Mercer

Government Human Services Consulting

Calendar Year 2019 LA Care Health Plan Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

September 26, 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 LA Care Health Plan (LA Care). 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 LA Care for the CY 2019. LA Care'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 LA Care for date of service.	• Control totals: No variance noted. • Eligibility: 0.80% claim submissions with no matching eligibility totaling $6,011,219 or 0.11% of total medical expense, included in the variance noted below. • COS Map: 98% match for Non-Pharmacy (Rx) and 86% for Rx. • Service Year: No variance noted. COS Matching test for pharmacy confirmed 86% of audit FFS data submitted. LA Care reported pharmacy experience reported in the RDT is based on what was paid to their pharmacy benefit manager. The remaining 14% of the data submission totaled $14,902,307, 2.73% of Pharmacy expense, or 0.27% of total medical expense, was excluded from testing below.

Category	Description	Results
	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 LA Care 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 amount from Schedule 7, line 40 to total paid claims data as provided by the LA Care. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS.	Variance: RDT FFS Expenses are overstated: • Inpatient 1.93% • Outpatient 2.18% • LTC 0.32% • Physician 1.13% • Pharmacy 3.73% • All Other 2.25% In total, RDT FFS Expenses are overstated by 2.25% or $48,787,170, which is 0.90% of Total Medical Expense. Pharmacy was overstated by $14,902,307 or 0.27% of total medical expense due to the pharmacy experience reported in the RDT being based on what was paid to their pharmacy benefit manager, noted above.
	Using data files (paid claims files) provided by LA Care, Mercer sampled and tested 56 transactions across each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-LTC, and All Others) and traced sample transactions through LA Care'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	Variance: RDT Global Capitation Expense is overstated by 1.18% or $25,150,176, which is

Category	Description	Results
	provided to the amounts reported in Schedule 1A. The total of the detail provided was less than the amounts reported in the RDT.	0.46% of Total Medical Expense.
	Mercer reviewed the contractual arrangement with LA Care'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.	No variance noted.
	Mercer selected the three highest months of payment by globally subcontracted health plan and five randomly 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 than the supporting detail provided for the sampled global capitated providers.	Variance: Proof of payment for the sampled global payments made for base capitation was overstated by 2.74% or $20,583,987, which is 0.96% of total global capitation payments and 0.38% of Total Medical Expense. This variance has been included in the total global capitation expense variance noted above. Payments tested included both Mainstream and Coordinated Care Initiative populations and contained retroactive activity known at the time of payment that contributed to the overstatement.

Category	Description	Results
	Mercer obtained roster information for the globally subcontracted provider and verified eligibility of members, confirmed enrollment with LA Care, and analyzed claims to verify none of the FFS claims paid should have been covered by the global arrangement.	Enrollment was confirmed for 99.89% of the members on the provided rosters. Payments for the members not verified were removed from the overall global capitation support and included in the overall variance mentioned above. FFS claims totaling $7,938,230 or 0.37% of total FFS claims were paid for members that were part of the global contract. This represents 0.15% of Total Medical Expense.
	Mercer compared the global per member per month (PMPM) payment rates to relevant PMPM experience for non-global members for reasonableness.	The weighted average global expense PMPM of $198.96 is far less than the weighted average non-global medical expense PMPM of $291.16. While this was a large differential, LA Care's global member mix contains more members as a percent of total in lower acuity categories of aid (COAs) (e.g., Child). In addition, the global members generally have lower utilization in major COAs than the direct membership and therefore the lower PMPM appears to be reasonable.
	If applicable, Mercer reviewed Full-Dual members' global	The global contracts reviewed confirmed Full-Dull member global

Category	Description	Results
	contracted PMPMs to determine if the amount(s) are at a reduced rate as compared to the non-Full Dual category of aid (COA) groups.	contracted PMPMs are appropriately at a reduced rate as compared to the non-Full Dual COA groups.
	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 the RDT as compared to the delegated administrative functions.	Per review of the global contract, LA Care's global subcontractors provide several administrative services on behalf of LA Care's globally sub-capitated members. See Appendix A for details. LA Care did not segregate a portion of the global capitation expense as administrative expense; therefore, overstating medical expense and understating administrative expense.
	Mercer reviewed 100% of members included on the member roster to ensure there were no Coordinated Care Initiative members or inappropriate payments provided in the steps above.	None identified.
Sub-capitated Medical Expense	Mercer requested non-global subcapitation expense 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 0.69% or $7,230,779, which is 0.13% of Total Medical Expense.
	Mercer reviewed a sample of the five highest provider payments and ten random	Variance: Detailed support for sub-capitated amounts is overstated by 0.29% or

Category	Description	Results
	payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by LA Care. The recalculated amounts were less than the subcapitation amount reported in the supporting detail provided.	$227,086. This variance has been included in the total non-global subcapitation expense variance noted above.
	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 was less than the supporting detail provided for the sampled sub-capitated providers.	Variance: Detailed support for the sampled sub-capitated providers is overstated by 0.50% or $377,833. This variance has been included in the total non-global subcapitation expense variance noted above.
	Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with LA Care, and analyzed claims to verify none of the FFS claims paid should have been paid under the sub-capitated arrangement.	Variance: Enrollment was confirmed for 99.91% of members that were part of the sample selection. Payments for the members not verified were removed from the overall non-global subcapitation support and included in the overall variance mentioned above. Mercer analyzed claims and confirmed claims paid were appropriately paid under the sub-capitated arrangement.

