TEXAS HEALTH AND HUMAN SERVICES COMMISSION

OFFICE OF INSPECTOR GENERAL

AUDIT REPORT

MCNA INSURANCE COMPANY

A Texas Medicaid and CHIP Dental Maintenance Organization

August 30, 2019

HHSC OIG

TEXAS HEALTH AND HUMAN SERVICES COMMISSION
OFFICE OF INSPECTOR GENERAL

WHY OIG CONDUCTED THIS AUDIT

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division conducted an audit of MCNA Insurance Company (MCNA Texas), a Texas Medicaid and CHIP Dental Maintenance Organization (DMO).

The audit objective was to evaluate the effectiveness of MCNA Texas performance in complying with selected contract requirements, achieving related contract outcomes, and reporting financial and performance results to HHSC.

The audit scope included MCNA Texas policies, practices, and activities related to (a) claims processing and (b) financial and performance reporting for the period of September 2016 through February 2018, and other relevant activities through April 2019.

WHAT OIG RECOMMENDS

Medicaid and CHIP Services (MCS), through its contract oversight responsibility, should require MCNA Texas to address and correct its reporting of unallowable, unsupported, or overstated expenses to HHSC. In addition, MCS should strengthen oversight of employee bonus plans.

Furthermore, MCS should strengthen contract oversight and financial monitoring to ensure (a) MCNA Texas fees paid to affiliates comply with contractual requirements and (b) affiliate profits are appropriately reported to HHSC. MCS should also reassess affiliate reporting exceptions that were based on 2013 information.

For more information, contact:
OIG.AuditDivision@hhsc.state.tx.us

August 30, 2019

MCNA INSURANCE COMPANY

A Texas Medicaid and CHIP Dental Maintenance Organization

WHAT OIG FOUND

The 2017 Administrative Expenses financial statistical report (FSR) MCNA Texas submitted to HHSC contained $766,000 in unsupported consulting expenses. In addition, MCNA Texas (a) reported $11,660 in non-executive employee bonuses that exceeded the maximum amount established in its bonus plan, (b) invoked a provision in its bonus plan that enabled MCNA Texas' Compensation Committee to award bonuses to two executives that exceeded the maximum executive bonus amount documented in other parts of the bonus plan by $286,000, and (c) paid bonuses to employees of an affiliate that, during the audit period, were not allowed by contract.

The OIG Audit Division also identified $10,539 in unallowable licensing fees and $21,783 in unallowable travel expenses that MCNA Texas asserts were corrected in a subsequent Administrative Expenses FSR submission.

By reporting $777,660 in unallowable, unsupported, or overstated consulting and non-executive bonus expenses on its Administrative Expenses FSR, MCNA Texas reduced the experience rebate amount owed to HHSC.

MCNA Texas did not request or obtain advance approval for a July 2012 administrative fee increase, or for an unaffiliate sales exception or fair market value exception implemented for its affiliate third-party administrator, as required by the Uniform Managed Care Manual. MCNA Texas notified HHSC of the administrative services fee increase for its affiliate third-party administrator in September 2012. MCNA Texas reported $43.4 million on the Administrative Expenses FSR in 2017, which was based on a $2.55 per member per month (PMPM) administrative service fee.

In November 2014, based on the report of its independent financial audit of MCNA Texas, MCS retroactively approved the affiliate reporting exception for the affiliate organization through August 2013. In December 2014, MCS informed MCNA Texas in an email that the exception was valid for future periods as long as the cost and terms of the relevant agreement remain in effect without material changes.

In a January 2019 email to MCNA Texas, MCS reaffirmed the December 2014 guidance to specifically address 2016, 2017, and 2018, stating (a) ongoing reliance on the independent accounting firm's report for the 18-month period ended August 31, 2013, and (b) acceptance of a verbal assertion from MCNA Texas that there have been no material changes to the Dental Administrative Services Agreement since August 2013.

In its management responses, MCS indicated it will (a) require MCNA Texas to address unsupported and overstated expenses (b) consider developing additional bonus plan criteria to include an assessment of the provision allowing MCO executives to override an established plan, and (c) strengthen contract oversight and financial monitoring activities related to affiliate relationships.

MCNA Texas indicated in a comment letter that it agreed with some of the audit issues but did not agree with others. The MCNA Texas comment letter is included in Appendix E of the report.

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INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division conducted an audit of MCNA Insurance Company (MCNA Texas), a Texas Medicaid and CHIP Dental Maintenance Organization (DMO).

Unless otherwise described, any year referenced is the state fiscal year, which covers the period from September 1 through August 31.

Eligible Texas managed care members[1] receive needed medical and dental services through Children's Medicaid Dental Services (CMDS) and Children Health Insurance Program (CHIP). CMDS and CHIP, which are jointly funded state-federal programs, provide dental coverage for eligible members through managed care medical and dental plans.

Members who receive dental services through CHIP or CMDS are required to select a dental plan, also known as a DMO, and a primary dentist. A primary dentist serves as the member's dental home and is responsible for providing routine care, maintaining continuity of patient care, and initiating referrals for specialty care. MCNA Texas is one of two DMOs contracted to provide dental services to Texas CMDS and CHIP members with an objective to create a comprehensive dental care system offering quality dental services to members and providers within the CMDS and CHIP Dental Services programs. MCNA Texas maintains quality of dental services by providing access, quality, and service to improve the oral health of its members.

MCNA Texas is paid a monthly capitation rate per CMDS and CHIP dental member based off age rate levels as illustrated in Appendix B.

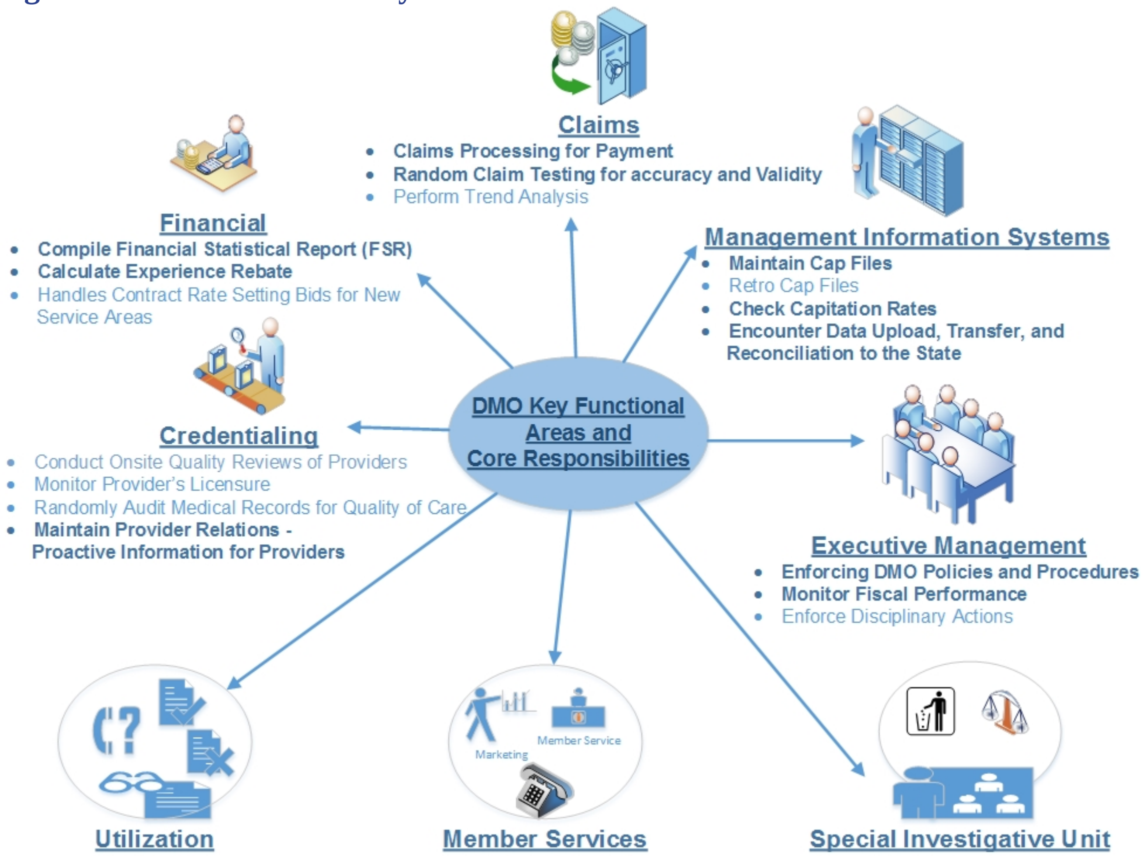
CMDS program rates are based on claims experience for the covered population in the base period. The base cost is totaled, and trends to the time period for which the rates apply are calculated. A reasonable provision for administrative expenses, taxes, and risk margin is added to the claims component in order to project the total cost for the rating period. These projected total costs are then converted to a set of statewide rates that vary by age group.[2]

[1] A "member" is an individual who is enrolled with a state contracted Medicaid or CHIP DMO as a subscriber or dependent.

