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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 10, 2013

Mr. Carl Mattson
Vice President, Empire Plan
United HealthCare
22 Corporate Woods, 5th floor
Albany, NY 12211

Re: United HealthCare's Compensation
and Benefit Costs for the Empire Plan
for the Period January 1, 2008 Through
December 31, 2010
Report 2011-S-50

Dear Mr. Mattson:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited United Health Care's Compensation and Benefit Costs for the period January 1, 2008 through December 31, 2010. The objective of our audit was to determine whether United's direct charges for compensation and benefits were accurate and related to United's administration of the Empire Plan's medical/surgical program.

Background

The New York State Department of Civil Service (Civil Service) is responsible for administering the New York State Health Insurance Program (NYSHIP). NYSHIP provides health insurance coverage to more than 1.2 million active and retired State, participating local government and school district employees and their dependents. NYSHIP includes several health plan options, of which the Empire Plan (or Plan) is the largest. Nearly 1.1 million of the 1.2 million people covered by NYSHIP are members of the Plan. Civil Service contracts with United HealthCare (United) to process and pay medical and surgical claims for services provided to Plan members. From January 1, 2008 through December 31, 2010, the State paid United more than \$50 million for direct costs related to employee compensation and benefits under the Plan's medical/surgical contract. More than 800 UHC employees were assigned to the Plan during this period.

Results of Audit

United did not retain certain supporting records (including summary and source data) for charges for employees' compensation and benefits. In addition, United improperly reported certain direct costs for staff bonuses as indirect costs. United officials should take prompt actions to correct the procedural weaknesses we identified, as detailed in this report.

Summary and Source Data for Personal Service Charges

The State's contract with United requires all administrative costs charged to the Plan to be related to United's administration of the Plan's medical/surgical program. In addition, a State contractor must maintain complete and accurate records to support its claims for six years. During the three years ending December 31, 2010, United charged the State \$37.2 million for compensation and benefits paid to its claims and call center staff. This was 74 percent of the total cost of \$50 million that United charged the State for direct employee compensation and benefits during that period.

United's claims staff adjudicates claims according to the Plan's benefit and coverage specifications. Call center staff answer questions from Plan members and providers. United creates monthly Chargeback Reports (or Reports) which summarize the time spent by claims and call center staff that work on Plan and non-Plan accounts. United officials use the Reports to generate accounting entries for the General Ledger. In turn, officials use pertinent General Ledger data to prepare United's claim to the State for costs related to the Empire Plan.

To verify charges to the Plan for claims and call center staff, we requested the Chargeback Reports for the three years ending December 31, 2010. United provided us with the Chargeback Reports for the period from July 2008 through December 2010. However, United did not maintain the Reports from January through June 2008 (the first six months of our audit period). Using the available Reports, we confirmed United's charges to the Plan for claims and call center staff during the period July 2008 through December 2010. However, because United had not maintained the Reports for the six months ended June 30, 2008, we were unable to confirm United's claims and call center charges for that period. We also note that United's charges prior to July 2008 were reasonably consistent with the charges subsequent to that period (for which the Reports were available).

In addition, United did not maintain adequate supporting data for the Reports. For call center staff, United maintains its automated Workforce Management System (System) which tracks each employee's time charges by client account and provides source data for the Reports. However, the System automatically purged data according to a fixed schedule, and as such, United could not provide us with source data for employee time charges for the period January 1, 2008 through November 17, 2010. Until we requested the source data, certain United officials were unaware the System automatically purged the data. For the month of December 2010, we reconciled personal service costs for the call center (per the Report) to System source data and found no discrepancies.

However, we were unable to verify call center cost data for the remaining 35 months of our audit period because United did not maintain System source data. United officials stated the System is used primarily for workforce management and planning, and it was not intended to function as a time tracking (distribution) system. Nevertheless, the System provides the source data for call center charges (summarized in the Reports) that are assessed to the Plan, and therefore, it should be maintained for six years, as contractually required.

Also, United did not have a standard process to track the time distributions of claims center staff assigned to the Plan. United needed this data to prepare the Reports for charges for claims center staff. Some claims center supervisors used spreadsheets to track employees' time and attendance while others used email to track time charges. United officials advised us that they will develop standard processes for recording time charges and distributions for claims center staff. Further, officials will take steps to preserve (archive) source data for both call center and claims center staff charged to the Plan.

