

VIRGINIA DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

MANAGED CARE ORGANIZATION (MCO) ADMINISTRATIVE EXPENSES

INDEPENDENT ACCOUNTANT'S REPORT



MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.



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Independent Accountant's Report

Virginia Department of Medical Assistance Services
600 East Broad Street
Richmond, VA 23219

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.

Period Covered: January 1, 2019 - December 31, 2019

We have performed the procedures enumerated in Appendix A on the administrative expenses for the above referenced Managed Care Organization (MCO) and period. We were asked to apply these procedures to assist you with respect to analyzing administrative expenses for Medicaid rate development. The above referenced MCO vendor's management is responsible for the accuracy and completeness of the financial information.

The Virginia Department of Medical Assistance Services (Department) has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of analyzing administrative expenses for Medicaid rate development. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our procedures are contained within Appendix A and our findings are contained in Appendices B and C. As agreed, materiality limits were applied as specified within the Agreed-Upon Procedures Program.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion on the MCO's administrative expenses. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the MCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Department, and is not intended to be, and should not be, used by anyone other than this specified party.

Myers and Stauffer LC
Glen Allen, VA
May 15, 2020



Appendix A - Agreed Upon Procedures

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
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Preliminary Work

- 1) Conduct an entrance call with DMAS and Mercer, DMAS' actuary for MCO rate setting. Gain an understanding of information needed by Mercer for rate setting purposes. Determine if either DMAS or Mercer have initial concerns requiring special attention.
- 2) Send an initial request list to each MCO to include, but not limited to, a survey containing a questionnaire, Board of Directors minutes, organizational charts, working trial balance, adjusting journal entries, audited financial statements, reconciliation of the working trial balance and the quarterly reporting, support for the allocation of administrative expenses and net premium income to the Medicaid line of business and between each Medicaid product, cost allocation worksheet summarizing quarterly reporting information and MCO reported adjustments, schedule of related-party transactions, related-party agreements, narrative surrounding reinsurance reporting, etc.
- 3) Conduct an entrance call with appropriate MCO personnel to include (a) determination of MCO personnel who should be contacted during the course of our procedures for information, explanations, documents, etc., and (b) location and availability of the information requested.
- 4) Briefly document the entity's accounting procedures and internal control per MCO responses on the survey. Emphasis should be placed on the ability of the system(s) to generate reliable cost, revenue, and statistical information.
- 5) Read Board of Directors minutes from the beginning of the report period through the current date. Document matters impacting the scope of these procedures such as discussions related to administrative costs and non-allowable or non-recurring costs as described in Step 16. Obtain copies or excerpts of pertinent sections, and file in work papers. Cross-reference matters discussed in the minutes to the related work papers.
- 6) Obtain the audited financial statements including related footnotes. Document matters impacting the scope of these procedures such as the opinion, notes that may provide information regarding non-allowable or non-recurring costs as described in Step 17, and/or related parties.
- 7) Obtain the names of all related parties from the MCO. Inspect the organizational chart, the annual statement submitted to the Virginia Bureau of Insurance (annual statement), and audited financial statements for related parties not identified by the MCO.
- 8) Obtain a summary work paper of related-party transactions from the MCO. Ensure it contains all related parties identified by the MCO and any additional related parties identified through Step 7. Cross-reference procedures performed with respect to items on the summary work paper to other applicable work papers or indicate the procedures performed on the summary work paper.
- 9) Obtain the names of all delegated vendors from the MCO. Inspect the organizational chart, the annual statement, and audited financial statements for delegated vendors not identified by the MCO.



Appendix A - Agreed Upon Procedures

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
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- 10) Consider whether any specific information has come to our attention concerning the existence of possible fraud or prohibited acts. Fraud risk factors for this procedure include: discrepancies in accounting records, conflicting or missing evidential matter, threatened financial stability or profitability, and lack of an effective corporate compliance program. If fraud risk factors are identified, document those risk factors or conditions and our response to them.

Trial Balance Reconciliation

- 11) Reconcile total expenses and total administrative expenses per the adjusted trial balance as of December 31, 2019 to the annual statement for the year ended December 31, 2019 and the quarterly filing required by the Department.
- 12) Obtain the adjusted trial balance as of December 31, 2019. For a sample of 20 accounts, trace the account titles, account numbers, and ending balances for the administrative expenses per the adjusted trial balance to the general ledger for the year ended December 31, 2019.
- 13) Obtain the year-end adjusting journal entries recommended by the independent accountant for the year ended December 31, 2019. Inspect the entries affecting administration expense accounts for propriety. Ensure postings of adjustments to the trial balance, if adjusting journal entries have not been posted to the general ledger at year end.

