Mercer

Government Human Services Consulting

State Fiscal Year 2023 CenCal Health Rate Development Template

Auditor's Report

California Department of Health Care Services

July 8, 2025

welcome to brighter

A business of Marsh McLennan

Contents

1. Executive Summary 1

2. Procedures and Results 3

3. Summary of Findings 11

Section 1

Executive Summary

Pursuant to federal requirements under Title 42 of the Code of Federal Regulations 438.602(e), the State of California Department of Health Care Services (DHCS) must periodically, but no less frequently than once every three years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each managed care plan (MCP). DHCS contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to fulfill this requirement for the financial data submitted in the Medi Cal rate development template (RDT) for state fiscal year (SFY) 2023 by CenCal Health (CEN). Mercer designed and DHCS approved procedures to test the accuracy, truthfulness, and completeness of self reported financial data in the RDT.

Medi-Cal RDT reporting requires satisfactory immigration status (SIS) population and unsatisfactory immigration status (UIS) information to be reported separately. However, the audit testing was performed on the consolidated SIS/UIS basis, unless otherwise noted. In addition, only the direct MCP submissions at the consolidated contract/county/region levels were subject to testing, not including the global subcontracted MCP submissions.

The specific financial schedules selected for testing are used by Mercer as a critical part of the base data development process for capitation rate development related to the calendar year (CY) 2025 rating period. The RDT tested was the final version, including any revisions stemming from resubmissions as a result of the RDT Question and Answer discussion guide process with the MCP.

The key schedules subject to testing from the RDT included, but were not limited to:

- Schedule 1 (SIS/UIS) — Utilization and Cost Experience
- Schedule 1 A — Global Subcontracted Health Plan Information
- Schedule 1-B — Incentive Payments Arrangements
- Schedule 1 C — Base Period Enrollment by Month
- Schedule 1-ECM (SIS/UIS) — Enhanced Care Management (ECM) Summary
- Schedule 1 O — Overpayments
- Schedule 1 U — Utilization Management/Quality Assurance/Care Coordination (UM/QA/CC)
- Schedules 6a — Financial Report
- Schedule 7 — Lag Payment Information

- Schedule D 1 (UIS/SIS) — Members Delivery Counts
- Schedule D 2 (UIS/SIS) — Members Maternity Utilization and Cost Experience

The data collected in the RDT is reported on a modified accrual (incurred) basis for SFY 2023 and does not follow generally accepted accounting principles with regards to retroactivity from prior year activity, including claim or capitation accruals, retroactive enrollment, or termination of enrollment of members from prior years. The data provided is designed to report only financial and enrollment activity incurred for the SFY reported.

The procedures and results of the test work are enumerated in Table 1 of Section 2.

Section 2

Procedures and Results

Mercer has performed the procedures enumerated in Table 1 below, which were designed by Mercer and were reviewed and agreed to by DHCS, solely to test the completeness, accuracy, and truthfulness of information reported in the Medi-Cal RDT from MCP for SFY 2023. CEN's management is responsible for the content of the RDT and has responded in a timely manner to all requests for information.

Table 1: Procedures

Fee-For Service (FFS) Medical Expense	
Description of Procedures	**Results**
Mercer reviewed all paid claims data for each category of service (COS) to verify control totals, eligibility, enrollment with the MCP for the claim date of service, existence of a related encounter for the claim, and that the date of service is within the reporting period. In addition, Mercer reviewed the claims for correct COS grouping.	• Control Totals: No variance noted. • Eligibility: 0.06% of claim submissions with no matching eligibility totaling $185,427 or 0.02% of total medical expense. • Enrollment: 0.07% of claim submissions were not enrolled with the CEN on claim date of service, totaling $227,446 or 0.03% of total medical expense. • Encounter Analysis: 0.45% of claim submissions with no matching encounter totaling $8,095,467 or 1.05% of total medical expense. • Service Year: 0.01% claims submissions were out of the period totaling $1,416,777, or 0.18% of total medical expense. • COS Map: Review of all COS showed 95%–99% match for all COS. The mismatches have been redistributed to the appropriate COS for variance reporting below and attributed to a difference in classification logic used by CEN versus DHCS. CEN is continuing to review DHCS logic to ensure alignment for future reporting. All items noted above are adjustments to the support provided and are

Fee-For Service (FFS) Medical Expense	
Description of Procedures	**Results**
	reflected in the variance calculations immediately below.

