Mercer

Government Human Services Consulting

State Fiscal Year 2021 Inland Empire Health Plan Coordinated Care Initiative Rate Development Template

Auditor's Report

California Department of Health Care Services

July 25, 2024

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Contents

Section 1: Introduction

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 state fiscal year (SFY) 2021 by Inland Empire Health Plan (IEHP). 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 calendar year 2023 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 1-A — Global Subcontracted Health Plan Information
- Schedule 1-C — 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 SFY 2021 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 the Table(s) of Section 2.

Section 2: Procedures and Results

Mercer has performed the procedures enumerated in the Table(s) 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 IEHP for the SFY 2021. IEHP's management is responsible for the content of the RDT and responded timely to all requests for information.

Table(s): Procedures

Fee-For-Service (FFS) Medical Expense		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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 the MCO for date of service.	• Control totals: No variance noted. • Eligibility: Verified for all members. • COS Map: Review of all COS showed 94% or higher match for all COS. • Service Year: IEHP submitted 474 records with dates of service outside of SFY 2021. These claims were excluded from testing.	
Mercer compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Facility — LTC, and All Others) created from the paid claims data files provided by the MCO and compared the support to the information reported in Schedule 7. Mercer compared the paid claims amounts from Schedule 7, line 35 and the	Variance: RDT FFS Expenses are over/(understated): • Inpatient 2.14% • Outpatient 1.23% • LTC 2.38% • Physician 2.79% • All Other (0.32%) In Total 1.75% or $5,803,670, or 0.82% of total medical expense. Per IEHP, the variances for	Variance: RDT FFS Expenses are over/(understated): • Inpatient (35.46%) • Outpatient (7.40%) • LTC 0.96% • Physician (0.93%) • All Other (0.35%) In Total (1.43%) or ($3,643,332), or 1.36% of total medical expense. Per IEHP, the variances in

Fee-For-Service (FFS) Medical Expense		
Description of Procedures	**Results CMC**	**Results Non-CMC**
incurred but not reported (IBNR) amount from Schedule 7, line 40 to total paid claims data as provided by the MCO.	Physician and All Other COS are due to claims reclassified after the RDT submission.	Inpatient and Outpatient COS are due to large claims received for April 2021 through June 2021 and paid after September 2021.
Using data files (paid claims files) provided by the MCO, Mercer sampled and tested 60 transactions and traced them through the MCO's claims processing system, the payment remittance advice, and the bank statements.	No variance noted. The paid claims sample amounts validated the amounts reported in the supporting detail provided.	

Global Subcontracted Payments		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer requested overall global capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 1-A.	Not applicable.	Variance: RDT Global Capitation Expense is understated by 2.89% or $1,123,677. The total of the detail provided was more than the amounts reported in the RDT. Per IEHP, the variance is due to the difference in membership in detailed support versus membership at the time of RDT submission.

Global Subcontracted Payments		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer reviewed the contractual arrangement with MCO's global subcontractor(s) and recalculated the total payment amount using global roster information provided for all 12 months of SFY 2021 multiplied by the contracted rates.	Not applicable.	Variance: Detailed support for global capitation expense is overstated by 3.37%, or $1,346,512. The recalculated amounts were less than the global capitation amounts reported in the supporting detail provided. Per IEHP, $1.08 million of the variance is due to retroactivity.
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.	Not applicable.	No variance noted. The proof of payment information validated the supporting detail provided for the sampled global capitated providers.
Mercer compared the global per member per months (PMPMs) payment rates to relevant PMPM experience for non-global members for reasonableness.	Not applicable.	Mercer found the average global PMPM is significantly lower than the non-global PMPM because IHSS and MSSP are excluded from the contract with Kaiser.
If applicable, Mercer	Not applicable.	Not applicable.

Global Subcontracted Payments		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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 (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.	Not applicable.	Per review of the global contract, all administrative functions in Appendix A were delegated to the global subcontractor. IEHP assumed approximately 5.96%, or $2,314,014, of the global capitation expense as administrative expense in the RDT. This amount is considered within an acceptable range for industry standards; however, remains as part of medical expenses. Therefore, this is an understatement of administrative expenses and an equal overstatement of medical expenses.

