Mercer

Government Human Services Consulting

State Fiscal Year 2023 Molina Healthcare Rate Development Template

Auditor's Report

California Department of Health Care Services

December 19, 2025

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 plan (MCP). 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 state fiscal year (SFY) 2023 by Molina Healthcare (MOL). Mercer designed and DHCS approved procedures to test the accuracy, truthfulness, and completeness of self-reported financial data in the RDT.

Medi-Cal RDT reporting requires satisfactory immigration status (SIS) population and unsatisfactory immigration status (UIS) information to be reported separately. However, the audit testing was performed on the consolidated SIS/UIS basis, unless otherwise noted. In addition, only the direct MCP submissions at the consolidated contract/county/region levels were subject to testing, not including the global subcontracted MCP submissions.

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 calendar year (CY) 2025 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 MCP.

The key schedules subject to testing from the RDT included, but were not limited to:

- Schedule 1 (SIS/UIS) — Utilization and Cost Experience
- Schedule 1-A — Global Subcontracted Health Plan Information
- Schedule 1-B — Incentive Payments Arrangements
- Schedule 1-C — Base Period Enrollment by Month
- Schedule 1-O — Overpayments
- Schedule 1-U — Utilization Management/Quality Assurance/Care Coordination (UM/QA/CC)
- Schedules 6a — Financial Report
- Schedule 7 — Lag Payment Information
- Schedule D-1 (UIS/SIS) — Members Delivery Counts

- Schedule D-2 (UIS/SIS) — Members Maternity Utilization and Cost Experience

The data collected in the RDT is reported on a modified accrual (incurred) basis for SFY 2023 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 SFY 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 MCP for SFY 2023. MOL's management is responsible for the content of the RDT and has responded in a timely manner to all requests for information.

Table 1: Procedures

Fee-For Service (FFS) Medical Expense	
Description of Procedures	**Results**
Mercer reviewed all paid claims data for each category of service (COS) to verify control totals, eligibility, enrollment with the MCP for the claim date of service, existence of a related encounter for the claim, and that the date of service is within the reporting period. In addition, Mercer reviewed the claims for correct COS grouping and inquired about interest paid on late claims.	• Control Totals: No variance noted. • Eligibility: 0.12% of claim submissions with no matching eligibility totaling $1,184,344 or 0.09% of total medical expense. • Enrollment: 0.09% of claim submissions were not enrolled with MOL on claim date of service, totaling $850,673 or 0.06% of total medical expense. • Encounter Completeness: 1.84% of claim submissions with no matching encounter totaling $38,124,332 or 2.89% of total medical expense. The majority of the claims submitted without a corresponding encounter required extensive research due to discrepancies in the data provided for analysis when compared to the encounters reported to DHCS. Per DHCS, MOL submitted encounters that were denied due to incorrect claim control numbers (CCNs) used for original, replacement, and void submissions. CCNs are unique claim identifiers created by MOL that are used to cross-reference the provided claim to the submitted encounter. The use of incorrect CCNs indicates MOL's internal systems are not correctly tracking encounter submissions which leads to a failure

Fee-For Service (FFS) Medical Expense	
Description of Procedures	**Results**
	addressing rejected encounters in a timely manner. This matter should be addressed by MOL to ensure timely and accurate encounter submissions. • Service Year: No variance noted. All dates of service fall within SFY 2023. • Interest Paid: Per MOL, interest payments on late claims were appropriately excluded from FFS claims expense. • COS Map: Review of all COS showed 89%–99% match for all COS. The mismatches have been redistributed to the appropriate COS for variance reporting below and attributed to a difference in classification logic used by MOL versus DHCS. All items noted above are adjustments to the support provided and are reflected in the variance calculations immediately below.
Mercer compared detailed lag tables for each COS grouping (Facility — Inpatient, Facility — Outpatient, Physician, Mental Health — Outpatient and Behavioral Health Treatment Services, Facility — LTC, and All Others) created from the paid claims data files provided by the MCP and compared this support to the information reported in Schedule 7. Mercer compared the paid claims amounts from Schedule 7, line 35 and the incurred but not reported (IBNR) amount from Schedule 7, line 40 to total paid claims data as provided by the MCP.	Variance: RDT FFS Expenses are over/(understated) as compared to the support provided: • Inpatient 7.95% • Outpatient 19.66% • Physician (14.40%) • Mental Health 1.94% • LTC 4.53% • All Other 1.81% In Total, RDT FFS Expenses are overstated by 4.66%, or $40,926,461, which is 3.10% of total medical expense. Of the total variance, $38.1 million is due to the exclusion of claims with no related encounter. There were $17.4 million in claims reclassified from the Outpatient COS to

