



AUDITORS REPORT

CALENDAR YEAR 2017 LIBERTY DENTAL PLAN RATE DEVELOPMENT TEMPLATE

January 4, 2021

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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 Liberty Dental Plan (Liberty). 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 Liberty for the CY 2017. Liberty’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: Comparison of Schedules 1.1-1.3 to Schedule 2 showed no variances in total or by COS. Schedules 1.1-1.3 in total were less than Schedule 3 by \$17,915, or 0.08%.</p> <p>However, by COS, Schedules 1.1-1.3 were overstated/(understated) as follows when compared to Schedule 3: FFS (\$9,619,044) or (187.55%); Capitated \$9,601,160 or 63.30%.</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 91,007 member months (MM) or 3.42% in total. By category of aid, variances were overstated/(understated) as follows: ACA Expansion 28.72%; Non-ACA Child (1.63%); Non-ACA Adult (113.74%). Per Liberty, ACA vs. Non-ACA was not a required field historically, thus their system was not set up to segregate. Systems have since been</p>

Category	Description	Results
		<p>adapted to appropriately categorize members into the correct category of aid grouping.</p> <p>Liberty confirmed the RDT submission was understated by 56,229 MM, but was unable to account for the remaining variance of 34,778 MM. This results in a remaining understatement of 1.31%</p>
Capitation Revenue	<p>We discussed how capitation was recorded. We compared the capitation revenue as reported on Schedule 2 to capitation paid to Liberty as reported by DHCS.</p>	<p>RDT overstated by 11.62%, or \$3,839,942. Per Liberty, a corrected RDT was submitted which resulted in an overstatement of 1.06%, or \$314,091. However, the corrected RDT was received subsequent to the rate setting process.</p>
Fee For Service Medical Expense	<p>Using data files (paid claims files) provided by Liberty, we sampled and tested transactions for all services and traced sample transactions through Liberty's claims processing system, the payment remittance advice, and the bank statements.</p>	<p>No variance noted.</p>
	<p>We compared the detailed lag table for all services created from the data files provided by Liberty 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.</p>	<p>Variance: RDT overstated by 0.01% of total FFS claims payments reported on Schedule 3, or \$1,156.</p>
	<p>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.</p>	<p>Variance: RDT understated by 0.01% of total FFS claims payments reported on Schedule 3, or \$1,592.</p>
	<p>We reviewed a sample of claims from the detail provided to verify control totals, verify eligibility, confirm the COS grouping was correct, and confirm the year reported was correct.</p>	<p>Control totals: No variance noted.</p>

Category	Description	Results
		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.	No variance noted.
	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: No variance. FFS claims: No claims identified.
	We reviewed a sample of the contractual arrangements with Liberty's sub-capitated providers and recalculated the total payment amounts by sub-capitated provider using roster information provided by Liberty. The recalculated amounts were greater than the sub-capitation amount reported in the supporting detail provided.	No material variance noted.
	We observed proof of payments for the sampled sub-capitated providers in the previous step.	No material variance noted.
Administrative Expenses	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.	Liberty reported \$1.96 PMPM, or 15.80% of revenue and the average of all Medi-Cal Dental Managed Care Plans is \$2.01 PMPM and 17.43%. The results are within an acceptable range.
	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.	Variance: RDT understated by 3.21%, or \$167,818. Liberty reports administrative expenses utilizing a PMPM calculation. The member month understatement, noted above, directly affected this variance.
Other Information	We reviewed the audited financial statements for the plan for the CY 2017 for a clean audit	No issues noted.

Category	Description	Results
	opinion or identification of significant deficiencies or material weaknesses.	
	<p>We compared reported expenses, including IBNR and administrative expenses, to audited financial statements for consistency.</p> <p>Audited financial statements were not reported on a calendar year, therefore no ability to segregate Medi-Cal. However, internal financial statements were provided and reasonably compared to the dental expense amounts reported in Schedule 2. However, administrative expenses were not reported on the internal financial statements.</p>	No material variances noted for dental service expenses.

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Summary of Findings

Based on the procedures performed, the total amount of dental service expenditures was overstated by \$16,247 or 0.07% of total dental expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of administrative expenditures in the CY 2017 RDT was understated by \$167,818 or 3.21% of total administrative expenditures.

Based on the defined variance threshold, the results of the audit are determined to warrant the following recommendations for future RDT reporting by Liberty:

- Liberty should align the COS mapping methodologies utilized in the creation of Schedules 1.1-1.3 and Schedule 2 with those utilized in the remainder of the RDT Schedules in order to provide more accurate information across all RDT schedules.

Liberty has reviewed this report and had the following comments:

- Schedules 1.1-1.3 pull numbers automatically from Data Block 1. Liberty included dollars paid to providers on capitation agreement in “capitation” category on Data Block 1. Capitation agreements provide for traditional capitation per assigned member per month and for additional payments for certain procedure codes. These additional payments called “supplementals” (supplemental to capitation) are what makes up a difference noted under findings. On schedule 3, these dollars are included with FFS because they are supplementals paid on certain procedures and it made sense to show them in a lag. We will change this in the future reporting as instructed.
- Initial revenue submission was based on the APL 15-004 that requires cash based revenue reporting of revenue. We apply this rule to our quarterly DHCS reports and were initially under understanding that the same rule would apply to the RDT report. We subsequently received clarification that revenue needs to be reported on the incurred basis, based on membership and premium rate per member per month. The corrected RDT is underestimating revenue due to the fact that the membership we used to calculate incurred revenue was understated by 91,007 as explained under Member Months section.

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