Mercer

Government Human Services Consulting

# Calendar Year 2019 Molina Healthcare Coordinated Care Initiative 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 1.1–1.3 — 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 Coordinated Care Initiative (CCI) 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 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 CCI 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.<br>• Eligibility: Verified for 98.19% of the claims submitted.<br>• COS Map: No variance noted.<br>• 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 | Variance: RDT FFS Expenses are over/(understated):<br>• Inpatient 4.60%<br>• Outpatient 1.46%<br>• LTC 1.50%<br>• Physician 0.98%<br>• Pharmacy (0.26%)<br>• All Other (4.42%)<br>In Total 1.24% or $1,668,202, or 1.01% | Variance: RDT FFS Expenses are over/(understated):<br>• Inpatient (12.52%)<br>• Outpatient (9.03%)<br>• LTC 1.48%<br>• Physician (7.67%)<br>• Pharmacy (11.62%)<br>• All Other (0.06%)<br>In Total (0.31%) or ($363,139), or 0.29% |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | 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 value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS. | of Total Medical Expense. | of Total Medical Expense. |
| | Using data files (paid claims files) provided by Molina, Mercer sampled and tested 67 transactions across all 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. | 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. | Not applicable. | Variance: RDT Global Capitation Expense is overstated by 2.73% or $64,718, or 0.05% of Total Medical Expense.<br>The total of the detail provided was more |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | | | than the amounts reported in the RDT. |
| | Mercer reviewed the contractual arrangement with Molina's global subcontractor 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 more than the global capitation amount reported in the supporting detail provided. | Not applicable. | No variance noted. |
| | 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 | Not applicable. | Variance: Proof of payment was understated by 2.92% or $69,445, or 0.05% of Total Medical Expense. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | sampled global capitated payments. | | |
| | Mercer obtained roster information for the globally subcontracted provider and verified eligibility of 100% 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. | Not applicable. | Enrollment was confirmed for 99.76% of the members on the provided rosters. FFS claims totaling $412 were paid for members that were part of the global contract. This represents 0.00% of total FFS paid and Total Medical Expense. |
| | Mercer compared the global per member per months (PMPMs) payment rates to relevant PMPM experience for non-global members for reasonableness. | Not applicable. | The weighted average global expense PMPM across all category of aid (COA) groups of $317.56 is less than the non-global medical expense PMPM of $427.52.<br><br>Molina's global members contain only 1.5% of the high cost COAs (e.g., Institutional/CBAS/ MSSP), while the Direct membership maintained the rest. Therefore, the overall global PMPM is significantly less than the Direct PMPM and appears to be reasonable |
| | If applicable, Mercer reviewed Full-Dual | Not applicable | Confirmed per the contract the payment |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | member global contracted PMPMs to determine if the amount(s) are at a reduced rate as compared to the non-Full Dual COA groups. | | rate for Full-Dual members is appropriately lower than the payment rate for non-Full Dual members |
| | 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 for reasonableness. | Not applicable. | Per review of the global contract, Health Net provides several administrative services on behalf of Molina (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 in the RDT. |
| **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 understated by (3.91%) or ($1,279,975), which is (0.77%) of Total Medical Expense.<br><br>The total of the detail provided was more than the amounts reported in the RDT. Most of the variance is due to Medicare Capitation being | Variance: RDT Sub-capitated Medical Expense is overstated by 0.14% or $2,643, which is 0.00% of Total Medical Expense.<br><br>The total of the detail provided was less than the amounts reported in the RDT. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | | finalized after the RDT submission. | |
| | 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. | No variance noted. | No variance noted. |
| | 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. | 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 96.84% of members that were part of the sample selection.<br><br>Capitation for the ineligible members totaling $317,225 or 0.19% of Total Medical Expense was removed from the non-global sub-capitation | Variance: Enrollment was confirmed for 96.91% of members that were part of the sample selection.<br><br>Capitation for the ineligible members totaling $13,618 or 0.11% of Total Medical Expense was removed from the non-global sub-capitation |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | | supporting detail mentioned above.<br><br>FFS claims paid for the members were contractually appropriate. | supporting detail mentioned above.<br><br>FFS claims paid for the members were contractually appropriate. |
| | 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. | 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. | Mercer reviewed one sub-capitated contract to determine the level of administrative functions included.<br><br>See Appendix A for details.<br><br>Related administrative dollars were not segregated out and reclassified as administrative expense; therefore, overstating medical expense and understating administrative expense in the RDT. | No subcontracts for Non-CMC met the threshold for review. |
| **Utilization and Cost Experience** | Mercer compared summarized total net cost data from amounts reported in | There is no variance when Schedule 1 is compared to | There is no variance when Schedule 1 is compared to |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | Schedule 1 to Direct Medi-Cal COS totals from Schedule 6a and to total incurred claims by COS for Schedule 7 for consistency. | Schedule 6a and to Schedule 7. | Schedule 6a and 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. | Not applicable. | 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. | Not applicable. | No variance noted. |
| | 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 | Not applicable, no related parties. | Not applicable, no related parties. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | two highest related party provider incentive payments. Mercer observed proof of payments for the sampled related party provider incentive payments. The proof of payment information was more/less than the supporting detail provided for the sampled 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. | Not applicable. |