Charges for Staff Bonus Payments

United's charges to the State are either direct costs or indirect costs. Direct costs include the salaries and benefits for employees assigned specifically to the Empire Plan. Indirect costs are incurred for the benefit of multiple accounts and are not readily identifiable to a specific account. Indirect costs typically include centralized services, such as executive direction and information technology services. Indirect costs are charged across multiple accounts using an indirect cost allocation methodology.

United accounted for the salaries and wages of claims and call center staff (assigned to the Empire Plan) as direct costs, and United charged the Plan accordingly. United also accounted for bonuses paid to call center staff as direct costs and charged the Plan for such costs as well. United officials provided us with detailed listings of the direct costs for wages, benefits and call center bonuses, and we verified the propriety of those costs on a test basis.

Based on available information, we further determined that United incurred direct costs totaling \$276,178 for bonuses paid to claims center staff. However, United did not charge these bonuses as direct costs to the Plan. Instead, United included claims center bonuses with its indirect cost (or "corporate overhead") charges which totaled about \$15.5 million during the audit period. According to United officials, these charges were allocated from a pool of claims center staff bonuses attributable to United's multiple national accounts. Nonetheless, United should have charged claims staff bonuses as direct costs to the Plan.

Further, we asked United officials why they reported claims staff bonuses as indirect costs, and they stated only that United had historically reported these bonuses in this manner for the Plan. We also requested detailed information from United to support the allocations of claims staff bonuses to the Plan. However, United did not provide this information to us. Hence, we were unable to determine if United charged the Plan the correct amount (\$276,178) for claims staff bonuses. Moreover, United should take the necessary steps to ensure that claims staff bonuses are charged as direct costs to the Plan in the future.

We also tested a judgmental sample of 50 bonus payments (included as direct charges) to verify they pertained to the Plan and complied with United's prescribed requirements for bonus compensation. With one exception, the bonus payments claimed by United were proper. United should not have included a bonus of \$75 because the recipient did not work on the Empire Plan during the period for which the bonus was awarded. United transferred the employee to Plan responsibilities after the period in question. United officials agreed to credit the \$75 to the Plan in the Settlement Report for 2012.

Recommendations

1. For no less than six years, maintain the source and summary data (including the Chargeback Reports and Workforce Management System data) to support charges for the compensation and benefits of the claims and call center staff who administer the Empire Plan's medical/surgical program.
2. Develop a standardized process to track and account for time worked by claims center staff, particularly for those employees who are assigned to multiple contracts and/or programs.
3. Charge bonuses for claims staff as direct costs to the Plan.
4. Formally review the allocations of claims staff bonuses charged to the Plan during our audit period, and if the allocations are materially different from the \$276,178 in documented bonus costs, adjust future claims to the Plan as warranted.
5. Credit the State for the incorrect charge to the Plan.

Audit Scope, Objectives and Methodology

We audited United's direct charges for compensation and benefits for the Plan's Medical/Surgical Program for the period January 1, 2008 through December 31, 2010. Our objective was to determine whether United's charges were accurate and related to the administration of the Plan. To accomplish our objective, we interviewed United officials to gain an understanding of how United charges the Plan for employee compensation and benefits. We also analyzed and tested payroll, overtime and bonus data for United employees charged to the Plan's medical/surgical contract.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and

approving State contracts, refunds and other payments. In addition, the Comptroller appoints members (some of whom have minority voting rights) to certain boards, commissions and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Major contributors to this report were David Fleming, Dennis Buckley and Theresa Podagrosi.

We provided preliminary copies of the matters contained in this report to United officials for their review and formal comments. Their comments were considered in preparing this report.

Within 90 days of the final release of this report, we request United officials to report to the State Comptroller advising what steps were taken to implement the recommendations included in this report.

We wish to thank United's management and staff for the courtesies and cooperation extended to our examiners during this audit.

Very truly yours,

Brian E. Mason
Audit Director

cc: Mr. Robert DuBois, Department of Civil Service
Ms. Stephanie Zoufaly, Department of Civil Service
Mr. Thomas Lukacs, Division of the Budget