MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS
1977 - 2017

July 28, 2017

Via Electronic Mail

Louisiana Department of Health
Steve Annison, Medicaid Program Manager
628 N. 4th Street
Baton Rouge, LA 70802

Re: UnitedHealthcare of Louisiana, Inc., 2015 MLR Examination Report Transmittal (Updated with Management's Response)

This letter is to inform you that Myers and Stauffer LC has completed the examination of UnitedHealthcare of Louisiana, Inc.'s, 2015 Medical Loss Ratio (MLR) report. This examination report was originally submitted on June 29, 2017, however UnitedHealthcare of Louisiana, Inc., provided us with their management's response letter on July 11, 2017. As a courtesy to the Louisiana Department of Health and other readers, we have included UnitedHealthcare of Louisiana, Inc., management's response letter in this updated report packet transmittal. There were no additional changes made to the examination report issued and Myers and Stauffer LC, in no manner, expresses an opinion on the accuracy, truthfulness, or validity of the statements presented within the management's response letter.

Please contact us at the phone number below if you have questions.

Kind Regards,

Myers and Stauffer LC

Myers and Stauffer LC

UnitedHealthcare of Louisiana, Inc.
Report on Medical Loss Ratio Rebate Calculation
(With Independent Accountant's Report Thereon)

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

For the period of February 1, 2015
through December 31, 2015

Prepared by:

40 1977 - 2017 MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Table of Contents

<u>Independent Accountant's Report</u>

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of UnitedHealthcare of Louisiana, Inc. (UHC) for the period of February 1, 2015 through December 31, 2015. UHC's management is responsible for presenting the Medical Loss Ratio Rebate Calculation in accordance with the criteria set forth in the Healthy Louisiana's (Formerly Bayou Health) MCO Financial Reporting Guide. Our responsibility is to express an opinion on the Medical Loss Ratio Rebate Calculation based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Adjusted Medical Loss Ratio Rebate Calculation is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Medical Loss Ratio Rebate Calculation. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Medical Loss Ratio Calculation, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of UHC presents fairly, in all material respects, UHC's compliance with the criteria set forth in the Healthy Louisiana's MCO Financial Reporting Guide and exceeds the eighty-five percent (85%) requirement for the period of February 1, 2015 through December 31, 2015.

This report is intended solely for the information and use of the Louisiana Department of Health and UHC and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC

Myers and Stauffer LC
June 9, 2017

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Organizational Background

UnitedHealthcare of Louisiana, Inc. (UHC) is a wholly owned subsidiary of UnitedHealthcare, Inc. United Healthcare, Inc., is a wholly owned subsidiary of United HealthCare Services, Inc. United HealthCare Services, Inc., is a wholly owned subsidiary of UnitedHealth Group Incorporated, which is publicly held company currently trading on the New York Stock Exchange. UnitedHealthcare of Louisiana, Inc. began enrolling Medicaid members in the Healthy Louisiana (formerly Bayou Health) program on February 1, 2015. UHC is currently one of five managed care organizations that offer services on a full risk basis.

UHC was incorporated in April 1986 as a Health Management Organization. They initially contracted with the Louisiana Department of Health (LDH) under an Administrative Services Only (ASO) agreement in 2011, providing primary care case management. This contract was then converted into a Medicaid risk and service contract effective February 2015. UHC provides coverage for a broad range of medically necessary medical services to meet its members' healthcare needs.

During our examination we noted certain matters involving costs, that in our determination did not meet the definitions of allowable medical expenses and other operational matters that are presented for your consideration. These adjustments, comments and recommendations are intended to improve internal controls or result in other operating efficiencies and are summarized below.

Adjustment #1 – To adjust Logisticare transportation expense to the actual cost incurred medical expense

UnitedHealthcare of Louisiana, Inc., reported the per-member-per-month capitation expense for transportation services provided by Logisticare as a medical expense of $3,767,208 on Line 8 of their MLR calculation. Actual claims paid related to the MLR reporting period were provided by Logisticare totaling $2,978,637. Therefore, the proposed adjustment removes $788,571 from the allowable medical expense calculation. This amount should be considered "Other non-claims costs". This requirement is addressed in CMS MLR Guidance issued 7.18.11 (Q&A #19), 5.13.11 (Q&A #12), and 2.10.12 (Q&A #20). CMS Guidance states that an "issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees". Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the instructions included in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions clearly defines "Incurred claims costs" and "Other non-claims costs".

