	Kewaunee
Lincoln			Marinette
Marathon			Menominee
Oneida			Oconto
Portage			Shawano
Vilas			
Wood			

The company derives 98.74% of its revenue from the Wisconsin Family Care Program, 1.24% from Family Care services provided to two Wisconsin Tribes, the Oneida and Menominee Tribes,

and 0.02% from a Medicare Advantage product called Lakeland Care Plus Health, which was offered in partnership with Independent Care Health Plan. The Family Care Program helps seniors and adults with disabilities live as independently as possible in their own homes or other community care settings. Members are classified into one of three target groups: frail elders¹, physically disabled², and developmentally disabled³. LCI contracts directly with DHS to provide long-term care benefits to eligible members through its permit.

The company provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated Medicaid rates and other agreed-upon rates that are not determined by the Medicaid fee schedule.

The contracts include hold-harmless provisions for the protection of members. The contract(s) have a five-year term with subsequent one-year automatic renewals and may be terminated upon mutual consent or 60 days' prior written notice. Long-term care services provided through the Family Care Program include:

- Home health or personal care
- Supportive home care
- Nursing home
- Assisted living/residential care services
- Adult day or respite care
- Home delivered meals
- Home modifications
- Transportation
- Physical, speech or occupational therapy
- Wheelchairs and other equipment
- Adult diapers, gloves, and other medical supplies
- Mental health or drug and alcohol treatment
- Daily living skills training
- Communication aids/interpreter
- Employment services

¹ Frail elder is defined as an individual 65 and older who has a physical disability, or an irreversible dementia, that restricts the individual's ability to perform normal daily tasks or that threatens the capacity of the individual to live independently. (s. DHS 10.13 (25m), Wis. Adm. Code)

² Physically disabled is defined as a physical condition, including an anatomical loss or musculoskeletal, neurological, respiratory or cardiovascular impairment, that results from injury, disease or congenital disorder and that significantly interferes with or significantly limits at least one major life activity of a person. (s. DHS 10.13 (40), Wis. Adm. Code)

³ Developmentally disabled is defined as a disability attributable to brain injury, cerebral palsy, epilepsy, autism, Prader-Willi syndrome, mental retardation, or another neurological condition closely related to mental retardation, that has continued or can be expected to continue indefinitely and constitutes a substantial handicap to the afflicted individual. (s. DHS 10.13 (16), Wis. Adm. Code)

Marketing to individuals is restricted under the Medicaid regulations and operation procedures. Rates are determined by the contract between LCI and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are developed annually by the DHS contracted actuarial firm on a regional basis and are adjusted to reflect the company's estimated population by target group. The capitation rate paid by DHS to the company is actuarially based on the functional level of care a member needs: nursing home (NH) or non-nursing home (non-NH). The NH level of care rate is initially developed for each target group by region and adjusted for trend and administrative allowances prior to determining a final blended NH level of care rate for the CMO since different groups utilize services at different rates. The non-NH level of care rate is developed by using a functional status-based model that stratifies claims experience based on an individual's level of care.

The NH and non-NH level of care capitation rates are based on the utilization and expenditures of the original Family Care Program's pilot and select expansion counties. Under the federal regulations governing the federal- and state-funded Medicaid programs, the rates established by DHS must be actuarially sound and be certified by an independent actuary. The actuarial certification applies to the program as a whole, not each individual CMO.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. Under the company's bylaws, the company may have up to 15 board of directors. Directors are elected annually to serve a staggered three-year term. Officers of the board are elected by the board of directors for a two-year term. Officers of the company are not elected by the board of director, with the exception of the Chief Executive Officer, whom is appointed. Board members currently receive \$50 per meeting attended for serving on the board plus mileage reimbursement or the actual cost of special needs transportation.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jim Brey (Chair) Manitowoc, WI	Receiving Coordinator Stecker Machine Company	2021
Allen Buechel Mount Calvary, WI	County Executive Fond du Lac County	2021
Judy Goldsmith Fond du Lac, WI	Retired	2022
Mike Konecny Green Bay, WI	Retired	2022
Jim Koziczowski (Vice Chair) Neenah, WI	Retired	2021
Barbara Larson-Herber Wausaukee, WI	Retired	2021
Larry Lautenschlager Oshkosh, WI	Retired	2022
Todd Moely Fond du Lac, WI	Retail Clerk	2020
Tom Otto Oshkosh, WI	Retired	2020
Judy Ruggirello Manitowoc, WI	Retired	2022
Bob Ziegelbauer Manitowoc, WI	County Executive Manitowoc County	2020

