Mercer

Government Human Services Consulting

Calendar Year 2019 Molina Healthcare Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

June 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 Molina Healthcare (Molina). 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 Molina for the CY 2019. Molina'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 Molina for date of service.	• Control totals: No variance noted. • Eligibility: Verified for 99% of claims submitted • COS Map: 99% match for Non-Pharmacy and 100% match for Pharmacy • Service Year: 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 Molina 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 Molina. Allowable absolute	Variance: RDT FFS Expenses are over/(under) stated: • Inpatient 1.35% • Outpatient 1.35% • LTC 1.90% • Physician 0.38% • Pharmacy 0.24% • All Other 0.88% In Total 0.99% or $8,628,120, or 0.75% of Total Medical Expense.

Category	Description	Results
	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 Molina, Mercer sampled and tested 60 transactions split across the major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-LTC, and All Others) and traced sample transactions through Molina's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.
Global Subcontracted Payments	Mercer requested global capitation supporting detail. Mercer compared 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.	Variance: RDT Global Capitation Expense is overstated by 4.29% or $655,648, or 0.06% of Total Medical Expense.
	Mercer reviewed the contractual arrangement with Molina'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	Variance: Detailed support for global capitation expense understated by (0.41%) or ($52,802).

Category	Description	Results
	recalculated amounts were more than the global capitation amount reported in the supporting detail provided.	
	Mercer selected the three highest months of payment by globally subcontracted health plan/provider 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.	Variance: Sampled payments were overstated by 0.30% or $25,742.
	Mercer obtained roster information for the globally subcontracted providers and verified eligibility of members, confirmed enrollment with Molina, and analyzed claims to verify none of the FFS claims paid should have been paid under the global arrangement.	Enrollment was confirmed for 99.53% of the members on the provided rosters. FFS claims totaling $32,973 were paid for members that were part of the global contract. This represents 0.00% of total medical expense.
	Mercer compared the global per member per months (PMPMs) payment rates to relevant PMPM experience for non-global members for reasonableness.	The weighted average global expense PMPM across all category of aid (COA) groups of $171.96 is less than the non-global medical expense PMPM of $237.08. Molina's global member mix contains more members as a percent of total in lower acuity COAs (e.g., Child).

Category	Description	Results
		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 member global contracted PMPMs to determine if the amount(s) are at a reduced rate as compared to the non-Full Dual category of aid groups.	Mercer confirmed the use of a reasonable 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, Health Net provides several administrative services on behalf of Molina's globally sub-capitated members, see Appendix A for details. Molina 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 payments provided in the steps above.	None identified.
Sub-capitated Medical Expense	Mercer requested non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7.	Variance: RDT Sub-capitated Medical Expense is overstated by 1.00% or $2,200,804, or 0.19% of total medical

Category	Description	Results
	The total of the detail provided was less than the amounts reported in the RDT.	expense, when compared to the supporting detail.
	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 Molina. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.	Variance: Detailed support for sub-capitated amounts are overstated by 0.09% or $10,235 when compared to recalculated amounts.
	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.	No variance noted.
	Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with Molina, 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 99.68% of members that were part of the sample selection. Variance: One sub-capitated provider sampled had FFS claims totaling $5,931 that should have been paid by the provider. The claims adjudication system has since been updated. This amount is 0.02% of the

Category	Description	Results
		provider payment and 0.00% of total medical expense.
	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.	No variance when comparing Schedule 1 to Schedule 6a or to 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	Variance: RDT Member Months are overstated by 0.16% in total.

Category	Description	Results
	with greater than 0.5% variance in total or greater 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.	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 more than the supporting detail provided for the sampled provider incentive payments.	Variance: RDT sampled Incentive expense is understated by 0.19% or $5,375 when compared to proof of payment.
	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	No related parties 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.	Not applicable.
Reinsurance	Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	No reinsurance coverage in place for CY 2019 for Medi-Cal line of business.
	Mercer recalculated reinsurance premiums, based on 2019 membership as of June 2020, to compare to reported amounts.	Not applicable.
	Mercer recalculated recoveries for a sample of five members.	Not applicable.
	Mercer compared the amount of reinsurance recoveries as compared to the information in Schedule 5 for reasonableness.	Not applicable.
Settlements	Mercer inquired of Molina 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.	Variance: RDT Settlements are understated by 1,525.03% or $1,820,804, or 0.16% of Total Medical Expense. At the time of the RDT submission, Molina had not been notified of the dispute.

