

Calendar Year 2019 Santa Clara Family Health Plan Coordinated Care Initiative Rate Development Template

Auditor's Report

California Department of Health Care Services

January 25, 2023

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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 Santa Clara Family Health Plan (SCFHP). 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 1.1–1.3 — Utilization and Cost Experience
- Schedule 1A — Global Subcontracted Health Plan Information
- Schedule 1B — Incentive Payments Arrangements
- Schedule 1.1U–1.3U — UM/QA/CC
- Schedule 5 — Large Claims Report
- Schedules 6.1a-b and 6.2.3a-b — Financial Reports
- Schedule 7.1–7.3 — 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 SCFHP for the CY 2019. SCFHP's management is responsible for the content of the RDT and responded timely to all requests for information.

Table 1: Procedures

Category	Description	Results CMC	Results Non-CMC
Fee-for-Service (FFS) Medical Expense	<p>Mercer reviewed all paid claims data for each category of service (COS) to verify control totals, verify eligibility and enrollment in the Coordinated Care Initiative Medi-Cal program, confirm the COS grouping was correct, confirm the year reported was correct, and confirm enrollment with SCFHP for date of service.</p> <p>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 SCFHP and compared the information reported</p>	<ul style="list-style-type: none"> Control totals: No variance noted. Eligibility: Verified for all members. COS Map: No variance noted. Service Year: No variance noted. <p>Variance: RDT Overall FFS Expenses are over/(understated):</p> <ul style="list-style-type: none"> Inpatient 2.90% Outpatient (1.48%) LTC 0.07% Physician (0.49%) Pharmacy 0.89% All Other 0.40% 	<ul style="list-style-type: none"> Control totals: No variance noted. Eligibility: Verified for all members. COS Map: No variance noted. Service Year: No variance noted. <p>Variance: RDT Overall FFS Expenses are over/(understated):</p> <ul style="list-style-type: none"> Inpatient (2.31%) Outpatient 1.02% LTC (6.61%) Physician (0.77%) Pharmacy (11.25%)

Category	Description	Results CMC	Results Non-CMC
	<p>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 SCFHP. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS.</p>	<p>In Total 0.85% or \$1,347,539.</p>	<ul style="list-style-type: none"> • All Other (4.93%) <p>In Total (6.02%) or (\$6,988,699).</p>
	<p>Using data files (paid claims files) provided by SCFHP, Mercer sampled and tested 60 transactions across each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-LTC, and All Others) and traced sample transactions through SCFHP's claims processing system, the payment remittance advice, and the bank statements.</p>	<p>No variance observed.</p>	<p>No variance observed.</p>
<p>Global Subcontracted Payments</p>	<p>Mercer requested overall global capitation supporting detail. Mercer compared</p>	<p>SCFHP does not have a global subcontract</p>	<p>Variance: RDT Global Capitation Expense is overstated by 4.61% or \$548,559.</p>

Category	Description	Results CMC	Results Non-CMC
	<p>the support provided to the amounts reported in Schedule 1A. The total of the detail provided was less than the amounts reported in the RDT.</p>	<p>arrangement for CMC.</p>	<p>This represents 0.38% of total medical expense. A portion of this variance is due to reclassification of capitation as administrative expense detailed below.</p>
	<p>Mercer reviewed the contractual arrangement with SCFHP's global subcontractor(s) and recalculated the total payment amount using global roster information provided for all 12 months of 2019 multiplied by the rates established on the most current rate sheet received from DHCS, adjusted for the global subcontracted arrangement. The recalculated amounts were less than the global capitation amount reported in the supporting detail provided.</p>	<p>N/A.</p>	<p>Variance: Detailed support for global capitation expense overstated by 0.35% or \$12,818 as compared to the recalculated amount using roster information. This represents 0.00% of total medical expense.</p>
	<p>Mercer selected the three highest months of payment by globally subcontracted health plan/provider and five randomly</p>	<p>N/A.</p>	<p>No variance noted.</p>

