

Audit Report

# Reporting and Compliance of Affiliate Third-Party Administrator Services

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**MCNA Insurance Company**



**Inspector  
General**

Texas Health  
and Human Services

**February 25, 2021  
OIG Report No. AUD-21-007**



Texas Health and Human Services Office of Inspector General Audit and Inspections Division

## REPORTING AND COMPLIANCE OF AFFILIATE THIRD-PARTY ADMINISTRATOR SERVICES

*MCNA Insurance Company*

February 25, 2021

Dear Mr. Wiffler:

The Texas Health and Human Services (HHS) Office of Inspector General Audit and Inspections Division (OIG Audit) has completed an audit of reporting and compliance of affiliate third-party administrator services for MCNA Insurance Company (MCNA Texas), a Texas Medicaid and Children's Health Insurance Program (CHIP) dental maintenance organization (DMO).

MCNA Texas's fair market value documentation met the technical requirements for fair market value reporting. In addition, MCNA Texas accurately reported payments for third-party administrator services to the Texas Health and Human Services Commission (HHSC). Finally, MCNA Dental Plans (MCNA Florida) approved invoices and MCNA Texas approved payments in accordance with established processes. Based on the results of the audit, there were no recommendations to MCNA Texas.

OIG Audit communicated other issues separately in writing to MCNA Texas management and the HHSC Medicaid and CHIP Services Division. The attachment to this letter contains additional details on this audit.

Sincerely,

Audrey O'Neill, CIA, CFE, CGAP  
Chief of Audit and Inspections

Attachment

cc: Cecile Erwin Young, HHS Executive Commissioner  
Sylvia Hernandez Kauffman, HHS Inspector General

### Background

In September 2011, MCNA Texas entered into an agreement with its affiliate, MCNA Florida, to perform dental administrative services such as information technology (IT) support; administrative and accounting services; claims processing; overflow call center services; and provider network access. Since July 2012, MCNA Texas has been contracted to pay MCNA Florida a monthly administrative services fee of \$2.55 for each Texas Medicaid and CHIP member.

In state fiscal year 2019, MCNA Texas provided Medicaid and CHIP services to approximately 1.3 million members and reported in its financial statistical reports to HHSC an expense of \$33.4 million for administrative services performed by MCNA Florida.

# ATTACHMENT

## Section 1: Summary of Audit Results

MCNA Texas's fair market value documentation met HHSC's Uniform Managed Care Manual requirements for fair market value reporting in state fiscal year 2019. Under fair market value reporting, goods or services must be (a) standardized, equivalent, measurable, or comparable; (b) bought and sold widely by multiple unrelated third-party sellers; or (c) have a readily available independent source for comparative market pricing data.<sup>1</sup> The fair market value documentation, which was prepared in 2012 and has not been updated since, contained pricing data for the third-party administrator fee accumulation and third-party proposals for IT licensing of insurance software; claims processing and adjudication proposals; and network access and credentialing. The evaluation of fair market value reporting requirements was limited to ensuring that MCNA Texas had supporting documentation to support its rationale for appropriate fair market value treatment.

Fair market value reporting is an exception to cost-based reporting, and by invoking fair market value reporting, the Uniform Managed Care Manual allows MCNA Texas to report to HHSC expenses paid to its affiliate third-party administrator, MCNA Florida, at a rate of \$2.55 per member per month. The Uniform Managed Care Manual does not require HHSC's approval to invoke fair market value reporting and only requires that MCNA Texas provide its rationale and support for determining the fair market value treatment was appropriate upon request. The Uniform Managed Care Manual also does not require that MCNA Texas or HHSC subsequently update or reevaluate fair market value to ensure it meets current market conditions.

OIG Audit tested the 12 invoices that MCNA Texas paid MCNA Florida and reported to HHSC during the period from September 1, 2018, through August 31, 2019, for third-party administrator services. MCNA Texas accurately reported to HHSC the third-party administrator expenses for the 12 invoices. The associated invoices and payments (a) contained approvals in accordance with MCNA Florida's and MCNA Texas's established processes and (b) were aligned with the affiliate agreement between MCNA Florida and MCNA Texas. This audit did not include testing MCNA Florida's actual underlying expenses for providing administrative services to MCNA Texas. MCNA Florida does not track the actual expenses for providing administrative services, and MCNA Texas's contract with HHSC does not require actual expenses to be tracked when an exception to cost-based reporting is invoked.

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<sup>1</sup> Uniform Managed Care Manual, Chapter 6.1, v. 2.6 (I)(D)(3 - Rules for FMV Reporting) (May 15, 2018) through v. 2.7 (May 29, 2019).

As a result of OIG Audit's conclusions, there are no audit recommendations to MCNA Texas. OIG Audit communicated other issues separately in writing to MCNA Texas's management and to the HHSC Medicaid and CHIP Services Division. OIG Audit presented a draft copy of this report to MCNA Texas on February 4, 2021.