Mercer compared detailed lag tables for each COS grouping (Facility — Inpatient, Facility — Outpatient, Physician, Mental Health — Outpatient and Behavioral Health Treatment Services, Facility — LTC, and All Others) created from the paid claims data files provided by the MCP and compared this support to the information reported in Schedule 7. Mercer compared the paid claims amounts from Schedule 7, line 35 and the incurred but not reported (IBNR) amount from Schedule 7, line 40 to total paid claims data as provided by the MCP.	Variance: RDT FFS Expenses are over/(understated) as compared to the support provided:
	• Inpatient 2.53%
	• Outpatient (15.16%)
	• Physician 2.86%
	• Mental Health 1.57%
	• LTC 9.80%
	• All Other (6.23%)
	
	In Total, RDT FFS Expenses are overstated by 1.83%, or $11,080,120, which is 1.44% of total medical expense.
	
	Per CEN, the variances are primarily due to the following:
	• $2.5 million of the variance is due to an over estimation of IBNR.
	• $8.5 million of the variance is primarily due to discrepancies with encounters processing.
	  – 2,805 claims were flagged by DHCS with errors that either remain uncorrected or for which CEN has attempted corrections, but DHCS has not yet approved.
	  – 1,480 claims were not resubmitted after CEN determined the reason for DHCS rejection of the encounters.
	  – 3,297 claims are still pending review by CEN.
	
	Based on the explanations provided by CEN, no additional testing was deemed necessary.

Global Subcontracted Payments	
Description of Procedures	**Results**
Mercer requested global capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 1.	Not applicable. CEN did not have any Global Subcontractors.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
Mercer requested overall non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7.	No variance noted. The total of the detail provided validated the amounts reported in the RDT.
Mercer selected a sample and obtained roster information for the provider payments, verified eligibility of members, and confirmed enrollment with the MCP.	Eligibility and enrollment were verified for 99.74% of members. The amount of non-global sub-capitation paid for the ineligible members is $22,828.
Mercer observed proof of payments via relevant bank statements, clearinghouse documentation, or other online financial institution support for the sampled sub-capitated provider payments in the previous step.	No variance was noted. The proof of payment information validated the supporting detail provided for the sampled sub-capitated providers.
Mercer reviewed the contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by the MCP for the sampled providers.	No variance was noted. The recalculated amounts validated the sub-capitation amount reported in the supporting detail provided.
If applicable, Mercer reviewed Full-Dual COA sub-capitated PMPM payment rates to determine whether the amount(s) are at a reduced rate as compared to the non-Full Dual COAs.	Confirmed reduced rates as compared to the non-Full Dual COA groups.
For sub-capitated arrangements 5% or more of total medical expense, Mercer reviewed the sampled sub-capitated contracts to determine delegated administrative duties. Using this information, Mercer then reviewed the amount of administrative dollars reported in the RDT as compared to the delegated administrative functions.	CEN had one sub-capitated arrangement that exceeded the 5% or more of total medical expense threshold. Mercer found that the sub-capitated contract reviewed did not include administrative functions.

Utilization and Cost Experience	
Description of Procedures	**Results**
Mercer compared summarized total net cost data from amounts reported in Schedule 1 to total incurred claims by COS in Schedule 7.	Variance: Schedule 1 is understated by 0.02%, or $145,844, when compared to Schedule 7.

