



UnitedHealthCare Community  
Plan of Nebraska

Nebraska Department of Health and  
Human Services

**Managed Care Entity (MCE)**  
**Administrative Expenses**

**With Independent Accountant's Report Theron**

For the period of January 1, 2021 through  
December 31, 2021



**MYERS AND  
STAUFFER** LC  
CERTIFIED PUBLIC ACCOUNTANTS



## CONSULTING REPORT

June 20, 2023

Mr. Jeremy Brunssen  
Deputy Director – Finance and Program Integrity  
Nebraska Department of Health and Human Services  
301 Centennial Mall South  
Lincoln, Nebraska 68509

RE: Report on Managed Care Entity Administrative Expenses

Dear Mr. Brunssen:

We were engaged to perform consulting services on the administrative, subcapitated, and pharmacy expenses reported on the State of Nebraska's Heritage Health MCE Financial Reporting Template (MRT) submitted by UnitedHealthCare Community Plan of Nebraska (Plan), for the calendar year ending December 31, 2021 based on applicable federal and state guidance. The Plan's management is responsible for the information contained in the MRT, which was reported to the Nebraska Department of Health and Human Services (Department).

Our consulting engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Plan's MRT. Accordingly, we do not express such an opinion or conclusion.

The accompanying adjustments, comments, and caveats were prepared from the information contained in the MRT and related supporting documentation submitted by the Plan for the purpose of complying with the Department's requirements related to financial reporting and is not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Department as the oversight agency for the Nebraska Medicaid program and Optumas as the State's actuary for managed care rate setting and is not intended to be and should not be used by anyone other than this specified party.

Myers and Stauffer LC



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## Scope of Work

The Department engaged Myers and Stauffer LC to provide consulting services relating to the Plan's MRT report for the calendar year ending December 31, 2021. Specifically, the scope includes assessment of risks and test work related to direct and indirect administrative costs reported on MRT report 7 *Admin and QI Expenses*, subcapitated costs reported on MRT report 2 *Costs*, and pharmacy costs reported on the MRT report 2 *Costs* and report 9A *Incurred Overview*. The purpose of this activity is to ensure transparency and accountability in the Plan's administrative expense allocation from its corporate entity and to evaluate the allowability, methodology, and any related party costs of the reported administrative expenses. In addition, the purpose is to confirm that the Plan is in compliance with the prohibition against pharmacy spread-pricing practices and that rebates are appropriately reported.

Myers and Stauffer and the Department worked together to identify federal regulations and guidance that could be used to analyze costs for the purposes of this engagement. Select regulations and guidance applied were not specifically included in the contract language for the contract year subject to this engagement, but were applied in order to provide the Department with a basis for future regulatory and contractual changes as well as to adjust the base data for future rate setting. Adjustments based on regulations or guidance not included in the contract language for the contract year subject to this engagement include a reference to Reporting Caveat #3 in the Schedule of Adjustments and Comments.

The following procedures were designed to accomplish the objective of our engagement:

- *Request and obtain data and documentation from the Plan.*
- *Request and obtain data and documentation from the Department.*
- *Reconcile total administrative expenses reported on the MRT to supporting documentation, including the Working Trial Balance (WTB).*
- *Reconcile total pharmacy expenses reported on the MRT to supporting documentation, including the WTB.*
- *Using confirmation sample testing, validate that the plan is reporting on the encounters the actual amount paid to the pharmacies.*
- *Determine if pharmacy cost is related party or third party expense based on health plan reporting on summary listing request item.*
- *For other third party vendors, reconcile the summary listing from the Plan to the WTB. Review the contract compared to the summary listing, for testing of the administrative component of the reimbursement.*