Fee-For Service (FFS) Medical Expense	
Description of Procedures	**Results**
	the Physician COS, causing the large overstatement of the Outpatient COS and the corresponding understatement of the Physician COS in the RDT. Based on the explanations provided by MOL and additional research performed, no additional testing was deemed necessary.

Global Subcontracted Payments	
Description of Procedures	**Results**
Mercer requested global capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 1.	Variance: RDT Global Sub-capitation expense is overstated by 34.96%, or $11,924,495, which is 0.90% of total medical expense. The total of the detail provided was less than the amounts reported in the RDT. Per MOL, the variance is primarily due to a pending settlement with the global subcontracted provider, which concerns a dispute over the assignment of members.
Mercer obtained roster information for the globally subcontracted providers and verified eligibility of members, confirmed enrollment with MCP, and analyzed claims to verify none of the FFS Claims paid should have been paid under the global arrangement.	Eligibility was verified for 99.59% of members. The amount of global capitation paid for the ineligible members is $170,763.
Mercer observed proof of payments via relevant bank statements, clearing house documentation, or other online financial institution support for all 12 months of SFY 2023 global capitated payments.	No variance noted. The proof of payment information validated the supporting detail.
Mercer reviewed the contractual arrangement with the MCP's global subcontractor(s) and recalculated the total payment amounts using global roster information provided for all	Variance: Proof of payment support for global capitation expense is understated by 0.01%, or $2,305.

Global Subcontracted Payments	
Description of Procedures	**Results**
12 months of SFY 2023 multiplied by the rates established in the contract with the subcontractor.	The recalculated amounts were more than the global capitation amounts in the proof of payment support provided.
Mercer compared the global per member per month (PMPM) payment rates to relevant PMPM experience for non-global members for reasonableness.	Mercer found the average global PMPM to be reasonable as compared to the cost experience of the non-global membership.
If applicable, Mercer reviewed Full Dual member global contracted PMPMs to determine whether the amount(s) are at a reduced rate as compared to the non-Full Dual category of aid (COA) groups.	Confirmed reduced rates as compared to the non-Full Dual COA groups.
Mercer reviewed the 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.	Mercer reviewed the global capitated contract with subcontractor to determine the level of administrative functions included. Per MOL, the global subcontractor performs all administrative duties listed in Appendix A. MOL did not identify global capitation expense as administrative in the Schedule 1-A Data tab in the RDT. Administrative expense was not removed from medical expenses. Therefore, this is an understatement of administrative expense and an equal overstatement of medical expense.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
Mercer requested overall non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7.	Variance: RDT non-global sub-capitation expense is understated by 0.60%, or $2,065,388. The total of the detail provided was more than the amounts reported in the RDT.
Mercer selected a sample and obtained roster information for the provider payments, verified eligibility of members, and confirmed enrollment with the MCP.	Eligibility and enrollment were verified for 99.69% of members. The amount of non-global sub-capitation paid for the ineligible members is $55,149.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
Mercer observed proof of payments via relevant bank statements, clearinghouse documentation, or other online financial institution support for the sampled sub-capitated provider payments in the previous step.	Variance: Detailed support for the sampled sub-capitated providers is overstated by 0.05%, or $10,098. The proof of payment information was less than the supporting detail provided for the sampled sub-capitated providers.
Mercer reviewed the contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by the MCP for the sampled providers.	Variance: Detailed support for sub-capitated amounts in the sample test work is understated by 0.36% or $71,441. The recalculated amounts were more than the sub-capitation amount reported in the supporting detail provided.
If applicable, Mercer reviewed Full Dual COA sub-capitated PMPM payment rates to determine whether the amount(s) are at a reduced rate as compared to the non-Full Dual COAs.	Confirmed reduced rates as compared to the non-Full Dual COA groups.
For sub-capitated arrangements 5% or more of total medical expense, 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. MOL had no sub-capitated arrangement that exceeded the 5% or more of total medical expense threshold.