Officers of the Company

The officers of the company serving at the time of this examination are as follows:

Name	Office	2018 Compensation
Katherine Mnuk*	Chief Executive Officer	\$195,989
Daniel Bizub	Chief Financial Officer	132,737
Sara Muhlbauer	Chief Operations Officer	133,668
Suzanne Sinjakovic	Chief Talent and Compliance Officer	117,805

*Individual retired in 2019 and was succeeded by Sara Muhlbauer.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Executive Committee

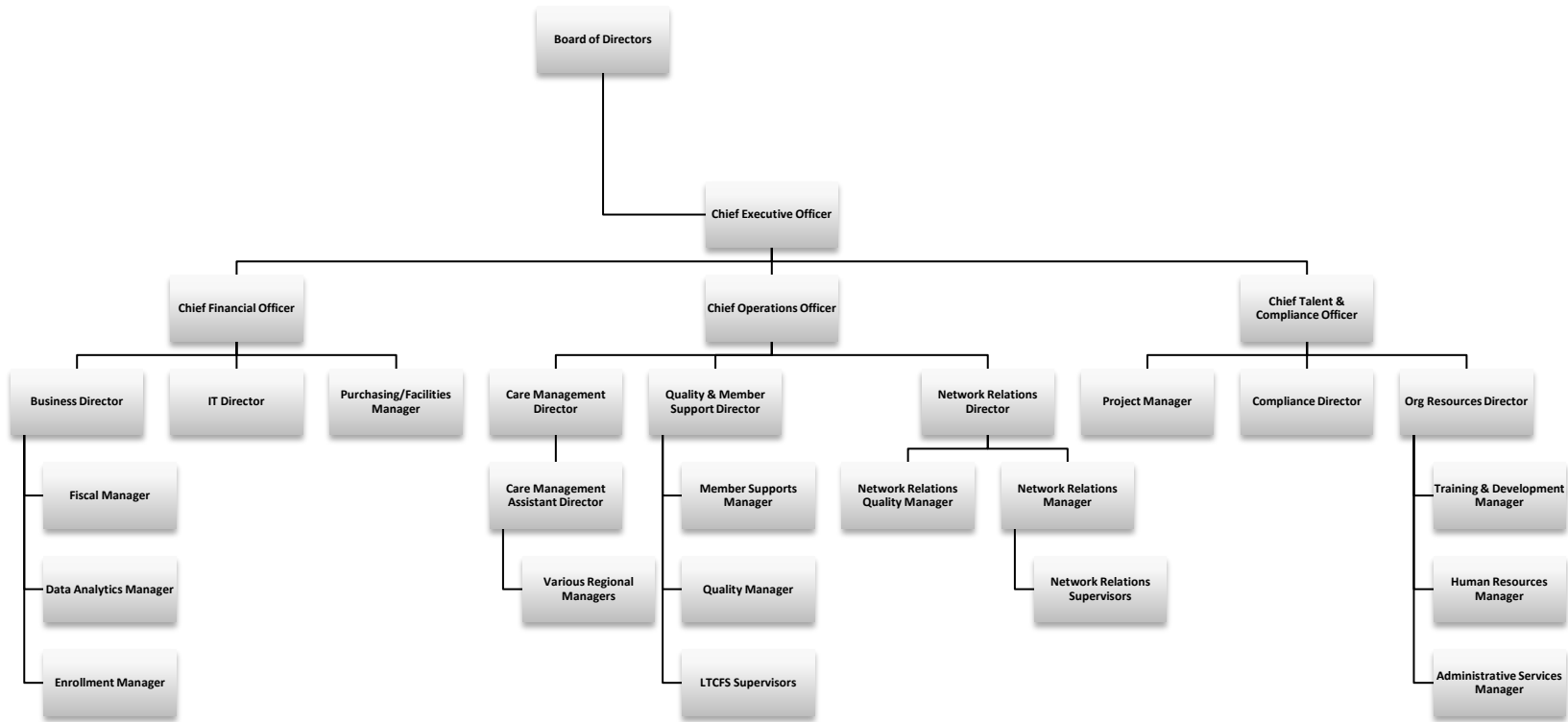
Jim Brey, Chair
Jim Koziczkowski, Vice Chair
Allen Bueschel
Katherine Mnuk (ex-officio)

