



AUDITORS REPORT

CALENDAR YEAR 2017

HEALTH NET of

CALIFORNIA DENTAL

MANAGED CARE RATE

DEVELOPMENT

TEMPLATE

December 24, 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 Dental Managed Care Rate Development Template (RDT) for calendar year (CY) 2017 by Health Net of California (HNC). 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 fiscal year 2019 – 2020 rating period. The RDT tested was the latest version received during the rate setting process prior to finalizing capitation rates. If subsequent versions were received after the rate setting process, it may be noted in Table 1 below.

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

- Schedules 1.1 – 1.3 Utilization and Unit Cost Reports
- Schedule 2 – Financial Report
- Schedule 2a – Financial Report – Administrative Expense Detail
- Schedule 3 – 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 Dental Managed Care RDT from HNC for the CY 2017. HNC'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 Schedules 1.1 – 1.3 to category of service (COS) totals from Schedule 2 and to total incurred claims by COS for Schedule 3 for consistency.	<p>Variance: Schedules 1.1-1.3 in total were less than Schedule 2 and Schedule 3 by \$21,264, or 0.07%.</p> <p>However, by COS, Schedules 1.1-1.3 were overstated/(understated) as follows when compared to Schedules 2 and 3: FFS (\$5,411,169) or (73.62%); Capitated \$5,390,019 or 27.17%.</p>
Member Months	We compared MCO reported member months from Schedule 2 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.	<p>Variance: RDT understated by 117,706 or 3.02% in total. By category of aid, variances were overstated/(understated) as follows: ACA Expansion 25.15%; Non-ACA Child (1.17%) Non-ACA Adult (95.34%)</p> <p>Per HNC, the variances between COA is due to how their system stored COA codes. The system was subsequently corrected to report expansion/non-expansion correctly.</p> <p>HNC confirmed the RDT submission was understated.</p>

Category	Description	Results
Capitation Revenue	We discussed how capitation was recorded. We compared the capitation revenue as reported on Schedule 2 to capitation paid to HNC as reported by DHCS.	RDT overstated by 2.93% or \$1,288,333.
Fee For Service Medical Expense	Using data files (paid claims files) provided by HNC, we sampled and tested transactions for all services and traced sample transactions through HNC's claims processing system, the payment remittance advice, and the bank statements.	No variance noted.
	We compared the detailed lag table for all services created from the data files provided by HNC and compared the information reported in Schedule 3. We compared the paid claims amounts from Schedule 3, line 31 to total paid claims prior to the additional runout detail included in the data file, expecting no changes.	Variance: RDT overstated by 0.06% of total FFS claims payments reported on Schedule 3, or \$8,903.
	We compared total final incurred amounts including incurred but not reported (IBNR) estimates from Schedule 3 to total paid amounts from all months reported in the data file to verify the accuracy/reasonableness of IBNR for all services.	No material variance noted.
	We reviewed a sample of claims from the detail provided by HNC 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 Dental Expense	We requested overall sub-capitation supporting detail. We compared the support provided to the amounts reported in Schedule 3.	Variance: RDT understated by 0.13% or \$18,622.
	We sampled membership from 15 rosters across two 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.	Eligibility: 1 of 1215, or 0.08% of members showed not eligible for the months of service in the sample selection. FFS claims: None identified.

Category	Description	Results
	<p>We reviewed a sample of the contractual arrangements with HNC’s sub-capitated providers and recalculated the total payment amounts by sub-capitated provider using roster information provided by HNC. The contracts provided did not include PMPM rates, with the exception of Western Dental Services, Inc. and Crystal Dental. However, the Western Dental Services, Inc. and Crystal Dental arrangements made up 92.8% percent of our entire sample and 12.9% percent of all subcontracted dollars.</p> <p>The recalculated amounts were less than the sub-capitation amount reported in the supporting detail provided.</p>	<p>Variance: The recalculated amounts were less than the sub-capitation supporting detail by 1.33% or \$31,049.</p> <p>This amount reduces the understatement above, resulting with an overall overstatement of 0.09% or \$12,427.</p> <p>HNC should maintain contracts with their full payment terms, including PMPM rates for their sub-capitated providers.</p>
	<p>We observed proof of payments for the sampled sub-capitated providers in the previous step.</p>	<p>Variance: Payment support is greater than the reported payment amount by 0.10% or \$2,101.</p>
Administrative Expenses	<p>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.</p>	<p>HNC reported \$2.64 PMPM, or 23.39% of revenue and the average of all Medi-Cal Dental Managed Care Plans is \$2.01 PMPM and 17.43%. Thus, HNC administrative expenses are higher than expected.</p>
	<p>We compared detailed line items from the plan’s trial balance mapped to line items in Schedule 2a for reasonableness. We reviewed allocation methodologies and recalculated for reasonableness.</p>	<p>No variance.</p>
Other Information	<p>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.</p>	<p>No issues noted.</p>
	<p>We compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.</p> <p>Audited financial statements were not by line of business and included Health Net as a whole, therefore no ability to segregate Medi-Cal Dental only. However, internal financial statements were provided and reasonably compared to the reported RDT amounts.</p>	<p>No material variances noted.</p>

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Summary of Findings

Based on the procedures performed, the total amount of dental service expenditures were overstated by \$33,829 or 0.11% of total dental expenditures in the CY 2017 RDT.

Based on the procedures performed, the amount of administrative expenditures in the CY 2017 RDT showed no variance. It should be noted, however, that their reported administrative expense on a PMPM and percentage basis are the highest of all of the Medi-Cal dental managed care plans. Given the size of HNC membership, we would not expect these results.

Based on the defined variance threshold, the results of the audit are determined to be immaterial and do not warrant corrective action. However, it should be noted that HNC reported a material variance in member months that was not explained. Mercer recommends HNC review their member month reporting process to ensure accurate reporting in the future.

HNC has reviewed this report and had no comment.

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