Administrative Expenses

- 14) Determine how the MCO allocated the administration expenses and net premium income among the various lines of business. Determine how the MCO allocated the administration expenses for the Medicaid line of business to Medallion 4.0, CCC Plus, and any other products included by the MCO in the Medicaid line of business. Determine if any trial balance accounts are allocated between administration and medical expenses.
- a) Document this understanding through a narrative.
 - b) Document the MCO's support for these allocations.
 - c) Request supporting documentation for the elements of any allocation basis utilized by the MCO and ensure it agrees.
- 15) Document the cost allocation worksheet provided by the MCO in response to the request list. Trace the following elements to the support provided for allocations. Request additional support, as needed, if the self-reported amounts are not full account balances.
- a) Self-Excluded Expenses
 - b) Healthcare Quality Improvement Expenses (HCQI)
 - c) Fraud Reduction and Recovery Expenses
- 16) Compare administrative and claims adjustment expenses per the quarterly filing for the year ended December 31, 2019 to the prior year and obtain explanations for any fluctuations greater than 10 percent and \$100,000. Determine and document whether the MCO's explanation is consistent with supporting documentation.



Appendix A - Agreed Upon Procedures

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
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- 17) Scan administration expense accounts allocated to the Medicaid line of business for the below types of expenses. Select 15 to 20 accounts from this scan and from Step 15 and request the general ledger and a description of the account contents. If these documents are inconclusive as to the nature of the expense, request invoices for no more than five entries. Confer with the assigned senior manager/partner to select samples and document the reasoning.
- a) Non-allowable expenses as defined either by the MCO contract with DMAS or by CMS Publication 15. Examples of non-allowable expenses include: lobbying, contributions/donations, income tax, management fees for non-Virginia operations, and management fees for the sole purpose of securing an exclusive arrangement.
 - b) Non-recurring expenses such as start-up costs and expenses reimbursed separately from the MCO rate such as the health insurer fee.
 - c) HCQI Expenses
 - d) Fraud Reduction and Recovery Expenses
- 18) Agree the summary work paper of related party transactions from the MCO from Step 8 to the trial balance. Obtain agreements or other supporting documentation for payments to or costs allocated from affiliates or parent companies and determine if exclusivity payments or special contractual arrangements are included. Ensure the regulations within CMS Publication 15-1, Chapter 10 have been applied.
- 19) Agree the summary work paper of delegated vendor transactions from the MCO from Step 9 to the trial balance. For vendors with subcapitated arrangements and the Pharmacy Benefit Manager (PBM), obtain agreements and ensure that medical and administrative expenses were appropriately separated on the quarterly filing. For the PBM, collect information regarding where all costs (claims payments, ingredient cost, dispensing fees, rebates, sales tax, spread pricing, administrative payment, and other) are included on the trial balance and collect information regarding spread pricing, if applicable.
- 20) Prepare a narrative that summarizes the MCOs' methodology for reporting reinsurance premiums and reinsurance recoveries. Include both reinsurance amounts per the annual statement, as well as the allocation methodology to the Medicaid line of business. Agree amounts to the trial balance or document the trial balance account these amounts are included in.



Appendix B - Results

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
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Source of Information

Our procedures were performed to determine allowable administrative expenses for the purpose of Medicaid rate development. Our procedures were not performed to determine whether such administrative expenses were properly reported for purposes of the Bureau of Insurance of the Commonwealth of Virginia.

We used the quarterly filing required by the Department (quarterly filing), the Annual Statement submitted to the Insurance Department of the Commonwealth of Virginia (Annual Statement), and audited financial statements for UnitedHealthcare of the Mid-Atlantic, Inc. (UHCMA) for the year ended December 31, 2019.

UHCMA is wholly owned by UnitedHealthcare, Inc. (UHC). UHC is wholly owned by United HealthCare Services, Inc. (UHS). UHS provides certain administrative services to UHCMA under a Management Agreement. UHCMA has administrative expenses from five other related parties, Optum Rx Inc., March Vision Care, Inc., Dental Benefit Providers, OptumHealth, and National MedTrans, LLC. In addition to UHC, UHS owns National MedTrans, LLC, Specialty Benefits, LLC and Optum, Inc. Optum Rx Inc. and OptumHealth are wholly owned by Optum, Inc. while March Vision Care, Inc. is wholly owned by Specialty Benefits, LLC. In order to perform the agreed upon procedures outlined in Appendix A, we obtained a schedule of allocated expenses for UHS, as well as agreements set with Optum Rx Inc, March Vision Care, Inc., Dental Benefit Providers, OptumHealth, and National MedTrans, LLC.