Category	Description	Results
	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.	Mercer confirmed the use of a reasonable reduced rate as compared to the non-Full Dual COA groups.
	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.	Not applicable.
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 and 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	Variance: RDT Member Months overstated by 0.10% in total.

Category	Description	Results
	than 1.0% variance by major COA.	
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 Provider Incentive Expense is understated by (2.65%) or ($1,250,518).
	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 matched the supporting detail provided for the sampled provider incentive payments.	No variance noted.
	Mercer reviewed the listing of provider incentive payments for any payments to related parties, including Board of Directors members' organizations. 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	Incentives were paid to two organizations that also had seats on LA Care's Board of Directors. Proof of payment: No variance noted.

Category	Description	Results
	related party provider incentive payments.	
	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.	Mercer confirmed incentive 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.	Confirmed that there was no reinsurance coverage during CY 2019.
Settlements	Mercer inquired of LA Care 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.	Settlements are reported in Schedule 7 and are based on actual amounts. Schedule 7 Reported $7,323,938 of settlements, totaling 0.14% of Total Medical Expense.
	If settlement amounts are material, Mercer requested supporting documentation and performed additional procedures.	Supporting documentation confirmed reported RDT settlements. Amount is not material therefore no additional procedures were performed.
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 ($0.22) and (0.04%), respectively. LA Care reported ($0.16) PMPM and (0.07%) of Total Medical Expense. This is considered a reasonable level of

Category	Description	Results
		difference from the benchmarks.
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 LA Care reported 5.02%. The lower administrative expense reported by the plan may be due to their not reporting any portion of their global subcapitation payments as administrative expense, as pointed out previously.
	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.	LA Care is exempt from federal and State 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 other similar	LA Care reported no related parties. However, there were five entities that had representatives who served as part of LA Care's Board of Directors. Payments totaling $59,559,052 or 1.10% of total Medical Expense

Category	Description	Results
	non-related party terms for reasonableness.	were paid to these entities. Not material.
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 when reviewing the results.	The benchmark UM/QA/CC percentage of Total Medical Expense was 1.67% and LA Care reported 0.83%. As some of the global subcapitation payments cover UM/QA/CC activities, this variance is not unreasonable.
	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 LA Care management via interview that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed.
Pharmacy	Mercer confirmed and observed pharmacy benefits manager fees were recorded as administrative expenses and not included in	Confirmed.

Category	Description	Results
	pharmacy claims expenses in the RDT.	
	Mercer benchmarked pharmacy rebate expenses on a PMPM basis across all Two-Plan/GMC plans and compared to the amount reported on Schedule 7.	The benchmarked pharmacy rebate PMPM is ($1.39) and LA Care reported ($1.46). This difference is reasonable.
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 (0.13%) or ($7,152,572).
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 overstated by $349,904 or 0.80%, or 0.01% 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.	LA Care received a clean audit opinion for CY 2019 and there were no unremediated material internal control weaknesses identified in the audit opinion.
	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	LA Care uses claims software that will not include diagnoses in the

Category	Description	Results
	treated in the RDT and policies for payment.	APR-DRG calculation if the "present on admission" (POA) flag is not "yes". Additionally, claims audit staff will review claims with diagnosis codes that are hospital acquired conditions where the POA flag is either "no" or missing. Therefore, no costs for HACs are included in the RDT expense reporting.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $79,927,609 or 1.47% of total medical expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT showed no variance. However, the plan should be properly recording a portion of their global subcapitation expense as administrative, reducing their medical expense.

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

LA Care reviewed this report and had the following comments:

At the time of completing the CY 19 RDT, we applied the four-part clinical risk-bearing entity ("CRBE") test to global subcontractors and as a result considered the total payments made to the global subcontractors to be health care expenses. We received legal guidance on the application of this test to the global subcontractors for MLR reporting and were told it was appropriate to assume the total expense was medical per memo from our legal counsel.

We were also aware that Mercer made adjustments to our global subcontractor rates to remove perceived administrative expenses, regardless of what was reported in the RDT. As such, our opinion that the entire global sub-capitation should be considered medical expense did not affect our revenue rates. Even if we were to say that some of the expense should be considered admin, we would have no way to accurately estimate the admin percentage. The RDT instructions do not require that obtain reporting from our global subcontractors as to their actual admin costs. Additionally, DHCS has been routinely collecting RDT information from our global subcontractors so they would have better information than we would on the global subcontractors' admin expenses.

Appendix A

Administrative Duties in Sub-capitated Arrangements

Administrative Task	Anthem Blue Cross	Blue Shield of California	Kaiser Foundation HP
Quality Management and Improvement	X*[1]	X*	X*
Population Health Management	X	X	X
Network Management	X	X	X
Utilization Management	X*	X*	X*
Credentialing and Re-credentialing	X	X	X
Member Connections	X	X	X
Members' Rights and Responsibilities	X*	X*	X*

[1] In all categories LA Care retains accountability for procedural components and will oversee Delegate's adherence to these standards through pre-delegation and annual oversight review and more frequently, as required, Federal, State and regulatory guidelines and accreditation standards.

In categories marked with an X*, LA Care retains additional responsibilities beyond those mentioned above.

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