Utilization and Cost Experience	
Description of Procedures	**Results**
Mercer compared summarized total net cost data from amounts reported in Schedule 1 to total incurred claims by COS in Schedule 7.	No variance noted.

Related Party Transactions	
Description of Procedures	**Results**
Mercer obtained related party agreements for medical services and reviewed them to determine whether 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.	Not applicable. MOL does not have related parties.

Provider Incentive Arrangements	
Description of Procedures	**Results**
Mercer requested a listing of all provider incentive arrangements, by program and provider, and compared the amounts to Schedule 1.	Variance: RDT Provider Incentive Expense is overstated by 9.00%, or $1,301,942. This amount represents 0.10% of total medical expense. Per MOL, the variance is due to differences between estimated and actual expenses.
Mercer selected a sample, including related party arrangements. If related party provider incentive payments were noted, Mercer reviewed the incentive terms to determine whether the terms align with similar arrangements for non-related parties.	MOL confirmed there are no related party incentive arrangements.
Mercer observed proof of payments for the sampled provider incentive payments and compared the amounts to the detailed support.	No variance noted. The proof of payment information validated the supporting detail provided for the sampled incentive payments.

Provider Settlements	
Description of Procedures	**Results**
Mercer requested settlement amounts paid by provider related to SFY 2023 dates of service and compared the amounts to Schedule 7. If settlements existed, Mercer noted whether the amounts were actual, or estimates based on the status of the settlements and where the amount(s) were reported in the RDT.	Variance: Schedule 7 is understated by 34.99%, or $341,682. Per MOL, the understatement is due to the differences between estimated and actual settlements reported for 1H2023 in the RDT and represents 0.03% of total medical expense.
If settlement amounts are material, Mercer requested supporting documentation and performed additional procedures if necessary.	Not applicable. The settlement amounts are immaterial.

Overpayments	
Description of Procedures	**Results**
Mercer inquired of the MCP whether they incurred any provider overpayment and recoupment of overpayments related to SFY 2023 dates of service. If overpayments were incurred, Mercer requested the overpayment and recoupment amounts, and compared the net amounts to the RDT. For reported overpayments, Mercer requested amounts related to Fraud, Waste and Abuse and All Other.	No variance noted. Per MOL, $328,654 of the overpayments were reported as Fraud, Waste and Abuse to the appropriate agency as required.
Mercer requested information on the efforts to identify and recoup provider overpayments and on how the recoupments are recorded in the RDT.	MOL provided a written policy for the identification and recovery of overpayments. Based on a review of that policy, MOL appropriately excludes any provider overpayments from the RDT medical expenses.

Maternity	
Description of Procedures	**Results**
Mercer compared total delivery counts reported in Schedule D-1 with the support information provided by DHCS for the same period.	Variance: The delivery count reported in the RDT is understated by 1.75% or 98 deliveries.

Maternity	
Description of Procedures	**Results**
	Per MOL, the delivery count was understated due to timing differences.
Mercer requested policies and procedures to identify delivery events and related costs, as well as any allocation methodologies.	MOL provided high-level logic used to identify delivery events and related costs. Allocation methodologies were utilized in their processes. The logic provided was reviewed and deemed reasonable.

Capitation Revenue	
Description of Procedures	**Results**
Mercer compared capitation amounts reported in Schedule 6a for SFY 2023 with the Capitation Management System (CAPMAN) file received from DHCS for the same period. The CAPMAN file contains all amounts paid to the MCP by DHCS.	Variance: RDT Capitation Revenue is overstated by 0.55%, or $9,654,223.

Member Months	
Description of Procedures	**Results**
Mercer compared the MCP-reported member months from Schedule 1-C to eligibility and enrollment information provided by DHCS. Mercer's procedures are to request explanations for any member months with greater than 0.5% variance in total or greater than 1.0% variance by major COA.	Variance: RDT member months are understated by 0.48% in total.