Related Party Transactions	
Description of Procedures	**Results**
Mercer obtained related party agreements for medical services and reviewed them to determine whether the terms are at fair market value. Mercer compared the terms (e.g., PMPM or other payment rate amounts) to other similar non-related party terms for reasonableness.	CEN has related party arrangements as defined to include any hospitals or provider organizations whose executive level staff hold a seat on CEN Board of Directors. CEN has sub-capitated and provider incentive arrangements with these related parties. Per review of the agreements, the terms are similar to non-related party agreements.
If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness.	CEN has one related party with transactions that are a material portion of the related COS expense. The related party contract does not list allocation methodologies.
Mercer reviewed that all services included in the related party agreements are allowable for Medicaid rate setting.	All services included in the related party arrangements are allowable for Medicaid rate setting.
When applicable, Mercer obtained related party corporate allocation methodologies for administrative services.	Not applicable.

Provider Incentive Arrangements	
Description of Procedures	**Results**
Mercer requested a listing of all provider incentive arrangements, by program and provider, and compared the amounts to Schedule 1.	Variance: RDT Provider Incentive Expense is understated by 3.52%, or $547,045. This amount represents 0.07% of total medical expense. Per CEN, the variance is due to an oversight in reporting the Hospital Readmission Program Incentive in the RDT.

Provider Incentive Arrangements	
Description of Procedures	**Results**
Mercer selected a sample, including related party arrangements. If related party provider incentive payments were noted, Mercer reviewed the incentive terms to determine whether the terms align with similar arrangements for non-related parties.	CEN confirmed there are related party incentive arrangements, the terms aligned with similar arrangements for unrelated parties, and those payments were included in the test work below.
Mercer observed proof of payments for the sampled provider incentive payments and compared the amounts to the detailed support.	Variance: Detailed support for the sampled incentive payments is understated by 0.10%, or $3,550. The proof of payment information was more than the supporting detail provided for the sampled incentive payments.

Provider Settlements	
Description of Procedures	**Results**
Mercer requested settlement amounts paid by provider related to SFY 2023 dates of service and compared the amounts to Schedule 7. If settlements existed, Mercer noted whether the amounts were actual, or estimates based on the status of the settlements and where the amount(s) were reported in the RDT.	Variance: Schedule 7 is understated by 0.00%, or $1,749. Per CEN, actual Settlements were reported in the Physician COS in Schedule 7.
If settlement amounts are material, Mercer requested supporting documentation and performed additional procedures if necessary.	Not applicable. The settlement amount is immaterial.

Overpayments	
Description of Procedures	**Results**
Mercer inquired of the MCP whether they incurred any provider overpayment and recoupment of overpayments related to SFY 2023 dates of service. If overpayments existed, Mercer requested the overpayment and recoupment amounts and compared the net amounts to the RDT.	Variance: RDT is understated by 100%, or $539,001. Per CEN, the variance is due to a provider filing bankruptcy subsequent to the RDT submission and the overpayment was not recouped. Additionally, CEN reported the overpayment that was categorized as Fraud, Waste and Abuse to the appropriate agency as required.
Mercer requested information on the efforts to identify and recoup provider overpayments and on how the recoupments are recorded in the RDT.	CEN provided the written policy for the identification and recovery of overpayments. Based on a review of that policy, CEN is appropriately excluding any provider overpayments from the RDT medical expenses. However, due to the variance noted above, reported medical expense is overstated.

Maternity	
Description of Procedures	**Results**
Mercer compared total delivery counts reported in Schedule D-1 with the support information provided by DHCS for the same period.	Variance: The delivery count reported in the RDT is understated by 4.98% or 180 deliveries. Per CEN, the delivery counts were understated because CEN includes only deliveries with an Inpatient claim, while DHCS delivery counts include both professional claims for deliveries in non-Hospital locations and Inpatient claims.
Mercer requested policies and procedures to identify delivery events and related costs, as well as any allocation methodologies.	CEN provided high-level logic used to identify delivery events and related costs. Allocation methodologies were not utilized in their processes.

Capitation Revenue	
Description of Procedures	**Results**
Mercer compared capitation amounts reported in Schedule 6a for SFY 2023 with the Capitation Management System (CAPMAN) file received from DHCS for the same period. The CAPMAN file contains all amounts paid to the MCP by DHCS.	Variance: RDT Capitation Revenue is understated by 5.12%, or $43,719,877. Per CEN, the variance is primarily due to an oversight in the reporting of maternity supplemental payments.

