MERCER

AUDITORS REPORT

CALENDAR YEAR 2017 BLUE SHIELD OF CALIFORNIA PROMISE HEALTH PLAN RATE DEVELOPMENT TEMPLATE

October 19, 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 Blue Shield of California Promise Health Plan (BSCPHP). Mercer designed and DHCS approved procedures to test the accuracy, truthfulness and completeness of self-reported financial data in the RDT.

Per BSCPHP management, for certain RDT schedules, they were unable to split out Coordinated Care Initiative (CCI) revenue and expenses from the non-CCI membership revenue and expenses. These conditions apply to Schedule 6a, as well as Schedule 1 and Schedule 7 to a lesser degree.

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 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

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 BSCPHP for the CY 2017. BSCPHP'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. BSCPHP indicated they were able to segregate non-CCI expenses for Schedule 1 and Schedule 7, but not Schedule 6a.Therefore, CCI expenses are included in Schedule 6a. It is assumed that the variance between Schedule 6a and Schedule 1 is primarily due to CCI expenses. However, it was discovered during the sub-capitation payment testing that sub-capitated CCI expenses were actually included in Schedules 1 and 7. See sub-capitation section in this table below. The estimated amount included in Schedules 1 and 7 is immaterial. The RDT instructions clearly state that CCI-related members and expenditures are not to be reported in the regular RDT.	Schedule 6a overstated by 29.88%, or $82,950,600, when compared to Schedule 1. Schedule 1 is understated by 0.00% or $8,896 when compared to Schedule 7.
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 major category of aid. For member month reporting, BSCPHP was able to effectively separate out CCI vs. non-CCI members.	Variance: RDT overstated by 0.01% in total.

Category	Description	Results
Capitation Revenue	We discussed how capitation was recorded. BSCPHP records capitation revenue on an accrual basis using eligibility from the 834 data multiplied by rates established on the most current rate sheet received from DHCS. BSCPHP did not exclude CCI capitation revenue for Schedule 6a, therefore it is assumed that a majority of the variance is due to the inclusion of CCI capitation revenue.	RDT Schedule 6a overstated by 23.55%, or $111,353,960, based on estimated revenue calculation using the known capitation rates in place during 2017.
Interest and Investment Income	We 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. BSCPHP did not report any interest or investment income on Schedule 6a. Mercer estimated an applicable amount that should have been allocated to the BSCPHP non-CCI RDT.	Variance: RDT is understated by 100.00% or $1,484,696.
Fee For Service Medical Expense	Using data files (paid claims files) provided by BSCPHP, we sampled and tested transactions for each major category of service (COS) (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long Term Care (LTC), and All Others) and traced sample transactions through BSCPHP claims processing system, the payment remittance advice, and the bank statements. Mercer identified that $14.95 of interest and penalty expense paid on the late payment of claims was included in a paid claim total. Interest on late payment of claims should be classified as administrative expense and not medical expense. Mercer requested BSCPHP provide the full interest and penalty expense applicable to the CY2017 RDT and where reported. BSCPHP identified that $459,554 of interest and penalty expense was included as medical expense in RDT Schedules 1, 6a and 7, rather than correctly reported as an administrative expense.	One variance identified out of 41 sampled claims.
	We compared detailed lag tables for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility- (LTC), and All Others) created from the data files provided by BSCPHP 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 by 0.00% or $5,820.

Category	Description	Results
	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 2% for inpatient claims and 1% for all other COS.	Variance: RDT over/(understated): Inpatient (2.75)%; Outpatient (0.41%); LTC 0.76%; Physician 0.79%; Pharmacy 4.00%; All Other 2.08%; In Total 0.48%.
	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: 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. Through discussions with BSCPHP, Mercer identified that sub-capitated medical expense amounts applicable to CCI are included in Schedule 7 (contrary to initial information received from BSCPHP that CCI was not included in Schedules 1 and 7) as well as in the sub-capitation support provided. Schedule 1 ties to Schedule 7 within $8,896, therefore CCI is also included in Schedule 1. When requested BSCPHP was unable to identify the full amount of CCI included in the sub-capitation amount in Schedules 1 and 7. . Alternatively, Mercer requested BSCPHP review the largest roster from the fifteen sampled sub-capitation payments, and they identified 0.01% of total capitation expense as applicable to CCI. This percentage was applied to the CY2017 payment support file to determine the overall variance.	Variance: RDT overstated by 0.04% or $7,696.
	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.	No variances noted.
	We observed proof of payments for a sample of sub-capitated provider payments.	No variances noted.
Provider Incentive Arrangements	We reviewed incentive arrangements and observed sample calculations for contractual compliance and reasonableness.	Confirmed with BSCPHP that no incentive arrangements are in place, therefore test is not applicable.

