MERCER

AUDITORS REPORT

Calendar Year 2017 UnitedHealthcare Community Plan of California Rate Development Template

April 23, 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 UnitedHealthcare Community Plan of California (UHC). 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 UHC for the CY 2017. UHC's management is responsible for the content of the RDT and responded timely to all requests for information.

For CY 2017, UHC did not begin operations until October 2017, so data reported includes start-up costs as well as limited volume. UHC operated in two regions: San Diego County and Sacramento County. Testing for both counties was done simultaneously, or in combination as procedures required.

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.	No variance observed.
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 group.	Variance: RDT overstated by 2.56% in total. The variance in excess of 2% was attributed to the combination of retroactivity and the low volume available as a denominator with only three months of data.
Capitation Revenue	We discussed how capitation was recorded. UHC records capitation revenue on an accrual basis. We tested for reasonableness by using eligibility from the 834 data multiplied by rates established on the most current rate sheet received from DHCS.	RDT understated by 1.48% for revenue based on estimated revenue calculation using the known capitation rates in place during 2017.
Interest and Investment Income	We analyzed the interest and investment income schedule and the amount allocated to the Medi-Cal line of business as a whole, as reported in both RDTs. UHC provided information regarding how the income provided in Lines 5 and 11 of Schedule 6a was allocated to the Medi-Cal line of business.	No variance observed.

Category	Description	Results
Fee For Service Medical Expense	Using data files (paid claims files) provided by UHC, we sampled and tested transactions for each major COS (Inpatient, Outpatient, Physician, Pharmacy, Facility-Long Term Care (LTC), and All Others) and traced sample transactions through UHC claims processing system, the payment remittance advice, and the bank statements.	Variance: RDT overstated in total by 0.12%.
	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 UHC 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 overstated in total by 9.64%. The variance was attributed to the challenge of arriving at IBNR amounts with limited historical data combined with the low volume available as a denominator due to only three months of data.
	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 categories of service. UHC set IBNR using estimates based on medical loss ratio percentages built into their capitation rate because of the lack of historical data.	Variance: RDT over/(understated): Inpatient 11.88%; Outpatient (87.85%); LTC 19.73%; Physician (4.43%); Pharmacy (10.55%); All Other 79.64%; In Total 7.40%. The variance was attributed to the low volume available as a denominator with only three months of experience, coupled with the challenge of estimating IBNR on new enrollment.
	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 provider sub-capitation payments to amounts reported in Schedule 7. UHC reported only transportation sub-capitated expenses. Detail for transportation capitation was unable to be provided by UHC. However, the Chief Financial Officer did confirm the total amount reported. No further work performed due to overall immateriality of reported amount.	No variance observed

Category	Description	Results
Provider Incentive Arrangements.	UHC reported no provider incentive arrangements in 2017. Mercer compared against amount reported in Schedule 6a.	Confirmed
Reinsurance	UHC reported no reinsurance contracts in 2017. Mercer compared against amount reported in Schedule 6a.	Confirmed
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. 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.	The benchmark administrative percentage was 5.50% and UHC reported 1526.80%. Variance: RDT overstated by 30.05% compared to trial balance. The high administrative expense percentage is due to the inclusion of start-up costs and the low volume of membership for only three months of experience.
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 benchmarks for reasonableness. Confirmed with UHC management via interview that UM/QA/CC costs were not also included in general administrative expenses.	No variance noted.
Pharmacy	We confirmed and observed pharmacy benefit manager fees were recorded as administrative expenses and not included in pharmacy claims expenses in the RDT.	No variance noted.
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.	Variance: Medical costs are overstated by 23.58%, administrative expenses are overstated by 30.00%, and revenue is overstated by 5.61% compared to the audited financial statements

Category	Description	Results
	We inquired how hospital-acquired conditions (HACs) were treated in the RDT and policies for payment.	UHC has a policy applicable to HACs. However, none were noted for the 3-month period in 2017.

3
Summary of Findings

UHC opened to membership in October 2017. With three months of performance, the results of this audit show variances at higher levels than what has been determined to be significant. At this time, due to limited history and data, the significant variances have been considered by Mercer and deemed normal for a new plan with only three months of data. Importantly, Mercer did not directly utilize the UHC RDT as base data for rate development due to the limited time-period and small enrollment size. Instead, Mercer utilized County Average data derived from other Medi-Cal managed care plans operating in the same counties, and UHC RDT data was reviewed to inform slight adjustments.

Based on the procedures performed, the total amount of gross medical expenditures were overstated by $119,265 or 5.75% of total medical expenditures in the CY 2017 RDT.

Based on the procedures performed, the total amount of gross administrative expenditures were overstated by $3,785,228, or 30.05% of total administrative expenditures in the CY 2017 RDT.

Based on the defined variance threshold, many of the results of the audit are determined to be material. However, based on only three months of reported experience in CY 2017, corrective action is not warranted at this time.

UHC has reviewed this report and had no comments.

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