Member Months	
Description of Procedures	**Results**
Mercer compared the CEN-reported member months from Schedule 1-C to eligibility and enrollment information provided by DHCS. Mercer's procedures are to request explanations for any member months with greater than 0.5% variance in total or greater than 1.0% variance by major COA.	Variance: RDT member months are understated by 0.01% in total.

Administrative Expenses	
Description of Procedures	**Results**
Mercer benchmarked administrative expenses as a percentage of net revenue across all County Organized Health System (COHS) plans and compared to the amount reported in the RDT, taking into consideration the membership size of the plan when reviewing the results.	The administrative percentage reported by CEN was within an acceptable range as compared to industry standards.
Mercer compared detailed line items from the MCP's trial balance for reasonableness when mapped to line items in Schedule 6a. If applicable, Mercer reviewed allocation methodologies for reasonableness.	No variance noted.

UM/QA/CC	
Description of Procedures	**Results**
Mercer benchmarked UM/QA/CC expenses as a percentage of total medical expense across all COHS plans and compared to the amount reported on Schedule 1-U, taking into consideration the membership size of the plan when reviewing the results.	The UM/QA/CC percentage reported by CEN was within an acceptable range as compared to industry standards.
Mercer requested the trial balance for UM/QA/CC expense to be compared to Schedule 1. Mercer also reviewed allocation methodologies for reasonableness, if applicable.	Variance: Schedule 1 is understated by 14.07%, or $1,554,828. This amount represents 0.20% of total medical expense. Per CEN, the variance is due to the under reporting of Staffing Compensation which was corrected subsequent to the SFY 2023 RDT reporting.
Mercer confirmed with the MCP that UM/QA/CC costs were not included in general administrative expenses.	Confirmed.

Other Information	
Description of Procedures	**Results**
Mercer reviewed information submitted by the MCP as to how third-party liability (TPL) is identified and reported. Per DHCS All Plan Letter (APL) 21-007, the MCP is not required to collect TPL; however, they are required to report to DHCS service and utilization information for covered services related to TPL.	Per review of the support provided and confirmation with DHCS, CEN is submitting TPL information as required by APL 21-007. No further testing was deemed necessary.
Mercer reviewed the MCP's audited financial statements covering SFY 2023 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Mercer confirmed a clean audit opinion.
Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of capitation revenue for the SFY 2023 RDT was understated by $43,719,877 or 5.12%. Per CEN, the variance is primarily due to an oversight in the reporting of maternity supplemental payments.

Based on the procedures performed, the total amount of gross medical expenditures as compared to the SFY 2023 RDT varied by $8,287,854, or 1.07% of total medical expenditures. The majority of this variance represents medical expenses that are not supported by an accepted encounter due to submission issues as noted in the FFS section. CEN remains committed to improving encounter data quality and continues to enhance its processes as issues are identified.

Based on the procedures performed, there was no variance noted for administrative expenditures in the SFY 2023 RDT. However, the plan should prepare to properly record a portion of their provider sub-capitation expenses as administrative in future RDT reporting, thus reducing their medical expense.

Based on the defined variance threshold, the results of the capitation revenue audit are determined to be material, but explanations were accepted as reasonable and do not warrant corrective action.

CEN reviewed this report and had the following response:

With the exception of our sub-capitation contract with Ventura Transit Systems, Inc. (VTS), CenCal Health does not delegate any administrative responsibilities under our sub-capitation agreements. Capitation rates are based solely on submitted encounter data, from which the FFS equivalent is calculated to derive a PMPM. CenCal Health appropriately accounts for the administrative portion of the VTS capitation in our reporting.

Mercer Health & Benefits LLC
2325 East Camelback Road, Suite 600
Phoenix, AZ 85016
www.mercer-government.mercer.com

Services provided by Mercer Health & Benefits LLC.

Copyright © 2025 Mercer Health & Benefits LLC. All rights reserved.

A business of Marsh McLennan