Category	Description	Results
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 was ($0.22), representing (0.04%) of Total Medical Expense. Molina reported TPL of $0.63 PMPM, or 0.27% of Total Medical Expense. Most reported TPL amounts are negative; however, Molina properly reconciles the majority of TPL recoveries through their claims system. Amounts reported on line 39 include fees paid to vendors for claims recoveries offset by recoveries that are unable to be processed through the claims system.
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% of Net Revenue and Molina reported 9.75%.
	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 Expense is understated by 5.20% or $6,361,744, or 0.48% of Net Revenue. This understatement is due to the missing reporting of Pharmacy Benefit Manager (PBM) fees noted in the Pharmacy section below.

Category	Description	Results
		The PBM amount is included in the 9.75% reported above.
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.	Variance: Income Taxes were understated by 100.00% or $10,488,743. Molina is subject to federal and state income taxes and neglected to report the provision for income taxes in the RDT.
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.
	If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness.	Not applicable.
	Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting.	Not applicable.
	When applicable, Mercer obtained related party corporate allocation methodologies for administrative services. Where significant, Mercer recalculated the amounts for reasonableness.	Affiliate Administrative Services accounts for 74.31% of total administrative expense. Per the agreement the expense is a combination of actual incurred and allocated expenses, must

Category	Description	Results
		be fair and reasonable, and must be allocated in conformity with statutory accounting practices. Given the nature of the agreement, no recalculation performed.
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 was 1.67% of Total Medical Expense and Molina reported 3.27%. This is the highest level of expenditure on a percentage basis of Two- Plan/GMC plans of a similar size.
	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 Molina management that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed.
Pharmacy	Mercer confirmed and observed PBM fees were	Variance: PBM fees were understated by 100.00% or

Category	Description	Results
	recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	$6,361,744, or 0.48% of Net Revenue. Molina neglected to report PBM fees in administrative expense and confirmed it was not included in medical expense.
	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 benchmark Pharmacy Rebate was $1.39 PMPM and Molina reported $1.39 PMPM.
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 0.84% or $11,052,513.
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: Interest and investment income was not reported and therefore was understated by 100.00% or $6,092,193, or 0.46% 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.	Molina 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	No material variances.

Category	Description	Results
	and administrative expenses, to audited financial statements for consistency.	
	Mercer inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	Molina works with their configuration department to automatically block payment of HACs. In addition, Care Review Clinicians may discover HACs in cases they are reviewing. If diagnosis is not present at time of inpatient admission or documentation is insufficient, no payment will be made for condition when HAC is present.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $9,663,857 or 0.84% of total medical expenditures in the CY 2019 RDT. An additional note, Molina should be attributing a portion of the globally sub-capitated payment amounts to administration based on the administrative duties assumed by Health Net on behalf of Molina.

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

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by $6,361,744 or 5.20% due to the omission of PBM expenses. This omission increased administrative expense from 9.27% of Net Revenue to 9.75% of Net Revenue. However, as stated previously, this level of spending for administration is much higher than the benchmark amount of other Two-Plan/GMC plans.

Based on the defined variance threshold, the results of the audit for administrative expenditures are determined to be a significant variance, however do not warrant corrective action. Molina has corrected the reporting of PBM fees in subsequent reporting to accurately reflect administrative expenses on the appropriate line items in the relevant RDT schedules. In addition, the audit results of the administrative expenditures; however, warrant additional attention. Molina should estimate or determine the value of the administrative component of all sub-capitated arrangements where the subcontractor is performing administrative functions beyond those required for its own member providers and report those amounts in the administrative section of the RDT, while excluding that amount from their medical expenses.

Molina reviewed this report and feedback provided was incorporated where appropriate.

Appendix A

Administrative Duties in Sub-capitated Arrangements

Administrative Task	Health Net
Case Management	X
Marketing	
Enrollment and Eligibility	
Pharmacy Management	X
Provider Credentialing	X
Provider Services	X
Quality Management Chart Review	X
Utilization Review and Management	X
Capitation Processing	X
Membership Services	

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