UHCMA has delegated certain functions to vendors. CareCore provides utilization management services for high end imaging services.

Trial Balance Reconciliation

We obtained UHCMA's adjusted trial balance as of December 31, 2019 as well as a schedule of allocated expenses for UHS, as the majority of the administrative costs flow through UHS. We agreed the account descriptions, account numbers and ending balances for a sample of 20 accounts to the general ledger for the year ended December 31, 2019. No exceptions were noted.

Total administrative expenses including claims adjustment expenses per the UHCMA adjusted trial balance as of December 31, 2018 of \$117,155,047 were reconciled to the total administrative expenses including claims adjustment expenses on the quarterly filing of \$117,155,047. The administrative expenses including claims adjustment expenses per the MCC of Virginia Medicaid adjusted trial balance could not be reconciled to the total administrative expenses including claims adjustment expense on the Annual Statement as the Annual Statement includes UHCMA's Maryland Medicaid line of business.

Administrative Expenses

Total claims adjustment expenses and administrative expenses included in the Annual Statement consist of two basic components, direct expense and management fee expense. Direct expenses are those that are unequivocally related to a product, and therefore, are charged directly to that product. Management fee expenses are recorded at the UHS level, and allocated to the appropriate entities and products. The total direct and indirect Medicaid expenses submitted on the Annual Statement for the Virginia Medicaid line of business for Claims Adjustment and General Administrative expenses are \$40,557,226 and \$45,362,044 respectively. The Medicaid line of business on the Annual Statement also includes Medallion 3.0 and UHCMA's Maryland Medicaid line of business, for which Claims Adjustment and General Administrative expenses total \$2,135,877 and \$101,503,664.



Appendix B - Results

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
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We compared total UHCMA administrative and claim adjustment expenses reported on the quarterly filing by line item for the current year and prior year and obtained explanations for any line item with a change greater than \$100,000 and 10%. Total general administrative expenses, excluding investment expenses, for 2018 were \$85,384,078 compared to 2019 expenses of \$88,055,144. The increase of \$2,671,066 is primarily due to the fact that a management fee was not charged to Medallion 3.0 in the previous year as legacy vendors were utilized rather than United platforms. Of note is a significant decrease in Other administrative costs due to combining the CCC Plus program under UHCMA thus eliminating premium taxes from UnitedHealthcare Insurance Company.

We inspected the accounts included in UHCMA's trial balance. We judgmentally selected accounts for further inspection from the direct expense. Based on this inspection, we determined that \$26,230 in interest on late claims payments should be excluded from the Underwriting Exhibit at Appendix C. UHCMA provided a schedule showing UHS expenses directly attributed to the Virginia Medicaid line of business. We judgmentally selected accounts for further inspection from the direct expense. Based on this inspection, we determined that \$44,000 in contributions and donations expense should be excluded from the Underwriting Exhibit at Appendix C. In the year ending 12/31/2018 UHCMA identified \$3,398,789 in start-up costs related to Medallion 4.0 implementation and Medicaid expansion. UHCMA was unable to identify what portion related to Medallion 4.0 versus Medicaid expansion. These expenses were amortized over a five year period beginning August 2018. Amortization expenses have been added to the Underwriting Exhibit at Appendix C. However, this expense will be excluded from rate setting.

UHS provides UHCMA with management and operational support. The Management Services Agreement by and between UHCMA and UHC effective March 2017 provides for a percent of premiums based on expected actual costs and premiums. Optum Rx Inc. provides prescription benefit management for UHCMA. March Vision Care, Inc. provides administration of the vision benefit. Dental Benefit Providers provides administration of the dental benefit. OptumHealth provides disease management, complex medical care, and physical health services. National MedTrans, LLC provides administration of the non emergent transportation benefit. The service agreements for Optum Rx Inc., March Vision Care, Inc., Dental Benefit Providers, OptumHealth, and National MedTrans, LLC each allow for a per member per month fee. A schedule documenting payments made to UHS (\$73,625,658), Optum Rx Inc. (\$3,911,122.41), March Vision Care, Inc. (\$259,002), Dental Benefit Providers (\$172,602), OptumHealth (\$3,456,351), and National MedTrans, LLC (\$3,980,231) was provided to agree to amounts included with UHCMA administrative expenses.

