

# Calendar Year 2022 Health Net Dental Rate Development Template

## Auditor's Report

**California Department of Health Care Services**

July 26, 2024

## Contents

Section 1: Introduction .....	3
Section 2: Procedures and Results .....	4
Section 3: Summary of Findings.....	9
Appendix A: Administrative Duties in Subcontracted Arrangements .....	10

## Section 1: Introduction

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 (DMC) rate development template (RDT) for calendar year (CY) 2022 by Health Net Dental Plan (HNC). 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 2024 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 5 — Incentives, Supplemental Payment Arrangements, etc.

The data collected in the RDT is reported on a modified accrual (incurred) basis for CY 2022 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 the Table(s) of Section 2.

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<sup>1</sup> 42 CFR 438.602(e)

## 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 DMC RDTs from HNC for CY 2022. HNC'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(s): Procedures

Fee-For-Service (FFS) Dental Expense	
Description of Procedures	Results
Mercer compared the summarized data from paid claims files provided by HNC by FFS and Proposition 56 and in total to the information reported Schedules 1.1–1.3.	Variance: Combined FFS and Prop 56 expenses is overstated by \$ 14,997 or 0.05%, or 0.03% of total dental services expense.
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.	Control Totals: No variance noted. Eligibility: 0.16% of claim submissions with no matching eligibility totaling \$50,462 or 0.10% of total dental expense and is included in the variance noted above.  COS Map: No variance noted. Service Year: No variance noted.
Using data files (paid claims files) provided by HNC, Mercer sampled and tested 20 transactions for all services and traced sample transactions through HNC's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.

<b>Sub-Capitated Dental Expense</b>	
<b>Description of Procedures</b>	<b>Results</b>
Mercer requested sub-capitation supporting detail. We compared the support provided to the amounts reported in Schedule 1.1–Schedule 1.3.	Variance: RDT Schedule 1.1–1.3 is understated by \$4,503 or 0.03%.
Rosters for 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.	Eligibility: 0.23% of member months were ineligible which equates to approximately \$141 or 0.20% of the sampled amount. FFS claims: No variance noted.
Mercer reviewed a sample of the contractual arrangements with HNC'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 HNC.	Variance: Detailed support for sub-capitated amounts in the sample test work is understated by \$163 or 0.23%.  The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.
Mercer observed proof of payments for the sampled sub-capitated providers in the previous step.	Variance: The proof of payments is understated by \$2,426 or 1.40%.
For sub-capitated arrangements 5% or more of total dental 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.	HNC had one sub-capitated arrangement that exceeded the 5% or more of total medical expense threshold. There were six administrative functions delegated to the sub-capitated provider and the plan did not report administrative dollars in the RDT. Therefore, this is an understatement of administrative expenses and an equal overstatement of dental expense. See Appendix A for details.

Utilization and Cost Experience	
Description of Procedures	Results
Mercer compared the total net cost by category of service (COS) from the "Fee-for-Service" and "Capitation" tables in Schedules 1.1–1.3, to the appropriate COS on lines 6–11 of Schedule 2 for consistency.	No variance noted.
Mercer compared the Proposition 56 Additional Payments from Schedule 1, to Total Proposition 56 Payments of Schedule 2 for consistency.	No variance noted.

Member Months	
Description of Procedures	Results
Mercer compared HNC 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.	Variance: RDT overstated by 0.15% in total.

Provider Incentives	
Description of Procedures	Results
Mercer requested a listing of all provider incentive arrangements, by provider and by month, and compared the amounts to Schedule 5.	Variance: Schedule 5 of the RDT is understated by \$271,840 or 10.21% of incentive expense. HNC inadvertently included CY 2021 incentives in CY 2022. This represents approximately 0.54% of total dental expense.
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.	No variance noted.

Administrative Expenses	
Description of Procedures	Results
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.	The administrative percentage reported by HNC was within an acceptable range as compared to industry standards.
Mercer compared detailed line items from the plan's trial balance mapped to line items in Schedule 2 for reasonableness. We reviewed allocation methodologies and recalculated for reasonableness.	No variance noted.

Capitation Revenue	
Description of Procedures	Results
Mercer/DHCS discussed how capitation was recorded. We then compared the capitation revenue as reported on Schedule 2 to capitation paid to HNC as reported by DHCS.	Variance: Revenue in the RDT was overstated by \$28,725 or 0.05%.

Other Dental Expenses	
Description of Procedures	Results
Mercer reviewed the details of aggregate write-ins for Other Dental Expenses reported on Schedule 2 for contractual compliance and reasonableness and performed additional procedures as necessary.	HNC appropriately reported Utilization Management and Quality Improvement Activities (UM/QA) of \$0.39 PMPM or 2.90% of Net Revenue, as Other Dental Expenses.
Mercer compared detailed line items from the plan's trial balance mapped to line items in Schedule 2 for reasonableness. We reviewed allocation methodologies and recalculated for reasonableness.	No variance noted.  Mercer confirmed that UM/QA costs were reported appropriately. UM/QA activities are reported based on the actual experience of the legal entity.

Other Information	
Description of Procedures	Results
Mercer reviewed the audited financial statements for the plan for CY 2022 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	Health Net of California, Inc. and its subsidiaries, of which HNC is a part of, received a clean audit opinion.
Mercer compared reported expenses, including incurred but not reported 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.	HNC provided information for the identification and recovery of overpayments. Based on a review of that information, HNC is appropriately excluding provider overpayments from the RDT dental expenses.



## Section 3: Summary of Findings

Based on the procedures performed, the total amount of capitation revenue for the CY 2022 RDT was understated by \$28,725 or 0.05%.

Based on the procedures performed, the total amount of dental service expenditures in Schedule 1.1–1.3 and Schedule 2 were overstated by \$282,334 or 0.56% of total dental expenditures in CY 2022. 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 procedures performed, there was no variance noted in the total amount of administrative expenditures in the CY 2022 RDT.

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

HNC reviewed and accepted this report.

## Appendix A: Administrative Duties in Subcontracted Arrangements

Administrative Task	Western Dental
Quality Management	X
Quality Assurance Program	
Member Services	
Enrollment	
Marketing	
Utilization Management	X
Provider Relations and Education	X
Provider Contracting	X
Provider Credentialing and Recredentialing	
Continuing Education	X
Dental Staff and Ancillary Credentialing	X



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