[2] *Texas Medicaid and CHIP in Perspective*, Part IV, Chapter 14, Eleventh Edition (Feb. 2017).

Figure A illustrates key functional areas and related core responsibilities of MCNA Texas. During this audit, core responsibilities, highlighted in bold, were selected and examined within the following MCNA Texas key functions: financial services, claims processing, management information systems, and credentialing.

Figure A: MCNA Texas Key Functions



Source: OIG Audit Division

Objective and Scope

The audit objective was to evaluate the effectiveness of MCNA Texas performance in complying with selected contract requirements, achieving related contract outcomes, and reporting financial and performance results to HHSC.

The audit scope included MCNA Texas policies, practices, and activities related to (a) claims processing and (b) financial and performance reporting for the period of September 2016 through February 2018, and other relevant activities through April 2019. The OIG Audit Division focused on:

- Administrative expenses
- Subcontracts
- Claims processing and adjudication

Methodology

To accomplish its objective, the OIG Audit Division:

- Reviewed applicable federal and state rules, regulations, policies, and procedures.
- Selected and analyzed a judgmental sample[3] of administrative expenses reported in the financial statistical report (FSR).
- Compared a judgmental sample of dental encounters submitted to HHSC to corresponding data in MCNA Texas' claims processing system.
- Examined access controls to MCNA Texas' financial system.
- Obtained and analyzed provider complaints' processing and resolution.

Criteria

- The Health Insurance Portability and Accountability Act of 1996
- 45 C.F.R. Part 160 and Part 164, Subparts A and C (2013)
- HHSC Dental Contract, v. 1.12 (2016) through v. 1.15 (2017)
- Uniform Managed Care Manual, Chapter 2.0, v. 2.5 (2016), Chapter 5, v. 2.0 (2016), and Chapter 6, v. 2.5 (2016) and v. 2.6 (2018)
- Dental Administrative Services Agreement between Managed Care of North America, Inc., doing business as MCNA Dental Plans, and MCNA Insurance Company (2011, amended 2012)
- Agreement for Professional Services between Health Care Holdings, LLC and Subcontractors A and B (2012)
- MCNA Health Care Holdings, LLC, Managed Care of North America Inc., MCNA Insurance Company, and MCNA Systems Corp., "Named Executive Compensation Program" (2016 through 2017)

[3] "Judgmental sampling" is a non-probability sampling method where the auditor selects the sample based on certain characteristics, such as dollar amount, timeframe, or type of transaction.

- MCNA Health Care Holdings, LLC, "Cash Bonus/Incentive Program for Department Directors, Managers, Individual Contributors and Call Center Team," Procedure, Budgeting for Bonus/Incentive Payments (2016 through 2017)

- MCNA Dental correspondence to HHSC Medicaid/CHIP Division Finance Director, "Request for Exception to Rule Regarding Affiliate Cost-Based Reporting for Rate Period 12/13 et seq." (2013)

Auditing Standards

Generally Accepted Government Auditing Standards

The OIG Audit Division conducted this audit in accordance with generally accepted government auditing standards 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 Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

ISACA

The OIG Audit Division performs work in accordance with the IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals published by ISACA.

The OIG Audit Division presented audit results, issues, and recommendation to MCS and to MCNA Texas in a draft report dated August 15, 2019. Each was provided with the opportunity to study and comment on the report.

In its management responses, MCS indicated it will (a) require MCNA Texas to address unsupported and overstated expenses, (b) consider developing additional bonus plan criteria to include an assessment of the provision allowing MCO executives to override an established plan, and (c) strengthen contract oversight and financial monitoring activities related to affiliate relationships. The MCS management responses are included in the report following the recommendations.

MCNA Texas indicated in a comment letter that it agreed with some of the audit issues but did not agree with others. The MCNA Texas comment letter is included in Appendix E of the report.

AUDIT RESULTS

The OIG Audit Division evaluated selected bonus, consulting, and other expenses MCNA Texas reported in its 2017 Administrative Expenses FSR.

There were no reportable exceptions related to:

- Encounter data submitted to HHSC and the corresponding dental claims data within the MCNA Texas claims processing system. Dental claims were processed and paid within prescribed timeframes and adjudications were consistent with state and federal requirements.

- Provider complaints' processing and resolution. Provider complaints were reasonably processed and resolved within 30 days from the date the complaint is received.

There were exceptions related to:

- Administrative Expenses FSR
    - Consulting Services
    - Bonuses
    - Licensing Fees and Travel Expenses
- Affiliate Third-Party Administrator

ADMINISTRATIVE EXPENSES FINANCIAL STATISTICAL REPORT

MCNA Texas is required to report administrative expenses related to the HHSC Dental Contract in its Administrative Expenses FSR. Allowable administrative expenses include direct and indirect expenses that support the Texas CMDS and CHIP dental programs operated by MCNA Texas.[4]

MCNA Texas' accounting records and supporting information associated with the HHSC Dental Contract must be maintained in accordance with contractual requirements along with Federal Acquisition Regulations (FAR), Generally Accepted Accounting Principles (GAAP), and the Uniform Managed Care Manual (UMCM).

[4] Uniform Managed Care Manual, § 5.3.1.66, Part 1, v. 2.0 (Nov. 15, 2016).

MCNA Texas is required to maintain the following:[5]

- Accounting records for the dental program, separate and apart from other corporate accounting records.

- Records for all claims payments, refunds, payment adjustments, capitation payments, interest income, and payments for administrative services or functions.

- Separate records for dental and administrative fees, charges, and payments.

- An accounting system that provides an audit trail containing sufficient financial documentation to allow for the reconciliation of billings, reports, and financial statements with all general ledger accounts.

The 2017 Administrative Expenses FSR MCNA Texas submitted to HHSC contained $766,000 in unsupported consulting expenses. In addition, MCNA Texas (a) reported $11,660 in non-executive employee bonuses that exceeded the maximum amount established in its bonus plan, (b) invoked a provision in its bonus plan that enabled MCNA Texas' Compensation Committee to award bonuses to two executives that exceeded the maximum executive bonus amount documented in other parts of the bonus plan by $286,000, and (c) paid bonuses to employees of an affiliate that, during the audit period, were not allowed by contract.

The OIG Audit Division also identified $10,539 in unallowable licensing fees and $21,783 in unallowable travel expenses that MCNA Texas asserts were corrected in a subsequent Administrative Expenses FSR submission.

By reporting $777,660, in unallowable, unsupported, or overstated expenses on its Administrative Expenses FSR, MCNA Texas reduced the experience rebate amount owed to HHSC. The OIG Audit Division will consider performing an audit of the impact of unallowable, unsupported, and overstated expenses on capitation rates.

