

# Calendar Years 2019 and 2020 Liberty Dental Plan Rate Development Template

## Auditor's Report

**California Department of Health Care Services**

January 24, 2024

# Contents

1. Executive Summary .....	1
2. Procedures and Results .....	2
3. Summary of Findings .....	8

## Section 1

# Executive Summary

Pursuant to federal requirements under Title 42 of the Code of Federal Regulations 438.602(e), the 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)<sup>1</sup>. DHCS contracted with Mercer Government Human Services Consulting (Mercer) to fulfill this requirement for the financial data submitted in the Medi-Cal Dental Managed Care rate development template (RDT) for calendar year (CY) 2019 and CY 2020 by Liberty Dental Plan (LDP). 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 2023 rating period. The RDT tested was the initial version received during the rate setting process. If subsequent versions were received after the rate setting process, it may be noted in Table 1 below.

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

- Schedules 1.1–1.3 — Utilization and Unit Cost Reports
- Schedule 2 — Financial Report
- Schedule 2a — Financial Report — Administrative Expense Detail
- Schedule 3 — Lag Payment Information

The data collected in the RDT is reported on a modified accrual (incurred) basis for CY 2019 and CY 2020 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.

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<sup>1</sup> 42 CFR 438.602(e)  
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## 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 Dental Managed Care RDTs from LDP for CY 2019 and CY 2020. LDP’s management is responsible for the content of the RDTs and responded timely to all requests for information. The initial RDTs submitted were utilized for rate setting; therefore, our testing below was limited to the information contained in that submission. Subsequent submissions were not tested unless noted below.

**TABLE 1: PROCEDURES**

Category	Description	Results
<b>Utilization and Cost Experience</b>	Mercer compared the total net cost by category of service (COS) from the “Fee-for-Service” and “Capitation” tables, for CY 2019 and CY 2020, in Schedules 1.1–1.3, to the appropriate COS on lines 6–11 of Schedule 2 for consistency.	Variance: CY 2019 Schedule 1.1-1.3 is understated compared to Schedule 2 by \$327,134 or 0.95% in total. CY 2020 Schedule 1.1-1.3 is understated compared to Schedule 2 \$372,772 or 1.15% in total.
	Mercer compared the Proposition 56 Additional Payments from Schedule 1, for CY 2019 and CY 2020, to Total Proposition 56 Payments of Schedule 2 for consistency.	No variance noted.
<b>Member Months</b>	Mercer compared LDP reported member months from Schedule 2 to eligibility and enrollment information provided by DHCS. Our procedures are to request explanations for any member months with greater than 1% variance in total.  LDP discovered an issue with the category of aid information that caused a reconciliation of the membership data after the submission of the RDT.	Variance: CY 2019 RDT overstated by 8,983 or 0.33% in total. By category of aid, variances were overstated/(understated) as follows: <ul style="list-style-type: none"> <li>Affordable Care Act (ACA) Expansion (42.33%)</li> </ul>

Category	Description	Results
		<ul style="list-style-type: none"> <li>• Non-ACA Child</li> <li>• 0.48%</li> <li>• Non-ACA Adult</li> <li>51.66%</li> </ul> <p>CY 2020 RDT overstated by 5,892 or 0.21% in total. By category of aid, variances were overstated/(understated) as follows:</p> <ul style="list-style-type: none"> <li>• ACA Expansion</li> <li>• (41.96%)</li> <li>• Non-ACA Child 0.37%</li> <li>• Non-ACA Adult</li> <li>51.69%</li> </ul>
<b>Capitation Revenue</b>	Mercer/DHCS discussed how capitation was recorded. We then compared the capitation revenue as reported on Schedule 2 to capitation paid to LDP as reported by DHCS.	<p>Variance:</p> <p>Revenue in the RDT for CY 2019 was understated by \$696,750, or 1.54%.</p> <p>Revenue in the RDT for CY 2020 was overstated by \$402,811 or 0.87%</p> <p>The majority of the variance is due to the Health Insurance Provider Fee for CY 2019 being reported in CY 2020 when it was received.</p>
<b>Fee-For-Service (FFS) Dental Expense</b>	Mercer compared the summarized data from paid claims files provided by LDP by FFS and Proposition 56 and in total to the information reported Schedules 1.1–1.3.	<p>Variance:</p> <p>Combined FFS and Prop 56 expenses for CY 2019 is overstated by \$236,482 or 0.81%, or 0.68% of total dental services expense.</p>

