

Calendar Year 2019 Santa Clara Family Health Plan Mainstream Rate Development Template

Auditor's Report

State of California Department of Health Care

January 31, 2023

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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 calendar year (CY) 2019 by Santa Clara Family Health Plan (SCFHP). 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 2022 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 — Utilization and Cost Experience
- Schedule 1A — Global Subcontracted Health Plan Information
- Schedule 1C — Base Period Enrollment by Month
- Schedule 1U — Utilization Management/Quality Assurance/Care Coordination (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 CY 2019 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.

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 SCFHP for the CY 2019. SCFHP management is responsible for the content of the RDT and responded timely to all requests for information.

Table 1: Procedures

| Category | Description | Results |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fee-for-Service (FFS) Medical Expense | 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 SCFHP for dates of service. | <ul style="list-style-type: none"> Control totals: No variance noted. Eligibility: Confirmed for 99.9% of submitted claims. COS Map: 97.8% match for Non-Pharmacy and 99.4% for Pharmacy. Service Year: 196 claims dated outside of CY 2019 were submitted but not utilized in review. |
| | Mercer compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility–Long-Term Care [LTC], and All Others) created from the paid claims data files provided by SCFHP and compared 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 | <p>Variance: RDT over/(understated):</p> <ul style="list-style-type: none"> Inpatient 4.62% Outpatient 1.95% LTC (2.31%) Physician (0.20%) Pharmacy 0.58% All Other (3.17%) <p>In Total 0.89% or \$2,656,667.</p> |

| Category | Description | Results |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | from Schedule 7 line 40 to total paid claims data as provided by SCFHP. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS. | |
| | Using data files (paid claims files) provided by SCFHP, Mercer sampled and tested 60 transactions for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility–[LTC], and All Others) and traced sample transactions through SCFHP's claims processing system, the payment remittance advice, and the bank statements. | No variance observed. |
| Global Subcontracted Payments | Mercer requested overall global capitation supporting detail for SCFHP's global subcontractor Kaiser Foundation Health Plan, Inc. (KFHP). Mercer compared the support provided to the amounts reported in Schedule 1A. The total of the detail provided was less than the amounts reported in the RDT. | Variance: RDT reported capitation amounts are overstated by 3.42% or \$2,135,494. A portion of this variance is due to reclassification of capitation as administrative expense detailed below. |
| | Mercer reviewed the contractual arrangement with SCFHP's global subcontractor, KFHP, | Variance: Detailed support for global capitation amounts are overstated by 0.23% or \$116,264. |

| Category | Description | Results |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>and recalculated the total payment amount using global roster information provided for all 12 months of 2019 multiplied by the relevant rates included on the global contract. The recalculated amounts were more than the global capitation amount reported in the supporting detail provided.</p> <p>Mercer selected the three highest months of payment to KFHP and five randomly selected additional months of payment. Mercer observed proof of payments for the sampled global capitated payments.</p> <p>Mercer obtained roster information for KFHP and verified eligibility of members, confirmed enrollment with SCFHP, and analyzed claims to verify none of the FFS claims paid should have been covered under the sub-capitated arrangement.</p> <p>Mercer compared the global per member per month (PMPM) payment rates to relevant PMPM experience reported in</p> | <p>No variance noted.</p> <p>Enrollment was confirmed for 99.96% of members on the provided rosters.</p> <p>FFS claims totaling \$87,398, or 0.14% of capitation paid, were paid for members that were part of the global, which is 0.01% of total medical expense.</p> <p>Mercer found the average Global PMPM paid to be 18.87% lower than the cost experience of the non-global membership.</p> |

| Category | Description | Results |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | the RDT for non-global members for reasonableness. | This is primarily due to differences in member mix between KFHP's membership and non-global membership. |
| | If applicable, Mercer 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. | Confirmed reduced rate 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. | <p>Per review of the global contract, KFHP withholds 2% of the net capitation paid by Medi-Cal program to SCFHP for administrative services.</p> <p>SCFHP did not segregate the administrative component of the global capitation expense estimated to be \$1,231,368 or 0.18% of Total Medical Expense. This variance therefore overstates medical expense and understates administrative expense.</p> <p>It should be noted that per the contracts provided to Mercer between SCFHP and KFHP, administrative services are not clearly defined and therefore the amount is fully classified as administrative expense and KFHP is not included in Appendix A. However, as it is clear that at least some administrative duties are in fact delegated to KFHP (e.g., claims processing, member verification, and network development and monitoring), the contract should identify these requirements and separate out the portion of the capitation rate designated for them.</p> |