MCS engages an independent accounting firm to conduct annual financial audits of MCNA Texas. As of August 2019, the MCS audit of MCNA Texas' 2017 Administrative Expenses FSR had not been conducted.

Details of unsupported and unallowable expenses MCNA Texas reported for consulting services, bonuses, licensing fees, and travel are detailed in the following sections.

[5] HHSC Dental Contract, Attachment B-1 § 8.1.11, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

Consulting Services

The HHSC Dental Contract requires consulting services to be properly substantiated by MCNA Texas to be allowable and reportable on the Administrative Expenses FSR.[6]

According to the HHSC Dental Contract, if MCNA Texas intends to report compensation or any other payments to any third-party as an allowable expense (including compensation paid to an affiliate), and the amounts paid to the third-party exceed $200,000 or are reasonably anticipated to exceed $200,000 in a state fiscal year or in any contiguous 12-month period, then MCNA Texas' agreement with the third-party must be in writing.[7] In addition, the third-party agreement must provide HHSC the right to examine the agreement and all records relating to the agreement.

For any third-party agreements not in writing valued under $200,000 per state fiscal year that are reported as allowable expenses, MCNA Texas must maintain standard financial records and data sufficient to verify the accuracy of those expenses in accordance with the HHSC Dental Contract requirements. This would include payments to individuals or entities that are related to each other.

Issue 1.1: Consulting Expenses Totaling $766,000 Were Unsupported

Consulting expenses reported by MCNA Texas for 2017 included unsupported expenses allocated to HHSC for both direct consulting and corporate consulting services.

Direct Consulting

The OIG Audit Division tested 363 consulting fee transactions totaling $1,257,900 of $3,507,776 reported as Legal and Professional Services. Fifteen consulting fee transactions associated with one individual totaling $590,000 were not supported because a written agreement was not in place as required.

In addition to the $590,000 paid to the individual and reported as subcontractor consulting services, the individual was also an MCNA Texas employee and was paid a salary and bonus. MCNA Texas reported both the subcontractor consulting service expenses and the employee salary and bonus amounts for this individual on the Administrative Expenses FSR. Per the HHSC Dental Contract, payments to subcontractors that total $200,000 or more are required to be supported by a written

[6] HHSC Dental Contract, Attachment B-1 § 8.1.11, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

[7] HHSC Dental Contract, Attachment A § 4.08(f), v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

agreement. MCNA Texas did not provide a written agreement for the subcontracted consulting services paid to this individual.

MCNA Texas provided invoices for $220,000 of the $590,000 in question, but there were no invoices for the remaining amount of $370,000. The invoices that were provided had been submitted to MCNA Texas each month prior to the performance of any services for the period stated on the invoice. In addition, the invoices did not state the number of hours and the nature of the services. MCNA Texas was not able to provide any support to substantiate the nature and scope of work performed or services provided. The $590,000 of consulting expenses not supported by a written agreement are unallowable per the HHSC Dental Contract.

Corporate Consulting

MCNA Texas reported $902,758 in corporate consulting fees on the Administrative Expenses FSR. The OIG Audit Division reviewed a judgmental sample of invoices and determined that $176,000 associated with two subcontractors was not supported.

MCNA Health Care Holdings had consulting and lobbying agreements with Subcontractor A for $420,000 and Subcontractor B for $250,000:

- Per the agreement between MCNA Health Care Holdings and Subcontractor A, the compensation for professional services was $25,000 per month for consulting and lobbying expenses for the state fiscal year should not exceed $300,000.[8] Subcontractor A was paid an additional $10,000 per month, or $120,000 annually, for a professional services subcontractor under the same contract.

- Per the agreement between MCNA Health Care Holdings and Subcontractor B, compensation was $20,833 per month, up to $250,000 per year.[9]

MCNA Texas allocated total expenses for Subcontractors A and B based on the proportion of time spent on lobbying and consulting activities. The OIG Audit Division did not evaluate lobbying activities or corporate allocation amounts for lobbying.

[8] Agreement for Professional Services between Health Care Holdings, LLC and Subcontractor A (Mar. 1, 2012).

[9] Agreement for Professional Services between Health Care Holdings, LLC and Subcontractor B (Mar. 1, 2012).

The OIG Audit Division recalculated corporate allocations of consulting fees reported on the Administrative Expenses FSR for the two subcontractors and identified the following overstated consulting fees:

- The allocation for Subcontractor A should have been reported as $280,000 (66 percent of the total contracted amount of $420,000). However, MCNA Texas also paid Subcontractor A an additional $250,000 outside the purview of the consulting and lobbying agreement with MCNA Health Care Holdings, but there is no contract for this $250,000 as required.

  The $446,667 corporate consulting allocation MCNA Texas reported on the Administrative Expenses FSR for Subcontractor A was based on a total compensation amount of $670,000, rather than $420,000 amount supported by contracts. This resulted in an overstatement of $166,667.

- The allocation for Subcontractor B should have been reported as $83,333 (33 percent of the total contracted amount of $250,000). On the Administrative Expenses FSR for Subcontractor B, MCNA Texas reported an amount of $92,667. This was an overstatement of $9,333.

The amounts of $166,667 for Subcontractor A and $9,333 for Subcontractor B resulted in a total overstatement of $176,000 on the Administrative Expenses FSR.

The unsupported direct consulting expenses of $590,000 and the unsupported corporate consulting expenses of $176,000 resulted in total unsupported consulting expenses of $766,000.

MCNA Texas, in its comment letter included in Appendix E of the report, provided a response to this issue.

Recommendation 1.1a

MCS, through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should require MCNA Texas to address and correct its reporting of unsupported and overstated consulting expenses.

Management Response

Action Plan
MCS agrees that MCNA's reporting of unsupported and overstated expenses should be addressed and corrected and that tailored contractual remedies should be applied.

Financial Reporting and Audit Coordination (FRAC) will utilize its existing contract oversight process to address and correct MCNA's reporting of unsupported and overstated expenses.

Each fiscal year, Financial Reporting and Audit Coordination (FRAC) utilizes a three-step review to enforce the MCO/DMO responsibility of reporting accurate, allowable, and supported costs in its Financial Statistical Reports (FSRs). First, an MCO/DMO submits an FSR to FRAC. FRAC performs an initial validation and reconciliation of the FSR to known financial data. Second, FRAC hires external audit firms to perform Agreed Upon Procedure (AUP) engagements to ensure the MCO/DMO FSR is accurate, allowable and retains sufficient supporting documentation. Third, following the AUP engagements, all dollar finding adjustments identified in the AUP are utilized to recalculate the Experience Rebate and to determine if the MCO owes a rebate.

The overall financial oversight process takes at least 24 months following the end of a fiscal year to complete. MCS's issuance of the SFY 2015 final reports is taking longer due to delays with finalizing responses from the AUP audit.

It is important to note that for this audit, the OIG reviewed the 2017 Administrative Expenses FSR submitted to HHSC by MCNA Texas. The MCS financial contract oversight review cycle for the FY 2017 is not complete and this FSR has not yet gone through the AUP process. Final determinations regarding the accuracy of claimed expenses on the FSRs cannot be determined by MCS until the review cycle is completed. At that point Experience Rebates will be recalculated, if necessary, to address any overstated/unallowable expenses claimed by an MCO/DMO.

As of the date of this report, FRAC has finalized its initial validation and reconciliation of the SFY 2017 334-Day FSR. FRAC is in the process of engaging an audit firm to perform the AUP. After the final report is issued, FRAC will determine any appropriate contractual remedies and will make appropriate dollar value adjustments identified in the AUP to the Experience Rebate calculation.

Many of the same types of issues identified by the OIG in Section 1.1a of this audit report were identified in the SFY 2016 AUP engagement performed by Myers and Stauffer, LC and issued on May 5, 2019. FRAC, in coordination with MCS Managed Care Compliance and Operations (MCCO), is implementing a contractual remedy process in response to the SFY 2016 AUP. These findings will be used to update and improve the process for the SFY 2017 AUP final reports.

