Mercer

Government Human Services Consulting

State Fiscal Year 2021 Gold Coast Health Plan Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

July 3, 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 Gold Coast Health Plan (GCHP). 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 included, but were not limited to:

- Schedule 1 — Utilization and Cost Experience
- Schedule 1-A — Global Subcontracted Health Plan Information
- Schedule 1-C — Base Period Enrollment by Month
- Schedule 1-U — UM/QA/CC
- Schedule 5 — Large Claims Report
- Schedules 6a and 6b — Financial Reports
- Schedule 7 — 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 GCHP for SFY 2021. GCHP'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 MCO for date of service.	• Control totals: No variance noted. • Eligibility: 0.28% of claim submissions with no matching eligibility totaling $793,206 or 0.10% of total medical expense and is included in the variance noted below. • COS Map: Review of all COS showed 93%–98% match for all COS except for the Outpatient COS at 46%. The review of encounter data to determine cause of non-matching claims in the Outpatient COS showed non-matching claims were included in the Physician COS at 54% indicating GCHP did not appropriately classify the professional component of facility claims using Mercer/DHCS' RDT logic. GCHP confirmed the non-matching claims were to be classified as Outpatient COS but allocated to Physician COS in error. • Service Year: No variance noted. All dates of service fall within SFY 2021.
Mercer compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Facility — Long-Term Care [LTC], and All Others) created from the paid claims data files provided by the MCO and compared this support to the	Variance: RDT FFS Expenses are over/(understated) as compared to the support provided: • Inpatient 1.65% • Outpatient 0.51% • LTC 0.55%

Fee-For-Service (FFS) Medical Expense	
Description of Procedures	**Results**
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 MCO. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other categories of service.	• Physician (5.96%) • All Other (0.37%) In Total (0.25%), or ($1,370,872), which is 0.17% of total medical expense. Interest expense paid for late claims was incorrectly included as part of the final adjudicated amount in the FFS paid claims data provided for the audit by GCHP. Interest expense totaling $3,373,047 was removed from the FFS audit paid claims data for testing purposes. The interest expense was included in the reported Schedule 7 RDT expense, thus overstating medical expense. However, the overstatement was offset by an understatement of IBNR, netting out to the results shown above.
Using data files (paid claims files) provided by MCO, Mercer sampled and tested 60 transactions and traced them through MCO's claims processing system, the payment remittance advice, and the bank statements.	Variance: Detailed support for the paid claims sample amounts in the sample test work is overstated by 0.43%, or $44,330. The variance is due to interest expense included on GCHP's supporting documentation as detailed above.

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-A.	Variance: RDT Global Capitation expense is overstated by 1.20%, or $207,875, which is 0.03% of total medical expense. The total of the detail provided was less than the amounts reported in the RDT.
Mercer reviewed the contractual	Variance: Detailed support for global

Global Subcontracted Payments	
Description of Procedures	**Results**
arrangement with MCO's global subcontractor(s) and recalculated the total payment amounts using global roster information provided for all 12 months of SFY 2021 multiplied by the rates established in the contract with the subcontractor.	capitation expense is understated by 0.37%, or $61,015. The recalculated amounts were more than the global capitation amounts reported in the supporting detail provided.
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.	No variance noted. The proof of payment information validated the supporting detail provided for the sampled global capitated providers.
Mercer obtained roster information for the globally subcontracted providers and verified eligibility of members, confirmed enrollment with MCO, and analyzed claims to verify none of the FFS Claims paid should have been paid under the global arrangement.	Eligibility was verified for 99.98% of members. The amount of global capitation paid for the ineligible members is $1,393 and is included in the roster recalculation procedures noted above. FFS claims totaling $280,699, or 0.03% of total Medical Expense were inappropriately paid for global members.
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.	Mercer confirmed reduced rates as compared to the non-Full 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	Per review of the global contract, all administrative functions in Appendix A were delegated to the global subcontractor.

Global Subcontracted Payments	
Description of Procedures	**Results**
in the RDT as compared to the delegated administrative functions.	GCHP assumed approximately 7.09%, or $1,231,628, of the global capitation expense as administrative expense and underwriting gain on Schedule 1-A Data tab. 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.
Mercer reviewed members included on the member roster to ensure there were no Coordinated Care Initiative members or payments provided in the steps above.	None Identified.

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 Sub-capitated Medical Expense is overstated by 1.23% or $871,924. The total of the detail provided was less than the amounts reported in the RDT.
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 MCO.	Variance: Detailed support for sub-capitated amounts in the sample test work is overstated by 0.96%, or $23,330. 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.

Sub-Capitated Medical Expense	
Description of Procedures	**Results**
Mercer obtained roster information for the sampled provider payments and verified eligibility of members and confirmed enrollment with MCO.	Eligibility was verified for over 99.84% of members. The amount of non-global sub-capitation paid for the ineligible members is $3,285 and is included roster recalculation procedures noted above.
If applicable, Mercer reviewed Full Dual COA subcontracted PMPM payment rates to determine whether the amount(s) are at a reduced rate as compared to the non-Full Dual COAs.	Mercer confirmed reduced rates as compared to the non-Full 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.	GCHP 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**
Mercer compared summarized total net cost data from amounts reported in Schedule 1 to Total Incurred Claims by COS from Schedule 7.	Schedule 1 is understated by 0.11%, or $656,744, when compared to Schedule 7. This variance is 0.08% of total medical expense.