- *Review and determine where related party administrative costs are reported on the MRT and ensure amounts reported reflect actual cost of the related party based on agreements or other supporting documentation from affiliates or parent companies.*
- *Review administrative expense allocation methodologies for reasonableness, reconcile to supporting documentation, scan detailed documentation for non-allowable expenses, and ensure any related party profit component is excluded from administrative cost.*
- *Determine if the allocation of administrative expense to the Heritage Healthcare program was proper if the Plan is participating in multiple markets.*
- *Follow-up with the Plan, as necessary, to complete analysis.*
- *Prepare draft reports of the findings and recommendations and submit to the Department for review.*
- *If deemed appropriate by the Department, we recommend the report be issued to the Plan and an exit conference be scheduled to discuss the findings and recommendations. If applicable, the Plan may submit formal responses in writing.*
- *We will review and incorporate appropriate comments, questions, or other information received by the Department and/or the Plan to finalize the report.*



## Reporting Caveats

### **Reporting Caveat #1 – Regulations and Guidance Utilized for Testing**

The indicated adjustments are based on federal regulations in place as of the date of this report published by the Centers for Medicare and Medicaid Services (CMS) for Medicaid Managed Care Medical Loss Ratio (MLR), federal Uniform Administrative Cost Requirement Principles, and CMS related party provider cost reporting regulations. The service contract for calendar year 2021 did not include direct references to these specific federal regulations. The indicated adjustments provide a representation of the impact to the MLR that these regulations would have had if applied to calendar year 2021.



## Schedule of Adjustments and Comments

Schedule of Adjustments and Comments			
Administrative Expenses			
	As-Filed	Adjustment	As-Adjusted
Total Administrative Expenses	\$70,415,274	\$2,914,027	\$73,329,301
Total Revenue	\$751,275,695	\$0	\$751,275,695
Percentage of Total Expenses to Total Revenues	9.4%		9.8%
Member Months	1,354,557	0	1,354,557
Per Member Per Month Expenses	\$51.98		\$54.14
Clinical Expenditures			
Service	As-Filed	Adjustment	As-Adjusted
Non Subcapitated Rx	\$141,882,085	\$0	\$141,882,085
Pharmacy Rebates	\$1,365,864	\$0	\$1,365,864
Total Rx Expenditures	\$140,516,221		\$140,516,221
Subcapitated Behavioral Health - IP	\$9,973,595	\$(2,043,534)	\$7,930,061
Subcapitated Behavioral Health - OP	\$35,998,740	\$(7,375,941)	\$28,622,799
Subcapitated Behavioral Health - Other	\$12,255,566	\$(2,511,097)	\$9,744,469
Subcapitated Behavioral Health - Residential	\$19,111,065	\$(3,915,750)	\$15,195,315
Subcapitated Vision	\$2,136,854	\$661,261	\$2,798,115
Non Subcapitated UNMC Supplemental Payment	\$6,411,772	\$0	\$6,411,772
Non Subcapitated Behavioral Health - IP	\$152,366	\$(31,219)	\$121,147
Non Subcapitated Behavioral Health - OP	\$488,242	\$(100,038)	\$388,204
Non Subcapitated Behavioral Health - Other	\$153,296	\$(31,410)	\$121,886
Non Subcapitated Behavioral Health - Residential	\$246,971	\$(50,603)	\$196,368
Non Subcapitated Non-Emergency Transportation	\$4,812,447	\$(478,715)	\$4,333,732



**Adjustment #1 – To adjust to remove subcapitated expenses paid to United Behavioral Health in excess of claims paid.**

UnitedHealthCare Community Plan of Nebraska (UHCCP of Nebraska) booked the full amount of expense for United Behavioral Health to medical expenses. The adjustment amount of \$16,059,591 was calculated using lag tables provided by United Behavioral Health for calendar year 2021. (42 CFR § 438.8(k)(3) and 45 CFR § 158.140(b)(3))