<u>Responsible Manager</u>
Director of Financial Compliance, Financial Reporting and Audit Coordination

Director, Managed Care Compliance and Operations

Target Implementation Date
Based on the existing Financial Contract Review Oversight Process, FRAC will:

October 2019: Engage a qualified audit firm to complete the AUP for SFY 2017
October 2020: Determine the appropriate contractual remedies for SFY 2017, in coordination with MCCO

Bonuses

For MCNA Texas to include employee bonuses or incentive payments as allowable administrative expenses, it must (a) furnish a written plan to HHSC, (b) submit the plan to HHSC no later than 30 days after the effective date of the contract, and (c) include in the bonus plan criteria for establishing bonus payments, a methodology to calculate bonus payments, and specify the timing of bonus payments. If MCNA Texas substantively revises the plan, an updated plan must be submitted to HHSC at least 30 days in advance of the effective date of the revised plan. HHSC reserves the right to disallow all or part of a plan that it deems inappropriate.[10]

MCNA Texas employee bonuses are allowable if they are:

- Part of and in conformance with the plan and the plan is in compliance with terms of the contract.
- Based on individual or group performance with respect to clearly stated goals within a defined period.
- Paid after the end of and within 90 days of the defined period.
- Not contingent on future services.[11]

The MCNA Texas Named Executive Compensation Program (NECP)[12] and the non-executive bonus plan[13] include numerous mandatory ("shall") requirements that are aligned with the HHSC Dental Contract, such as benchmarking, criteria for establishing employee bonus payments, and bonus payment calculation

[10] HHSC Dental Contract, Attachment B-1 § 7.2.4.1, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

[11] Uniform Managed Care Manual § 6.1, v. 2.5 (Nov. 1, 2016).

[12] MCNA Health Care Holdings, LLC, Managed Care of North America Inc., MCNA Insurance Company, and MCNA Systems Corp. "Named Executive Compensation Program" (Sept. 1, 2016, through Aug. 31, 2017).

[13] MCNA Health Care Holdings, LLC, "Cash Bonus/Incentive Program for Department Directors, Managers, Individual Contributors and Call Center Team," Procedure, Budgeting for Bonus/Incentive Payments (Sept. 1, 2016, through Aug. 31, 2017).

methodology including maximum allowable bonus amounts that were based on a percentage of an employee's salary.

Bonuses paid or payable to an affiliate were unallowable during the audit scope period.[14]

Issue 1.2: Non-Executive Employee Bonuses Were Overstated by $11,660, and Maximum Executive Bonus Amounts Established in the Bonus Plan Were Overridden

MCNA Texas did not adhere to the bonus plan it submitted to MCS when awarding employee bonuses to non-executives, and paid executive bonuses in excess of its NECP limit by invoking a provision in the MCNA Texas NECP.

In addition, MCNA Texas reported bonuses paid to employees of MCNA Health Care Holdings, LLC (MCNA Health Care Holdings), an affiliate of MCNA Texas.

<u>MCNA Texas Employee Bonuses</u>

MCNA Texas overstated bonus amounts paid to non-executive employees by $11,660 and invoked a provision that enabled executives to receive $286,000 in bonuses that exceeded the maximum bonus amount established in the MCNA Texas NECP.

In 2017, MCNA Texas reported $1,550,874 in employee bonuses on the Administrative Expenses FSR. The OIG Audit Division reviewed selected executive, non-executive, and other employee bonuses totaling $896,249.

The MCNA Texas bonus plans established bonus payment percentages up to 150 percent of salary for executives, and 2 percent to 25 percent, depending on the level of the position, for non-executive full-time employees based on specific performance targets.[15,16]

The OIG Audit Division multiplied selected executive and non-executive employee salaries and the corresponding maximum allowable bonus percentages to establish the allowable bonus per executive and non-executive and then used the same percentage of the employee's salary allocated to MCNA Texas to determine the

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[14] Uniform Managed Care Manual, § 6.1(VI)(14), v. 2.5 (Nov. 1, 2016).

[15] MCNA Health Care Holdings, LLC, Managed Care of North America Inc., MCNA Insurance Company, and MCNA Systems Corp. "Named Executive Compensation Program" (Sept. 1, 2016, through Aug. 31, 2017).

[16] MCNA Health Care Holdings, LLC, "Cash Bonus/Incentive Program for Department Directors, Managers, Individual Contributors and Call Center Team," Procedure, Budgeting for Bonus/Incentive Payments (Sept. 1, 2016, through Aug. 31, 2017).

maximum allowable bonus amount. The calculated amount was compared to the bonus amount charged to MCNA Texas and the maximum allowable bonus amount.

Table 2 illustrates the calculation of executive and non-executive employee bonuses by applying MCNA Texas-established bonus percentages to the base salaries.

Table 2: 2017 MCNA Texas Bonuses Based on the MCNA Texas Bonus Plan and Base Salaries

Employee(s) Received Bonus	Base Salary	Bonus Percent Per Bonus Plan	Calculated Bonus	Salary Percent Allocated to Texas	Texas Plan Bonus - Allowed	Payroll Register Paid Bonus	Bonus Charged to Texas FSR	Amount Exceeding Bonus Plan Limits[17]
	A	B	C	D	E=C*D	F	G=D*F	H=G-E
Subtotal of Tested Executives	$ 474,000	150%	$711,000	50%	$355,500	$1,283,000	$ 641,500	$286,000
Subtotal of Tested Non-Executives	$ 453,508	25%	113,377	Varies[18]	102,715	127,500	114,375	11,660
Other Employees	$3,155,167	Varies	140,374	Varies	140,374	140,374	140,374	0
Total Allocated to MCNA Texas			$964,751	Varies	$598,590	$1,550,874	$ 896,249	$297,660

Source: MCNA Texas Bonus Plans, Payroll Register, General Ledger, and Administrative Expenses FSR

The MCNA Texas NECP also contained the following provision pertaining to executive bonuses:

> With respect to the NECP, the Chief Executive Officer and the Committee have the sole and absolute discretion to administer the NECP, and to determine the eligibility for, and amount of, bonuses awarded to executives notwithstanding any other provision of this plan. All decisions made by the Chief Executive Officer or the Compensation Committee will be final, conclusive, and binding on the Named Executive Officers.[19]

MCNA Texas asserted that its Chief Executive Officer and Compensation Committee invoked this provision to override the 150 percent maximum amount for executives established in other sections of the MCNA Texas Bonus Plan. By invoking the provision, MCNA Texas was able to award executives bonuses in excess of the plan limit. The override of the limit allowed MCNA Texas to include an additional $286,000 in bonuses on the Administrative Expenses FSR.

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[17] Based on audited portion of bonus reported on Administrative Expenses FSR line 2.

[18] This represents the aggregate salary percent allocated for nine employees. The percent allocated for each individual employee ranged from 75 to 100 percent.

[19] MCNA Health Care Holdings, LLC, Managed Care of North America Inc., MCNA Insurance Company, and MCNA Systems Corp. "Named Executive Compensation Program" (Sept. 1, 2016, through Aug. 31, 2017).

The same provision is not included in the bonus plan for non-executives.[20]

MCNA Health Care Holdings Bonuses Allocations

MCNA Texas included $1,486,857 in bonuses paid to employees of MCNA Health Care Holdings that, during the audit period, were unallowable by contract. MCNA Texas reported a total of $3,303,672 on the Administrative Expenses FSR that was associated with MCNA Health Care Holdings, an affiliate entity. The amount included salaries for MCNA Health Care Holdings employees, excluding bonuses, which are allowable and totaled $1,816,815. However, the amount also included bonuses paid to MCNA Health Care Holdings employees, which were not an allowable expense in 2017. Table 3 details the affiliate bonus allocations.

