Mercer

Government Human Services Consulting

Calendar Year 2019 Blue Shield of California Promise Health Plan Coordinated Care Initiative Rate Development Template

Auditor's Report

California Department of Health Care Services

October 9, 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 1.1–1.3 — Utilization and Cost Experience
- Schedule 1A — Global Subcontracted Health Plan Information
- Schedule 1B — Incentive Payments Arrangements
- Schedule 1C — Base Period Enrollment by Month
- 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 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 Cal MediConnect (CMC)	Results Non-CMC
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 Coordinated Care Initiative (CCI) 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: 0.11% claim submissions with no matching eligibility totaling $107,612 or 0.10% of total medical expense, included in the variance noted below. • COS Map: Confirmed 98.0% of Non-Pharmacy Claims and 100% 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	Variance: RDT FFS Expenses are over/(under) stated: • Inpatient 3.14% • Outpatient 8.17% • LTC 4.02% • Physician (1.09%)	Variance: RDT FFS Expenses are over/(under) stated: • Inpatient 1.12% • Outpatient 18.46% • LTC 6.93% • Physician 1.11% • Pharmacy (2.70%)

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
	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 BSCPHP. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS.	• Pharmacy 0.85% • All Other (8.19%) In Total overstated by 1.89% or $1,349,529, which is 1.41% of Total FFS Expense. During the RDT submission BSCPHP did not update the COS changes reflected in the instructions which caused some volatility in the audit comparison by type of service.	• All Other (20.57%) In Total overstated by 4.19% or $4,110,164, which is 4.17% of Total FFS Expense. During the RDT submission BSCPHP did not update the COS changes reflected in the instructions which caused some volatility in the audit comparison by type of service. In addition, BSCPHP identified duplicate payments in their system migration documentation for the Non-CMC population that increased the reported FFS expense in the RDT. The recoveries and reversals from the duplicate payments contributed to the total overall decrease in FFS expense, which lead to the RDT overstatement in FFS expense reported above.

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
	Using data files (paid claims files) provided by BSCPHP, Mercer sampled and tested 67 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.	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.	BSCPHP has no global capitation arrangements.	BSCPHP has no global capitation arrangements.
Subcapitated Medical Expense	Mercer requested overall non-global subcapitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7.	Variance: RDT Subcapitated Medical Expense is understated by (0.04%) or ($11,542) or (0.01%) of Total Medical Expense. The total of the detail provided was more than the amounts reported in the RDT.	Variance: RDT Subcapitated Medical Expense is overstated by 0.97% or $5,482 or 0.01% of Total Medical Expense. The total of the detail provided was less than the amounts reported in the RDT.
	Mercer reviewed a sample of the five	No variance noted.	No variance noted.

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
	highest provider payments, ten random payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by subcapitated provider using roster information provided by BSCPHP.		
	Mercer observed proof of payments via relevant bank statements, clearing house documentation, or other online financial institution support for the sampled subcapitated provider payments in the previous step.	No variance noted.	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 covered under the subcapitated arrangement.	Variance: Enrollment was confirmed for 98.67% of members that were part of the sample selection. Capitation for the ineligible members was $38,006 or 0.04% of Total Medical Expense. This amount is an overstatement and reduced the overall	Variance: Enrollment was confirmed for 99.34% of members that were part of the sample selection. Capitation for the ineligible members was $429 or 0.00% of Total Medical Expense. This amount is an overstatement and is included in the overall variance noted above.

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
		understatement noted above. FFS claims paid for the members were contractually appropriate.	 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.	Mercer confirmed Full-Dual COA subcontracted PMPM payment rates are at an appropriately reduced rate as compared to the non-Full Dual COAs.
	For subcapitated arrangements 5% or more of total medical expense or major COS, Mercer reviewed the sampled subcapitated 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.	No subcapitated arrangements met the threshold.	No subcapitated arrangements met the threshold.

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
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 or to Schedule 7.	There is no variance when Schedule 1 is compared to Schedule 6a. Schedule 1 is overstated by $25,614 or 0.03% when compared to Schedule 7.
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.	Variance: RDT is overstated by 68.05% or $892,158 or 0.87% 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.
	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.	No variance noted.	Variance: Proof of payment is understated by (1.38%) or $(5,392) or 0.00% of Total Medical Expense. The proof of payment information was less than the supporting detail provided for the

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			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.	No related parties noted.	No related parties noted.
Reinsurance	Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: Net Reinsurance is understated by (14.81%) or $(10,321). This amount is (0.01)% of Total Medical Expense.	Variance: Net Reinsurance is overstated by 22.62% or $28,834. This amount is 0.03% 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 (14.81%) or $(10,321) and is reported in the overall variance above.	Premiums are overstated by 25.80% or $34,286 and is reported in the overall variance above.
	Mercer recalculated recoveries for a sample of five members.	Mercer confirmed no recoveries for the CMC members.	Recoveries are overstated by 100% or $5,453 and is reported in the

