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September 14, 2026 • Updates

Maryland Sues Optum and UnitedHealth Group Over Alleged $126 Million Medicaid Fraud: The Backlash is Coming for Providers

Key Updates

- Maryland has sued Optum and UnitedHealth Group, alleging Optum collected more than $126 million while operating a behavioral health Medicaid claims system the state says was never fully functional during its five-year contract term.
- The alleged system failures led MDH to use estimated payments, later identify more than $220 million in overpayments and continue audits and recoupment efforts tied to claims processed through the Optum ASO system.

Why It Matters

- For Maryland behavioral health providers, this means claims affected by alleged system errors may still trigger audits, overpayment demands and administrative scrutiny, even where providers did not create the underlying billing or data issues.

Next Steps

- Providers that billed through the Optum ASO system should review audit notices, overpayment demands and supporting claim documentation carefully to preserve defenses, assess calculation issues and prepare to challenge unsupported audit findings.

Maryland is taking Optum to court — but behavioral health providers may still be the ones paying the price. The state alleges that Optum collected more than $126 million while operating a Medicaid claims system that never fully worked. Providers remain caught in the system's wake, facing audits, recoupment demands and scrutiny over payments they may now have to defend — even when the underlying claims data was distorted by system errors they did not create. In this insight, we review Maryland's allegations against Optum, explain how the fallout continues to affect behavioral health providers and identify audit issues providers should be prepared to address.

Maryland Alleges Optum's ASO System Failed From the Start

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Maryland Attorney General Anthony G. Brown has filed suit in Baltimore City Circuit Court against Optum and its corporate parent UnitedHealth Group, Inc., alleging fraud, breach of contract and a cascade of other violations arising from Optum's catastrophic failure to operate Maryland's behavioral health Medicaid system. The state is seeking treble damages, civil penalties of up to $10,000 per false claim and punitive damages.

In 2019, the Maryland Department of Health (MDH) awarded Optum a $130 million contract to serve as the Administrative Services Organization (ASO), the central engine for processing mental health and substance abuse claims for 1.5 million Medicaid recipients across Maryland. The award was based largely on Optum's promise to deploy its own proprietary platform, OPTICCS, which Optum touted as the gold standard with "over 20 years supporting state Medicaid systems throughout the country."

What Optum did next is what the state calls "the costliest and most disruptive debacle in Maryland Medicaid's history."

According to the complaint, without MDH's approval, Optum quietly swapped OPTICCS for an untested software platform called Incedo, developed by a small Pennsylvania company called InfoMC. Optum had never used Incedo on any Medicaid contract before. Its own engineers had never worked with it. InfoMC had never deployed it at anything near Maryland's scale. Optum said nothing about the switch in its original bid.

When the system went live on Jan. 2, 2020, it immediately crashed. The complaint describes the wreckage in stark terms:

- The system rejected nearly half of all claims submitted by legitimate providers in January 2020 "for no discernible reason."
- Providers could not log in. Credentialed providers were flagged as ineligible. Thousands of Medicaid recipients were misidentified as uninsured.
- The system generated fictitious and auto-generated prior authorizations, eliminating all quality-control safeguards throughout the claims process.
- Some providers "faced the sudden prospect of bankruptcy." As the complaint states, "the system had never before, or since, failed in such catastrophic fashion."

Allegedly, throughout the crisis, Optum kept billing the state. According to the complaint, Optum "repeatedly pressured MDH, in meetings, emails, letters and calls, to pay up" while continuously assuring state officials that a fix was imminent. The promised fix never materialized. As one MDH staffer later put it: "When you didn't think things could get worse, there would be another bombshell. It was such a state of chaos for five years."

The state alleges it ultimately paid Optum more than $126 million for a system that was never fully operational during the entire five-year contract term.

Maryland Health Care Providers Continue to Face Regulatory Fallout

The fallout for more than 2,000 Maryland behavioral health providers has been severe and ongoing. To keep the Medicaid system from collapsing entirely, MDH implemented an emergency "estimated payments" regime, paying providers based on the previous year's payment totals without reviewing any supporting documentation. From January to August 2020, MDH paid out $1.6 billion in estimated payments.

As a consequence, MDH identified more than $220 million in overpayments and has been conducting audits and seeking to recoup those funds ever since. As of the filing of the complaint, $28 million in alleged overpayments remains outstanding.

Additionally, Optum's broken system caused millions of dollars to be paid for unbundled urine tests, duplicate substance abuse claims and improperly billed services for dual-eligible beneficiaries. The state is still working to unwind these errors. Optum's failure created billing chaos that providers did not cause, but they are now bearing the cost through ongoing audits, overpayment demands and years of administrative uncertainty.

Are You Ready for Your Audit?

This lawsuit is a reminder that MDH's audit and recoupment efforts are far from over. Providers should be on high alert for Maryland Medicaid audit letters, particularly those relating to claims processed through the Optum ASO system between January 2020 and December 2024.

Critically, today's Medicaid auditors — whether from MDH, its contractors or federal partners — are increasingly deploying artificial intelligence tools and algorithms to flag claims for audit and identify potential overpayments. Those automated systems can generate false positives, misread billing patterns and flag legitimate claims as fraudulent — particularly when those claims were processed by the malfunctioning Optum system, which was generating erroneous data.

Providers who receive a Maryland Medicaid audit letter or overpayment demand should not respond without counsel. Providers have legal rights to challenge the audit methodology, contest overpayment calculations and put the auditor to its proof, including by demanding disclosure of the tools and algorithms used to identify the claims at issue.

Polsinelli's Health Care Litigation team is ready to help. Contact us immediately if you receive an audit notice. The earlier we become involved, the better we can protect your practice and your rights.

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