We recommend an adjustment to remove $788,571 as non-medical expenses from Line 8. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expense.

Adjustment #2 – To adjust pharmacy expenses to actual paid claims cost

UnitedHealthcare of Louisiana, Inc., submitted documentation in support of our pharmacy claims testing request that indicated that these pharmacy costs reported on Line 8 of MLR as medical expenses included amounts greater than the actual amount paid to pharmacy providers, or contained what is known in the industry as spread pricing. The actual amount paid to pharmacy providers was separately recorded within a separate general ledger account. UnitedHealthcare of Louisiana, Inc., failed to remove these amounts, but acknowledged in writing that this failure was an oversight. Therefore, the proposed adjustment removes $16,302,540 from line 8 (Total Net Medical Expenses from Income Statement) of the MLR. This requirement is addressed in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions.

We recommend an adjustment to remove $16,302,540 from Line 8 of the MLR as a non-allowable markup expense. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR Rebate Calculation Report properly to include only allowable medical expenses.

Adjustment #3 – To remove Reinsurance included in medical expense

UnitedHealthcare of Louisiana, Inc., included $784,401 in Reinsurance premium expenses on Line 8 as Medical Expenses with no noted recovery amounts. The Healthy Louisiana MCO Financial Reporting Guide and MLR instructions do not specifically identify reinsurance expense as an allowable clinical service expenditure and therefore absent specific instructions, these expenses should be classified as "Other non-claim costs". In addition, this expense amount cannot be considered as Healthcare Quality Initiative (HCQI) costs based on the MLR instructions for HCQI, which specifically excludes expenditures that are designed primarily to control or contain costs. The primary purpose of reinsurance is to minimize or reduce the risk exposure of the organization.

We recommend an adjustment to remove $784,401 from Medical Expenses included on Line 8. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable clinical service expenses and to properly classify non-claims cost.

Adjustment #4 – To remove non-allowable HCQI items included in HCQI

UnitedHealthcare of Louisiana, Inc., reported several intercompany accounts within the amounts claimed as Healthcare Quality Initiative (HCQI) expenses on Line 14 of the MLR on a per-member-per-month (PMPM) basis. UnitedHealthcare of Louisiana, Inc., provided documentation that identified profit and administrative expenses as components of the PMPM amounts that should be excluded from the HCQI expenses.

The administrative component does not meet the HCQI definitions included within the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions and may be considered allowable as "Other non-claims costs". In addition, the profit component should be removed entirely in accordance with the related organization guidance provided in CMS Publication 15-1, Chapter 10 on the treatment of allowable costs for related organizations. The exception to the related organizations listed in section 1010 was not met, and therefore UnitedHealthcare of Louisiana, Inc., is limited to the claiming of actual cost amounts of these intercompany transactions exclusive of any profit margin.

We recommend an adjustment to remove $1,053,511 from the Healthcare Quality Initiative expenses included on Line 14 related to the profit and administrative amounts identified. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses and to properly classify non-claims cost.

UnitedHealthcare of Louisiana, Inc.