We obtained a schedule showing UHS expenses directly attributed to the Virginia Medicaid line of business which totaled to \$74,208,743. Total management fees for the Virginia Medicaid line of business per the adjusted trial balance were \$73,625,658. An adjustment of \$583,085 was necessary to record UHS expenses at cost. Support for allocated costs was received on a sample basis and were found to be allowable. Optum Rx Inc., March Vision Care, Inc., Dental Benefit Providers, and National MedTrans, LLC met the related party exception provided for within CMS Publication 15-1: 1010, thus an adjustment is not needed. Support has not been provided for OptumHealth, to either document the costs of the related party or to document that the related party exception was met.

CareCore expenses are appropriately recorded to administrative accounts as this vendor provides utilization management services for high end imaging services.

Healthcare Quality Improvement Expenses (HCQI)

HCQI expenses are incurred at both the direct expense and management fee expense levels. A project code is assigned to general ledger entries to further differentiate certain costs. Project codes were assigned for each category of HCQI: health outcome improvement, hospital readmission prevention, patient safety improvement and medical error reduction, wellness and health promotion, and HIT expenses for health quality improvement. Total HCQI expense allocated to Medicaid in 2019 is \$29,537,494. This amount included \$23,946,146 related to care coordination.



Appendix B - Results

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Reinsurance

Reinsurance premiums are calculated on a percentage of member premium income and are netted against net premium income. Per the UHCMA Annual Statement total reinsurance premiums are \$1,800,120. Per the UHMA trial balance \$721,274 of these premiums relate to the Virginia Medicaid line of business. Also per the UHCMA Annual Statement total reinsurance recoveries are \$12,969, of which \$0 relate to the Virginia Medicaid line of business per the trial balance.



Appendix C - Underwriting Exhibit

MCO Vendor: UnitedHealthcare of the Mid-Atlantic, Inc.
Period Covered: January 1, 2019 - December 31, 2019

Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business (1)
Claims Adjustment Expenses	\$ 22,721,604	\$ 17,047,515	\$ 788,107	\$ 40,557,226
General Administrative Expenses	22,249,102	22,059,688	1,053,254	45,362,044
Total Administration Expenses	\$ 44,970,706	\$ 39,107,203	\$ 1,841,361	\$ 85,919,270
Less: Self-Reported Excludable Expenses	-	-	-	-
Adjusted Administration Expenses	\$ 44,970,706	\$ 39,107,203	\$ 1,841,361	\$ 85,919,270
Less: Record UHS Expense at Cost (2)	(2,813,782)	3,232,739	164,128	583,085
Less: Excluded Expenses (3)	(67,414)	(2,696)	(120)	(70,230)
Plus: Start-up Expenses (4)	-	679,758	-	679,758
Total Adjusted Administration Expenses	\$ 42,089,510	\$ 43,017,004	\$ 2,005,369	\$ 87,111,883
Net Premium Income (5)	\$ 551,746,062	\$ 352,567,589	\$ 17,900,060	\$ 922,213,711
Percentage of Adjusted Administration Expenses to Net Premium Income	7.63%	12.20%	11.20%	9.45%

(1) HCMA has healthcare businesses in Virginia and Maryland. As such, the Medicaid line of business on the Annual Statement includes both states as well.

(2) An adjustment was needed to record the related party UHS expenses at cost netting to \$583,085 across the various Medicaid lines of business. Cost was determined using a schedule showing UHS expenses directly attributed to the Virginia Medicaid line of business which resulted in a negative adjustment to CCC Plus and a positive adjustment to Medallion 4.0 and FAMIS.



Appendix C - Underwriting Exhibit

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(3) An adjustment was needed to remove interest expense related to late claims payments (\$26,230) and contributions/donations (\$44,000).

(4) During the period ending 12/31/2018, UHCMA identified \$3,398,789 in start-up expenses related to the transition to Medallion 4.0 and Medicaid expansion. As UHCMA was unable to identify the portion related to Medallion 4.0 versus Medicaid expansion, these were amortized over five years beginning August 2018 as this is when Medallion 4.0 began. This is the first full year of amortization. However, this expense will be excluded from rate setting.

(5) Net Premium Income is reduced by the change in unearned premium reserves in the amount of \$20,527,541.

Separately Identified Expenses Included in Adjusted Administration Expenses

	CCC Plus	Medallion 4.0	FAMIS	Total Medicaid Line of Business
Fraud Reduction and Recovery Expenses	\$ 278,060	\$ 643,591	\$ 1,686	\$ 923,337
Healthcare Quality Improvement Expenses (HCQI)	\$ 21,444,503	\$ 7,848,980	\$ 244,011	\$ 29,537,494
Component of HCQI: Care Coordination expenses (6)	\$ 19,488,977	\$ 4,322,781	\$ 134,388	\$ 23,946,146

(6) Care Coordination expenses are included in HCQI expenses, above.