Mercer

Government Human Services Consulting

Calendar Year 2019 Blue Shield of California Promise Health Plan Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

July 17, 2023

Contents

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 organization (MCO). 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 calendar year (CY) 2019 by Blue Shield of California Promise Health Plan (BSCPHP). Mercer designed and DHCS approved procedures to test the accuracy, truthfulness, and completeness of self-reported financial data in the RDT.

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 CY 2022 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 MCO.

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

- Schedule 1 — Utilization and Cost Experience
- Schedule 1A — Global Subcontracted Health Plan Information
- Schedule 1C — Base Period Enrollment by Month
- Schedule 1U — UM/QA/CC
- Schedule 5 — Large Claims Report
- Schedules 6a and 6b — Financial Reports
- Schedule 7 — Lag Payment Information

The data collected in the RDT is reported on a modified accrual (incurred) basis for CY 2019 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 CY 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 BSCPHP for the CY 2019. BSCPHP's management is responsible for the content of the RDT and responded timely to all requests for information.

Table 1: Procedures

Category	Description	Results
Fee-for-Service (FFS) Medical Expense	Mercer reviewed all paid claims data for each category of service (COS) to verify control totals, verify eligibility and enrollment in the Mainstream Medi-Cal program, confirm the COS grouping was correct, confirm the year reported was correct, and confirm enrollment with BSCPHP for date of service.	• Control totals: No variance noted. • Eligibility: Confirmed for 99.67% of submitted claims. • COS Map: Confirmed 96.50% of Non-Pharmacy Claims and 100.00% of Pharmacy Claims. • Service Year CY 2019: No variance noted.
	Mercer compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long-Term Care [LTC], and All Others) created from the paid claims data files provided by BSCPHP and compared the information reported in Schedule 7. Mercer compared incurred but not reported (IBNR) estimates from Schedule 7 to claims paid amounts during the months subsequent to the submission of the RDT to verify the accuracy/reasonableness of IBNR for each COS.	Variance: RDT FFS Expenses are over/(understated): • Inpatient 1.25% • Outpatient 2.73% • LTC 6.22% • Physician (6.66%) • Pharmacy 0.10% • All Other (8.99%) In Total (0.07%) or ($195,600), which is (0.06%) of Total Medical Expense.

Category	Description	Results
	Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS.	
	Using data files (paid claims files) provided by BSCPHP, Mercer sampled and tested 60 transactions for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-LTC, and All Others) and traced sample transactions through BSCPHP's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.
Global Subcontracted Payments	Mercer requested overall global capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 1A. The total of the detail provided was more/less than the amounts reported in the RDT.	BSCPHP has no global capitation arrangements.
Sub-capitated Medical Expense	Mercer requested overall non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7. The total of the detail provided was less than the amounts reported in the RDT.	Variance: RDT Sub-capitated Medical Expense is overstated by 1.46% or $350,189 or 0.11% of Total Medical Expense.
	Mercer reviewed a sample of the five highest provider payments, ten random payments, reviewed the related contractual arrangements, and	Variance: Detailed support for sub-capitated amounts is overstated by 0.34% or $7,574.

Category	Description	Results
	recalculated the total payment amounts by sub-capitated provider using roster information provided by BSCPHP. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.	
	Mercer observed proof of payments via relevant bank statements, clearing house documentation, or other online financial institution support for the sampled sub-capitated provider payments in the previous step.	No variance noted.
	Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with BSCPHP, and analyzed claims to verify none of the FFS claims paid should have been paid under the subcapitated arrangement.	Variance: Enrollment was confirmed for 99.66% of members that were part of the sample selection. FFS claims paid for the members were contractually appropriate.
	If applicable, Mercer reviewed Full-Dual category of aid (COA) subcontracted per member per month (PMPM) payment rates to determine if the amount(s) are at a reduced rate as compared to the non-Full Dual COAs.	Mercer confirmed Full-Dual COA subcontracted PMPM payment rates are at an appropriately reduced rate as compared to the non-Full Dual COAs.
	For sub-capitated arrangements 5% or more of Total Medical Expense or major COS, Mercer reviewed the sampled	No sub-capitated arrangement met the threshold.