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	**Total YTD Capitation Payments**	$ 921,423,716	$ -	$ 921,423,716
2	**Less: Health Insurer Provider Fee**	$ -	$ -	$ -
3	**Less: Premium tax component of reported revenue**	$ 20,045,367	$ -	$ 20,045,367
4	**NET Current YTD MLR Revenue**	$ 901,378,349	$ -	$ 901,378,349
5	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	$ -	$ -	$ -
6	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 25 below.	$ -	$ -	$ -
7	**Adjusted Current YTD MLR Capitation Revenue**	**$ 901,378,349**	**$ -**	**$ 901,378,349**
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses from Income Statement	$ 793,253,235	$ (17,875,512)	$ 775,377,723
	MLR Expense Adjustments defined in Appendix A			
9	Incurred claim adjustment additions	$ -	$ -	$ -
10	Incurred claim adjustment deductions	$ -	$ -	$ -
11	Less: Enhanced Benefit Expense	$ 2,377,675	$ -	$ 2,377,675
12	Incurred claim adjustment exclusions	$ -	$ -	$ -
13	**Adjusted Net Medical Expenses**	$ 790,875,560	$ (17,875,512)	$ 773,000,048
	Health care quality improvement (HCQI) and health care information technology and meaningful use expenses			
14	HCQI and HIT administrative expenses from Income Statement	$ 14,468,372	$ (1,053,511)	$ 13,414,861
15	Adjustments or exclusions to HCQI/HIT meaningful use expenses	$ -	$ -	$ -
16	**Adjusted HCQI/HIT expenses**	$ 14,468,372	$ (1,053,511)	$ 13,414,861
17	**Total adjusted current YTD MLR expenditures**	$ 805,343,932	$ (18,929,023)	$ 786,414,909
18	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees.	$ -	$ -	$ -
19	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 26 below.	$ -	$ -	$ -
20	**Total Adjusted MLR expenses**	**$ 805,343,932**	**$ (18,929,023)**	**$ 786,414,909**
21	**MLR percentage achieved**	**89.3%**	**(2.1%)**	**87.2%**
22	**MLR percentage requirement for rebate calculation**	85.0%		85.0%
23	**Percentage below 85% requirement**	0.0%		0.0%
24	**Dollar amount of rebate requirement**	**$ -**		**$ -**
Reconciliation of Prior Year New Enrollee Capitation Exclusion				
25	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	$ -	$ -	$ -
26	Less: Prior year incurred claims for excluded New Enrollees	$ -	$ -	$ -
27	**Total Net Adjustment for New Enrollees from prior years**	**$ -**	**$ -**	**$ -**

UnitedHealthcare of Louisiana, Inc.

Management Response

UNITEDHEALTH GROUP

3838 N. Causeway Blvd, Suite 2600, Metairie, LA 70002

June 30, 2017

Myers and Stauffer LC
133 Peachtree St NE, Suite 3150
Atlanta, GA 30303

Re: Draft audit report LA Medicaid MLR

We have reviewed the audit report dated June 5, 2017 for the Louisiana MLR audit. Our responses to each of the recommended adjustments noted on the report are addressed below. If you require additional information, please let us know.

Adjustment #1 – To adjust Logisticare transportation expense to the actual cost incurred medical expense

We recommend an adjustment to remove $788,571 as non-medical expenses from Line 8. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims expense.

UHC Response:

The Company will review the costs included in MLR filing for this TPA.

Adjustment #2 – To adjust pharmacy expenses to actual paid claims cost

We recommend an adjustment to remove $16,302,540 from Line 8 of the MLR as a non-allowable markup expense. We also recommend that UnitedHealthcare of Louisiana, Inc. revise its processes for reporting costs on the MLR Rebate Calculation Report properly to include only allowable medical expenses.

UHC Response:

The Company agrees with the recommendation for removing the excess pharmacy expense from incurred claims. Management has since changed the reporting preparation as of fourth quarter 2016 to ensure this cost is excluded.

Adjustment #3 – To remove Reinsurance included in medical expense

We recommend an adjustment to remove $784,401 from Medical Expenses included on Line 8. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable clinical service expenses and to properly classify non-claims cost.

UHC Response:

The Company agrees with the recommendation for removing reinsurance from Medical Expenses. We will revise our process going forward.

Adjustment #4 – To remove non-allowable HCQI items included in HCQI

We recommend an adjustment to remove $1,053,511 from the Healthcare Quality Initiative expenses included on Line 14 related to the profit and administrative amounts identified. We also recommend that UnitedHealthcare of Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable HCQI expenses and to properly classify non-claims cost.

UHC Response:

The Company believes the CMS provision cited in the report is not applicable to Medicaid managed care. In the event it is applicable, the company feels it meets the exceptions noted in the regulation.

Thank you for allowing us the opportunity to address the audit findings. If we could be of any assistance to you, please let us know.

Bill Ah

Plan Chief Financial Officer