| Category | Description | Results |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sub-capitated Medical Expense | Mercer reviewed members included on the member roster to ensure there were no Coordinated Care Initiative (CCI) members or payments provided in the steps above. | Total payment of \$286 was made for two CCI member months; amount is not material, no further testing required. |
| | Mercer requested overall non-global sub-capitation supporting detail. Mercer compared the support provided to the amounts reported in Schedule 7. The total of the detail provided was less than the amounts reported in the RDT. | Variance: RDT reported sub-capitation amounts are overstated by 0.17% or \$521,939 when compared to the supporting detail. |
| | Mercer reviewed a sample of the five highest provider payments and ten random payments, reviewed the related contractual arrangements, and recalculated the total payment amounts by sub-capitated provider using roster information provided by SCFHP. The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided. | Variance: Detailed support for sub-capitated amounts are overstated by 1.44% or \$1,778,420 when compared to recalculated amounts. This variance represents 0.26% of Total Medical Expense. |
| | Mercer observed proof of payments for the sampled sub-capitated provider payments in the previous step. The | Variance: Sampled sub-capitated provided payments are understated when compared to proof of payment validation by 1.20% or \$1,305,237 or |

| Category | Description | Results |
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| | <p>proof of payment information was than the supporting detail provided for the sampled sub-capitated providers.</p> <p>Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with SCFHP, and analyzed claims to verify none of the FFS claims paid should have been paid under the sub-capitated arrangement.</p> <p>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.</p> <p>If any of the sub-capitated arrangements are a significant portion of SCFHP overall medical expense and/or major COS, Mercer obtained encounter data support and/or documentation supporting the reasonableness of the PMPM amounts included in the sub-capitated arrangement.</p> | <p>0.19% of total medical expense. The variance is due to retroactivity.</p> <p>Variance: Enrollment was confirmed for 99.94% of members that were part of the sample selection.</p> <p>FFS claims paid for the members were contractually appropriate.</p> <p>Confirmed.</p> <p>The sub-capitated arrangement with VHP accounts for over 53% of SCFHP's total medical expense. Based on audit encounter data, capitation paid to VHP, and any provider incentives earned by VHP, the average PMPM medical expense for all categories of aid for VHP is \$276.40. The average PMPM medical expense for all categories of aid, less the VHP experience, is \$266.06. The variance is reasonable and the data seems to be supportive of the rate paid.</p> |

| Category | Description | Results |
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| | For sub-capitated arrangements 5% or more than 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. | <p>One sub-capitated contract met the 5% threshold. Mercer reviewed the contract for coverage of administrative duties.</p> <p>See Appendix A for detail of administrative functions performed by the subcontractor reviewed.</p> <p>Per the contract with VHP, the capitation rates to be paid by SCFHP to VHP are based on the category of aid specific capitation paid by DHCS, less two percent (2%) administration services and less specific covered services.</p> <p>While SCFHP did appropriately segregate 2.0% of the rate paid from capitation, they reported the total amount of \$5,579,627 in UM/QA/CC and none as administrative services. Based on the duties identified in Appendix A, a portion of the expense should have been recognized as administrative expense and therefore overstating medical expense by the same amount.</p> <p>For the purpose of this audit, the 2% administration services was split equally between UM/QA/CC and administrative expense. The effects of this reclassification are quantified in each category below.</p> |
| Utilization and Cost Experience | Mercer compared summarized total net cost data from amounts reported in Schedule 1 to Direct Medi-Cal COS totals from Schedule 6a and to total incurred claims by COS for | There is no variance when comparing Schedule 1 to Schedule 6a or to Schedule 7. |

