MERCER

AUDITORS REPORT

CALENDAR YEAR 2017 GOLD COAST HEALTH PLAN RATE DEVELOPMENT TEMPLATE

September 17, 2020

Contents

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 Gold Coast Health Plan (GCHP). 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
- 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)

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 GCHP for the CY 2017. GCHP'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.	Schedule 1 is understated by 0.02%, or $115,921, when compared to Schedule 6a. Schedule 1 is overstated 0.001%, or $5,089, when compared to Schedule 7.
Global Subcontracted Payments	We requested overall global capitation supporting detail. We compared the support provided to the amounts reported in Schedule 1-A. The total of the detail provided was more than the amounts reported in the RDT.	Variance: Reported capitation amounts are understated by 1.87%, or $209,748.
	We selected the three highest months of payment and five randomly selected additional months of payment to obtain membership rosters for each month selected. 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 GCHP to see if both GCHP and the global subcontractor paid claims.	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 0.23% in total.

Category	Description	Results
Capitation Revenue	We discussed how capitation was recorded. GCHP 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 11.67%, or $107,625,884 based on estimated revenue calculation using the known capitation rates in place during 2017. GCHP was not able to substantiate the variance due to staff turnover.
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.	No variance observed.
Fee For Service Medical Expense	Using data files (paid claims files) provided by GCHP, 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 GCHP's claims processing system, the payment remittance advice, and the bank statements.	No variance observed.
	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 GCHP 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 1.82% of total FFS claims payments reported on Schedule 7, or $10,474,214 which is 1.57% 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 2% for inpatient claims and 1% for all other COS.	Variance: RDT over/(understated): Inpatient (0.81%); Outpatient 33.02%; LTC (1.90%); Physician (2.77%); Pharmacy 0.23%; All Other (70.15%); In Total 1.44%, or $8,364,597.
	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.

Category	Description	Results
Sub-capitated Medical Expense	We requested overall sub-capitation supporting detail. We compared the support provided to the amounts reported in Schedule 7. The total of the detail provided was less than the amounts reported in the RDT.	Variance: RDT overstated by 4.17%, or $2,012,057.
	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 a sample of the contractual arrangements with GCHP's sub-capitated providers and recalculated the total payment amounts by sub-capitated provider using roster information provided by GCHP.	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.	No variance noted.
Reinsurance	We reviewed the reinsurance contract and compared the amount on the RDT to the requested supporting schedule.	No variance noted.
	We recalculated reinsurance premiums, based on 2017 membership as of April 2019, to compare to reported amounts.	Variance: Reported reinsurance premium is understated by 0.41%, or $11,209.
	We recalculated recoveries for a sample of members.	No Variance noted.
Administrative Expenses	We benchmarked administrative expenses as a percentage of capitation across all COHS 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 4.38% and GCHP reported 7.47%. The primary cause of the higher expense is due to the Outside Services line item. GCHP is the fourth largest COHS plan of six, based on member months. Therefore, we would not expect to see GCHP administrative percentage this much larger than the benchmark percentage.

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.	Variance: Administrative expense is understated by 2.76%, or $1,403,614, when compared to the trial balance and including the PBM fees erroneously included in UM/QA/CC as noted below.
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. We confirmed with GCHP management via interview that UM/QA/CC costs were not also included in general administrative expenses.	The benchmark UM/QA/CC percentage was 1.23% and GCHP reported 1.77%. GCHP inappropriately recorded $493,922 of Pharmacy Benefit Manager (PBM) fees in the UM/QA/CC line item, thus overstating UM/QA/CC by 4.09%. All of the PBM fees should have been recorded in the "Pharmacy – PBM" line item.
Pharmacy	We confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	Variance: GCHP correctly reported a portion of their PBM fees ($1,913,950) in administrative expenses and incorrectly reported a portion in UM/QA/CC ($493,922). The amount reported as administrative was reported in the "All Other Outside Services" line item rather than the appropriate "Pharmacy – PBM" line item.
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.

Category	Description	Results
	We inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	GCHP was not able to substantiate whether or not HACs are included in the CY2017 RDT due to staff turnover. It should be noted that the costs of HACs should not be included in future RDT reporting.

3
Summary of Findings

Based on the procedures performed, the total amount of gross medical expenditures in the RDT were understated by $6,079,575 or 0.93% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, administrative expenditures in the RDT were understated by $1,403,614 or 2.76% of total administrative expenditures in the CY 2017 RDT. In addition, GCHP administrative expenses as a percentage of capitation revenue are considerably higher than other COHS plans. GCHP ranks fourth out of six COHS plans based on member months and their administrative expense percentage is 7.47% vs. the COHS plan benchmark of 4.38%.

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

Based on the defined variance threshold, the results of the audit for administrative expenditures are determined to be significant enough to warrant that GCHP should review the instructions for reporting administrative expenses and apply procedures to accurately report administrative expenses on the appropriate line items in the relevant RDT schedules for future reporting.

GCHP reviewed this report and had no comments.

Mercer (US) Inc.
2325 East Camelback Road, Suite 600
Phoenix, AZ 85016
www.mercer-government.mercer.com