| **Reinsurance** | Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule. | Variance: Reinsurance is understated by $775,993 or 115%, or 0.47% of Total Medical Expense.<br><br>Variance is due to recoveries being recognized in the CY 2019 RDT that are for dates of service outside the appropriate reporting period. | No reinsurance coverage in place for Medi-Cal line of business in CY 2019. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | Mercer recalculated reinsurance premiums, based on 2019 membership as of June 2020, to compare to reported amounts. | Variance: Reinsurance premium expense was understated by 85.44% or $47,086, or 0.03% of Total Medical Expense.<br><br>The cause of this variance is due to the RDT for one county omitting the reinsurance premium expense in error. | Not applicable. |
| | Mercer recalculated recoveries for a sample of five members. | Variance: Reinsurance recoveries were for cases that occurred in CY 2018. Therefore, the ($758,860) of recoveries should not be recognized in CY 2019. This amount is 0.46% of Total Medical Expense. | Not applicable. |
| | Mercer compared the amount of reinsurance recoveries as compared to the information in Schedule 5 for reasonableness. | Comparison of the contract terms to Schedule 5 confirms that no 2019 cases would qualify for reinsurance. | Not applicable. |
| **Settlements** | Mercer inquired of Molina if they incurred any settlement amounts with providers related to CY 2019 dates of service. If settlements | No settlements incurred. | No settlements incurred. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | 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. | | |
| | If settlement amounts are material, Mercer requested supporting documentation and performed additional procedures. | Not applicable. | Not applicable. |
| **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 for TPL is $0.10 PMPM or 0.01% of Total Medical Expense.<br><br>Molina reported $2.66 PMPM or 0.19% of Total Medical Expense.<br><br>Molina properly reconciled TPL recoveries through their claims system, which erroneously increased the PMPM as most recoveries are not included in the net TPL expense, therefore results are reasonable based on Molina's chosen method of reporting. | The benchmark for TPL is $(0.24) PMPM or 2.15% of Total Medical Expense<br><br>Molina reported $0.66 PMPM and 0.16% of Total Medical Expense.<br><br>Molina properly reconciled TPL recoveries through their claims system, which erroneously increased the PMPM as most recoveries are not included in the net TPL expense, therefore results are reasonable based on Molina's chosen method of reporting. |
| **Administrative Expenses** | Mercer benchmarked administrative expenses as a percentage of net | The benchmark administrative percentage was | The benchmark administrative percentage was |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | 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. | 4.60% and Molina reported 1.60%. | 4.17% and Molina reported 8.18%. |
| | 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. | Variance: Administrative Expense is understated by 2.15% or $263,262, or 0.18% of Net Revenue. This understatement is due do the missing reporting of Pharmacy Benefit Manager (PBM) fees noted in the Pharmacy section below. |
| **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. | Molina is subject to federal and state income taxes but did not report the provision in the RDT. Variance: Income Taxes were understated by 100% or ($835,914). | Molina is subject to federal and state income taxes but did not report the provision in the RDT. Variance: Income Taxes were understated by 100% or ($2,361,739). |
| **Related Party Transactions** | Mercer obtained related party agreements for medical services and reviewed to determine if the terms | No related parties noted. | No related parties noted. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | 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. | | |
| | If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness. | Not applicable. | Not applicable. |
| | Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting. | Not applicable. | 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 49.86% of total administrative expense. Per the agreement, the expense is a combination of actual incurred and allocated expenses, must be fair and reasonable, and must be allocated in conformity with statutory accounting practices. Given the nature of the agreement, no | Affiliate Administrative Services accounts for 81.42% of total administrative expense. Per the agreement, the expense is a combination of actual incurred and allocated expenses, must be fair and reasonable, and must be allocated in conformity with statutory accounting practices. Given the nature of the agreement, no |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | | recalculation performed. | 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 under review when reviewing the results. | The benchmark UM/QA/CC percentage was 3.14% and Molina reported 5.60%.<br><br>This is the highest level of expenditure on a percentage basis of Two-Plan/GMC plans of a similar size. | The benchmark UM/QA/CC percentage was 2.15% and Molina reported 3.23%.<br><br>This is similar to the UM/QA/CC percentage 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. | Variance: Schedule 1-U is overstated by 1.45%, $58,999 or 0.05% of Total Medical Expenses. |
| | 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 via interview that UM/QA/CC costs were not also | Confirmed. | Confirmed. |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | included in general administrative expenses. | | |
| **Pharmacy** | Mercer confirmed and observed whether pharmacy benefits manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT. | Not applicable. | Variance: PBM fees were understated by 100% or $263,262. Molina failed 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 PMPM was ($43.70) and Molina reported ($102.38) PMPM<br><br>This is the highest reported rebate PMPM rate compared to all Two- Plan/GMC plans with CMC. | The benchmark Pharmacy Rebate PMPM was ($0.11) and Molina reported ($0.48) PMPM.<br><br>While the PMPM is high compared to the benchmark, Molina's Pharmacy Rebate PMPM is below average for plans of a similar size and type. |
| **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 Capitation Revenue was overstated by 2.86% or $892,541. | Variance: RDT Capitation Revenue was overstated by 0.16% or $237,759. |
| **Interest and Investment Income** | Mercer requested interest and investment income for the MCO entity as a whole and | Variance: RDT is understated by 100.00% or ($209,472), which is (0.12%) of total | Variance: RDT is understated by 100.00% or ($506,296), which is (0.34%) of total |