Table 3: 2017 MCNA Health Care Holdings Salaries Allocations

Corporate Employee	MCNA HCH Salaries	Prorated Bonus	Salaries Per FAR Limit	Salary Percent Allocated to Texas	Compensation Reported on FSR	Allowable Salaries	Potential Unallowable Amount
	A	B	C	D	E = (A+B) * D	F = C * D	G = E - F
Total	$7,695,808	$5,553,833	$3,840,696	Varies[21]	$3,303,672	$1,816,815	$1,486,857

Source: MCNA Health Care Holdings Overhead Expenses

During the course of the audit, MCNA Texas recalculated the amount that should have been charged to the Administrative Expenses FSR and determined that the amount should be reduced from $3,303,672 to $3,248,698. According to MCNA Texas, the reduced amount of $54,974 was due to an unrelated reporting error. As of the end of fieldwork in April 2019, the Administrative Expenses FSR had not been revised pending agreement between MCNA Texas and MCS on how to address the reporting error.

In previous audits of two other managed care organizations, the Texas State Auditor's Office (SAO) identified and reported potentially unallowable costs related to bonuses paid to employees of affiliates.[22,23] However, HHSC has indicated that it interprets the contract and the business processes to permit these

[20] MCNA Health Care Holdings, LLC, "Cash Bonus/Incentive Program for Department Directors, Managers, Individual Contributors and Call Center Team," Procedure, Budgeting for Bonus/Incentive Payments (Sept. 1, 2016, through Aug. 31, 2017).

[21] This represents the aggregate salary percent allocated for nine employees. The percent allocated for each individual employee ranged from 15 to 75 percent.

[22] Texas State Auditor's Office, "An Audit Report on The Health and Human Services Commission's Management of Its Medicaid Managed Care Contract with Superior HealthPlan, Inc. and Superior HealthPlan Network, and Superior's Compliance with Reporting Requirements," Report No. 18-015 (Jan. 2018).

[23] Texas State Auditor's Office, "An Audit Report on Amerigroup Texas, Inc. and Amerigroup Insurance Company, a Managed Care Organization," Report No. 19-011 (Nov. 2018).

bonuses. Further, in May 2018, subsequent to the period audited, it clarified that the business process was permitted.[24,25]

The SAO, in an audit report of an MCO issued in November 2018, concluded that the bonuses would not be categorized as unallowable in the Unallowable and Questionable Cost Tables.[26] The OIG Audit Division has taken a similar position and is not reporting the $1.486 million in affiliate bonuses as unallowable.

MCNA Texas, in its comment letter included in Appendix E of the report, provided a response to this issue.

Recommendation 1.2a

MCS, through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should:

- Require MCNA Texas to address and correct its reporting of $11,660 in overstated non-executive bonus expenses.

- Determine, by interpretation of the NECP or disallowance of any inappropriate language in the NECP, whether the MCNA Texas Bonus Plan provision pertaining to executive bonuses overrides other bonus plan requirements that established maximum allowable bonuses based on a percentage of executive salary and take appropriate action with respect to the additional $286,000 in bonuses paid to two executives.

Management Response

Action Plan
MCS agrees that MCNA's reporting of unsupported and overstated bonus expenses should be addressed and corrected. FRAC will utilize its existing contract oversight process to address and correct MCNA's reporting as documented in management response 1.1a.

Responsible Manager
Director of Financial Compliance, Financial Reporting and Audit Coordination

Director, Managed Care Compliance and Operations

[24] Hearing on Interim Charges Before the Texas House of Representatives, General Investigating and Ethics Committee, 85th Legislative Session (Feb. 15, 2018).

[25] Uniform Managed Care Manual, § 6.1(VI)(14), v. 2.6 (May 15, 2018).

[26] Texas State Auditor's Office, "An Audit Report on Amerigroup Texas, Inc. and Amerigroup Insurance Company, a Managed Care Organization," Report No. 19-011 (Nov. 2018).

Target Implementation Date
Based on the existing Financial Contract Review Oversight Process, FRAC will:

October 2019: Engage a qualified audit firm to complete the AUP for SFY 2017

October 2020: Determine the appropriate contractual remedies for SFY 2017, in coordination with MCCO

Recommendation 1.2b

MCS, through its contract oversight responsibility, should (a) implement a formal approval of DMO bonus plans and (b) prohibit language in bonus plans that allow a DMO to override criteria, payment methodologies, maximum amounts, or other requirements documented in the bonus plan submitted to MCS.

Management Response

Action Plan
MCO contracts allow MCOs to determine how to best support and reward the performance of their employees, and require any substantial changes to the bonus plans to be submitted to HHSC at least 30 days in advance of the effective date. MCS wants to ensure that any adjustments to current contractual requirements for bonuses do not impede an MCO from effectively incentivizing employees to meet the performance goals of their contract.

MCS will collaborate with external auditors and other subject matter experts to assess whether MCS should develop criteria for a fiscally responsible bonus plan, including assessment of the provision allowing MCO executives to override an established plan. MCS will ensure contract language for executive compensation limitations is included as a requirement of bonus compensation. Following that assessment, if MCS determines that changes should be made to the contracts regarding timing and content of the MCO bonus plans, and if approval is appropriate, FRAC will work with MCCO to implement changes to the contracts. FRAC will then communicate and implement a formal bonus plan review to ensure MCOs are submitting bonus plans according to contractual requirements, if appropriate.

Responsible Manager
HHSC Director of Financial Compliance, Financial Reporting and Audit Coordination

Target Implementation Date
February 2020: Collaborate with external parties and SMEs to define next steps in the bonus plan review process

September 2020: If deemed necessary based on input, implement contract changes

December 2020: If deemed necessary based on input, adopt formal review process of MCO bonus plan

Licensing Fees

Administrative expenses associated with materials used or efforts directed, in whole or in part, for anything unrelated to the CMDS and CHIP dental programs, including activities outside the State of Texas, are unallowable. To be allowable as expenses under the HHSC Dental Contract, costs must meet the following general criteria:[27]

- Be a reasonable cost under the provisions of the HHSC Dental Contract and be necessary for proper and efficient performance and administration of the HHSC Dental Contract
- Be an allocable cost under the provisions of the HHSC Dental Contract
- Be authorized or not prohibited under state or local laws or regulations

Travel

Travel costs are allowable only as a direct cost for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business specifically related to the CMDS and CHIP dental programs.[28] Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in all other activities of MCNA Texas.

Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, are considered reasonable and allowable only to the extent costs do not exceed charges normally allowed by MCNA Texas in its regular operations. In the absence of a written policy regarding travel costs, the rates and amounts of travel are allowed only as part of a plan reviewed in advance by HHSC and subject to audit.

Travel expenses in whole or in part associated with activities outside the State of Texas or for efforts directed at anything unrelated to the applicable HHSC program are unallowable.

[27] Uniform Managed Care Manual, § 6.1(VII), v. 2.5 (Nov. 1, 2016).

[28] Uniform Managed Care Manual, § 6.1(VI)(47), v. 2.5 (Nov. 1, 2016).

Issue 1.3: Licensing Fees and Travel Expenses

Expenses for licensing fees reported on the Administrative Expenses FSR were overstated by $10,539. The OIG Audit Division reviewed 82 licenses, permits, and filing fees transactions totaling $102,076. Of the 82 transactions reviewed, 16 transactions, totaling $10,539, were reported on the Administrative Expenses FSR, even though MCNA Texas' general ledger indicated the licensing expenses were for other states' activities. In addition, the amounts were correctly recorded in the other states' general ledger accounts. MCNA Texas did not report licensing fees in accordance with UMCM.

Travel Expenses in 2017

Of $365,704 in travel expenses reported on the Administrative Expenses FSR, $8,486 was overstated due to: (a) travel expenses for $3,803 that were charged to HHSC for activities that did not relate to the MCNA Texas contract and (b) $4,683 in expenses that were reported on the Administrative Expenses FSR, but were not supported by the general ledger.