Category	Description	Results CMC	Results Non-CMC
	<p>selected additional months of payment. Mercer observed proof of payments via relevant bank statements, clearing house documentation or other online financial institution support for the sampled global capitated payments. The proof of payment information was more/less than the supporting detail provided for the sampled global capitated providers.</p> <p>Mercer compared the global per member per months (PMPMs) payment rates to relevant PMPM experience for non-global members for reasonableness.</p> <p>Mercer reviewed the sampled global capitated contracts to determine delegated administrative duties. Using this information, Mercer then reviewed the amount of administrative dollars reported in</p>	<p>N/A.</p> <p>CMC does not have any global capitated arrangements.</p>	<p>Global arrangement with Kaiser Foundation Health Plan (KFHP) is not for 100% of services, therefore difficult to compare PMPM to non-global PMPM. No further test work performed.</p> <p>Per review of the global contract, KFHP withholds 2% of the net capitation paid by Medi-Cal program to SCFHP for administrative services.</p> <p>SCFHP did not segregate the</p>

Category	Description	Results CMC	Results Non-CMC
	<p>the RDT as compared to the delegated administrative functions.</p>		<p>administrative component of the global capitation expense estimated to be \$117,337 or 0.08% of Total Medical Expense. This variance therefore overstates medical expense and understates administrative expense.</p> <p>It should be noted that per the contracts provided to Mercer between SCFHP and KFHP, administrative services are not clearly defined and therefore the amount is fully classified as administrative expense and KFHP is not included in Appendix A. However, as it is clear that at least some administrative duties are in fact delegated to KFHP (e.g., claims processing, member verification, and network development and monitoring), the contract should identify these requirements and</p>

Category	Description	Results CMC	Results Non-CMC
	<p>separate out the portion of the capitation rate designated for them.</p> <p>None identified.</p>		
<p>Sub-capitated Medical Expense</p>	<p>Mercer reviewed members included on the member roster to ensure there were no Mainstream members or payments provided in the steps above.</p> <p>Mercer requested overall non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7.</p>	<p>N//A.</p> <p>Variance: RDT Sub-capitated Medical Expense is overstated by 0.37% or \$533.</p>	<p>Variance: RDT Sub-capitated Medical Expense is understated by 1.61% or \$183,076.</p>
	<p>Mercer reviewed a sample of the five highest provider payments, ten random payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by SCFHP.</p>	<p>Variance: Detailed support for sub-capitated amounts are understated by 0.44% or \$268 when compared to recalculated amounts. This variance represents 0.00% of Total Medical Expense.</p>	<p>Variance: Detailed support for sub-capitated amounts are overstated by 0.12% or \$5,595 when compared to recalculated amounts. This variance represents 0.00% of Total Medical Expense.</p>
	<p>Mercer observed proof of payments via relevant bank statements, clearing</p>	<p>No variance noted.</p>	<p>Variance: Sampled sub-capitated provided payments are understated</p>

Category	Description	Results CMC	Results Non-CMC
	<p>house documentation or other online financial institution support for the sampled sub-capitated provider payments in the previous step. The proof of payment information was more/less than the supporting detail provided for the sampled sub-capitated providers.</p> <p>Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with SCFHP, and analyzed claims to verify none of the FFS claims paid should have been paid under the sub-capitated arrangement.</p> <p>If applicable, Mercer reviewed full-dual COA subcontracted PMPM payment rates to determine if the amount(s) are at a reduced rate as</p>	<p>Variance: Enrollment was confirmed for all members that were part of the sample selection.</p> <p>FFS claims paid for the members were contractually appropriate.</p> <p>Confirmed.</p>	<p>when compared to proof of payment validation by 0.07% or \$76,490 or 0.00% of total medical expense. The variance is due to retroactivity.</p> <p>Variance: Enrollment was confirmed for 99.54% of members that were part of the sample selection.</p> <p>FFS claims paid for the members were contractually appropriate.</p> <p>Confirmed.</p>

Category	Description	Results CMC	Results Non-CMC
	<p>compared to the non-full dual COAs.</p> <p>For sub-capitated arrangements 5% or more of total medical expense or major COS, 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.</p>	<p>CMC only had one subcontract and it did not meet the 5% threshold.</p>	<p>One sub-capitated contract met the 5% threshold. Mercer reviewed the contract for coverage of administrative duties.</p> <p>See Appendix A for detail of administrative functions performed by the subcontractor reviewed. Related administrative dollars were not segregated out and reclassified as administrative expense.</p> <p>Per the contract with VHP, the capitation rates to be paid by SCFHP to VHP are based on the category of aid specific capitation paid by DHCS, less two percent (2%) administration services and less specific covered services.</p> <p>While SCFHP did appropriately segregate 2.0% of</p>

