Mercer

Government Human Services Consulting

Calendar Year 2019 CenCal Health Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

January 11, 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 CenCal. 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 CenCal for the CY 2019. CenCal'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 CenCal for date of service.	• Control totals: No variance noted. • Eligibility: Verified for all members. • COS Map: 99.00% confirmed. • Service Year: 99.98% confirmed.
	Mercer compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility–LTC, and All Others) created from the paid claims data files provided by CenCal and compared 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 CenCal.	Variance: RDT FFS Expenses are over/(understated): • Inpatient 0.20% • Outpatient (0.03%) • LTC 0.05% • Physician 0.07% • Pharmacy 0.02% • All Other 0.48% In Total 0.11% or $635,824.

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 CenCal, Mercer sampled and tested 60 transactions for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long Term Care–LTC, and All Others) and traced sample transactions through CenCal's claims processing system, the payment remittance advice, and the bank statements.	No variance observed.
Global Subcontracted Payments	Mercer requested overall global capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 1A.	Not applicable, CenCal does not have a global subcontractor.
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 agreed to the amounts reported in the RDT.	No variance noted.
	Mercer reviewed a sample of the five highest provider payments, ten random payments, reviewed the related contractual arrangements, and recalculated the total	No variance noted.

Category	Description	Results
	payment amounts by sub-capitated provider using roster information provided by CenCal. The recalculated amounts agreed to 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. The proof of payment information agreed to the supporting detail provided for the sampled sub-capitated providers.	No variance noted.
	Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with CenCal, and analyzed claims to verify none of the FFS claims paid should have been covered under the sub-capitated arrangement.	Of the roster members, 904 members across all the rosters were not eligible for the month of service. This amount represents 0.30% of the total roster members sampled. All were due to retro activity. No claims inappropriately paid as FFS.
	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	Dual rates were found to be appropriately less than non-Dual rates.

Category	Description	Results
	compared to the non-full dual COAs.	
	If any of the sub-capitated arrangements are a significant portion of CenCal's overall medical expense and/or major COS, Mercer obtained encounter data support and/or documentation supporting the reasonableness of the PMPM amounts included in the sub-capitated arrangement.	N/A.
	For sub-capitated arrangements 5% or more of total medical expense or major COS, Mercer reviewed the sampled sub-capitated contracts to determine which delegated administrative duties were included. Using this information, Mercer then reviewed the amount of administrative dollars reported in the RDT as compared to the delegated administrative functions.	One sub-capitated contract met the 5% threshold and did not contain any 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.	Schedule 1 understated by 0.06% or $414,613, when compared to Schedule 6a. There is no variance when Schedule 1 is compared to Schedule 7.

Category	Description	Results
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 overstated by 0.04% in total.
Provider Incentive Arrangements	Mercer requested a listing of all provider incentive arrangements, by provider, by month and compared the amounts to Schedule 6a, lines 34–36.	Variance: RDT Provider Incentive Expense is understated by 0.60% or $77,191.
	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 agrees to the supporting detail provided for the sampled provider incentive payments.	No variance noted. It should be noted that CenCal's system logic for reporting incentives includes payments made via the claims system for certain procedure codes that qualify as medically necessary codes and therefore should be reported as medical expenses rather than incentives. This logic has been in place for many years. The related amounts are not being reported as variances here as both classifications (medical and incentives) are valid expenses for base data used in capitation rate development. CenCal should, however, correct the classification of these

Category	Description	Results
		expenses for future RDT reporting.
	Mercer reviewed the listing of provider incentive payments for any payments to related parties. The review of the provider incentive payment listing showed payments to related parties; therefore, Mercer selected the two highest related party provider incentive payments and one random. Mercer observed proof of payments for the sampled related party provider incentive payments. The proof of payment information agreed to the supporting detail provided for the sampled related party provider incentive payments.	CenCal did make incentive payments to two related parties. However, no variance noted.
	If related party provider incentive payments were noted, Mercer reviewed the incentive terms to determine if the terms align with similar arrangements for non-related parties	Two related party incentives noted and reviewed. Terms of the incentive arrangement appear to be at arm's length. No issues noted.
Reinsurance	Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: Net Reinsurance reported is understated by 197.62% or $2,547,123. This amount is just 0.38% of total medical expenses. It appears the amount reported was reported incorrectly as a negative value as premiums are greater than recoveries,