Travel Expenses in 2018

The OIG Audit Division judgmentally selected 6 travel expense transactions from the general ledger that occurred between September 1, 2017, and February 28, 2018, and determined that 5 of the 12, totaling $13,297, were for activities outside the State of Texas.

MCNA Texas did not comply with UMCM in reporting travel expenses on the Administrative Expenses FSR. The unallowable travel expenses of $8,486 in 2017 and $13,297 resulted in unallowable travel expenses of $21,783.

MCNA Texas asserted that the unallowable licensing fees and travel expenses were corrected in subsequent Administrative Expenses FSR submissions. Because the subsequent Administrative Expenses FSR were not in the scope of this audit, the OIG Audit Division did not verify the corrections.

Affiliate Third-Party Administrator

Fees paid by MCNA Texas to an affiliate are allowable only at the affiliate's actual cost. Profits made by an affiliate due to services rendered for the HHSC Dental Contract must be attributed as profits to MCNA Texas, even if the profits are reasonable. An affiliate may make profit on the HHSC Dental Contract, but the profit must be labeled and reported to HHSC accordingly by MCNA Texas, and not converted to an MCNA Texas cost for Administrative Expenses FSR reporting purposes.[29]

Use of an affiliate reporting exception in Administrative Expenses FSR reporting of affiliate costs must receive HHSC's prior written approval.

Issue 2: MCNA Texas Increased the Administrative Services Fee and Implemented an Affiliate Reporting Exception for Its Affiliate Third-Party Administrator Without Prior HHSC Approval

The Dental Administrative Services Agreement (DAS Agreement), which went into effect in March 2012, provided for an administrative services fee of $1.20 per month per member (PMPM). Four months later, in July of 2012, MCNA Texas increased the administrative services fee to $2.55 PMPM. The rate of $2.55 PMPM is still in effect.

MCNA Texas did not request prior written approval from HHSC for the July 2012 administrative services fee increase and affiliate reporting exception, as required by UMCM. MCNA Texas notified HHSC of the administrative services fee increase in September 2012.

In November 2014, based on the report of its independent financial audit of MCNA Texas, MCS retroactively approved the affiliate reporting exception for the affiliate organization through August 2013.[30] In December 2014, MCS informed MCNA Texas in an email that the exception was valid for future periods as long as the cost and terms of the relevant agreement remain in effect without material changes.

In a January 2019 email to MCNA Texas, MCS reaffirmed the December 2014 guidance to specifically address 2016, 2017, and 2018, stating (a) ongoing reliance on the independent accounting firm's report for the 18-month period ended August 31, 2013, and (b) acceptance of a verbal assertion from MCNA Texas that there have been no material changes to the DAS agreement since August 2013.

Figure B illustrates the implementation date of the increased administrative fee paid to MCNA Texas, and the date of the MCNA Texas request to MCS for approval of the affiliate reporting exception to the affiliate cost-based reporting requirements.

[29] Uniform Managed Care Manual, § 6.1(I)(D)(3), v. 2.5 (Nov. 1, 2016).

[30] MCNA Dental correspondence to HHSC Medicaid/CHIP Division Finance Director, "Request for Exception to Rule Regarding Affiliate Cost-Based Reporting for Rate Period 12/13 et seq." (Aug. 30, 2013).

Figure B: Timeline of TPA Rate Increase and Affiliate Reporting Exception Approvals

September 2011

- MCNA TX Contract with HHSC
- MCNA TX Contract with MCNA Florida at $1.20 PMPM

October 2011

- MCNA HCH (Parent) Management Agreement Contract

March 2012

- MCNA TX Contract with HHSC Operational Start Date

July 2012

- MCNA TX Adjusted Administrative Fee to $2.55 PMPM

September 2012

- MCNA TX Notified HHSC of Adjusted Administrative Fee of $2.55 PMPM

August 2013

- MCNA TX Memo Request for Affiliate Reporting Exception of Administrative Fee of $2.55 PMPM

November 2014

- HHSC Retroactively Approved MCNA TX Request for Affiliate Reporting Exception

January 2015

- HHSC Retroactively Approved Affiliate Reporting Exception for FY15

January 2019

- HHSC Retroactively Approved Affiliate Reporting Exception for FY16, FY17, and FY18

Source: MCNA Texas Third-Party DAS Agreement, MCNA Health Care Holdings Management Agreement, and Independent Accounting Firm Working Paper

The OIG Audit Division will consider a review of the MCNA Texas affiliate third-party administrator agreement and affiliate reporting exception as part of a future project.

MCNA Texas, in its comment letter included in Appendix E of the report, provided a response to this issue.

Recommendation 2

MCS, through its contract oversight responsibility, should strengthen contract oversight and financial monitoring to ensure MCNA Texas (a) complies with contractual requirements related to affiliate reporting exceptions and (b) reports affiliate profits to HHSC appropriately.

In addition, MCS should reassess the affiliate reporting exceptions that were based on 2013 information.

Management Response

Action Plan
MCS continues to strengthen contract oversight and financial monitoring activities. MCS requested additional resources to strengthen managed care contract oversight, and added resources specifically for financial monitoring. FRAC is in the process of filling a position that will serve as the main resource in reviewing and monitoring all MCOs/DMOs to ensure that fees paid to affiliates comply with contractual requirements. This position will take the lead on researching and monitoring all MCO/DMO affiliate relationships and ensure they are meeting contractual requirements. FRAC will engage with external parties to conduct an independent assessment of the affiliate costing methodologies used by MCNA going forward. This assessment will update the assumptions that were used in 2013 to reflect current business conditions.

Responsible Manager
HHSC Director of Financial Compliance, Financial Reporting and Audit Coordination

Target Implementation Date
November 2019: Hiring complete

August 2020: Monitoring process in place for MCO affiliate arrangements

CONCLUSION

The OIG Audit Division concludes that:

- MCNA Texas' 2017 Administrative Expenses FSR included:
  - Unsupported direct consulting expenses of $590,000 and overstated corporate consulting expenses of $176,000.
  - Non-executive employee bonuses that exceeded bonus plan limits by $11,660.
  - Executive bonuses that exceeded other limits documented in the executive bonus plan.
  - MCNA Health Care Holdings bonus allocations that were not allowed by contract during the audit period.
  - Unallowable licensing fees totaling $10,539 and $21,783 in travel expenses that MCNA Texas asserted were later corrected.

- MCNA Texas did not request prior written approval from HHSC for the July 2012 administrative services fee increase and affiliate reporting exception, as required by UMCM. MCNA Texas later requested and obtained retroactive approval from MCS.

- MCNA Texas adjudicated paid dental claims selected for review in accordance with requirements.

- MCNA Texas reasonably processed and resolved selected provider complaints.

The OIG Audit Division offered recommendations to MCS, which, if implemented, will:

- Address unallowable, unsupported, or overstated expenses reported on MCNA Texas' Administrative Expenses FSR for 2017 and other years.

- Strengthen oversight and compliance related to MCNA Texas affiliate subcontracts.

The OIG Audit Division thanks management and staff at HHSC and MCNA Texas for their cooperation and assistance during this audit.

Appendix A: Sampling Methodology

The OIG Audit Division examined administrative expenses and tested claims processing and adjudication from September 2016 through February 2018.

Claims Processing and Adjudication

The OIG Audit Division obtained claims population adjudicated during the period of September 2016 through February 2018. A judgmental sample of 60 adjudicated claims was also selected and analyzed.

Administrative Expenses

The OIG Audit Division judgmentally selected categories from the Administrative Expenses FSR for testing. Administrative transactions tested were selected from the following Administrative Expenses FSR expense categories: subcontracts, related parties, and other administrative expenses, these expense categories were selected based on two factors:

- Materiality of the dollar amount of each category compared to the total amount of all administrative expenses reported on the Administrative Expenses FSR
- Expense category risk of fraud, waste, and abuse

The OIG Audit Division selected a judgmental sample of 150 administrative expenses transactions traced the transactions back to source documentation.

