Mercer

Government Human Services Consulting

Calendar Year 2019 Central California Alliance for Health Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

March 1, 2023

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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 Central California Alliance for Health (CCAH). 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 CCAH for the CY 2019. CCAH'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 CCAH for date of service.	• Control totals: No variance noted. • Eligibility: 99.83% verified. • COS Map: No variance noted. • Service Year: No variance noted.
	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 CCAH 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 the CCAH. Allowable absolute value variances were deemed to be not greater than 2% for inpatient	Variance: RDT Overall FFS Expenses over/(understated): • Inpatient (0.01%) • Outpatient (0.08%) • LTC (0.10%) • Physician (1.00%) • Pharmacy 1.13% • All Other 0.48% In Total 0.02% or $224,672

Category	Description	Results
	claims and 1% for all other COS.	
	Using data files (paid claims files) provided by CCAH, Mercer sampled and tested 60 transactions for all major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long Term Care [LTC], and All Others) and traced sample transactions through CCAH's claims processing system, the payment remittance advice, and the bank statements.	No variance observed.
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 and ten random payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by CCAH. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.	Variance: RDT is overstated by 0.92%, or $27,813 as compared to sub-capitated amount recalculated using provided roster information.
	Mercer observed proof of payments via relevant bank statements, clearing house documentation, or other	Variance: RDT Sub-capitated Medical Expenses is

Category	Description	Results
	online financial institution support for the sampled sub-capitated provider payments in the previous step. The proof of payment information was less than the supporting detail provided for the sampled sub-capitated providers.	overstated by 0.08% or $2,400.
	Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with CCAH, and analyzed claims to verify none of the FFS claims paid should have been covered under the sub-capitated arrangement.	Variance: Enrollment was confirmed for 99.90% of members that were part of the sampled provider payments. Most of the variance is due to retroactivity. No FFS claims were paid inappropriately for sup-capitated members.
	If applicable, Mercer reviewed full dual COA subcontracted PMPM payment rates to determine if the amount(s) are at a reduced rate as compared to the non-full dual COAs.	No issues noted.
	If any of the sub-capitated arrangements are a significant portion of CCAH'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.	No sub-capitated arrangements were deemed a significant portion of overall medical expense or major COS.
	For sub-capitated arrangements 5% or more than total medical expense or major COS, Mercer reviewed the sampled sub-capitated contracts to determine	N/A. No subcontracts 5% or more than total medical or major COS.

Category	Description	Results
	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.	No variance noted.
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 overstated by 0.30% 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.	No variance noted.
	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	Variance: RDT is overstated by 0.91% or $20,447. However, the total variance of $20,447 is due to the provider not cashing the checks. Amount is immaterial, therefore no follow up performed.

Category	Description	Results
	sampled provider incentive payments.	
	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.	Not applicable. Related party incentive payments were included in the sampled incentives above.
	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	Related party incentive arrangements included similar terms to those for non-related parties. 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 3.55% or $101,235. This amount is just 0.01% of total medical expenses.
	Mercer recalculated reinsurance premiums, based on 2019 membership as of April 2021, to compare to reported amounts.	Variance: Reported reinsurance premium is understated by 1.10% or $74,584. This amount is just 0.01% of total medical expenses. The recalculated amount is included in the overall variance reported above.
	Mercer recalculated recoveries for a sample of five members.	Variance: Reported reinsurance recoveries are overstated by 0.28%, or

Category	Description	Results
		$26,251. This amount is included in the overall variance reported above.
	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 the CCAH 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 plans reporting a value for TPL.	The benchmark TPL PMPM and percentage were $2.75 and 0.07%, respectively. CCAH did not report any TPL for CY 2019.
Administrative Expenses	Mercer benchmarked administrative expenses as a percentage of net 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.	The benchmark administrative percentage was 4.93% and CCAH reported 6.65%, primarily driven by the Compensation line item. To note, there was $305,651 of Interest Expense for Late Payments that was not included in the RDT at all. This amount would make the differential from the benchmark slightly larger had it been included. Overall administrative expenses

Category	Description	Results
		reported in the RDT appear to be reasonable.
	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.	N/A. CCAH is exempt from taxation under the Internal Revenue Code.
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.	The only related parties for CCAH are hospital and provider representative Board of Director members. Where subcontracts existed for these parties, terms were reviewed for reasonableness. No issues noted.
	If related party contracts are a material portion of the medical expenses, Mercer also reviewed any allocation methodologies for reasonableness.	N/A. None of the hospital and provider related party contracts are material, therefore no further review.
	Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting.	No variance noted.

Category	Description	Results
	When applicable, Mercer obtained administrative related party corporate allocation methodologies for administrative services. Where significant, Mercer recalculated the amounts for reasonableness.	N/A.
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% and CCAH reported 2.22%.
	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 overstated by 50.11%, or $13,582,841. This amount represents 1.11% of total medical expenses. Most of the variance is due to grant expenses categorized as UM/QA/CC that do not meet the criteria to be categorized as such and/or included under the premise of rate setting data.
	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 CCAH management via interview that UM/QA/CC costs were not also included	Confirmed.

Category	Description	Results
	in general administrative expenses.	
Pharmacy	Mercer confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	No variance noted.
	Mercer benchmarked pharmacy rebate expenses as a percentage of pharmacy spend and on a PMPM basis across all COHS plans and compared to the amount reported on Schedule 7.	The benchmark Pharmacy Rebate PMPM was ($0.91) and CCAH reported ($0.87).
Capitation Revenue	Mercer compared Medi-Cal 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.	RDT is higher than the CAPMAN amount by 1.46%, or $17,495,234.
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.	No variance noted.
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 concerns noted.
	Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.

Category	Description	Results
	Mercer inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	Confirmed with CCAH expenses that related to HACs are not reported in the RDT and CCAH does not pay for HAC related expenses. If a claim is paid prior to the identification of provider preventable condition, the payment is recouped.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $13,724,324 or 1.13% of total medical expenditures in the CY 2019 RDT. Of this amount, $13,582,841 relates to UM/QA/CC as mentioned in the relevant section above.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by $305,651, or 0.38%.

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

CCAH reviewed this report and had the following comments:

Regarding the overstated medical expenditure, the DHCS template included a section to report in lieu of services (ILOS) activities for 2019 cost experience for consideration. Thus, the Alliance reported $13.6M in the UMQA category for ILOS activities. Of the amount, $7.1M is for community housing projects, $3.7M is for provider recruitment, $1.1M is for Intensive Care Management and the remaining amount was for practice coaching, technical assistance, workforce development, and post-discharge meal deliveries.

Of the total reported, $1.3M was recognized in the community support rates. The Alliance will continue investing in the capacity to improve our members' health and determine the appropriate amounts included in UMQA or administrative costs.

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