Category	Description	Results
Reinsurance	We reviewed the reinsurance requested supporting schedule and compared the amount on the RDT, Schedule 6a. BSCPHP reported only reinsurance premiums on line 37 of the RDT and reported the recoveries on line 39, TPL. Instructions state to report both premiums and recoveries on line 37. BSCPHP also included CCI in line 37 of Schedule 6a, therefore Mercer compared the calculated premiums based on contract and non-CCI member months, net of the reinsurance recovery support provided to the sum of lines 37 and 39 of Schedule 6a.	Variance: RDT Schedule 6a (Line 37 and Line 39 combined) is overstated by 75.85% or $96,572. In addition, Schedule 1 reported net reinsurance based on an allocation methodology which is less than the amounts reported on Schedule 6a by $55,478.
	Using the reinsurance contract, we recalculated reinsurance premiums, based on 2017 non-CCI membership as of April 2019, to compare to reported reinsurance premiums amount on Schedule 6a.	Variance: Reported reinsurance premium in Schedule 6a is overstated by $76,997 or 13.51%.
	We recalculated recoveries for a sample of non-CCI members.	No variance noted.
Third Party Liability	We reviewed the Third Party Liability Recoveries (subrogation only) (TPL) reported amount on Schedule 6a, line 39. BSCPHP reported reinsurance recoveries on this line rather than net of reinsurance premiums on Line 37 as instructed. In addition, the recoveries were also reported on the TPL lines of Schedule 1.	Variance: TPL line is overstated by 100.00% or $423,029 on Schedule 6a and $317,965 on Schedule 1. The difference between the two amounts is the reinsurance recoveries for CCI.
Administrative Expenses	We benchmarked administrative expenses as a percentage of capitation 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. Schedule 6a administrative expense reported by BSC included expenses applicable to CCI duals.	The benchmark administrative percentage was 5.50% and BSCPHP reported 4.43%.

Category	Description	Results
	We compared detailed line items from the plan's trial balance mapped to line items in Schedule 6a for reasonableness. No variance noted from the support provided to Schedule 6a. However, Schedule 6a incorrectly includes CCI expenses. Mercer estimated the overstatement due to the inclusion of CCI to be $5,370,181 or 28.06%. In addition, during the FFS testing, it was discovered that $459,554 of interest and penalties on late claims payment was incorrectly reported as medical expense rather than correctly reporting as administrative expense. Mercer observed BSCPHP reported $0 on Schedule 6a and Schedule 6b for "Interest Expense for Late Payment of Claims."	Variance: The net amount of estimated overstatement of administrative expense is $4,910,627, or 25.66%.
Utilization Management, Quality Assurance, Care Coordination (UM/QA/CC)	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 UM/QA/CC costs as a percentage of revenue to benchmark for reasonableness. Confirmed with BSC management via interview that UM/QA/CC costs were not also included in general administrative expenses. Schedule 6a UM/QA/CC amount includes CCI. Schedule 1-U UM/QA/CC expense reported by BSC includes an amount allocated by BSC to the non-CCI population. Mercer used this amount as compared to the benchmark for non-CCI population only.	The benchmark UM/QA/CC percentage was 1.23%. BSCPHP reported 1.18% on Schedule 6a, which included CCI. Schedule 1-U UM/QA/CC was reported as 1.06%, which excluded CCI.
Pharmacy	We confirmed and observed pharmacy benefit manager (PBM) fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT. PBM fees were not reported within Schedule 6b line 47.2 "Pharmacy – PBM" as expected. BSCPHP stated they included $676,098 of PBM fees within Schedule 6b line 47.4 "Other Management Fees."	No variance noted. PBM fees should be broken out in Schedule 6b line 47.2 going forward.
Taxes	We reviewed Schedule 6a line 59 "Provision for Taxes" to determine if all taxes, including Federal, State and local income taxes were included. We observed $0 reported. BSCPHP identified the amount of tax liability that should have been reported within the 2017 RDT, and estimated the allocation applicable to the 2017 non-CCI RDT.	Variance: RDT is understated by 100.00% or $16,771,012.

Category	Description	Results
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.
	We compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.	No material variances noted.
	We inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	BSCPHP does not screen for HACs initially in the claims payment system. However, they may be found during the recovery phase of claims processing. Per BSCPHP, ”it was decided at that time by claims that this was the process that would be continued because of the skill set required to perform this level of claims review was not available within the organization”. Therefore, it is assumed that HAC costs are likely included in the RDT reported amounts unless discovered and recouped during the claims recovery process.

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Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures was overstated by $82,987,625 or 23.01% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of administrative expenditures was overstated by $4,910,627 or 25.66% of total administrative expenditures in the CY 2017 RDT.

Based on the procedures performed, the financial statement (Schedule 6a) included CCI Duals, which resulted in materially higher membership, revenue, claims, and administrative expense. This issue was not systemic to the entire RDT submission. The data included in the Data Blocks and Schedules 1 and 7 were not impacted by this issue.

Corrective measures will need to be followed in the methodology of reporting Schedule 6a.

Mercer recommends the following steps be enacted to increase the validity of BSCPHP RDT reporting:

- BSCPHP should exclude all CCI related revenue and expenses on all Schedules of the non-CCI RDT.
- BSCPHP should report reinsurance recoveries in Schedule 6a, line 37 “Reinsurance Net of Recovery” instead of reporting recoveries in line 39 “Third Party Liability Recoveries (subrogation only).”
- BSCPHP should report easily identifiable program specific (e.g. CCI vs. non-CCI) costs such as reinsurance premiums and recoveries based on actual amounts instead of allocation based on cost of healthcare across lines of businesses in all relevant schedules of the RDT.
- BSCPHP should report PBM Administrative Fees within Schedule 6b, line 47.20 “Pharmacy - PBM” instead of reporting in line 47.40 “Other Management Fees.”
- BSCPHP should allocate and report investment income consistently across all lines of business (including Medi-Cal) and report in Schedule 6a, line 5 and line 11.
- BSCPHP should allocate and report provision for taxes to the Medi-Cal line of business and report in Schedule 6a, line 59.
- BSCPHP should report interest and penalty expense paid on the late payment of claims as administrative expense and not as medical expense.
- BSCPHP should screen for HACs and either prevent payment upfront for these costs or recoup all such costs on the back end. Either way, such costs should not be included in the RDT reported expenses going forward.

BSCPHP has reviewed this report and had no comment.

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