Succession Planning Committee

Jim Koziczkowski, Chair
Jim Brey
Allen Bueschel
Barbara Larson-Herber
Tom Otto
Judy Ruggirello

The company has its own employees. A high-level personnel organization chart is included below.

Organization Chart



IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2018, financial statements. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination." Also included in this section are schedules that reflect the company's operating results by target group and the growth of the company for the period under examination.

Lakeland Care, Inc
Balance Sheet
As of December 31, 2018

Current Assets

Cash and cash equivalents, operating		\$21,687,180
Cash and cash equivalents, other		99,022
Capitation receivable net of allowance		519,329
Other DHS receivables net of allowance		8,028,258
Cost share receivable net of allowance		213,188
Room and board receivable net of allowance		558,059
Parent, subsidiary, affiliate receivable		78,055
Prepaid insurance		8,910
Prepaid providers (member service expenses)		93,110
Prepaid expenses – other		220,965
Other current assets		<u>70,497</u>
<i>Total Current Assets</i>		<u>31,576,574</u>

Long-Term Assets

Risk reserve funds – FC Permitted MCO	\$ 2,974,288	
Solvency reserve/guaranty funds on deposit permitted MCO	1,243,300	
Leasehold improvements (cost)	370,613	
Accumulated depreciation – leasehold improvements	(259,429)	
Furniture, equipment, and software (cost)	2,829,886	
Accumulated depreciation – furniture, equipment, and software	<u>(1,792,644)</u>	
<i>Total Long-Term Assets</i>		<u>5,366,014</u>

Total Assets

\$36,942,588

Current Liabilities

Capitation payable		\$ 170,544
Accrued salaries		858,129
Accrued taxes and benefits (current)		390,999
IBNR member services – current year		19,871,765
Accounts payable – general		2,507,540
Due to other		<u>54,708</u>
<i>Total Current Liabilities</i>		23,853,684

Long-Term Liabilities

Other long-term liabilities		<u>34,549</u>
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Total Liabilities

23,888,234

Equity

Beginning equity	\$16,049,333	
Current year net income	<u>(2,994,979)</u>	
<i>Total Equity</i>		<u>13,054,354</u>

Total Liabilities and Equity

\$36,942,588

Lakeland Care, Inc
Profit and Loss Statement
For the Period Ending December 31, 2018

Revenues

MA capitation (net of cost share)	\$205,312,044
Cost share revenue	7,843,827
Room and board revenue	19,802,098
Other third-party payer revenues	100,082
Other current year retro adjustments, DHS	6,359,560
Other income/funding	<u>216,595</u>
Total Revenue	239,634,206

Long-Term Care Services (All Programs)

