Mercer

Government Human Services Consulting

State Fiscal Year 2021 Alameda Alliance for Health Mainstream Rate Development Template

Auditor's Report

California Department of Health Care Services

August 6, 2023

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 Alameda Alliance for Health (AAH). 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 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 AAH for SFY 2021. AAH's management is responsible for the content of the RDT and has responded in a timely manner to all requests for information.

Table 1: 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 99.96% of claims submitted. • COS Map: Review of all COS showed 96%–99% match for all COS. • 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 — LTC, and All Others) created from the paid claims data files provided by the MCO and compared this support to 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 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.	Variance: RDT FFS Expenses are over/(understated) as compared to the support provided: • Inpatient 0.11% • Outpatient (2.98%) • LTC 0.53% • Physician (0.80%) • All Other (0.70%) In Total (0.86%), or ($4,871,570)
Using data files (paid claims files) provided by the MCO, Mercer sampled and tested 60 transactions for major	No variance noted.

categories of service (Inpatient, Outpatient, Physician, Facility — LTC, and All Others) and traced sample transactions through the MCO's claims processing system, the payment remittance advice, and the bank statements.	

Global Subcontracted Payments	
Description of Procedures	**Results**
Mercer requested global capitation supporting detail. 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 Global Capitation expense is overstated by 0.91%, or $1,099,472.
Mercer reviewed the contractual arrangement with the 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 contracted rates. The recalculated amounts were slightly less than the global capitation amounts reported in the supporting detail provided.	Variance: Detailed support for global capitation expense is overstated by 0.02%, or $13,908.
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. The proof of payment information validated the supporting detail provided for the sampled global capitated providers.	No variance noted.

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.	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.	Per review of the global contract, Kaiser provides several administrative services; see Appendix A for details. AAH did not segregate a portion of the global capitation expense as administrative expense, therefore, overstating medical expense and understating administrative expense.
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. The total of the detail provided was more than the amounts reported in the RDT.	Variance: RDT Sub-capitated Medical Expense is understated by 1.80% or $2,003,352.
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	Variance: Detailed support for sub-capitated amounts in the sample test work is overstated by 0.02%, or $6,219.

information provided by the MCO. 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. The proof of payment information was more than the supporting detail provided for the sampled sub-capitated providers.	Variance: Detailed support for the sampled sub-capitated providers is understated by 0.40%, or $131,355.
Mercer obtained roster information for the sampled provider payments and verified eligibility of members, confirmed enrollment with the MCO, and validated PMPM amounts paid by member.	No variance noted.
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.	Confirmed reduced rates as compared to the non-Full Dual COA groups.
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.	Mercer reviewed one sub-capitated contract to determine the level of administrative functions included. See Appendix A for details. Related administrative dollars were segregated out and reclassified as administrative expense. To note, AAH segregated administrative expenses for three of their six sub-capitated arrangements. The three providers represent 82% of the sub-capitated medical expense. The remaining three sub-capitated arrangements provide vision, lab, and transportation services.

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 0.02%, or $127,774, when compared to Schedule 7.
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 understated by 0.17% 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, lines 34–36.	Variance: RDT Provider Incentive Expense is overstated by 18.47%, or $457,996. This amount represents 0.05% of total medical expense.
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. The proof of payment information validated the supporting detail provided for the sampled provider incentive payments.	No variance noted.
Mercer reviewed the listing of provider incentive payments for any payments to related parties. If the review of the	Confirmed there are no related parties or provider incentive payments to related parties.

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.	
If related party provider incentive payments were noted, Mercer reviewed the incentive terms to determine whether the terms align with similar arrangements for non-related parties.	No related party provider incentive payments were noted.

Reinsurance	
Description of Procedures	**Results**
Mercer reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	Variance: Reported reinsurance is overstated by 1.56%, or $63,968. This amount is 0.00% of total medical expenses.
Mercer recalculated reinsurance premiums, based on SFY 2021 membership as of July 2022, to compare to reported amounts.	No variance noted.
Mercer recalculated recoveries for a sample of five members.	Variance: The sample was overstated by 0.07%, or $481.
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 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	No settlements were paid for SFY 2021.

actual or estimates based on the status of the settlements and where the amount(s) are reported in the RDT.	