| Category | Description | Results Cal MediConnect (CMC) | Results Non-CMC |
|---|---|---|---|
| | information regarding how the income provided in Schedule 6a was allocated to the Medi-Cal line of business. | revenue. Molina neglected to report this income in the RDT. Allocation documentation was reviewed and appears reasonable. | revenue. Molina neglected to report this income in the RDT. Allocation documentation was reviewed and appears reasonable. |
| **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. There were no unremediated material internal control weaknesses identified in the audit opinion. | Molina received a clean audit opinion for CY 2019. 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. | No material variances. |
| | 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 CMC

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $387,766 or 0.23% of total medical expenditures in the CY 2019 RDT.

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 showed no variance.

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

## 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 $236,823 or 0.19% of total medical expenditures in the CY 2019 RDT.

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 are understated by $263,262 or 2.15% due to the omission of PBM expenses. This omission increased administrative expense from 8.18% of Net Revenue to 8.35% of Net Revenue, and therefore requires no corrective action.

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 | Heritage Provider Network |
|---|---|---|
| Case Management | X | |
| Marketing | | |
| Enrollment and Eligibility | | |
| Pharmacy Management | X | |
| Provider Credentialing | X | X |
| Provider Services | X | |
| Quality Management Chart Review | X | |
| Utilization Review and Management | X | X |
| Capitation Processing | X | |
| Membership Services | | |
| Claims Administration Services | | X |

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