Adaptive equipment	\$ 4,757,247	
Adult day activities	725,911	
Habilitation/health	10,343,317	
Home care	34,186,422	
Home health care	2,292,761	
Institutional (NH/ICF-MR)	18,725,868	
Residential care	103,307,292	
Respite care	1,251,734	
Transportation	5,314,084	
Vocational	6,093,956	
Room and board – expenses	21,390,415	
Financial management	1,193,062	
Other FC LTC services	<u>93,895</u>	
<i>Total Member Service Expenses</i>		209,675,962

Care Management Expenses

Care management (Internal)	23,133,437	
Care management admin – allocated	<u>2,291,200</u>	
<i>Total Care Management Expenses</i>		25,424,637

Administrative Expenses

Wages and benefits	6,278,941	
Contracted TPA expense	1,236,314	
Occupancy	878,873	
Office expenses	266,728	
Legal/accounting/audit	166,652	
Other professional services	546,880	
Depreciation expense	365,156	
Insurance expense	85,532	
Travel/training/conference expense	274,913	
Other administrative expenses	139,954	
Administrative allocation to care management	<u>(2,291,200)</u>	
<i>Total Administrative Expenses</i>		<u>7,948,743</u>

Total Operating Expenses

243,049,342

Income (Loss) from Operations, current year

(3,415,137)

Other (Income) Expenses, ordinary		
Investment income – reserve funds	(28,663)	
Investment income – Other LT	(431)	
Prior year adjustment – IBNR	74,018	
Prior year adjustment – other DHS	58,381	
Prior year adjustment – other expenses	(148,756)	
Other non-operating income	<u>(374,707)</u>	
<i>Total Other Expenses</i>		<u>(420,158)</u>
Net Income (Loss)		<u>\$ (2,994,979)</u>

Lakeland Care, Inc
Statement of Cash Flows
For the Period Ending December 31, 2018

Operating Activities

Net income per GL	\$ (2,994,979)
Add: Depreciation	365,156
(Increase) Decrease Accounts receivable, Capitation & DHS other	(4,740,694)
(Increase) Decrease Accounts receivable general	(240,238)
(Increase) Decrease Prepaid insurance	140,383
(Increase) Decrease Prepaid other	(205,970)
Increase (Decrease) IBNR	3,518,411
Increase (Decrease) Accounts payable	1,693,693
Increase (Decrease) Wages/taxes/ben. payable	231,729
Increase (Decrease) Due to other payable	15,608
Increase (Decrease) Unearned revenues & DHS other payable	9,309
Increase (Decrease) Other current liabilities	<u>(4,343)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>(2,211,935)</u>

Investing Activities

Change in property, plant and equipment:	\$(521,873)
Change in long-term investments	<u>(285,247)</u>
<i>Net Cash Used in Investing Activities</i>	<u>(807,121)</u>
Net increase in cash and cash equivalents	<u>(3,019,056)</u>
Cash and Cash Equivalents Beg of Period	<u>24,805,258</u>
Cash and Cash Equivalents End of Period	<u>\$21,786,202</u>

Growth of Lakeland Care, Inc

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Member Months
2018	\$36,942,586	\$23,888,234	\$13,054,352	\$205,312,044	\$209,675,964	\$(2,994,981)	65,935
2017	34,473,159	18,423,827	16,049,333	178,015,131	177,096,022	2,308,360	56,951
2016	28,897,627	15,156,649	13,740,978	157,914,525	159,859,615	(3,130,643)	51,622
2015	35,061,916	18,190,294	16,871,622	113,848,149	113,891,539	(961,876)	38,268

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Member Months
2018	-1.4%	86.0%	11.9%	97.9%	3.7%	15.8%
2017	1.2	84.9	11.8	96.7	3.8	10.3
2016	-1.9	84.9	11.5	96.5	4.0	34.9
2015	-0.8	83.8	12.5	96.3	4.5	35.0

