

AUDITORS REPORT

CALENDAR YEAR 2017

AIDS Healthcare

Foundation RATE

DEVELOPMENT

TEMPLATE

December 10, 2020

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Executive Summary

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)¹. DHCS contracted with Mercer Government Human Services Consulting (Mercer) to fulfill this requirement for the financial data submitted in the Medi-Cal Rate Development Template (RDT) for calendar year (CY) 2017 by the AIDS Healthcare Foundation (AHF). 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 Bridge Period rating period (July 1, 2019 – December 31, 2020). The RDT tested was the final version, including any revisions stemming from resubmissions as a result of the RDT Q&A discussion guide process with AHF.

The key schedules subject to testing from the RDT include, but were not limited to:

- Schedule 1 Utilization and Cost Experience
- Schedule 1C – Base Period Enrollment by Month
- 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 2017 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 calendar year reported.

The procedures and results of the test work are enumerated in Table 1 of Section 2.

¹ 42 CFR 438.602(e)

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Procedures and Results

We have 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 AHF for the CY 2017. AHF's management is responsible for the content of the RDT and responded timely to all requests for information.

Table 1: Procedures

Category	Description	Results
Utilization and Cost Experience	We compared summarized total net cost data from amounts reported in Schedule 1 to category of service (COS) totals from Schedule 6a and to total incurred claims by COS for Schedule 7 for consistency.	<p>Variance: Schedule 6a overstated by 1.08%, or \$93,169, when compared to Schedule 1. Schedule 1 is overstated by 0.01% or \$1,173 when compared to Schedule 7.</p> <p>The comparison of Schedule 1 to Schedule 6a by COS resulted in a variance for all applicable COS line items. According to RDT instructions, COS line items in Schedule 6a should correlate with those utilized in Schedule 1. This issue should be corrected in future reporting.</p>
Member Months	We compared MCO reported member months from Schedule 1C 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 or greater than 2% variance by major category of aid.	Variance: RDT overstated by 0.29% in total.

Category	Description	Results
Capitation Revenue	We discussed how capitation was recorded. AHF provided support for their reported capitation revenue. We compared the support to capitation paid to AHF as reported by DHCS.	RDT overstated by 18.47%, or \$2,597,690. Per AHF, the variance is primarily due to capitation revenue adjustments of \$2.7 million that relates to CY 2016 and prior. Per RDT instructions, prior year adjustments are not to be included. AHF should not include prior year adjustments in future reporting.
Interest and Investment Income	We requested interest and investment income for the MCO entity as a whole and information regarding how the income reported in Schedule 6a was allocated to the Medi-Cal line of business. AHF did not report any interest or investment income on Schedule 6a. Per discussion with AHF, this line of business did not generate any interest or investment income, thus no variance.	No variance noted.
Fee For Service Medical Expense	Using data files (paid claims files) provided by AHF, we sampled and tested transactions for each major category of service (COS) (Outpatient, Physician, Pharmacy, Facility-Long Term Care (LTC), and All Others) and traced sample transactions through AHF's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.
	We compared detailed lag tables for each major COS (Outpatient, Physician, Pharmacy, Facility- (LTC), and All Others) created from the data files provided by AHF and compared the information reported in Schedule 7. We compared the paid claims amounts from Schedule 7, line 35 to total paid claims prior to the additional runout detail included in the data files, expecting no changes.	Variance: RDT understated in total by 2.39% of total FFS claims payments reported on Schedule 7, or \$180,271. This amount is 2.12% of total medical expenses.
	We compared total final incurred amounts including incurred but not reported (IBNR) estimates from Schedule 7 to total paid amounts from all months reported in the data files to verify the accuracy/reasonableness of IBNR for each COS. Allowable absolute value variances were deemed to be not greater than 1% for all COS.	Variance: RDT over/(understated): Outpatient (0.27%); LTC 0.21%; Physician (3.97%); Pharmacy (3.33%); All Other 3.93%; In Total (2.48%), or \$187,374.