Third-Party Liability (TPL)	
Description of Procedures	**Results**
Mercer reviewed TPL as a PMPM and as a percentage of medical expense on Schedule 6a, line 39 as compared to benchmark information across those plans reporting a value for TPL.	The benchmark TPL PMPM and percentage were ($0.22) and (0.04%), respectively. AAH did not report any TPL for SFY 2021. The plan implemented procedures as of July 2021 to collect TPL and will report accordingly in future RDTs.

Administrative Expenses	
Description of Procedures	**Results**
Mercer benchmarked administrative expenses as a percentage of net revenue across all Two-Plan/GMC plans and compared to the amount reported in the RDT, taking into consideration the membership size of the plan when reviewing the results.	The benchmark administrative percentage was 6.25% and AAH reported 6.52%. This variance is considered reasonable.
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: RDT reported Administrative Expense is understated by 0.62%, or $370,837. This variance is considered reasonable.

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,	AAH is exempt from income taxes; therefore, no taxes were reported on the RDT.

we confirmed the organization is not subject to taxes.	

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.	N/A. AAH had no related party transactions.

UM/QA/CC	
Description of Procedures	**Results**
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 Schedule 1-U, taking into consideration the membership size of the plan when reviewing the results.	The benchmark UM/QA/CC percentage was 1.67% and AAH reported 2.33%. This difference is considered reasonable.
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 the MCO that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed.

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 MCO by DHCS.	Variance: RDT is understated by 1.18%, or $17,198,706. Using a straight average methodology, the variance for SFY21 is estimated at $11,465,804 and remains 1.18%. Per discussion with AAH, the majority of this variance is due to timing of payments versus timing of RDT submission.

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 0.61%, or $3,549. This variance is considered reasonable.

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.	No variance noted.
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.	AAH provided the written policy for the identification and recovery of overpayments. AAH enlists the services of a Fraud, Waste, and Abuse vendor who identifies potential issues with providers and relays the information to the AAH Compliance Department. The

	Compliance and/or Claims Department may request focused audits on any particular issue that arises. AAH's internal auditors routinely review 2% of all auto-adjudicated claims from the weekly pre-pay process and they also audit 5% daily of all manually adjudicated claims from the pre-pay process.
Mercer requested information on if/how medical and non-medical components are segregated for RDT reporting. Non-medical component includes, but is not limited to, amounts paid for secondary network savings, network development, administrative fees, claims processing, and utilization management. This can also include amounts paid for professional and administrative services outside of providing services to enrollees when the global or non-global sub-capitation vendor itself is a service provider. Provide this information for each arrangement if reporting by arrangement varies.	AAH segregated administrative expenses for select sub-capitated arrangements. See Sub-Capitated Medical Expense section above.

Section 3

Summary of Findings

Based on the procedures performed, the total amount of Capitation Revenue for the SFY 2021 RDT was understated by $11,605,489, or 1.18%.

Based on the procedures performed, the total amount of gross medical expenditures in the RDT was understated by $5,381,261, or 0.57%, of total medical expenditures in the SFY 2021 RDT.

Based on the procedures performed, administrative expenditures in the SFY 2021 RDT were understated by $370,837, or 0.62%.

As noted in the Global Subcontracted Payments section, Kaiser, the global contractor, provides several administrative services. AAH did not segregate a portion of the global capitation expense as administrative expense, therefore, overstating medical expense and understating administrative expense.

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

AAH reviewed this report and had the following comments:

- We appreciate the report and the time and effort the Auditors spent working with us, they were helpful and flexible.
- It appears that most of the differences between the RDT and Audit amounts resulted from information that developed after the RDT was submitted (i.e., 1H 2021 Provider Incentives were estimated in the RDT but not calculated and paid by AAH until CY 2022). We see this as somewhat expected and unavoidable.

Appendix A
Administrative Duties in Subcontracted Arrangements

Administrative Task	Kaiser (Global)	Community Health Center Network
Quality Management	X	X
Quality Measure Tracking	X	X
Member Grievance	X	X
Encounter Submission	X	X
Claims Adjudication and Payment	X	X
Member Services	X	X
Provider Services	X	X
Case Management	X	X
Claims Processing	X	X
Utilization Management	X	X
Provider Relations and Education	X	X
Provider Contracting	X	X
Credentialing and Re-Credentialing	X	

Mercer Health & Benefits LLC
2325 East Camelback Road, Suite 600
Phoenix, AZ 85016
www.mercer-government.mercer.com