
19. FINANCE AND REIMBURSEMENT

A. IPA Financial Viability

APPLIES TO:

- A. This policy applies to all IPAs participating in the IEHP DualChoice (HMO D-SNP) line of business.

POLICY:

- A. IEHP complies with all regulatory requirements to protect its Members and Providers from the consequences of financial failure of an IEHP-contracted IPA.
- B. IEHP monitors the financial viability of all contracted IPAs and has established funding financial standards and reporting requirements to ensure all contracted IPAs are financially sound and can handle the risks associated with capitation.
- C. IEHP requires all contracted IPAs to meet IEHP's and California Department of Managed Health Care's (DMHC) financial viability standards/requirements for Risk Bearing Organizations (RBOs) prior to Member assignment to the IPA's Primary Care Providers (PCPs) and on an ongoing basis.¹
- D. IEHP performs financial audits on IPAs annually or as necessary.
- E. Financial audits are focused on determining the IPA's financial viability and the ability to manage risks associated with capitation and not presenting undue risk to IEHP or its providers or members.
- F. Audits may include on-site review and evaluation of written policies and procedures, financial statements, contracts, management involvement and oversight, and interviews with key personnel.
- G. Audited IPAs are required to cure any deficiencies to bring them into contractual and regulatory compliance.

C.

PROCEDURES:

- A. Prior to entering into a contractual agreement with IEHP and annually thereafter, IPAs must submit their most current audited financial statements, and their most recent monthly and year-to-date financial statements comprising Balance Sheets, Income Statements, Cash Flow Statements and supporting worksheets for incurred, but not reported (IBNR) or IBNR certification by an independent, certified actuary mutually acceptable to IEHP. Additionally, the IPA must submit their required periodic financial and organizational information disclosures as an RBO within five (5) business days after the due date.² The financial statements must demonstrate that the IPA is financially viable and is able to meet IEHP's and

¹ Title 28 California Code of Regulations (CCR) §1300.75.4.2

² Ibid.

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DMHC's financial viability standards/requirements as referenced above. IEHP does not contract with IPAs that do not meet these standards.

A.B. Monthly, all contracted IPAs are required to submit the IEHP Financial Template by the 15th of each month for the previous month's activity. The template comprises information from the IPA's Balance Sheet, Income Statement and Cash Flows and is not meant to replace the IPA's submission of their financial statements. IEHP reserves the right to make changes to the IEHP Financial Template as it deems necessary.

B.C. ~~On an ongoing basis~~In addition to the IEHP Financial Template, all contracted IPAs are required to submit to IEHP a copy of their financial statements comprising Balance Sheets, Income Statements, Cash Flow Statements and supporting worksheets for IBNR ~~on a quarterly basis within 45 days of the end of each calendar quarter~~by the 15th of each month for the previous month's activity. Additionally, the IPA must submit their required periodic financial and organizational informational disclosures as stated in section 1300.75.4.2 of Title 28 California Code of Regulations as an RBO within five (5) business days after the due date.^{3,4} When requested, IPAs shall also provide written explanation within two (2) weeks substantiating any of the following (but not limited to):

1. Cash & Cash Equivalents including Restricted Assets.
2. All Receivables – Current and Long Term.
3. All Liabilities – Current and Long Term, including IBNR.
4. Any Due To/From Shareholders/Partnership.
5. Any Intercompany or Related Transaction.
6. Revenues.
7. Medical Expenditures.
8. General and Administrative Expenditures.

C.D. On an annual basis, all contracted IPAs are required to submit annual audited financial statements, including IBNR certification to IEHP for compliance review no later than 150 days after the end of the IPA's fiscal year. Additionally, the IPA must submit their required periodic financial and organizational informational disclosures as an RBO within five (5) business days after the due date.^{5,4}

D.E. Financial statements information submitted by the IPAs must clearly display the financial condition of the entity that holds the contract with IEHP. Submission of related party, affiliate, consolidated or parent company financials are not acceptable. Consolidating financial statements are only acceptable if the financial condition of the IEHP contracted entity is

³ Ibid.

⁴ 28 CCR §1300.75.4.2

⁵ 28 CCR §1300.75.4.2

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clearly documented and identified. Consolidating financial statements must clearly identify any inter-company transactions between related parties, affiliates, or parent company.

E.F. IEHP will review the financial ~~statements~~-information submitted by the IPAs to ensure the following IEHP financial viability standards/requirements are always met:

1. Maintained a positive Tangible Net Equity (TNE).⁶
2. Maintained a positive working capital calculated in a manner consistent with Generally Accepted Accounting Principles (GAAP).
3. The Current Ratio (the ratio of current assets to current liabilities) always exceeds 100%.
4. Quick ratio is always greater than 1.0.
5. Debt Coverage Multiple is always greater than 1.2.
6. Cash to Claims Ratio is always 0.75 or greater.
7. Medical Loss Ratio (MLR) is always between 0.85 or greater than 0.95 to ensure adequate spend on care and maintain solvency.
8. IEHP must be notified if claims payable days outstanding is more than four (4) months.
9. IEHP must be notified if accounts receivable days outstanding is more than 60 days.
10. Total Assets, (Net of Intangibles and/or Due from Officers, Directors, and Affiliates) as reported on the financial statements, shall fully fund Incurred But Not Reported (IBNR) claims.
11. IBNR calculation worksheets that support the amounts represented on the financial statements accompany all submissions. IPAs must also provide the following:
 - a. The methodology used to calculate IBNR
 - b. The data and work papers to substantiate IBNR
 - c. Independent review and certification, if necessary, by:
 - 1) IEHP
 - 2) IPA's Actuary

E.G. If the IPA's MLR is less than 0.85 or greater than 0.95, as set forth in section E.7 of this policy, then the IPA must submit the following:

1. Monthly claim lag tables.
2. Monthly financial statements with detailed explanations of the nature of the deficiency, the reasons for the deficiency, and any actions taken to correct the deficiency within 15 days of month-end close; and

⁶ 28 CCR §1300.76

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A. IPA Financial Viability

3. If deemed necessary, increase the Letter of Credit (LOC) on file by the deficiency amount of the TNE.

G.H. IEHP reserves the right to request additional detailed work papers supporting account balances represented on the IPA's or Management Service Organization's (MSO) financial statements.