Per Member Per Month Information

	2018	2017	Percentage Change
Revenues			
Capitation	\$3,113.86	\$3,133.92	-0.4%
Other revenue	<u>520.55</u>	<u>498.42</u>	11.6
Total revenue	3,634.40	3,582.12	1.2
Expenses:			
Member service costs	3,180.04	3,109.62	2.3
Care management	385.60	375.03	2.8
Administrative	<u>120.55</u>	<u>121.97</u>	-1.2
Total operating expenses	3,686.20	3,606.62	2.2
Other non-operating expenses	<u>(6.37)</u>	<u>(55.13)</u>	88.4
Net income (loss)	<u>(45.42)</u>	<u>40.53</u>	-212.1
Member months	65,935	56,951	

LCI's enrollment has grown each year under examination. In addition, total assets have increased by roughly 5.4%, liabilities have increased by 31.3%, and equity has decreased by 22.6% from 2015 to 2018. The increase in liabilities is primarily due to payments received from DHS to provide payments to direct care workers who have not been paid as of the date of the examination. Due to the timing of the payment received, this led to a significant increase in liabilities. The decrease in equity has been primarily due to losses incurred as a result of service and administrative costs exceeding the

capitation rates set by DHS. To address operating losses, DHS has provided the company with a market variability adjustment in 2019. The adjustment was added to the company's monthly capitation rate.

Reconciliation of Equity per Examination

No adjustments were made to the surplus as a result of the examination. The amount of equity reported by the company as of December 31, 2018, is accepted.

V. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Biographical Affidavits—It is recommended that the district file biographical affidavits in accordance with s. 648.50 (3), Wis. Stat.

Action—Compliance.

2. Conflict of Interest Disclosures—It is recommended that the district have conflict of interest statements completed for all officers and directors annually and establish a process for maintaining these records.

Action—Compliance.

3. MIDAS Hosting and Access Agreement—It is recommended that the district review the MIDAS Hosting and Access Agreement and remedy deficiencies either through an amendment to the current agreement or at the time of renewal.

Action—Compliance.

4. Monitoring of Third-Party Providers—It is recommended that the district either 1) obtain and review an SSAE 16, type 2 report from WPS, MCDFC, and any future, similar third-party service providers or 2) obtain by other means the assurance that controls in place at third-party providers are designed to achieve control objectives and are operating effectively.

Action—Partial Compliance.

5. Unclaimed Funds—It is recommended that the district create and implement an escheats policy to ensure that unclaimed property is properly remitted to the state in accordance with ch. 177 Wis. Stat.

Action—Compliance.

6. Accrued Salaries—It is recommended that accrued payroll balances and expenses reported to OCI and DHS be reported for all periods using GASB accounting with a proper cutoff between accounting periods.

Action—Compliance.

7. Provider Contracts—It is recommended that the district review its contracting practices and documentation standards to ensure that proper documentation is retained in the provider contract file (hard copy or electronic), including amendments and relevant correspondence.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Audit Engagement Letter

The examination review of the engagement letter submitted to the company by its independent certified public accounting firm for the external audit as of December 31, 2018, disclosed the engagement letter included an indemnification clause that limits the CPA firm's liability with respect to the audit. Section Ins 57.32 (1) (b), Wis. Adm. Code, provides that the Commissioner may rule that an accountant is not qualified to express an opinion on an audited financial statement if, among other things, the accountant "has either directly or indirectly entered into an agreement of indemnification with respect to the audit of the care management organization." The clause included in the engagement letter creates a contractual limit of liability, with the intent to limit the liability of the CPA firm for failure to adhere to auditing standards. It is recommended that the company have the indemnification clause in the engagement letter removed in future audits or replace the accounting firm with one that is qualified by s. Ins 57.32 (1) (b), Wis. Adm. Code to render an opinion.

Business Continuity Plan

A review of the company's business continuity plan (BCP) noted that the company has plans developed; however, the company has not yet tested the plans to assess the effectiveness. The company should test its BCP at least on an annual basis to ensure that the plans are effective and viable given the environment of the company. It is recommended that the company test its BCP on a regular basis but not less than annually.