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Subcapitated Behavioral Health - IP	\$(2,043,534)
2. Costs	Subcapitated Behavioral Health - OP	\$(7,375,941)
2. Costs	Subcapitated Behavioral Health - Other	\$(2,511,097)
2. Costs	Subcapitated Behavioral Health - Residential	\$(3,915,750)
2. Costs	Non Subcapitated Behavioral Health - IP	\$(31,219)
2. Costs	Non Subcapitated Behavioral Health - OP	\$(100,038)
2. Costs	Non Subcapitated Behavioral Health - Other	\$(31,410)
2. Costs	Non Subcapitated Behavioral Health - Residential	\$(50,603)

**Adjustment #2 – To adjust to include administrative costs incurred by United Behavioral Health related to Nebraska Heritage Health.**

UHCCP of Nebraska supplied rate build support for administrative expenses incurred by United Behavioral Health on a per member per month basis. This rate was multiplied by Report 1 member months to arrive at the amount associated with Nebraska Heritage Health. The non-claims portion of the expense recorded related to United Behavioral Health was previously removed through Adjustment #1. (CMS Publication 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$4,182,622

**Adjustment #3 – To adjust to agree subcapitated expenses paid to March Vision to claims paid.**

UHCCP of Nebraska booked a capitated amount for March Vision within medical expenses. The adjustment amount of \$661,261 was calculated using lag tables provided by March Vision for calendar year 2021. (42 CFR § 438.8(k)(3) and 45 CFR § 158.140(b)(3))

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Subcapitated Vision	\$661,261





**Adjustment #4 – To adjust management service fees to United HealthCare Services, Inc. (UHS) allocated costs.**

The Management Services Agreement between United Healthcare of the Midlands, Inc. and UHS effective January 1, 2011 provides for an allocation of UHS expenses. We obtained a schedule showing UHS expenses directly attributed to the Nebraska Heritage Health line of business which totaled to \$38,208,783. Total management fees for the Nebraska Heritage Health line of business per the adjusted trial balance were \$37,518,681. An adjustment of \$690,102 was necessary to record UHS expenses at cost. (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$690,102

**Adjustment #5 – To adjust to remove margin (profit) associated with the administrative portion of OptumInsight, Inc. expenses.**

OptumInsight, Inc. is a related party that provides fraud, waste, and abuse recovery services. Administrative payments are calculated using a capitated rate that includes direct and overhead costs as well as margin, or profit. The average margin for the audit and recovery portion of the rate is \$1.116 per member per month, the average margin for the subrogation portion of the rate is \$0.048 per member per month, and the average margin for waste and error portion of the rate is \$0.004 per member per month. These amounts were applied to member months per Report 1 to calculate the adjustment of \$(1,469,244). (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(1,469,244)

**Adjustment #6 – To reclassify the administrative portion of ModivCare expense from medical expenses.**

UHCCP of Nebraska booked the full amount of expense for ModivCare to medical expenses. The adjustment amount of \$478,715 was calculated using the certification statement provided by ModivCare for calendar year 2021. (45 CFR § 158.140(b)(3))

Proposed Adjustment(s):		
Report	Category	\$ Amount
2. Costs	Non Subcapitated Non-Emergency Transportation	\$(478,715)
7. Admin and QI Expenses	Total Administrative Expenses	\$478,715



**Adjustment #7 – To adjust to remove marketing expenses included in UHS management fees.**

During inspection of the trial balance detail for UHS, allocated expenses related to non-allowable marketing were identified. An adjustment was made to remove this expense. (45 CFR § 75.421)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(426,338)

**Adjustment #8 – To adjust to remove margin (profit) associated with the administrative portion of OptumRx, Inc. expenses.**

OptumRx, Inc. is a related party that provides pharmacy benefit manager services. Administrative payments are calculated using a capitated rate that includes direct and overhead costs as well as margin, or profit. The average margin of 5.17% was applied to administrative payment amounts for an adjustment of \$(225,096). (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(225,096)

**Adjustment #9 – To adjust to remove interest payments for late claims.**

During inspection of the general ledger detail for Account 91220, Interest Expense – Operational and Account 91000, Interest Expense – Non Debt, we found these accounts contained non-allowable interest expense related to late claims payments. An adjustment was made to remove this expense. (45 CFR § 75.441)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(31,451)