| Category | Description | Results |
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| Member Months | <p>Schedule 7 for consistency.</p> <p>Mercer compared MCO-reported member months from Schedule 1C to eligibility and enrollment information provided by the State. Mercer's procedures are to request explanations for any member months with greater than 1% variance in total or greater than 2% variance by major COA.</p> | Variance: RDT overstated by 0.04% in total. |
| Provider Incentive Arrangements | <p>Mercer requested a listing of all provider incentive arrangements, by provider, by month and compared the amounts to Schedule 6a, lines 34–36.</p> <p>From the listing of provider incentive payments, Mercer sampled the highest two payment amounts and one random payment. Mercer reviewed provider incentive agreements and observed proof of payments for the sampled provider incentive payments.</p> <p>Mercer reviewed the listing of provider incentive payments for any payments to related parties. If the review of the provider incentive</p> | <p>Variance: RDT is overstated by 1.07% or \$53,000, or 0.01% of total medical expense.</p> <p>Per the incentive agreements reviewed, providers may be paid an incentive even if they do not meet any program measures at the discretion of the MCO. SCFHP paid in total \$53,000 of incentives where the provider did not meet the criteria and therefore that amount would be considered a distribution of equity and not an incentive or medical expense. Variance is noted above.</p> <p>Proof of payments showed no variance.</p> <p>Not applicable, no incentive payments made to related parties.</p> |

| Category | Description | Results |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>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. The proof of payment information was more/less than the supporting detail provided for the sampled related party provider incentive payments.</p> | |
| | <p>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.</p> | Not applicable. |
| Reinsurance | <p>Mercer reviewed the reinsurance contract and compared the amount reported as Reinsurance Net of Recoveries on the RDT to the requested supporting schedule.</p> | <p>Variance: In total Net Reinsurance reported on the RDT was understated by 22.79% or \$113,680 or 0.02% of total Medical Expense.</p> |
| | <p>Mercer recalculated reinsurance premiums, based on 2019 membership as of</p> | <p>Variance: Premiums were overstated by 62.37% or \$1,244,225. This amount is included in the overall variance reported in the prior line item.</p> |

| Category | Description | Results |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>June 2020, to compare to reported amounts.</p> <p>The recalculated amounts were less than the premium amount reported in the supporting detail because member months not covered by the reinsurance contract were erroneously included in the amount reported in the RDT.</p> | <p>Variance: In total Net Reinsurance reported on the RDT was understated by 22.79% or \$113,680 or 0.02% of total Medical Expense.</p> |
| | <p>Mercer recalculated recoveries for a sample of five members.</p> | <p>No Variance Noted.</p> <p>However, overall recoveries were overstated by \$1,357,905 or 90.79% due to estimated recoveries exceeding actual. This amount is included in the overall variance reported previously.</p> |
| Settlements | <p>Mercer inquired of the SCFHP if they incurred any settlement amounts with providers related to CY 2019 dates of service. If settlements exist, 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.</p> | <p>Confirmed no settlements.</p> |
| | <p>If settlement amounts are material, Mercer requested supporting documentation and performed additional procedures.</p> | <p>Not applicable.</p> |
| Third Party Liability (TPL) | <p>Mercer reviewed TPL as a PMPM and as a</p> | <p>The benchmark TPL PMPM and percentage were \$0.22 and 0.04%,</p> |

| Category | Description | Results |
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| | percentage of medical expense on Schedule 6a line 39 as compared to benchmark information across those plans reporting a value for TPL. | respectively. SCFHP did not report any TPL. Not applicable. |
| Administrative Expenses | <p>Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan/GMC plans and compared to the amount reported in Schedule 6a, taking into consideration the membership size of the plan under review when reviewing the results.</p> <p>Mercer compared detailed line items from the plan's trial balance mapped to line items in Schedule 6a and Schedule 6b for reasonableness. Mercer reviewed allocation methodologies and recalculated for reasonableness.</p> | <p>The benchmark administrative percentage was 6.07% and SCFHP reported 4.21%, with the variance detailed below, this percentage increases to 4.80% and does not materially change the outcome. This variance is considered reasonable based on the fact SCFHP also participates in the CCI program.</p> <p>Variance: RDT is understated by \$4,222,074 or 13.84%, or 0.58% of Net Revenue.</p> <p>The variance is related to the overstatement of KFHP capitation expense previously reported in the global capitation category and the reclassification of part of the VHP 2% Administration Services capitation expense as administrative expense as previously explained in the Sub-capitated Medical Expense category.</p> |
| Taxes | Mercer reviewed to ensure proper reporting of federal, state, and local taxes on line 59 of Schedule 6a. If no taxes reported on Schedule 6a, we confirmed the organization is not subject to taxes. | SCFHP is not subject to federal income or state franchise taxes. |