Category	Description	Results
	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.	
Utilization and Cost Experience	Mercer compared summarized total net cost data from amounts reported in Schedule 1 to Direct Medi-Cal COS totals from Schedule 6a and to total incurred claims by COS for Schedule 7 for consistency.	There is no variance when Schedule 1 is compared to Schedule 6a. Schedule 1 is overstated by 0.01% or $35,177 when compared to Schedule 7.
Member Months	Mercer compared MCO-reported member months from Schedule 1C to eligibility and enrollment information provided by the State. 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 overstated by 0.01% in total.
Provider Incentive Arrangements	Mercer requested a listing of all provider incentive arrangements, by provider and by month, and compared the amounts to Schedule 6a, lines 34–36.	Variance: RDT is overstated by 68.05% or $2,515,111 or 0.82% of Total Medical Expense. BSCPHP inadvertently reported incentives for measurement year 2018 in the CY 2019 RDT as they were paid in CY 2019. RDT incentives should be reported based on date earned and not date paid.

Category	Description	Results
	From the listing of provider incentive payments, Mercer sampled the highest two payment amounts and one random payment. Mercer observed proof of payments for the sampled provider incentive payments. The proof of payment information was less than the supporting detail provided for the sampled provider incentive payments.	Variance: Proof of payment is understated by 1.38% or $5,392 or 0.00% of Total Medical Expense.
	Mercer reviewed the listing of provider incentive payments for any payments to related parties. If the review of the provider incentive payment listing showed payments to related parties, and the sample selection in the previous step did not include related party arrangements, Mercer selected the two highest related party provider incentive payments. Mercer observed proof of payments for the sampled related party provider incentive payments. The proof of payment information was more/less than the supporting detail provided for the sampled related party provider incentive payments.	No related parties noted.
	If related party provider incentive payments were noted, Mercer reviewed the incentive terms to	No related parties noted.

Category	Description	Results
	determine if the terms align with similar arrangements for non-related parties.	
Reinsurance	Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: Net Reinsurance is understated by 38.06% or $136,749. This amount is 0.04% of Total Medical Expense.
	Mercer recalculated reinsurance premiums, based on 2019 membership as of June 2020 to compare to reported amounts.	Premiums are understated by 4.13% or $20,495 and is reported in the overall variance above.
	Mercer recalculated the reinsurance recoveries for the two members that met the reinsurance threshold.	Recoveries are overstated by 84.82% or $116,254 and is reported in the overall variance above. This overstatement represents 0.04% of Total Medical Expense. The recovery period covered dates of service outside of the RDT period. Recalculation was based off of 2019 dates of service only.
	Mercer compared the amount of reinsurance recoveries to the information in Schedule 5 for reasonableness.	Reported amounts in Schedule 5 are consistent with reinsurance recoveries reported based on review of the reinsurance threshold.
Settlements	Mercer inquired regarding whether the plan incurred any settlement amounts with providers related to CY 2019 dates of service. If settlements exist, Mercer noted whether the amounts are actuals or estimates based on the status of the	Amounts reported as settlements were actually timing differences in the reporting of third-party transportation expenses and the amount was determined immaterial.

Category	Description	Results
	settlements and where the amount(s) are reported in the RDT.	
	If settlement amounts are material, Mercer requested supporting documentation.	Not applicable.
Third-Party Liability (TPL)	Mercer reviewed TPL as a PMPM and as a percentage of medical expense on Schedule 6a, line 39 as compared to benchmark information across those plans reporting a value for TPL.	The benchmark TPL PMPM and percentage of Total Medical Expense were ($0.22) and (0.04%), respectively. BSCPHP reported no TPL recoveries in line 39 as it was assumed that Schedule 6a Medical Expenses are reported net of TPL recoveries. However, upon further review, BSCPHP confirmed that additional TPL recoveries were collected and were unable to update in their claims systems but not reported in the RDT. Therefore, TPL PMPM and percentage of Total Medical Expense should have been ($0.24) and (0.06%) respectively. The effect on Total Medical Expense is included in the summary of findings below.
Administrative Expenses	Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan/GMC plans and compared to the amount reported in Schedule 6a, taking into consideration the membership size of the plan when reviewing the results.	The benchmark administrative percentage was 6.07% and BSCPHP reported 9.53%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore the higher PMPM is not unreasonable.