Appendix B: MCNA Texas HHSC Dental Contracts Costs for 2017

The 2017 MCNA Texas HHSC Dental Contract cost per Medicaid age group is illustrated in Table B.1.

Table B.1: 2017 MCNA Texas Medicaid Children Dental Contract Costs

Medicaid Children Age Group	Dental Premiums (HHSC Capitation)	Dental Premium Dollars Per Member Per Month
Age Group: Less Than 1	$ 11,907,948	$11.69
Age Group: 1-5	157,126,882	34.83
Age Group: 6-14	283,718,003	38.66
Age Group: 15-18	88,725,870	38.20
Age Group: 19-20	5,614,226	28.23
Total	$547,092,929	$35.55

Source: Financial Statistical Report, Medicaid Dental Premium

The 2017 MCNA Texas HHSC Dental Contract cost per CHIP age group is illustrated in Table B.2.

Table B.2: 2017 MCNA Texas CHIP Dental Contract Costs

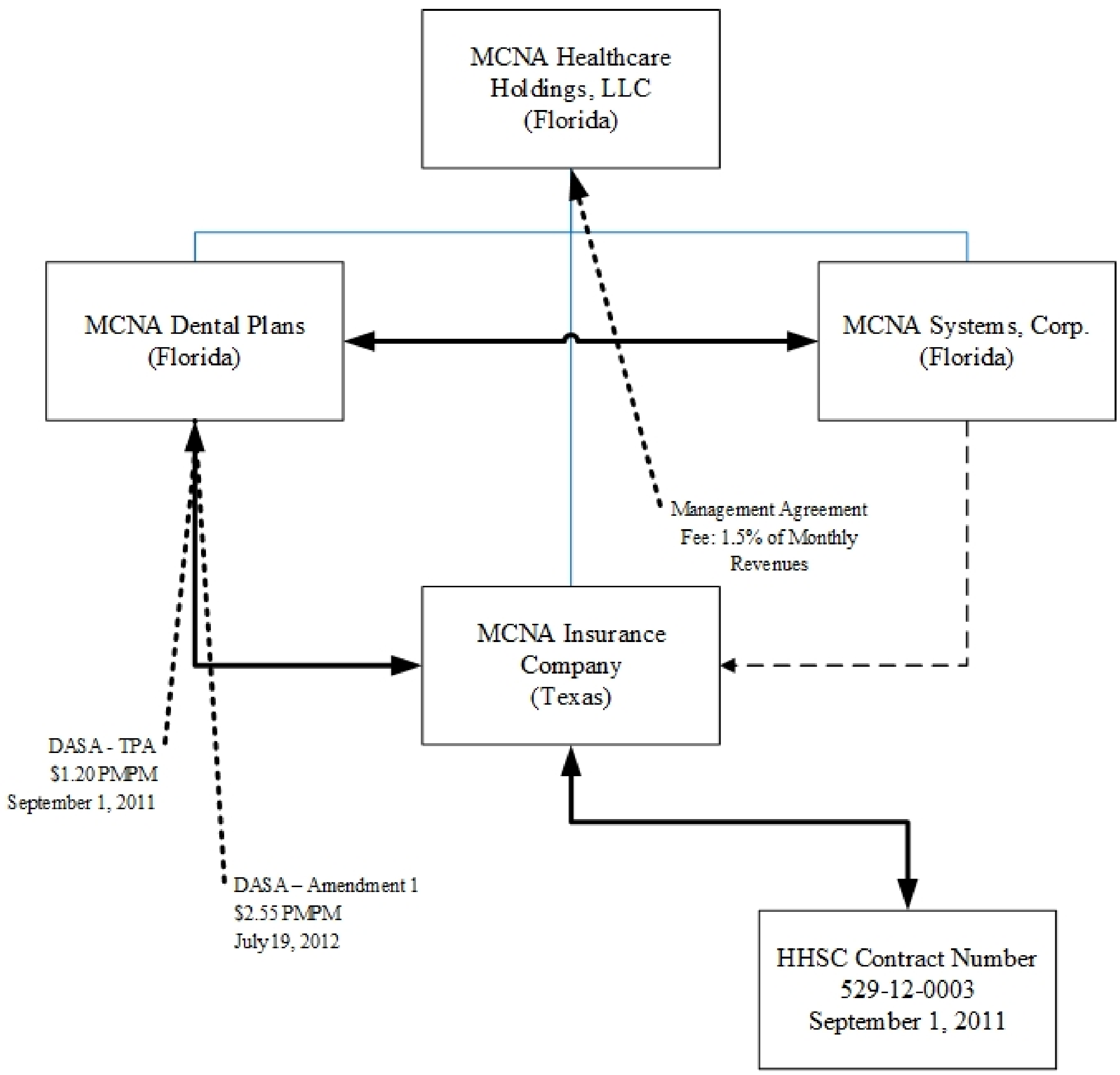
CHIP Age Group	Dental Premiums (HHSC Capitation)	Dental Premium Dollars Per Member Per Month
Age Group: Less Than 1	$ 1,794	$ 3.17
Age Group: 1-5	7,801,001	19.18
Age Group: 6-14	27,993,951	28.03
Age Group: 15-18	9,255,650	25.69
Total	$45,052,396	$25.50

Source: Financial Statistical Report, CHIP Dental Premium

Appendix C: MCNA Texas Affiliates Agreements and Fees

On October 3, 2011, MCNA Health Care Holdings entered into management agreement to provide corporate management, financial oversight, planning, and strategic guidance to MCNA Texas. Figure C.1 illustrates the timeline of MCNA Texas contracts with HHSC, MCNA Texas' affiliate, and MCNA Health Care Holdings.

Figure C.1: MCNA Texas Affiliates Agreements and Associated Fees



Source: MCNA Texas Third-Party Affiliate DAS Agreement and Management Agreement with MCNA Health Care Holdings

Appendix D: Acronyms

CHIP	Children Health Insurance Program
CMDS	Children's Medicaid Dental Services
DAS Agreement	Dental Administrative Services Agreement
DMO	Dental Maintenance Organizations
FAR	Federal Acquisition Regulations
FSR	Financial Statistical Report
GAAP	Generally Accepted Accounting Principles
HHSC	Health and Human Services Commission
MCNA HCH	MCNA Health Care Holdings, LLC
MCNA Texas	MCNA Insurance Company
MCS	Medicaid and CHIP Services
OIG	Office of Inspector General
PMPM	Per Member Per Month
UMCM	Uniform Managed Care Manual

Appendix E: MCNA Texas Comment Letter

mcnadental

August 21, 2019

Steve Sizemore, CIA, CISA, CGAP
Audit Director
Texas Health and Human Services Commission
Office of Inspector General
Mail Code 1326
P.O. Box 85200
Austin, Texas 78708-5200

MCNA Insurance Company – Response to OIG Audit Report August 20, 2019

The management of MCNA Insurance Company (MCNA) wish to thank the Audit Division for working closely with us to ensure that the foregoing Audit Report incorporates our comments and concerns with respect to the findings. We are especially pleased with the OIG's determination that MCNA's performance with respect to the processing of dental claims and the resolution of provider complaints - tasks that are critical to the maintenance of quality access to care for our members - satisfied state and federal requirements.

It should be noted that in 2017, MCNA processed a total of 12.8 million dental claims with 99.5% of clean claims paid within 20 days, well ahead of the 30 days required under the contract. Moreover, MCNA has actively recruited over 3,400 additional dental providers since 2012, increasing the number of participating network dentists who provide dental services to children in the Medicaid and CHIP programs from 2,500 to over 5,900 in our network. Our retention rate for network providers in Texas is superb at more than 94%, and is a testament to our high levels of provider satisfaction with MCNA's tools and services. It is also a contributing factor to the high rate of success of the Texas Medicaid Dental Program, the highest rated program in the United States.