Category	Description	Results CMC	Results Non-CMC
			<p>the rate paid from capitation, they reported the total amount of \$5,579,627 in UM/QA/CC and none as administrative services. Based on the duties identified in Appendix A, a portion of the expense should have been recognized as administrative expense and therefore overstating medical expense by the same amount.</p>
<p>Utilization and Cost Experience</p>	<p>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.</p>	<p>No variance.</p>	<p>No variance.</p>
<p>Provider Incentive Arrangements</p>	<p>Mercer requested a listing of all provider incentive payments, by provider, by month and compared the amounts to Schedule 6a, lines 34–36.</p>	<p>SCFHP did not have provider incentive payments for CMC.</p>	<p>SCFHP did not have provider incentive payments for non-CMC.</p>

Category	Description	Results CMC	Results Non-CMC
Reinsurance	Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: Reported net reinsurance is understated by 53.38% or \$26,463. This amount is just 0.02% of total medical expenses.	Variance: Reported net reinsurance is understated by 53.38% or \$31,704. This amount is just 0.02% of total medical expenses.
	Mercer recalculated reinsurance premiums, based on 2019 membership as of April 2020, to compare to reported amounts.	Variance: RDT was understated by 30.30% or \$16,633. The recalculated amount is included in the overall variance reported in the prior line item.	Variance: RDT was understated by 30.28% or \$55,247. The recalculated amount is included in the overall variance reported in the prior line item.
	Mercer recalculated recoveries for a sample of five members.	No variance.	No variance.
	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.	Reported amounts in Schedule 5 are/are not consistent with reinsurance recoveries reported based on review of the reinsurance threshold.
Settlements	Mercer inquired of the SCFHP 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	SCFHP did not incur any settlements in CY 2019.	SCFHP did not incur any settlements in CY 2019.

Category	Description	Results CMC	Results Non-CMC
Third-Party Liability (TPL)	<p>settlements and where the amount(s) are reported in the RDT.</p> <p>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.</p>	<p>The benchmark TPL PMPM and percentage were \$0.10 and 0.01%, respectively. SCFHP reported \$0.00 PMPM and 0.00% for the TPL PMPM and percentage of medical expense, respectively.</p>	<p>The benchmark TPL PMPM and percentage were \$.24 and 1.97%, respectively. SCFHP reported \$0.00 PMPM and 0.00% for the TPL PMPM and percentage of medical expense, respectively.</p>
Administrative Expenses	<p>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 under review when reviewing the results.</p> <p>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</p>	<p>The benchmark administrative percentage was 4.60% and SCFHP reported 2.16%.</p> <p>Variance: RDT is understated by \$157,387 or 4.52%, or 0.10% of Net Revenue.</p>	<p>The benchmark administrative percentage was 4.17% and SCFHP reported 3.19% with the variance detailed below, this percentage increases to 3.26% and does not materially change the outcome.</p> <p>Variance: RDT is overstated by \$248,477 or 5.19%, or 0.15% of Net Revenue. A portion of the variance is related to the overstatement of KFHP capitation</p>

Category	Description	Results CMC	Results Non-CMC
Taxes	<p>allocation methodologies and recalculated for reasonableness.</p> <p>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.</p>	<p>SCFHP is not subject to federal income or state franchise taxes.</p>	<p>expense previously reported in the global capitation category as medical expense.</p> <p>SCFHP is not subject to federal income or state franchise taxes.</p>
Related Party Transactions	<p>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.</p> <p>If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness.</p> <p>Mercer reviews that all services included</p>	<p>SCFHP has stated they do not have any related party relationships.</p> <p>See non-CMC results for relationship with the subcontractor Valley Health Plan (VHP), however CMC does not contract with VHP.</p> <p>N/A.</p> <p>N/A.</p>	<p>SCFHP has stated they do not have any related party relationships.</p> <p>It should be noted that VHP accounts for over 7.96% of their total medical expense, or \$11,403,912 however, VHP does not appear to be a related party.</p> <p>N/A.</p> <p>N/A.</p>

Category	Description	Results CMC	Results Non-CMC
	<p>in the related party agreements are allowable for Medicaid rate setting.</p> <p>When applicable, Mercer obtained related party corporate allocation methodologies for administrative services. Where significant, Mercer recalculated the amounts for reasonableness.</p>	N/A.	N/A.
UM/QA/CC	<p>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.</p> <p>Mercer compared detailed line items from the plan mapped to line items in Schedule 1-U for reasonableness. Mercer reviewed allocation</p>	<p>The benchmark UM/QA/CC percentage was 3.14% and SCFHP reported 3.74%. This difference is within a reasonable range.</p> <p>No variance noted.</p>	<p>The benchmark UM/QA/CC percentage was 2.71% and SCFHP reported 2.15%. This difference is within a reasonable range.</p> <p>Variance: Schedule 1-U is understated by 3.92%, \$152,364 or 0.11% of total medical expenses.</p>

