MERCER

AUDITORS REPORT

CALENDAR YEAR 2017 CALVIVA HEALTH RATE DEVELOPMENT TEMPLATE

May 20, 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 CalViva Health (CalViva). 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 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
- Schedules 6a and 6b – Financial Reports
- Schedule 7 – Lag Payment Information

The data collected 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)

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

For CY 2017, CalViva's membership was managed primarily by global subcontractors (Health Net and Kaiser). The only exceptions to the global subcontractor management is a small amount of Federally Qualified Health Center (FQHC) services managed via fee for service (FFS) and subcontracted payment arrangements. For the purpose of this audit, the payments to the global subcontractors and both the FFS claims payments and subcontracted FQHC payments were in the scope of this audit testing. Claims payment data paid by the global subcontractors is out of the scope of this audit.

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. This data included payments to global subcontractors, FQHC subcontractor payments and FQHC FFS payments.	Variance: Schedule 6a understated by 0.07%
	We compared summarized total net cost data from amounts reported in Schedule 1 (excluding the global subcontracted expenses) to Direct Medi-Cal COS incurred claims totals for Schedule 7. As mentioned previously, the global subcontractor claims payments are not in the scope of this audit, therefore the comparison to Schedule 7 only encompassed the FQHC FFS and subcontractor expenses.	Variance: Schedule 7 understated by 28.15%. CalViva did not include the subcontractor FQHC payments in Schedule 7, representing 97.14% of the total variance, or $814,599. This amount represents 0.08% of total medical expenses reported on Schedule 1 when including global subcontractor expenses.
Global Subcontracted Payments	We reviewed the contractual arrangement with CalViva's global subcontractors and tested the overall payments made to the global subcontractors by comparing results against amounts reported in Schedule 1A.	Variance: RDT understated by 1.47%.

Category	Description	Results
	We selected the three highest months of payment and one randomly selected additional month of payment for each contractor to obtain membership rosters for each month selected, and verify payment.	Variance: Capitation amounts reported overstated by 0.23% compared to confirmed payments.
	Twenty 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 CalViva to see if claims were paid by both CalViva and the global subcontractor.	No FFS claims paid. All sampled members eligible
	We reviewed members included on the member roster to ensure there were no Coordinated Care Initiative members or payments provided in the step above.	None identified.
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.	Variance: RDT understated by 0.03% in total.
Capitation Revenue	We discussed how capitation was recorded. CalViva 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.	RDT overstated by 0.40% for revenue 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. We compared that schedule to interest and investment income as reported in the RDT. We reviewed allocation methodologies and recalculated for reasonableness.	No variance observed.
Fee For Service Medical Expense	Using data files (paid claims files) provided by CalViva, we sampled and tested transactions for the only major COS, Physician, for which CalViva has data. The Physician COS includes FQHC services, which are the bulk of CalViva's FFS data. We traced sample transactions through CalViva's claims processing system, the payment remittance advice, and the financial institution support.	No variance observed.

Category	Description	Results
	We reviewed a sample of claims from the Physician 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.
	We compared detailed lag tables for the Physician COS created from the data files provided by CalViva 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 0.47%.
	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 for the Physician COS. Allowable absolute value variances were deemed to be not greater than 2% for inpatient claims and 1% for all other COS.	Variance: RDT understated by 0.39%.
	We reviewed subcontract agreements and recalculated payment amounts for reasonableness. We observed proof of payments for a sample of sub-capitated provider payments.	Variance: Reported subcontractor payments are understated by -0.63% compared to recalculated payment amounts
Sub-capitated Medical Expense	We compared reported sub-capitation payments to amounts reported in Schedule 7.	Variance: RDT understated by 100%. As noted earlier, CalViva did not report sub-capitated payments to FQHCs on Schedule 7. However, the unreported amount is immaterial (0.08%) to overall medical expenses when including payments to global subcontractors.
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.	The benchmark administrative percentage was 5.50% and CalViva reported 4.90%. Of the reported administrative expenses, 89.23% were under the Administrative Services Agreement with the global subcontractor, Health Net.

Category	Description	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.	No variance observed
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 total medical and administrative expenses, to audited financial statements for consistency.	Variance: Medical expense overstated by 5.43% as compared to the audited financial statements; Administrative expense overstated by 0.23%. However, audited financials are for years ended June 30, 2017 and 2016. An Adult Expansion capitation recoupment adjustment for dates of service July 2015 - December 2016 was processed by DHCS in June 2017. This recoupment was a result of Adult Expansion interim rates paid to CalViva that were higher than the final rates approved by CMS. This rate reduction caused a corresponding reduction in the medical expense as reported in the audited financials, as a portion of the capitation revenue received by CalViva flows through as global capitation payments included in medical expense. This adjustment was appropriately not reported in the CY2017 RDT as it did not relate to CY2017 dates of service, therefore creating a majority of the overstatement.

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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 ($15,123,084) or 1.09% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of gross administrative expenditures showed no variance to 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.

CalViva has reviewed this report and had no comments.

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