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			overall variance above. BSCPHP allocated a percentage of recoveries across Mainstream and Non-CMC populations and should have recognized actual recoveries by member.
	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 consistent with reinsurance recoveries reported based on review of the reinsurance threshold.
Settlements	Mercer inquired of the BSCPHP 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.	Confirmed no settlements.	Confirmed no settlements.
Third-Party Liability (TPL)	Mercer reviewed TPL as a PMPM and as a percentage of medical expense on Schedule 6.1a and	The benchmark TPL PMPM and percentage of Total Medical Expense were ($0.10) and	The benchmark TPL PMPM and percentage of Total Medical Expense were ($0.24) and

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	6.2.3a, line 39 as compared to benchmark information across those plans reporting a value for TPL.	(0.01%), respectively. BSCPHP reported no TPL recoveries in line 39 as Schedule 6a Medical Expenses are appropriately reported net of TPL recoveries.	(2.15%), respectively. BSCPHP reported no TPL recoveries in line 39 as Schedule 6a Medical Expenses are appropriately reported net of TPL recoveries.
Administrative Expenses	Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan/Geographic Managed Care (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.	The benchmark administrative percentage was 4.60% and BSCPHP reported 6.28%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore, the higher PMPM is not unreasonable.	The benchmark administrative percentage was 4.17% and BSCPHP reported 8.54%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore, the higher PMPM is not unreasonable.
	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: RDT Administration Expense is understated by (1.49%) or ($109,502).	Variance: RDT Administrative Expense is understated by (0.97%) or ($87,540).

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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.	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.	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 was 3.14% and BSCPHP reported 4.54%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore, the higher percentage is not unreasonable.	The benchmark UM/QA/CC percentage was 2.15% and BSCPHP reported 2.95%. BSCPHP is one of the smallest Two-Plan/GMC plans based on membership and therefore, the higher percentage is not unreasonable.

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
	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.	No variance noted.
	Mercer interviewed financial management to determine how health care quality improvement activities such as CC are isolated from general administrative expenses in the general ledger.	Mercer 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.	Confirmed.	Confirmed.
	Mercer benchmarked pharmacy rebate PMPMs across all Two-Plan/GMC plans and compared to the amount reported on Schedule 7.	The benchmarked pharmacy rebate PMPM was ($43.70) and BSCPHP reported ($69.32).	The benchmarked pharmacy rebate PMPM was ($0.11) and BSCPHP reported $0.00.

Category	Description	Results Cal MediConnect (CMC)	Results Non-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 overstated by 11.09% or $2,639,397. At the time of submission, BSCPHP used the most accurate rates known at the time. At a later date the rates were amended for the period.	Variance: RDT is overstated by 0.03% or $29,538.
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.	BSCPHP did not report interest and investment income in the RDT. Therefore, the RDT is understated by (100%) or $(668,720), or (0.57%) of Net Revenue.	BSCPHP did not report interest and investment income in the RDT. Therefore, the RDT is understated by (100%) or $(1,686,376), or (1.55%) of Net Revenue.
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.	Mercer confirmed a clean audit opinion for the period.	
	Mercer compared reported expenses, including incurred but not reported and administrative expenses, to audited	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	

Category	Description	Results Cal MediConnect (CMC)	Results Non-CMC
	financial statements for consistency.	consolidated basis, the comparison is reasonable for the purposes of this review.	
	Mercer inquired how hospital-acquired conditions were treated in the RDT and policies for payment.	BSCPHP reviews claims meeting specific criteria before payment to determine if Provider-Preventable Conditions 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 Provider-Preventable Conditions overpayments.	

Section 3

Summary of Findings CMC

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $1,327,666 or 1.31% of total medical expenditures in the CY 2019 RDT.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by $(109,502) or (1.49%) of total administrative expense in the CY 2019 RDT.

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 no comments.

Section 4

Summary of Findings Non-CMC

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $4,954,640 or 4.80% of total medical expenditures in the CY 2019 RDT. The majority of this variance is due to the identification of duplicate FFS payments in their system migration documentation that increased the reported FFS expense in the RDT. The recoveries and reversals from the duplicate payments contributed to the total overall decrease in FFS expense, which lead to the RDT overstatement of medical expenditures. Therefore, no further corrective action is warranted.

Based on the defined variance threshold, the results of the medical expenditures audit are determined to be material, however, do not warrant corrective action as the majority of the variance is due to a one-time system migration issue.

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by $(87,540) or (0.97%) of total administrative expense in the CY 2019 RDT.

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

As mentioned previously, the plan's internal reporting systems do not allow for a separation from Mainstream and CCI Non-CMC in one rating region and it is recommended to update that system to improve accuracy in future reporting.

BSCPHP reviewed this report and had no comments.

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