Mercer

Government Human Services Consulting

State Fiscal Year 2021 CalViva Health Plan Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

August 8, 2024

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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 state fiscal year (SFY) 2021 by CalViva Health Plan (CVH). Mercer designed and DHCS approved procedures to test the accuracy, truthfulness, and completeness of self-reported financial data in the RDT. The resulting procedures are limited due to the nature of expenses reported on CVH's RDT. CVH has a global subcontract for all their members and maintains a limited scope of services paid for by CVH. Therefore, the procedures are limited to those services, as well as testing the global subcontracted expense and administrative expenses.

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 included, but were not limited to:

- Schedules 6a and 6b — Financial Reports

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 CVH for SFY 2021. CVH's management is responsible for the content of the RDT and has responded in a timely manner to all requests for information.

Table(s): 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, 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 the MCO for date of service.	• Control totals: No variance noted. • Eligibility: Verified for 99.94% of claims submitted. • COS Map: Review of all COS showed 99.82% match for all COS. • Service Year: No variance noted. All dates of service fall within SFY 2021.
Using data files (paid claims files) provided by the MCO, Mercer sampled and tested 36 transactions and traced them through the MCO's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.

Global Subcontracted Payments	
Description of Procedures	**Results**
Mercer reviewed the global contractor's RDT submitted to DHCS and compared the reported capitation revenue to the CVH reported global subcontracted expense.	Variance: RDT reported global subcontracted expense is 2.61%, or $27,253,120, greater than the amount reported by the global subcontractor. The variance is primarily due to the timing of CVH RDT submission as compared to the global subcontractor RDT submission.
Mercer selected the three highest months of payment by globally subcontracted health plan/provider and five randomly	Variance: The RDT reported global subcontracted amount is understated by 3.63%, or $25,951,249, as

Global Subcontracted Payments	
Description of Procedures	**Results**
selected additional months of payment. Mercer observed proof of payments via relevant bank statements, clearinghouse documentation, or other online financial institution support for the sampled global capitated payments. The proof of payment information was greater than the supporting detail provided for the sampled global capitated providers.	compared to the detailed sampled payment support. The variance is primarily due to capitation retroactivity. No additional testing deemed necessary.
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 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.	Mercer reviewed the global capitated contract to determine the level of administrative functions included. See Appendix A for details. Related administrative dollars were not segregated out and reclassified as administrative expense.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
Mercer reviewed a sample of the five highest provider payments and 10 random payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by the MCO. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.	Variance: Detailed support for sub-capitated amounts in the sample test work is overstated by 0.08%, or $1,514. This amount is 0.00% of total medical expense.
Mercer observed proof of payments via relevant bank statements, clearinghouse documentation, or other online financial	No variance noted.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
institution support for the sampled sub-capitated provider payments in the previous step. The proof of payment information validated the supporting detail provided for the sampled sub-capitated providers.	
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.	CVH did not have any sub-capitated arrangements that exceeded the 5% or more of total medical expense threshold.

Member Months	
Description of Procedures	**Results**
Mercer compared MCO-reported member months 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.	CVH was not required to submit member month information for the period under review.

Provider Incentive Arrangements	
Description of Procedures	**Results**
Mercer requested a listing of all provider incentive arrangements, by provider and by month, and compared the amounts to Schedule 6a.	Per CVH, no provider incentive arrangements were in place for the period under review.

Reinsurance	
Description of Procedures	**Results**
Mercer requested reinsurance supporting detail. Mercer compared the support provided to the amount reported in the RDT.	Per CVH, no reinsurance arrangements were in place for SFY 2021.

Settlements	
Description of Procedures	**Results**
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.	Per CVH, no settlements were paid for SFY 2021.

Third-Party Liability (TPL)	
Description of Procedures	**Results**
Mercer reviewed information submitted by the MCO as 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, CVH is submitting TPL information as required by APL 21-007. No further testing necessary.

Administrative Expenses	
Description of Procedures	**Results**
Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan 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 CVH was within an acceptable range as compared to industry standards.

Administrative Expenses	
Description of Procedures	**Results**
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 reasonableness.	No variance noted.

Taxes	
Description of Procedures	**Results**
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.	CVH is exempt from income taxes; therefore, no taxes were reported on the RDT.

Related Party Transactions	
Description of Procedures	**Results**
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.	CVH related party transactions are less than 0.03% of total medical expense, thus no additional testing deemed necessary.

UM/QA/CC	
Description of Procedures	**Results**
Mercer benchmarked UM/QA/CC expenses as a percentage of total medical expense across all Two-Plan plans and compared to the amount reported on Schedule 6a, taking into consideration the membership size of the plan when reviewing the results.	Not applicable. CVH did not incur any UM/QA/CC expenses as all were performed by the global subcontractor.

Capitation Revenue	
Description of Procedures	**Results**
Mercer compared capitation amounts reported in Schedule 6a for calendar year 2020 plus January–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 health plan by DHCS.	Variance: RDT is overstated by 4.69%, or $79,034,548. The reason for the variance is due to the timing of the RDT submission as compared to the timing of the CAPMAN file.

Interest and Investment Income	
Description of Procedures	**Results**
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: RDT is understated by 116.86% or $301,564. Medi-Cal line of business is the only line of business.

Other Information	
Description of Procedures	**Results**
Mercer reviewed the plan's audited financial statements for SFY 2021 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Clean audit opinion confirmed.
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.	CVH provided the written policy for the identification and recovery of overpayments. Based on a review of that policy, CVH is appropriately not reporting any provider overpayments in the RDT medical expenses.

Section 3: Summary of Findings

Based on the procedures performed, the total amount of capitation revenue for the SFY 2021 RDT was overstated by $79,034,548, or 4.69%.

Based on the procedures performed, the total amount of gross medical expenditures in the RDT was understated by $27,253,120, or 2.61%, of total medical expenditures in the SFY 2021 RDT.

Based on the procedures performed, administrative expenditures in the SFY 2021 RDT showed no variance. 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 limited scope of the audit, the results do not warrant corrective action.

CVH reviewed and accepted this report.

Appendix A: Administrative Duties in Subcontracted Arrangements

Administrative Task	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 Re-Credentialing	X

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