Administrative Expenses	
Description of Procedures	**Results**
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 the RDT, taking into consideration the	The administrative percentage reported by MOL was higher compared to industry standards, primarily driven by Affiliate Administration Services.

Administrative Expenses	
Description of Procedures	**Results**
membership size of the plan when reviewing the results.	
Mercer compared detailed line items from the MCP's trial balance for reasonableness when mapped to line items in Schedule 6a. If applicable, Mercer reviewed allocation methodologies for reasonableness.	No variance noted.

UM/QA/CC	
Description of Procedures	**Results**
Mercer benchmarked UM/QA/CC expenses as a percentage of total medical expense across all Two-Plan GMC/County Organized Health Systems plans and compared to the amount reported on Schedule 1-U, taking into consideration the membership size of the plan when reviewing the results.	The UM/QA/CC percentage reported by MOL was within an acceptable range compared to industry standards.
Mercer requested the trial balance for UM/QA/CC expense to be compared to Schedule 1. Mercer also reviewed allocation methodologies for reasonableness, if applicable.	No variance noted.
Mercer confirmed with the MCP that UM/QA/CC costs were not included in general administrative expenses.	Confirmed.

Other Information	
Description of Procedures	**Results**
Mercer reviewed information submitted by the MCP as to how third-party liability (TPL) is identified and reported. Per DHCS All Plan Letter (APL) 21-007, the MCP is not required to collect TPL; however, they are required to report to DHCS service and utilization information for covered services related to TPL.	Per review of the support provided and confirmation with DHCS, MOL is submitting TPL information as required by APL 21-007. No further testing was deemed necessary.

Other Information	
Description of Procedures	**Results**
Mercer reviewed the MCP's audited financial statements covering SFY 2023 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Mercer confirmed a clean audit opinion.
Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.

Section 3
Summary of Findings

Based on the procedures performed, the total amount of capitation revenue for the SFY 2023 RDT was overstated by $9,654,223 or 0.55%.

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $55,812,955, or 4.23% of total medical expenditures in the SFY 2023 RDT. Based on the defined variance threshold, these results are determined to be material. The variance is primarily driven by medical expenses that were not supported by an encounter, as noted in the FFS section. Also contributing to the variance are overstated global subcontracted expenditures due to a potential settlement, as noted in the global section.

Based on the procedures performed, there was no variance noted for administrative expenditures in the SFY 2023 RDT. However, the plan should prepare to properly record a portion of their global and provider sub-capitation expenses as administrative in future RDT reporting, thus reducing their medical expense.

Due to discrepancies in MOL's encounter data provided for analysis discussed in the FFS section, DHCS requests that Mercer follow up with MOL in one year to verify that updates to their tracking system accurately report CCNs and encounters. If the issues persist, a corrective action plan may be issued.

MOL reviewed this report and had the following comments:

Mercer wrote that "RDT FFS Expenses are overstated by 4.66%, or $40,926,461," in large part because $38.1 million of claims had no related encounter.

- On the topic of CCNs and encounter IDs, the RFI instructed Molina, "Do not include detail by claim lines, information for adjustments, denied claims, or voided claims." Based on that, when Molina saw a claim with multiple rows of adjustments (each with its own record ID), we collapsed them into one row with the original CCN and only one of the record IDs. Even with an Encounter completeness of over 98%, there is room for improvement. In future audits, Molina would benefit from more detailed instructions on the reporting of adjustments, to facilitate reconciliation with DHCS data.
- Molina disagrees with the description that "RDT expenses are overstated" just because no related encounter record was found. The $38 million was spent on eligible members receiving covered services. These paid amounts were correctly included in the RDT. Molina has claim details and bank records to support these valid expenses.

Appendix A

Administrative Duties in Subcontracted Arrangements

Administrative Duties	Health Net (Global)
Quality Management	X
Quality Measure Tracking	X
Member Grievance	X
Encounter Submission	X
Claims Adjudication and Payment	X
Member Services	X
Provider Services	X
Case Management	X
Claims Processing	X
Utilization Management	X
Provider Relations and Education	X
Provider Contracting	X
Credentialing and Recredentialing	X

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