**Adjustment #10 – To adjust to remove margin (profit) associated with the administrative portion of OptumHealth Care Solutions, LLC expenses.**

OptumHealth Care Solutions, LLC is a related party that provides administration of certain chiropractic, physical, occupational, and speech therapy services. Administrative payments are calculated using a capitated rate that includes direct and overhead costs as well as margin, or profit. The margin for the chiropractic portion of the rate is \$0.002 per member per month and the margin for the physical, occupational, and speech therapy portion of the rate is \$0.051 per member per month. These amounts



were applied to member months per Report 1 to calculate the adjustment of \$(71,353). (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(71,353)

**Adjustment #11 – To adjust to remove margin (profit) associated with the administrative portion of United HealthCare Services, Inc. expenses.**

United HealthCare Services, Inc. is a related party that provides certain case and disease management services. Administrative payments are calculated using a capitated rate that includes direct and overhead costs as well as margin, or profit. The average margin of 15.75% for neonatal resource services and 61.81% for transplant resource services was applied to administrative payment amounts for an adjustment of \$(171,643). (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(171,643)

**Adjustment #12 – To adjust to remove amounts related to Medicare included in UHS allocated costs.**

To support management fees we obtained a schedule showing UHS expenses directly attributed to the Nebraska Heritage Health line of business. We tested the allocation methodology on a sample basis and found that the allocated amount for Account 74625, Prof Fees – Process Reengineer, included amounts related to Medicare. An adjustment was necessary to remove the amount related to Medicare of \$42,287 has been removed. This was confirmed to be an isolated issue that did not impact other UHS allocated amounts. (CMS Pub. 15-1, Chapter 10)

Proposed Adjustment(s):		
Report	Category	\$ Amount
7. Admin and QI Expenses	Total Administrative Expenses	\$(42,287)



June 14, 2023

Kevin Buchser, CPA

Senior Manager, Meyers and Stauffer

[nemce@mslc.com](mailto:nemce@mslc.com)

RE: UHC- NE Administrative Expenses Report to Plan

Dear Mr. Buchser,

Please see the enclosed response from United Healthcare Community Plan of Nebraska to the above-referenced report provided by Myers and Stauffer on May 25, 2023. Thank you for the opportunity to respond to this report. Please contact me directly with any questions.

Regards,

A handwritten signature in blue ink, appearing to read "J Elliston".

Jim Elliston

Chief Financial Officer

United Healthcare Community Plan of Nebraska

**UnitedHealthCare Community Plan of Nebraska - Nebraska Department of Health and Human Services**

**Report on Managed Care Entity Administrative Expenses - January 1st, 2021 through December 31, 2021**

As documented in the consulting report - Reporting Caveat #1, "the indicated adjustments are based on federal regulations in place as of the date of this report.." and "The service contract for calendar year 2021 did not include direct references to these specific federal regulations." Our responses below are based on agreement or disagreement with the consulting report findings and not findings based on the contract that was in force for calendar year 2021 and any review or examination on that contract in force.