Sub-Capitated Medical Expense		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer requested overall 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 0.42% or $702,252. The total of the detail provided was less than the amounts reported in the RDT.	Variance: RDT Sub-capitated Medical Expense is understated by 5.72% or $7,106. The total of the detail provided was more than the amounts reported in the RDT.
Mercer reviewed samples of 9 random payments for CMC and 10 random payments for non-CMC, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by MCO.	Variance: Detailed support for sub-capitated amounts is overstated by 1.93% or $2,838. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.	Variance: Detailed support for sub-capitated amounts is overstated by 6.03% or $5,261. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.
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.	No variance noted. The proof of payment information validated the supporting detail provided for the sampled sub-capitated providers.	No variance noted. The proof of payment information validated the supporting detail provided for the sampled sub-capitated providers.
Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with the MCO, and validated PMPM amounts paid by member.	Eligibility was verified for 100% of rostered members in the sample.	Eligibility was verified for 100% of rostered members in the sample.

Sub-Capitated Medical Expense		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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.	Not applicable.	Not applicable.
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.	IEHP had one sub-capitated arrangement that exceeded the 5% or more of total medical expense threshold. There were eleven administrative functions delegated to the sub-capitated providers. See Appendix A for details.	IEHP did not have any sub-capitated arrangements that exceeded the 5% or more of total medical expense threshold.

Utilization and Cost Experience		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer compared summarized total net cost data from amounts reported in Schedule 1 to Total Incurred Claims by COS for Schedule 7.	Schedule 1 is overstated when compared to Schedule 7 by 0.00% or $17,775. This variance is 0.00% of total medical expense.	Schedule 1 is overstated when compared to Schedule 7 by 0.00% or $4,442. This variance is 0.00% of total medical expense.

Member Months		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer compared MCO-reported member months from Schedule 1-C to eligibility and enrollment information provided by the State. Mercer's procedures are to request explanations for any member months with greater than 0.5% variance in total or greater than 1.0% variance by major COA.	Variance: RDT Member Months is overstated by 0.01% in total.	Variance: RDT Member Months is understated by 0.12% in total.

Provider Incentive Arrangements		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer requested a listing of all provider incentive arrangements, by provider, by month and compared the amounts to Schedule 1.	Variance: RDT Provider Incentive Expense is overstated by 0.29%, or $6,837. This amount represents 0.00% of total medical expense.	Variance: RDT Provider Incentive Expense is overstated by 46.52%, or $13,532. This amount represents 0.00% of total medical expense.
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 validated the supporting detail provided for the sampled provider incentive payments.	No variance noted.	Not applicable.

Provider Incentive Arrangements		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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 related party provider incentive payments.	Not applicable. No provider incentive payments were paid to related parties for SFY 2021.	
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		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Not Applicable. IEHP did not have reinsurance arrangements for their CCI population for SFY 2021.	

Settlements		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer inquired of the MCO whether they incurred any settlement amounts with providers related to SFY 2021 dates of service. If settlements existed, 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 is overstated by 0.14%, or $3,402, which is 0.00% of total medical expense.	Variance: RDT Settlements is understated by 0.00%, or $34, which is 0.00% of total medical expense.

Third-Party Liability (TPL)		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer reviewed information submitted by the MCO as to how TPL is identified and reported. Per DHCS All Plan Letter (APL) 21-007, the MCO 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, IEHP is submitting TPL information as required by APL 21-007. No further testing necessary.	

Administrative Expenses		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan/GMC plans and compared to the amount reported in the RDT, taking into consideration the membership size of the plan when reviewing the results.	The administrative percentage reported by IEHP for CMC was within an acceptable range as compared to industry standards.	The administrative percentage reported by IEHP for non-CMC was within an acceptable range as compared to industry standards.
Mercer compared detailed line items from the plan's trial balance for reasonableness when mapped to line items in Schedule 6a and/or Schedule 6b. If applicable, Mercer reviewed allocation methodologies and recalculated for	No variance noted.	No variance noted.

Administrative Expenses		
Description of Procedures	**Results CMC**	**Results Non-CMC**
reasonableness.		

Taxes		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer reviewed to ensure proper reporting of federal, State, and local taxes on line 59 of Schedule 6a. If no taxes were reported on Schedule 6a, we confirmed the organization is not subject to taxes.	IEHP is exempt from income taxes; therefore, no taxes were reported on the RDT.	

Related Party Transactions		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer obtained related party agreements for medical services and reviewed 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. No related party medical services were provided.	