| Category | Description | Results |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Related Party Transactions | Mercer obtained related party agreements for medical services and reviewed to determine if 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. | SCFHP has stated they do not have any related party relationships. It should be noted that subcontractor, Valley Health Plan (VHP), accounts for over 53% of their total medical expense and would be considered a significant relationship; however, VHP does not appear to be a related party. |
| | If related party contracts are a material portion of the related medical COS, Mercer also reviewed any allocation methodologies for reasonableness. | Not applicable. |
| | Mercer reviews that all services included in the related party agreements are allowable for Medicaid rate setting. | Not applicable. |
| | 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 | 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 | The benchmark UM/QA/CC percentage was 1.67% and SCFHP reported 2.07%. This difference is considered reasonable. |

| Category | Description | Results |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>Schedule 6a, taking into consideration the membership size of the plan under review when reviewing the results.</p> <p>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.</p> <p>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. Confirmed with SCFHP management via interview that UM/QA/CC costs were not also included in general administrative expenses.</p> | <p>Variance: Schedule 1-U is overstated by 17.05%, \$2,433,256 or 0.35% of total medical expenses.</p> <p>Most of this variance is due to the reclassification of VHP 2% Administration Services component of the capitation expense that was fully reported as UM/QA/CC as previously detailed in the Sub-capitated Medical Expense category.</p> <p>Confirmed.</p> |
| Pharmacy | <p>Mercer confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.</p> | <p>Confirmed.</p> |

| Category | Description | Results |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Capitation Revenue | Mercer benchmarked pharmacy rebate expenses as a percentage of pharmacy spend and on a PMPM basis across all Two-Plan/GMC plans and compared to the amount reported on Schedule 7. | The benchmark pharmacy rebate PMPM was \$1.39 and SCFHP reported \$1.92. This difference is considered reasonable. |
| | Mercer compared capitation amounts reported in Schedule 6a with the CAPMAN file received from DHCS. The CAPMAN file contains all amounts paid to the health plan by DHCS. | Variance: RDT is understated by 0.68% or \$4,917,585. |
| Interest and Investment Income | 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 overstated by 0.32% or \$15,899. |
| Other Information | Mercer reviewed the audited financial statements for the plan for the CY 2019 for a clean audit opinion or identification of significant deficiencies or material weaknesses. | No material variance noted. |
| | Mercer compared reported expenses, including IBNR and administrative expenses, to audited | No material variances noted. |

| Category | Description | Results |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| | financial statements for consistency. Mercer inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment. | SCFHP adjusts for HACs for APRDRG hospitals but does not alter per diem payments if HACs exist. |

Section 3

Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were overstated by \$7,686,676 or 1.11% of total medical expenditures in the CY 2019 RDT.

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

Based on the procedures performed, administrative expenditures in the CY 2019 RDT were understated by \$4,222,704 or 13.84%.

Based on the defined variance threshold, the results of the audit of administrative expenditures, are determined to be material, however do not warrant corrective action. The overall administrative expense was 4.80% of Net Revenue and that is considered reasonable compared to the benchmark of 6.07% and based on the fact SCFHP also participates in the CCI program.

SCFHP reviewed this report and had the following comments:

SCFHP is grateful for the work performed by Mercer on behalf of the Department of Health Care Services (DHCS) in auditing our CY19 Rate Development Template (RDT) and is pleased that the audit results are reasonable and the variances noted are immaterial. SCFHP is committed to the highest standards of accuracy and timeliness in all financial reporting.

Although the component variances noted in this audit report are immaterial, both individually and collectively, SCFHP respectfully requests detail of Mercer's variance calculations of all variances in order to understand any opportunities to improve our future RDT submissions.

Mercer/DHCS will work with SCFHP to provide the requested information with the goal of impacting future reporting.

Appendix A

Administrative Duties in Sub-capitated Arrangements

| Administrative Task | Valley Health Plan |
|-----------------------------------|--------------------|
| Case Management | X |
| Claims Processing | X |
| Utilization Management | X |
| Provider Relations and Education | X |
| Provider Contracting | X |
| Credentialing and Recredentialing | X |
| Pharmacy Management | X |



Mercer Health & Benefits LLC

2325 East Camelback Road, Suite 600

Phoenix, AZ 85016

www.mercer-government.mercer.com

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