	<b>Myers and Stauffer Comments</b>	<b>Total</b>	<b>Clinical</b>	<b>Administrative</b>	<b>UHCCP Comments</b>
1	Adjusted to remove subcapitated expenses paid to United Behavioral Health (UBH) in excess of claims paid.	-\$16,059,592	-\$16,059,592	\$0	Disagree. Adjustment #1 cites to 45 CFR § 158.140(b)(3) as a basis for removing subcapitated expenses paid to United Behavioral Health (UBH), but that regulation applies to private markets, not Medicaid, so it should not be used for CY2021 or any future regulatory and contractual changes. Nevertheless, the appropriate Medicaid regulation (42 CFR 438.8(e)(2)(v)) is similar to the private market regulation. Indeed, to this point, the Centers for Medicare & Medicaid Services (CMS) has tried to be consistent with its MLR approach across all lines of business. Private market plans, such as Medicare Advantage, are permitted to use the four-part Clinical Risk Bearing Entity (CRBE) test, which permits the payment to the CRBE to be included in incurred claims. CMS has given states discretion to adopt the test for its Medicaid plans. UnitedHealthcare Community Plan of Nebraska's (UHC) contract with the State of Nebraska does not prohibit UHC from including the capitation payments to UBH under incurred claims, and the MLR and risk corridor templates for CY2021 included lines for entering the subcapitated payments. Accordingly, as a CRBE, the subcapitated payments to UBH should still be applied to incurred claims. Therefore, UHC is appropriately including capitation payments for the purpose of payback calculations.
2	Adjusted to include administrative costs incurred by UBH related to Nebraska Heritage Health.	4,182,622	0	4,182,622	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
3	Adjusted to agree to subcapitated expenses paid to March vision claims paid.	661,261	661,261	0	Disagree. Adjustment #3 cites to 45 CFR § 158.140(b)(3) as a basis for removing subcapitated expenses paid to March Vision, but that regulation applies to private markets, not Medicaid, so it should not be used for CY2021 or any future regulatory and contractual changes. Nevertheless, the appropriate Medicaid regulation (42 CFR 438.8(e)(2)(v)) is similar to the private market regulation. Indeed, to this point, the Centers for Medicare & Medicaid Services (CMS) has tried to be consistent with its MLR approach across all lines of business. Private market plans, such as Medicare Advantage, are permitted to use the four-part Clinical Risk Bearing Entity (CRBE) test, which permits the payment to the CRBE to be included in incurred claims. CMS has given states discretion to adopt the test for its Medicaid plans. UnitedHealthcare Community Plan of Nebraska's (UHC) contract with the State of Nebraska does not prohibit UHC from including the capitation payments to March Vision under incurred claims, and the MLR and risk corridor templates for CY2021 included lines for entering the subcapitated payments. Accordingly, as a CRBE, the subcapitated payments to March Vision should still be applied to incurred claims. Therefore, UHC is appropriately including capitation payments for the purpose of payback calculations.
4	Adjusted management services fees to United HealthCare Services Inc. (UHS) allocated costs	690,102	0	690,102	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.

	Myers and Stauffer Comments	Total	Clinical	Administrative	UHCCP Comments
5	Adjusted to remove margin (profit) associated with the administrative portion of Optuminsight expenses.	-1,469,244	0	-1,469,244	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
6	To reclass a portion of the ModivCare expenses from medical to administrative expenses.	0	-478,715	478,715	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
7	Adjusted to remove marketing expenses included in UHS management fees.	-426,338	0	-426,338	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
8	Adjusted to remove margin profits associated with the administrative portion of the Optum RX expenses.	-225,096	0	-225,096	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
9	Adjusted to remove Interest payments for late claims.	-31,451	0	-31,451	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
10	Adjusted to remove margin (profit) associated with the administrative portion of OptumHealth Care Solutions, LLC expenses.	-71,353	0	-71,353	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
11	Adjusted' to remove margin (profit) associated with the administrative portion of United HealthCare Services, inc, expenses.	-171,643	0	-171,643	Agreed. However, as CY2021 has closed, the consulting report relied on guidance not included in the contract ,and did not express an opinion or conclusion, all of the proposed adjustments should not be implemented for CY2021.
	<b>Total</b>	<b>-\$12,920,732</b>	<b>-\$15,877,046</b>	<b>\$2,956,314</b>	

**Detail of Adjustment #1**

SubCap BH - I/P	-\$2,043,534.00
SubCap BH - O/P	-7,375,941.00
SubCap BH - Other	-2,511,097.00
SubCap BH - Residential	-3,915,750.00
SubCap BH - I/P	-31,219.00
SubCap BH - O/P	-100,038.00
SubCap BH - Other	-31,410.00
SubCap BH - Residential	-50,603.00
<b>Total Optum BH Cap Adjustment</b>	<b>-\$16,059,592.00</b>