Category	Description	Results CMC	Results Non-CMC
	<p>methodologies and recalculated for reasonableness.</p> <p>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 SCFHP management via interview that UM/QA/CC costs were not also included in general administrative expenses.</p>	Confirmed.	Confirmed.
Pharmacy	<p>Mercer confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.</p> <p>Mercer benchmarked pharmacy rebate expenses on a PMPM basis across all Two-Plan/GMC plans and</p>	<p>Confirmed.</p> <p>The benchmark pharmacy rebate PMPM was \$43.70 and SCFHP reported \$33.99. SCFHP should ensure all available</p>	<p>Confirmed.</p> <p>The benchmark pharmacy rebate PMPM was \$0.11 and SCFHP reported \$0.22. This difference is within a reasonable range.</p>

Category	Description	Results CMC	Results Non-CMC
	compared to the amount reported on Schedule 7.	rebates are claimed and reported appropriately for CMC.	
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: RDT is understated by 5.31%, or \$1,555,943.	Variance: RDT is understated by 0.06%, or \$98,925.
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: RDT is understated by 1.83% or \$20,127.	Variance: RDT is overstated by 0.40% or \$4,142.
Other Information	Mercer reviewed the audited financial statements for the plan for CY 2019 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Clean audit opinion observed.	Clean audit opinion observed.
	Mercer compared reported expenses,	No material variances noted.	No material variances noted.

Category	Description	Results CMC	Results Non-CMC
	<p>including IBNR and administrative expenses, to audited financial statements for consistency.</p> <p>Mercer inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.</p>	<p>For APRDRG hospitals, SCFHP uses a pricing methodology that includes HAC adjustments in the final payment. For per diem or per case, no adjustment is made for final payment.</p>	<p>For APRDRG hospitals, SCFHP uses a pricing methodology that includes HAC adjustments in the final payment. For per diem or per case, no adjustment is made for final payment.</p>

Section 3

Summary of Findings CMC

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by \$1,321,610 or 0.81% of total medical expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by \$157,387, or 4.52%. Based on the defined variance threshold, the results of the audit of administrative expenditures, are determined to be material, however do not warrant corrective action. The overall administrative expense was 2.16% of Net Revenue and that is considered reasonable, compared to the benchmark of 4.60%.

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

SCFHP reviewed this report and had the following comments:

SCFHP is grateful for the work performed by Mercer on behalf of the Department of Health Care Services (DHCS) in auditing our CY19 Rate Development Template (RDT) and is pleased that the audit results are reasonable and the variances noted are immaterial. SCFHP is committed to the highest standards of accuracy and timeliness in all financial reporting.

Although the component variances noted in this audit report are immaterial, both individually and collectively, SCFHP respectfully requests detail of Mercer's variance calculations of all variances in order to understand any opportunities to improve our future RDT submissions.

Section 4

Summary of Findings Non-CMC

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by \$6,807,284 or 4.75% of total medical expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were overstated by \$248,477, or 5.19%. Based on the defined variance threshold, the results of the audit of administrative expenditures, are determined to be material, however do not warrant corrective action. The overall administrative expense was 3.19% of Net Revenue and that is considered reasonable compared to the benchmark of 4.17%.

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

SCFHP reviewed this report and had the following comments:

SCFHP is grateful for the work performed by Mercer on behalf of the Department of Health Care Services (DHCS) in auditing our CY19 Rate Development Template (RDT) and is pleased that the audit results are reasonable and the variances noted are immaterial. SCFHP is committed to the highest standards of accuracy and timeliness in all financial reporting.

Although the component variances noted in this audit report are immaterial, both individually and collectively, SCFHP respectfully requests detail of Mercer's variance calculations of all variances in order to understand any opportunities to improve our future RDT submissions.

Appendix A
Administrative Duties in Sub-capitated Arrangements

Administrative Task	Valley Health Plan
Case Management	X
Claims Processing	X
Utilization Management	X
Provider Relations and Education	X
Provider Contracting	X
Credentialing and Recredentialing	X
Pharmacy Management	X



Mercer Health & Benefits LLC

2325 East Camelback Road, Suite 600

Phoenix, AZ 85016

www.mercer-government.mercer.com

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