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## Section 2: Objective, Scope, Methodology, Criteria, and Standards

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OIG Audit completed an audit of reporting and compliance of affiliate third-party administrator services at MCNA Texas. The audit focused on payments made by MCNA Texas to MCNA Florida.

### Objective and Scope

The objectives of the audit were to determine whether (a) the affiliate reporting exception met state and contractual requirements and (b) expenses paid to MCNA Texas's affiliate third-party administrator were accurately reported to HHSC and aligned with its affiliate agreement.

The audit scope included MCNA Texas's fair market value documentation and invoices from MCNA Texas's affiliate third-party administrator, MCNA Florida, for the period from September 1, 2018, through August 31, 2019. OIG Audit determined that internal control was significant to the audit objectives and tested relevant key controls in place during the audit scope.

### Methodology

OIG Audit collected information for this audit through discussions and electronic communications with MCNA Texas and MCNA Florida management and staff. Specifically, OIG Audit reviewed:

- MCNA Texas's fair market value documentation for compliance with Uniform Managed Care Manual requirements.
- Invoices prepared by MCNA Florida and submitted to MCNA Texas for administrative services.
- MCNA Texas's payment documentation for the invoices received from MCNA Florida.
- State fiscal year 2019 334-day administrative financial statistical reports<sup>2</sup> and supporting documentation to verify that MCNA Texas's payments to MCNA Florida for administrative services were accurately reported on the financial statistical reports.
- HHSC's premium payment system data to validate member month counts in the invoices prepared by MCNA Florida.

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<sup>2</sup> According to HHSC, the state fiscal year 2019 334-day administrative financial statistical reports were not final at the time of this audit. Draft reports were used for purposes of this audit.

To ensure accuracy of reporting, OIG Audit compared the invoices MCNA Texas received from MCNA Florida to the corresponding financial statistical reports. Auditors did not use a sampling methodology on this audit and instead collected, reviewed, and analyzed complete populations of data to perform selected tests and other procedures; therefore, auditors did not need to project testing results to the populations.

OIG Audit presented the audit results to HHSC Medicaid and CHIP Services and to MCNA Texas in a draft report dated February 4, 2021. Each was provided with the opportunity to study and comment on the report.

### **Criteria**

- Uniform Managed Care Manual, Chapter 6.1, v. 2.6 (2018) through v. 2.7 (2019)
- Dental Administrative Services Agreement between MCNA Dental Plans and MCNA Insurance Company (September 1, 2011)

### **Auditing Standards**

#### Generally Accepted Government Auditing Standards

The OIG Audit and Inspections Division conducted this audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on our audit objectives. The OIG Audit and Inspections Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

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## Section 3: Report Team

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### Report Team

OIG staff members who contributed to this audit report include:

- Audrey O’Neill, CIA, CFE, CGAP, Chief of Audit and Inspections
- Kacy VerColen, CPA, Assistant Deputy Inspector General of Audit and Inspections
- Steve Sizemore, CIA, CISA, CGAP, Audit Director
- Anton Dutchover, CPA, Audit Director
- Kristyn Scoggins, CGAP, Audit Project Manager
- Lorraine Chavana, Staff Auditor
- Krisselda Bactad, Staff Auditor
- Kathryn Wolf, Associate Auditor
- Eniola Bankole, Associate Auditor
- Erin Powell, Quality Assurance Reviewer
- Ashley Rains, CFE, Senior Audit Operations Analyst

### Report Distribution

#### Health and Human Services

- Cecile Erwin Young, Executive Commissioner
- Kate Hendrix, Chief of Staff
- Maurice McCreary, Jr., Chief Operating Officer
- Victoria Ford, Chief Policy and Regulatory Officer
- Karen Ray, Chief Counsel
- Michelle Alletto, Chief Program and Services Officer
- Nicole Guerrero, Director of Internal Audit
- Stephanie Stephens, Deputy Executive Commissioner, Medicaid and CHIP Services

- Shannon Kelley, Associate Commissioner for Managed Care, Medicaid and CHIP Services
- Katherine Scheib, Deputy Associate Commissioner, Medicaid and CHIP Services
- Jason Mendl, Director, Financial Reporting and Audit Coordination, Medicaid and CHIP Services

#### MCNA Insurance Company

- Thomas Wiffler, Chief Executive Officer
- Kevin Carlson, Chief Financial Officer
- Gavin Galimi, General Counsel
- Aldo Rodriguez, Controller



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## **Section 4: OIG Mission, Leadership, and Contact Information**

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The mission of OIG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of OIG's mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Inspector General
- Susan Biles, Chief of Staff
- Dirk Johnson, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Juliet Charron, Chief of Strategy
- Steve Johnson, Chief of Investigations and Reviews

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- Phone: 1-800-436-6184

### **To Contact OIG**

- Email: [OIGCommunications@hhsc.state.tx.us](mailto:OIGCommunications@hhsc.state.tx.us)
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