Category	Description	Results
		<p>Combined FFS and Prop 56 expenses for CY 2020 is overstated by \$225,868 or 1.13%, or 0.69% of total dental services expense.</p>
	<p>Mercer reviewed the paid claims files submitted to verify control totals, verify eligibility, confirm the COS grouping was correct, and confirm the year reported was correct.</p>	<p>CY 2019:                      Control Totals: No variance.                      Eligibility: 0.13% of claim submissions with no matching eligibility totaling \$39,554 or 0.11% of total dental expense and is included in the variance noted above.                      COS Map: No variance.                      Service Year: No variance.</p> <p>CY 2020:                      Control Totals: No variance.                      Eligibility: 0.14% of claim submissions with no matching eligibility totaling \$28,628 or 0.09% of total dental expense and is included in the variance noted above.                      COS Map: No variance.                      Service Year: No variance.</p>
	<p>Using data files (paid claims files) provided by LDP, Mercer sampled and tested 80 transactions for all services and traced sample transactions through LDP's claims processing system, the payment remittance advice, and the bank statements.</p>	<p>No variance noted.</p>

Category	Description	Results
<b>Sub-capitated Dental Expense</b>	Mercer requested sub-capitation supporting detail. We compared the support provided to the amounts reported in Schedule 1.1–Schedule 1.3.	Variance: CY 2019: RDT Schedule 1.1–1.3 is overstated by \$2,813 or 0.06%.  CY 2020: RDT Schedule 1.1–1.3 is understated by \$18,514 or 0.15%.
	Rosters for CY 2019 and CY 2020 sub-capitation payments were tested against eligibility files and analyzed claims to verify none of the FFS claims paid should have been paid by the sub-capitated provider.	CY 2019 Eligibility: 0.27% of member months were ineligible which equates to approximately \$1,515 of the sample, or 0.03% of total sub-capitated dental expense. FFS claims: No variance.  CY 2020 Eligibility: 0.24% of member months were ineligible which equates to approximately \$1,190 of the sample, or 0.01% of total sub-capitated dental expense. FFS claims: No variance.
	Mercer reviewed a sample of the contractual arrangements with LDP’s sub-capitated providers and compared per member per month (PMPM) payment details per the contract with the payment amount using roster information provided by LDP.	CY 2019 No variance noted.  CY 2020 No variance noted.
	Mercer observed proof of payments for the sampled sub-capitated providers in the previous step.	No variance noted.
<b>Provider Incentives</b>	Mercer reviewed incentive arrangements and observed sample calculations for	Variance:

Category	Description	Results
	contractual compliance and reasonableness.	<p>For CY 2019, Schedule 2 of the RDT is overstated by \$24,814, or 7.59% of incentive expense. This represents approximately 0.07% of total dental expense.</p> <p>For CY 2020, Schedule 2 of the RDT is overstated by \$229,022, or 61.44% of incentive expense. This represents approximately 0.70% of total dental expense.</p> <p>Incentives reported in the RDT are based on estimates known at the time of submission. Payment is based on the actual performance results and a small variance is to be expected, especially considering the public health emergency in CY 2020.</p>
<b>Administrative Expenses</b>	Mercer reviewed administrative expenses as a percentage of capitation and on a PMPM basis, taking into consideration the size of the plan's membership in comparison to other Medi-Cal dental plans.	<p>For CY 2019 LDP reported \$1.96 PMPM, or 11.83% of net revenue and the average of all Medi-Cal Dental Managed Care Plans is \$2.44 PMPM and 15.58%. LDP has the lowest membership and administrative expense of the DMC plans. The difference is deemed reasonable.</p> <p>For CY 2020 LDP reported \$1.96 PMPM, or</p>

Category	Description	Results
		11.87% of revenue. The average of all Medi-Cal Dental Managed Care Plans is \$2.43 PMPM and 16.49%. LDP has the lowest membership and administrative expense of the DMC plans. This difference is deemed reasonable.
	Mercer compared detailed line items from the plan's trial balance mapped to line items in Schedule 2a for reasonableness. We reviewed allocation methodologies and recalculated for reasonableness.	<p>Variance: CY 2019 RDT is overstated by 0.58%, or \$30,812.</p> <p>CY 2020 RDT is overstated by 0.20%, or \$10,797.</p>
<b>Other Information</b>	Mercer reviewed the audited financial statements for the plan for CY 2019 and CY 2020 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	No issues noted.
	Mercer compared reported expenses, including incurred but not reported 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 dental service expenditures in Schedule 1.1–1.3 and Schedule 2 were understated by \$63,025 or 0.18% of total dental expenditures in CY 2019 and overstated by \$63,605 or 0.19% of total dental expenditures in CY 2020.

Based on the procedures performed, the total amount of administrative expenditures in the CY 2019 RDT were overstated by \$30,812 or 0.58% and the CY 2020 RDT was overstated by \$10,797 or 0.20%.

Based on the defined variance threshold, the results of the audit are determined to be immaterial and do not warrant corrective action. LDP reviewed this report and had no comments.



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