Category	Description	Results
	We reviewed a sample of claims from each COS 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: No variance noted. COS Map: No variance noted. Service Year: No variance noted.
Sub-capitated Medical Expense	We requested overall sub-capitation supporting detail. We compared the support provided to the amounts reported in Schedule 7.	No variance noted.
	We sampled membership from 15 rosters across their sole subcontractor, verified eligibility of members and analyzed claims to verify none of the FFS claims paid should have been paid by the sub-capitated provider.	Eligibility: Sample identified two members not eligible. The plan did not record a year-end adjustment for retro-disenrollment. As a result, we tested 100% of the sampled rosters. In total, 6 members show as not eligible, for a total of 12 member months. Sub-Capitated expense support detail is overstated by \$1,440 or 0.27%. This overstatement represents 0.02% of total medical expense. FFS claims: No variance.
	We reviewed a sample of the contractual arrangements with AHF's sub-capitated providers and recalculated the total payment amounts by sub-capitated provider using roster information provided by AHF. The recalculated amounts were greater than the sub-capitation amount reported in the supporting detail provided. This variance is due to the inability of AHF to locate the contract for Medi-Cal Only eligible members that showed a PMPM rate of \$110. Per contract support provided, PMPM should have been \$150.	Variance: RDT is understated by 27.99%, or \$149,360.
	We observed proof of payments for the sampled sub-capitated providers in the previous step.	No variance noted.

Category	Description	Results
Administrative Expenses	We reviewed administrative expenses as a percentage of capitation and on a PMPM basis, taking into consideration the dynamics of the plan and the membership size when reviewing the results. Per the plan, Bad Debt expense was included in the administrative expense due a settlement agreement between AHF and DHCS related to activities that occurred during CY2017 and prior.	AHF reported Administrative expenses of \$958.56 PMPM, 56.34% of net revenue. Excluding the bad debt expense related to the settlement, the reported amount would be \$191.71 PMPM and 11.23% of net revenue and would be in line with expected results.
	We compared detailed line items from the plan's trial balance mapped to line items in Schedule 6a for reasonableness. We reviewed allocation methodologies and recalculated for reasonableness.	Variance: RDT is overstated by 5.30% or \$419,595. AHF included MCO State Tax in administrative expense; instructions require reporting as a negative amount in the revenue section of schedule 6a.
Utilization Management, Quality Assurance, Care Coordination (UM/QA/CC)	We reviewed UM/QA/CC expenses as a percentage of revenue as reported on Schedule 6a, taking into consideration the plan dynamics and membership size when reviewing the results.	AHF reported UM/QA/CC expenses of \$64.96 PMPM and 3.82% of total medical expense and is within a range of expected results.
	We compared detailed line items from the plan mapped to line items in Schedule 1-U for reasonableness.	No variance noted.
	We 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 AHF management that UM/QA/CC costs were not also included in general administrative expenses.	Confirmed.
Pharmacy	We confirmed and observed if pharmacy benefit manager (PBM) fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	No variance noted.
Other Information	We reviewed the audited financial statements for the plan for the CY 2017 for a clean audit opinion or identification of significant deficiencies or material weaknesses.	No variance noted.

Category	Description	Results
	<p>We compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.</p> <p>Audited financial statements were not segregated by line of business, therefore there was no ability to segregate Medi-Cal. However, internal financial statements and financial statements filed with DHCS were provided by line of business and reasonably compared to the amounts reported in Schedule 6a, with the exception of total medical expense.</p>	<p>Per AHF, DHCS filings did not include amounts allocated from other legal entities and/or related parties, which includes reported amounts for UM/QA/CC of \$536,946 that are properly reported in the RDT. Therefore, RDT amounts are reported correctly and the DHCS filing is understated by 6.30%, or \$536,946.</p>
	<p>We inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.</p>	<p>AHF does not provide inpatient services, therefore is not at risk for payment of HACs.</p>

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Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the CY 2017 RDT were understated by \$92,766 or 1.09% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of gross administrative expenditures in the CY 2017 RDT were overstated by 5.30% or \$419,595.

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

It should be noted, however, that AHF should align the COS mapping methodologies utilized in the creation of Schedule 1 with those utilized in Schedule 6a in order to provide more accurate information across all RDT schedules.

AHF reviewed this report and had no comment.

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