The Audit Division's exceptions totaling $777,660 compare favorably with $592,000,000 in capitation received by MCNA during the SFY 2017 review period. Of that amount, MCNA agreed in advance with OIG that $350,000 was unallowable, in that we internally corrected the entry on our own initiative in December 2017 but, inadvertently, did not retroactively adjust our FSR. Considering that the scale of MCNA's contract with HHSC to administer dental benefits for approximately 1.5 million children enrolled in the Medicaid and CHIP programs, we believe that our strong financial controls and adherence to HHSC's Cost Principles are evident in the result of this audit.

Notwithstanding our sense that this Audit was conducted in a fair and thorough manner, we respectfully disagree with the following exceptions taken by the OIG and provide our rationale as follows:

ISSUE 1: Bonus and Employee Incentive Plan – MCNA Texas Employees

During the period audited, bonuses and employee incentive payments were made to employees of both MCNA Texas (Direct) and MCNA Health Care Holdings, LLC (Indirect), MCNA Texas' parent affiliate. According to OIG, the MCNA Texas employee bonuses reported on the Administrative Expenses FSR exceeded amounts documented in other parts of the bonus plan, maximum amounts were overridden and, effectively, were not in compliance with the MCNA Texas Bonus Plan approved by HHSC. OIG presents that MCNA Texas overstated bonus amounts paid to its own executives by $286,000.

200 West Cypress Creek Road • Suite 500 • Fort Lauderdale, Florida 33309
(954) 730-7131 • (800) 494-6262 • Fax (954) 730-7875 • www.mcna.net

OIG has also acknowledged and fully reflected in its report that MCNA's approved Bonus and Incentive Plan authorizes the CEO or Compensation Committee to make discretionary adjustments to employee incentive payments. Accordingly, there was nothing inappropriate by MCNA Texas invoking that provision of its bonus incentive plan. Doing so simply demonstrates they are following the plan. More importantly, in following its approved bonus and incentive payment procedures, MCNA did not exceed UMCM or FAR limits, as confirmed by HHSC's external Auditor, Myers and Stauffer, in several previous year AUP reports.

We have no issue with OIG recommendations for more specificity and detail in the Plan rather than allow broad authority to depart from any specific Plan guidelines, but we take issue with the significant and unnecessary discussion over what has been largely determined to be a non-finding concerning Texas employee bonuses.

ISSUE 2: Bonus and Employee Incentive Payments – Parent Affiliate

With respect to bonus and incentive payments to employees of MCNA Health Care Holdings, LLC, MCNA Texas' parent affiliate, it is a mischaracterization of the indirect employee payments to describe them as "affiliate bonuses" or to suggest they were not allowed by contract in the amount of $1,486,857. The payments identified in the Audit Report are appropriately described as "bonuses and employee incentive payments" paid directly to the employees of the contractor and its affiliated entity consistent with the managed care cost principals as amended May 15, 2018.

Affiliate management services is the standard industry structure for providing administrative support to medical and dental service providers in a cost-effective manner. HHSC has consistently approved of this structure and did so in the case of MCNA Texas. This affiliate question is a matter of form versus substance; in substance both clinical and administrative personnel are DMO resources and allowable expenses under the terms of the Texas Medicaid contract.

OIG acknowledges in the Audit Report that "MCS issued guidance in May 2018, subsequent to the period audited, allowing affiliate bonuses to be expensed to HHSC." The HHSC updated its Cost Principles to reflect those business practices allowable under the contract by deleting Section 6.1 which provided that "Bonuses paid or payable to an affiliate are unallowable." The restriction was intended to apply to payments made to affiliated corporate entities and not to individual employees of an affiliate working on the Texas Medicaid contract. It was not intended to prohibit incentive payments to employees of affiliates.

In the case of MCNA Texas, we believe OIG auditors have misinterpreted applicability of the Cost Principals and draw an incorrect conclusion that annual incentive payments (bonuses) for this audit period are potentially unallowable. There appears to be some inconsistency on this issue between reporting in the Executive Summary, body of the report and OIG conclusions. These year-end payments have been acknowledged by HHSC as components of cost for administering an effective and efficient provider program. It has never been HHSC's practice or intent to either override or circumvent commercial, market-based decisions of its MCOs. HHSC has traditionally focused on companies staying within FAR limits, following approved compensation plans, and properly allocating expenses to the Texas program. MCNA has met all of those criteria.

OIG references Texas' State Auditor Office reports of other MCOs whereby HHSC permitted bonuses and incentive payments made to employees of affiliates and goes on to take a similar position by not reporting MCNA affiliate bonuses as unallowable.

We appreciate and concur with OIG's position, but take issue with the significant reporting and unnecessary discussion over what has been determined to be a non-finding concerning affiliate employee bonuses.

ISSUE 3: Direct Consulting

The HHSC Dental Contract provides in pertinent part that consulting expenses to subcontractors that total $200,000 or more are required to be supported by a written agreement. OIG found that MCNA Texas did not provide a written agreement for subcontracted consulting services from a particular individual. In this instance, the consultant was an MCNA Texas employee with SFY2017 salary which was only partially allocated and reported on the FSR. If OIG disallows the entire consulting fee portion of this individual's base compensation package, with which we concur, then an additional $91,000 of the salary portion should be allocated and allowed as an FSR expense.

ISSUE 4: Affiliate Third Party Administrative Fee

After a very thorough process HHSC approved the $2.55 administrative services fee and the Fair Market Value Exception from Cost Reporting related to MCNA Texas' third party administrative services ("TPA") agreement with Managed Care of North America, Inc. Approval for all subsequent years was given by HHSC provided that no material changes to the TPA agreement were made since approval of the fee increase. The Audit Report provides a comprehensive timeline tracking these activities. In what may be a distinction without a difference, the report states that MCNA did not request written approval from HHSC prior to its 2012 fee increase. It should be noted that we requested approval from Texas Department of Insurance and, once received, notified our HHSC Contract Manager by e-mail sending the revised agreement.

OIG Audit Division indicated it will consider a future review of MCNA's affiliate third-party administrator agreement and affiliate reporting exception. MCNA Texas is prepared to cooperate fully with OIG on this matter.

Respectfully submitted,

Edward A. Strongin
Chief Financial Officer
MCNA Insurance Company

Appendix F: Report Team and Distribution

Report Team

OIG staff members who contributed to this audit report include:

- David Griffith, CPA, CIA, CGFM, Deputy IG for Audit
- Marios Parpounas, CIA, CISA, CGFM, CFE, Assistant Deputy IG for Audit
- Steve Sizemore, CIA, CISA, CGAP, Performance Audit Director
- Anton Dutchover, CPA, Audit Manager
- Nejiba Kheribi, CPA, CISA, CGAP, Audit Project Manager
- Carolyn Cadena, Staff Auditor
- Brian Baker, Staff Auditor
- Crystal Crosson, Associate Auditor
- Kathryn Messina, Senior Audit Operations Analyst

Report Distribution

Health and Human Services

- Dr. Courtney N. Phillips, Executive Commissioner
- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Victoria Ford, Chief Policy Officer
- Karen Ray, Chief Counsel
- Nicole Guerrero, Director of Internal Audit

MCNA Insurance Company (MCNA Texas)

- Dr. Jeffrey Feingold, Chairman and Chief Executive Officer
- Edward Strongin, Chief Financial Officer
- Mayre L. Thompson, Chief Compliance and Privacy Officer

Appendix G: OIG Mission, Leadership, and Contact Information

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
- Olga Rodriguez, Chief of Strategy and Audit
- Quinton Arnold, Chief of Inspections and Investigations
- Steve Johnson, Interim Chief of Medicaid Program Integrity

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To Contact OIG

- Email: OIGCommunications@hhsc.state.tx.us
- Mail: Texas Health and Human Services Commission
Office of Inspector General
P.O. Box 85200
Austin, Texas 78708-5200
- Phone: 512-491-2000