Member Months	
Description of Procedures	**Results**
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 overstated by 0.02% in total.

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 1.	Variance: RDT Provider Incentive Expense is overstated by 100%, or $357,603. This variance is 0.04% of total medical expense. Per GCHP, the amount reported was for measurement year 2019 and no amount was paid for Provider Incentives Arrangements for SFY 2021.
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.

Provider Incentive Arrangements	
Description of Procedures	**Results**
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.

Reinsurance	
Description of Procedures	**Results**
Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: The reported Reinsurance Net of Recovery is understated by 23.03%, or $586,755. This amount is 0.07% of total medical expenses. The majority of the variance above is due to overestimating the reinsurance recovery amount for SFY 2021.
Mercer recalculated reinsurance premiums, based on SFY 2021 membership as of July 2022, to compare to reported amounts.	Variance: The reinsurance premiums reported in the RDT was overstated by 0.04%, or $1,727, due to the difference in member months known at the time of the RDT submission.
Mercer recalculated recoveries for a sample of five members.	No variance noted.
Mercer compared the amount of reinsurance recoveries as compared to the information in Schedule 5 for reasonableness.	Reported amounts in Schedule 5 are consistent with reinsurance recoveries reported based on review of the reinsurance threshold.

Settlements	
Description of Procedures	**Results**
Mercer inquired of 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.	No variance noted. GCHP provided support for actual settlements of $925,039 appropriately included on Schedule 1 and Schedule 7.

Third-Party Liabilities (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, GCHP 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 COHS 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 GCHP of 5.86%, or 6.25% with the variance noted below, 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 reasonableness.	Variance: The RDT Administrative Expense is understated by 6.63%, or $3,373,047. This amount is 0.39% of Net Revenue. The variance is due to the incorrect reporting of interest paid on late claims in the RDT FFS claims data, a medical expense.

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.	GCHP is exempt from income taxes; therefore, taxes were appropriately not 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.	Related party agreements for medical services were provided. The agreements were reviewed and appear reasonable when compared to non-related party agreements and payment rates.
If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness.	Not applicable. No corporate allocations present.
Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting.	All services are considered allowable.
When applicable, Mercer obtained related party corporate allocation methodologies for administrative services. Where significant, Mercer recalculated the amounts for reasonableness.	Not applicable.

UM/QA/CC	
Description of Procedures	**Results**
Mercer benchmarked UM/QA/CC expenses as a percentage of total medical expense across all COHS 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 GCHP of 1.81% was within an acceptable range as compared to industry standards.
Mercer compared detailed line items from	No variance noted.

UM/QA/CC	
Description of Procedures	**Results**
the plan mapped to line items in Schedule 1-U for reasonableness. Mercer reviewed allocation methodologies and recalculated for reasonableness.	
Mercer interviewed financial management to determine how healthcare quality improvement activities such as care coordination are isolated from general administrative expenses in the general ledger. Mercer confirmed with MCO that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed with the MCO management that UM/QA/CC costs were not also included in general administrative expenses.

Capitation Revenue	
Description of Procedures	**Results**
Mercer compared capitation amounts reported in Schedule 6a for calendar year 2020 plus January 2021–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 0.71%, or $6,190,028.

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.	No variance noted.

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	Mercer confirmed a clean audit opinion.

Other Information	
Description of Procedures	**Results**
significant deficiencies or material weaknesses.	
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.	GCHP contracts with ACS services to identify and recovery provider overpayments. GCHP is appropriately excluding provider overpayments from the RDT medical expenses and reporting these items on Schedule 1-O.

Section 3: Summary of Findings

Based on the procedures performed, the total amount of capitation revenue for the SFY 2021 RDT was overstated by $6,190,028 or 0.71%. Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by $1,176,968, or 0.14% of total medical expenditures in the SFY 2021 RDT.

Based on the procedures performed, administrative expenditures in the SFY 2021 RDT were understated by $3,373,047, or 6.63%. In addition, GCHP should prepare to properly record a portion of their global capitation expense and provider sub-capitation expense as administrative in future RDT reporting, thus reducing their medical expense.

Based on the defined variance threshold, the results of the administrative expenditures audit are deemed to be material, however, do not warrant corrective action. GCHP should ensure the interest expense paid for late claims be accurately reported in the RDT as an administrative expense and removed from medical expenditures.

GCHP reviewed this report and had the following comments:

GCHP Finance is under new leadership and did not participate in the 2020-2021 RDT submission. GCHP has reviewed and agrees with the findings of this report and will implement changes in our RDT processes to ensure future compliance in these areas, especially regarding classifying interest expense paid for late claims as an administrative expense.

Appendix A: Administrative Duties in Subcontracted Arrangements

Administrative Task	Kaiser (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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