Category	Description	Results
	Mercer compared detailed line items from the plan's trial balance mapped to line items in Schedule 6a and Schedule 6b for reasonableness. Mercer reviewed allocation methodologies and recalculated for reasonableness.	No variance noted.
Taxes	Mercer reviewed to ensure proper reporting of federal, state, and local taxes on line 59 of Schedule 6a. If no taxes reported on Schedule 6a, we confirmed the organization is not subject to taxes.	Mercer noted that the plan is subject to federal and state income taxes. The plan reported an income tax benefit for CY 2019 and the RDT properly reflected the benefit.
Related Party Transactions	Mercer obtained related party agreements for medical services and reviewed to determine if 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.	No related parties noted.
UM/QA/CC	Mercer benchmarked UM/QA/CC expenses as a percentage of Total Medical Expense across all Two-Plan/GMC plans and compared to the amount reported on Schedule 6a, taking into consideration the membership size of the plan under review when reviewing the results.	The benchmark UM/QA/CC percentage of Total Expenses was 1.57% and BSCPHP reported 2.59%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore the higher PMPM is not unreasonable.

Category	Description	Results
	Mercer compared detailed line items from the plan mapped to line items in Schedule 1-U for reasonableness. Mercer reviewed allocation methodologies and recalculated for reasonableness.	No variance noted.
	Mercer interviewed financial management to determine how health care quality improvement activities such as care coordination are isolated from general administrative expenses in the general ledger. Confirmed with BSCPHP management via interview that UM/QA/CC costs were not also included in general administrative expenses.	Mercer confirmed with BSCPHP management via interview that UM/QA/CC costs were not also included in general administrative expenses.
Pharmacy	Mercer confirmed and observed pharmacy benefits manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	Mercer confirmed pharmacy benefits manager fees were recorded as administrative expense.
	Mercer benchmarked pharmacy expenses on a PMPM basis across all Two-Plan/GMC plans and compared to the amount reported on Schedule 7.	The benchmark pharmacy expense PMPM was $36.07 and BSCPHP reported $55.53.
Capitation Revenue	Mercer compared Net Capitation Revenue reported in Schedule 6a with the CAPMAN data received from DHCS. The CAPMAN data contains all	Variance: Net capitation revenue reported is understated by 7.07% or $19,045,335. BSCPHP has confirmed that Prop. 56 Revenue

Category	Description	Results
	amounts paid to the health plan by DHCS.	totaling $8,329,710 was unintentionally excluded from Capitation Revenue, reducing the variance to and understatement of $10,715,625 or 3.98%. Per BSCPHP, the difference is due to the known capitation rates used in the calculation at the time of the RDT submission.
Interest and Investment Income	Mercer requested interest and investment income for the MCO entity as a whole and information regarding how the income provided in Schedule 6a was allocated to the Medi-Cal line of business.	Variance: BSCPHP did not report interest and investment income in the RDT. Therefore, the RDT is understated by 100.00% or ($4,185,750) or 1.55% of Net Revenue.
Other Information	Mercer reviewed the audited financial statements for the plan for the CY 2019 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Mercer confirmed a clean audit opinion for the period.
	Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	BSCPHP's internal reporting system does not allow for a separation from Mainstream and CCI Non-CMC in one rating region; therefore, the comparison was done consolidating the Mainstream and CCI RDT submissions. On a consolidated basis, the comparison is reasonable for the purposes of this review.

Category	Description	Results
	Mercer inquired how hospital-acquired conditions or Provider Preventable Conditions (PPCs) were treated in the RDT and policies for payment.	BSCPHP reviews claims meeting specific criteria before payment to determine if PPCs are present and only approves for payment when appropriate. In addition, BSCPHP completes post-payment review identifying potential errors and submits results to recovery specialists for recoupment of PPC overpayments.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $2,748,133 or 0.90% of Total Medical Expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT showed no variance.

Based on the defined variance threshold, the results of the audit are determined to be immaterial and do not warrant corrective action. BSCPHP reviewed this report and had the following comments:

We appreciate the thorough review and partnership on the 2019 RDT Audit. We are aligned with the findings that the variances are immaterial.

We note that over 90% of the variance identified is driven by the methodology used for provider incentives. Provider incentives in this RDT were reported consistent with the Adult Expansion MLR (on a paid basis) where the prescribed methodology is on a measurement period basis. This methodology difference will be corrected in future RDT submissions.

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.