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AUDITORS REPORT: CALENDAR YEAR 2017 ALAMEDA ALLIANCE FOR HEALTH RATE DEVELOPMENT TEMPLATE

MARCH 12, 2020

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1
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 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 Bridge Year 2019-2020 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 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 5 Large Claims Report
- Schedules 6a and 6b Financial Reports
- Schedule 7 Lag Payment Information

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[1] 42 CFR 438.602(e)

The data collected on Schedules 6a and 6b 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 years' 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.

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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 AAH for the CY 2017. AAH'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 Direct Medi-Cal category of service (COS) totals from Schedule 6a and to total incurred claims by COS for Schedule 7 for consistency.	0% Variance.
Global Subcontracted Payments	We reviewed the contractual arrangement with AAH's global subcontractor and tested the overall payments made to the global subcontractor by comparing results against amounts reported in Schedule 1a.	Variance: RDT overstated by 0.35%.
	We selected the three highest months of payment and five randomly selected additional months of payment to obtain membership rosters for each month selected. 20 randomly selected members from each month were checked to ensure eligibility. The same members were compared against claims included in the fee-for-service (FFS)data provided by AAH to see if claims were paid by both AAH and the global subcontractor.	$0 variance in claims paid. All sampled members eligible.
	We reviewed members included on the member roster to ensure there were no Coordinated Care Initiative (CCI) members or payments provided in the step above.	Variance: 2 CCI members reported, $36.46 paid.
Member Months	We compared MCO reported member months from Schedule 1C to eligibility and enrollment information provided by the State. Our procedures are to request explanations for any member months with greater than 1% variance in total or greater than 2% variance by category of aid.	Variance: RDT Understated by 0.35% in total.

CATEGORY	DESCRIPTION	RESULTS
Capitation Revenue	We discussed how capitation was recorded. Due to data limitations, AAH recorded capitation revenue based on detail supplied by DHCS. We observed how capitation was recorded at AAH and reviewed one month's transaction and compared it to the detail provided by DHCS to see how it was translated into a general journal. We also tested for reasonableness by using eligibility from the 834 data multiplied by rates established on the most current rate sheet received from DHCS.	No variance observed for monthly invoice. RDT understated by 4.4% for revenue based on estimated revenue calculation using the known capitation rates in place during 2017.
Interest and Investment Income	We analyzed the interest and investment income schedule and the amount allocated to the Medi-Cal line of business as reported in the RDT.	Variance: RDT Overstated by 2.26%.
Fee For Service Medical Expense	Using data files (paid claims files) provided by AAH, we sampled and tested transactions for each major category of service (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long-term Care (LTC), and All Others) and traced sample transactions through AAH claims processing system, the payment remittance advice, and the bank statements.	No variance observed.
	We compared detailed lag tables for each major category of service (Inpatient, Outpatient, Physician, Pharmacy, Facility-LTC, and All Others) created from the data files provided by AAH 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 0.01%

CATEGORY	DESCRIPTION	RESULTS
	We compared total final incurred amounts including incurred but not reported estimates from Schedule 7 to total paid amounts from all months reported in the data files to verify the accuracy/reasonableness of Incurred but not reported (IBNR) for each category of service. 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 over/(understated) by Inpatient: (0.51%) Outpatient (0.50%) LTC (1.69%) Physician 0.17% Pharmacy 0.00% All Other 0.03% In Total (0.29%)
	We reviewed a sample of claims from each category of service to verify control totals, verify eligibility, confirm the category of service grouping was correct, and confirm the year reported was correct.	Control totals: No variance noted. Eligibility: Verified for all members selected. COS Map: No variance noted. Service Year: No variance noted.
Sub-Capitated Medical Expense	We compared reported sub-capitation payments to amounts reported in Schedule 7.	No variance noted.
	We sampled membership from three subcontractors, verified eligibility of members and analyzed claims to verify none of the FFS claims paid should have been paid by the sub-capitated provider.	No variance noted.
	We reviewed subcontract agreements and recalculated payment amounts for reasonableness. We observed proof of payments for a sample of sub-capitated provider payments.	No variance noted.
Provider Incentive Arrangements	We reviewed incentive arrangements and observed sample calculations for contractual compliance and reasonableness.	Variance: RDT overstated by 1.18%

CATEGORY	DESCRIPTION	RESULTS
Reinsurance	We compared detailed reinsurance net of recoveries against reported amounts in Schedule 6a.	Variance: RDT understated by 11.7% for net recoveries, thereby overstating Medical Expense.
	We recalculated reinsurance premiums to compare to reported amounts.	Premiums calculated were $126,355 less than premiums reported, representing a 7.1% overpayment. Plan reported paying reinsurance capitation on globally subcontracted members in 2017 with premiums not recoverable.
	We recalculated recoveries for a sample of members	No variance noted.
Administrative Expenses	We benchmarked administrative expenses as a percentage of capitation and compared to the amount reported in Schedule 6a. 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 understated by 0.35% compared to trial balance. The benchmark administrative percentage was 5.5% and AAH reported 5.9%.
Utilization Management, Quality Assurance, Care Coordination	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. We compared Utilization Management (UM)/Quality Assurance (QA)/Care Coordination (CC) costs as a percentage of revenue to benchmark for reasonableness. Confirmed with AAH management via interview that UM/QA/CC costs were not also included in general administrative expenses.	No variance noted.
Pharmacy	We confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses.	No variance noted.

CATEGORY	DESCRIPTION	RESULTS
Other Information	We reviewed all 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.
	We compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variance noted.
	We inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	Process for identification of HACs is currently in development. At this time, the plan has not implemented a procedure to avoid payment of HACs.

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SUMMARY OF FINDINGS

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by $290,422, or 0.04% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of gross administrative expenditures in the RDT were understated by $178,019, or 0.35% of total administrative expenditures in the CY 2017 RDT.

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

AAH has reviewed this report and had no comments.

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