Monitoring of Third-Party Providers

A review of the company's process over oversight of its key third-party providers noted that the company obtains a System and Organization Controls (SOC) Report from the providers; however, there is no formal documentation of a review of the reports. In order to obtain assurance that the third-party providers have effective Information Technology General Controls and other internal controls in place, the company must understand any business impact from control deficiencies that may exist at the

third-party provider. Therefore, a proper audit trail that can demonstrate the review process and indicate any compensating controls that the company and/or vendors may need to establish to mitigate or remediate risks caused by the deficiencies would benefit the company in vendor management. It is recommended that the company develop a formal internal review process to review the SOC reports and other audit reports obtained from its key third-party providers and complete the reviews on an annual basis.

Financial Requirements

The financial requirements for a CMO under s. 648.75, Wis. Stat. and s. Ins 57.04, Wis. Adm.

Code for the period ending December 31, 2018, are as follows:

	Amount Required
1. Working Capital	Not less than 3.0% of the budgeted annual capitation payments from DHS
2. Restricted reserves	The required minimum balance is calculated as follows: 8% of the first \$5 million annual budgeted capitation 4% of the next \$5 million annual budgeted capitation 3% of the next \$10 million annual budgeted capitation 2% of the next \$30 million annual budgeted capitation 1% of annual budgeted capitation in excess of \$50 million
3. Solvency fund	Not less than \$750,000

The company's financial requirement calculations as of December 31, 2018, are as follows:

Working Capital

Current Assets	\$31,576,574
Current Liabilities	<u>23,853,684</u>
Working Capital	7,722,889
Working Capital Requirement	<u>5,824,638</u>
Excess/(shortage)	<u>\$ 1,898,252</u>

Restricted Reserves

Current Restricted Reserves	\$ 2,974,288
Restricted Reserve Requirement	<u>2,941,546</u>
Excess/(shortage)	<u>\$ 32,742</u>

Solvency Fund

Current Solvency Fund	\$ 1,243,300
Solvency Fund Requirement	<u>1,243,300</u>
Excess/(shortage)	<u>\$ 0</u>

The company met its financial requirements at December 31, 2018.

VI. CONCLUSION

Lakeland Care, Inc., is a private non-profit organization that has a permit to operate as a CMO, pursuant to s. 648.05, Wis. Stat. in the State of Wisconsin. The company primarily provides Family Care services as part of its contract with DHS in the following counties: Brown, Calumet, Door, Florence, Fond du Lac, Forest, Kewaunee, Langlade, Lincoln, Manitowoc, Marathon, Marinette, Menominee, Oconto, Oneida, Outagamie, Portage, Shawano, Vilas, Waupaca, Winnebago, and Wood.

The company has continued to grow each year; however, operating costs exceeded capitation rates set by DHS in 2016 and 2018. As a result, the company has experienced a significant decline in equity. In 2019, the company was provided with a market variability adjustment to the PMPM capitation rate from DHS, which was included in the company's monthly capitation rate. As of December 31, 2018, the company met its financial requirements.

The prior examination had seven recommendations of which six were in full compliance and one was in partial compliance. The current examination has three recommendations.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 Audit Engagement Letter—It is recommended that the company have the indemnification clause in the engagement letter removed in future audits or replace the accounting firm with one that is qualified by s. Ins 57.32 (1) (b), Wis. Adm. Code to render an opinion.
2. Page 17 Business Continuity Plan—It is recommended that the company test its BCP on a regular basis but not less than annually.
3. Page 18 Monitoring of Third-Party Providers—It is recommended that the company develop a formal internal review process to review the SOC reports and other audit reports obtained from its key third-party providers and complete the reviews on an annual basis.

VIII. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Gabriel Gorske	Insurance Financial Examiner
Ana Careaga	ACL Specialist
Karl Albert, CFE	Workpaper Specialist
Eleanor Lu, CISA	Information Technology Examiner

Respectfully submitted,



Kongmeng Yang
Examiner-in-Charge