Category	Description	Results
		therefore the large variance.
	Mercer recalculated reinsurance premiums, based on 2019 membership as of August 2020, to compare to reported amounts.	No variance noted.
	Mercer recalculated recoveries for a sample of five members.	No variance noted.
	Mercer compared the amount of reinsurance recoveries as compared 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 of CenCal if they incurred any settlement amounts with providers related to CY 2019 dates of service. If settlements exist, Mercer noted whether the amounts are actual or estimates based on the status of the settlements and where the amount(s) are reported in the RDT.	N/A. No Settlements incurred.
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 COHS plans reporting a value for TPL.	The benchmark TPL PMPM and percentage were $2.75 and 0.87%, respectively. CenCal is the only COHS plan reporting TPL, therefore their reported amounts are equivalent to the benchmark.
Administrative Expenses	Mercer benchmarked administrative expenses as a percentage of net	The benchmark administrative percentage was 4.93% and CenCal

Category	Description	Results
	revenue across all COHS plans and compared to the amount reported in Schedule 6a, taking into consideration the membership size of the plan under review when reviewing the results.	reported 6.11%. This percentage is 5.52% (a reasonable variance) when adjusted for the overstatement described below.
	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.	Variance: Administrative expenses reported in the RDT are overstated by $3,110,664, or 8.11% when compared to the general ledger support provided. The overstatement is primarily driven by an incorrect amount reclassified from administrative expense, a portion of which relates to UM/QA/CC as noted in that section below, offset by $572,292 of pharmacy benefit manager (PBM) fees incorrectly reported as UM/QA/CC.
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.	CenCal is not subject to income taxes.
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	There were two related parties qualifying as significant — Marian Regional Medical Center (Dignity) and Cottage Health System. No issues noted upon review of the related subcontracts.

Category	Description	Results
	other similar non-related party terms for reasonableness.	
	If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness.	N/A — no allocations noted.
	Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting.	Confirmed.
	When applicable, Mercer obtained related party corporate allocation methodologies for administrative services. Where significant, Mercer recalculated the amounts for reasonableness.	N/A — no allocations noted.
UM/QA/CC	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 6a, taking into consideration the membership size of the plan under review when reviewing the results.	The benchmark UM/QA/CC percentage was 1.65% of total medical expenses and CenCal reported 1.69%.
	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.	Variance: Schedule 1-U is understated by 12.19%, $1,364,671 or 0.21% of total medical expenses. The understatement is primarily driven by an incorrect amount reclassified (the amount reclassified was less than it

Category	Description	Results
		should have been) from administrative expense to UM/QA/CC, offset by $572,292 of PBM fees inappropriately reported as UM/QA/CC.
	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 CenCal management that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed.
Pharmacy	Mercer confirmed and observed PBM were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	PBM fees of $572,292 were incorrectly reported as UM/QA/CC. See the Administrative and UM/QA/CC sections for details.
	Mercer benchmarked pharmacy rebate expenses on a PMPM basis across all COHS plans and compared to the amount reported on Schedule 7.	The benchmark pharmacy rebate PMPM was $1.53 and CenCal reported $2.44. This is a reasonable variance from the benchmark.
Capitation Revenue	Mercer compared capitation amounts reported in Schedule 6a with the CAPMAN file received from DHCS. The CAPMAN file contains all amounts paid to the health plan by DHCS.	Variance: Capitation Revenue is overstated by 0.59% or $3,678,188.
Interest and Investment Income	Mercer requested interest and investment income for the MCO entity as a whole	Variance: RDT is understated by 1.60% or $72,383.

Category	Description	Results
	and information regarding how the income provided in Schedule 6a was allocated to the Medi-Cal line of business.	
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.	No variance noted.
	Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.
	Mercer inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	CenCal screened for HACs and either denied or recouped related claims. CenCal's IT department queried for potential HACs and provided results to the Clinical Practice Management nurses for evaluation.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by $1,220,653 or 0.18% of total medical expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were overstated by $3,110,664 or 8.11%. Most of this variance is due to an incorrect amount reclassified out of administrative expense which was less than the amount that should have been reclassified to UM/QA/CC. The amount is included in the results for medical expenditures above.

Based on the defined variance threshold, the results of the audit are determined to be immaterial and do not warrant corrective action.

CenCal reviewed this report and had no comments.

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