UM/QA/CC		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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 1-U, taking into consideration the membership size of the plan under review when reviewing the results.	The UM/QA/CC percentage reported by IEHP for CMC was within an acceptable range as compared to industry standards.	The UM/QA/CC percentage reported by IEHP for non-CMC was within an acceptable range as compared to industry standards.
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 understated by 0.03%, $1,539 or 0.00% 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. Mercer confirmed with the MCO that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed with the IEHP management that UM/QA/CC costs were not also included in general administrative expenses.	

Capitation Revenue		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer compared capitation amounts reported in Schedule 6a for Calendar Year 2020 plus January 2021 through June 2021 (1H2021) with the Capitation Management System (CAPMAN) file received from DHCS for the same period. The CAPMAN file contains all amounts paid to the MCO by DHCS.	Variance: Using a straight average methodology, the variance for SFY 2021 is understated by 0.73%, or $665,726.	Variance: Using a straight average methodology, the variance for SFY 2021 is understated at 0.11% or $414,742.

Interest and Investment Income		
Description of Procedures	**Results CMC**	**Results Non-CMC**
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.	IEHP did not report interest or investment income in the RDT. IEHP provided support that did not segregate between CMC and non-CMC; therefore, Mercer tested in total across all CCI. Per IEHP, a revenue allocation methodology was used to calculate interest income. Interest income is understated 100%, or $195,312. This amount is 0.02% of total Net Revenue.	

Other Information		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer reviewed the plan's audited financial statements for SFY 2021 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Mercer confirmed a clean audit opinion.	

Other Information		
Description of Procedures	**Results CMC**	**Results Non-CMC**
Mercer compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.	
Mercer requested information on the efforts to identify and recover provider overpayments and on how the recoveries are recorded in the RDT.	IEHP provided information for the identification and recovery of overpayments. Based on a review of that information, IEHP is appropriately excluding provider overpayments from the RDT medical expenses.	

Section 3: Summary of Findings CMC

Based on the procedures performed, the total amount of Capitation Revenue for the CMC SFY 2021 RDT was understated by $665,726 or 0.73%.

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by $6,530,534 or 0.92% of total medical expenditures in the CMC SFY 2021 RDT.

Based on the procedures performed, there was no variance noted for administrative expenditures in the CMC SFY 2021 RDT. In addition, the plan should prepare for properly recording a portion of their provider sub-capitation expense as administrative, thus reducing their medical expense.

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

IEHP reviewed this report and had the following comments:

For future RDT reporting, if Managed Care Plans (MCP) are required to report a portion of our global and provider sub-capitation expense as administrative expense, then we will need clear guidance/methodology from DHCS/Mercer on how to identify, calculate, and/or determine the administrative expense portion of the capitation expense.

Section 4: Summary of Findings Non-CMC

Based on the procedures performed, the total amount of Capitation Revenue for the Non-CMC SFY 2021 RDT was understated by $414,742 or 0.11%.

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by $4,757,680 or 1.77% of total medical expenditures in the Non-CMC SFY 2021 RDT.

Based on the procedures performed, there was no variance noted in administrative expenditures in the Non-CMC SFY 2021 RDT. In addition, the plan should prepare for properly recording a portion of their global and provider sub-capitation expense as administrative, thus reducing their medical expense.

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

IEHP reviewed this report and had the following comments:

For future RDT reporting, if Managed Care Plans (MCP) are required to report a portion of our global and provider sub-capitation expense as administrative expense, then we will need clear guidance/methodology from DHCS/Mercer on how to identify, calculate, and/or determine the administrative expense portion of the capitation expense.
The understatement of total gross medical expenditures in the RDT was due to large claims received (for inpatient and outpatient services) for April 2021 through June 2021 and paid after September 2021. For Medi-Medi members' inpatient and outpatient claims, IEHP is often responsible for the COB portion, and the COB portion is expected to have a longer run out. Using the 18-month RDT reporting period only allows for 3 months of run out from the last month of services (i.e., June 2021 DOS with claim paid through September 2021). Therefore, if this continues to be the reporting timeframe, we expect to continue to see more variance in our IBNR estimates.

Appendix A: Administrative Duties in Subcontracted Arrangements

Administrative Task	Kaiser (Global)	PrimeCare
Quality Management	X	X
Quality Measure Tracking	X	X
Member Grievance	X	X
Encounter Submission	X	X
Claims Adjudication and Payment	X	
Member Services	X	X
Provider Services	X	X
Case Management	X	X
Claims Processing	X	
Utilization Management	X	X
Provider Relations and Education	X	X
Provider Contracting	X	X
Credentialing and Re-Credentialing	X	X

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