H.I. IEHP reserves the right to ask for more frequent financial reports and information upon written notice to the IPA and making appropriate inquiries of the IPA's key financial personnel during any review.

J. IEHP reserves the right to approve or deny use of a particular MSO by the IPA.

K. IEHP notifies contracted IPAs in writing at least six (6) weeks in advance of the scheduled annual audit. The notice is explicit in the timeframe being audited, the request for reports, documents, access to key personnel, and if appropriate, dates and requirements for on-site visits. For focused audits, IEHP reserves the right to give a minimum of three (3) working days prior notice.

L. IEHP reserves the right to perform audits more frequently than once annually if circumstances arise that in the judgment of IEHP management requires closer scrutiny including but not limited to the following circumstances:

1. Failure of any financial viability standards/requirements.
2. Failure to submit accurate and completed reports to IEHP within specified timeframes.
3. Material misstatements identified in the IPA's financials.
4. Notice of non-compliance from regulatory agencies.

I.—

M. ~~All~~ Within 30 days of the last day of the audit IEHP sends an audit report to the IPAs documenting the findings, and if necessary, recommended corrective actions. IPAs with recommended corrective actions will be required to complete a Corrective Action Plan (CAP). See Policy 19B, "Financial Supervision." ~~contracted IPAs shall also have the ability to secure an Irrevocable Standby LOC. See "Attachment/Irrevocable Letter of Credit" found on the IEHP website⁷, with IEHP as the beneficiary, prior to receiving Member enrollment, and quarterly thereafter.⁸ This requirement will be waived for IPAs having a Limited Knox-Keene license.~~

J.N. All contracted IPAs shall also have the ability to secure an Irrevocable Standby LOC (See Attachment, "Irrevocable Letter of Credit" found on the IEHP website in Section 19⁹), with IEHP as the beneficiary, prior to receiving Member enrollment, and quarterly thereafter.¹⁰ This requirement will be waived for IPAs having a Limited Knox-Keene license.

⁷ <https://www.iehp.org/en/providers/provider-resources?target=forms>

⁸ International Standby Practices 1998, ICC Publication No. 590

⁹ <https://www.providerservices.iehp.org/en/resources/provider-resources/forms>

¹⁰ International Standby Practices 1998, ICC Publication No. 590

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~~K.~~—The LOC secured amounts generally are linked to the IPA’s combined ownership of IEHP enrollment as follows:

O.

IPA’s enrollment	Deposit Requirement
Up to - 10,000	\$100,000.00
10,001 - 20,000	\$200,000.00
20,001 -30,000	\$300,000.00
30,001 - 40,000	\$400,000.00
40,001 - 50,000	\$500,000.00
50,001 – 60,000	\$600,000.00
60,001 – 70,000	\$700,000.00
70,001 – 80,000	\$800,000.00
80,001 – 90,000	\$900,000.00
90,001 plus	\$1,000,000.00

~~L.P.~~ Enrollment levels will be reviewed at the end of the reporting quarter, and LOC deposit amounts adjusted, as applicable, within 30 days after the end of the reporting quarter.

~~M.Q.~~ In addition to securing an Irrevocable Standby LOC with IEHP as the beneficiary, IPAs are also required to establish a restricted cash reserve in the amount of 25% of the average monthly capitation revenue for the reporting quarter. This requirement will be waived for IPAs having a Limited Knox-Keene license.

~~N.R.~~ In order to satisfy the restricted cash reserve requirement, IPAs have the following options:

1. Secure an Irrevocable Standby LOC designating IEHP as the beneficiary.
2. Elect to have the monthly IPA capitation revenue adjusted by IEHP.

~~O.S.~~ IEHP reserves the right to increase the LOC amount for an IPA failing to meet TNE requirements by the amount the IPA is deficient, which may be in addition to the deposit required based on enrollment.

~~P.T.~~ IEHP reserves the right to increase the LOC amount for an IPA based on either the enrollment level or IBNR, whichever one is higher.

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A. IPA Financial Viability

Q.U. Letters of Credit backed by an agreed upon future loan from a financial institution will require the IPA to submit a complete list of all LOCs on record with other Health Plan These LOCs should also be clearly listed and described in the notes to the financial statements.

R.V. Letters of Credit backed by funds deposited within a secured location such as a financial institution must remain in place for the entire contract year and for 180 days after the contract expiration/termination.

S.W. If the IPA fails to meet any of the above referenced standards, IEHP may take the following actions:

1. Freeze the IPA to new membership.
2. Place the IPA in a contractual cure for breach of contract
3. Seize any capitation and/or monies owed and place the IPA under Financial Supervision until breach is cured.
 - a. Financial Supervision to include:
 - 1) Withholding of monthly capitation.
 - 2) Managing and releasing withheld capitation to the IPA to fund:
 - Administrative Expenses.
 - PCP Capitation Payments.
 - Claims Payments - limited specifically to months/DOS withheld capitation was intended.
 - 3) Reviewing financial statements, bank statements and/or other records to ensure payments are made.
4. Immediately terminate the IEHP/ IPA Agreement for cause.

T.X. In the event an IPA fails to perform a financial covenant of its IEHP contract, IEHP may exercise its ability to draw down on the deposit or line of credit for its full amount.

U.Y. The above procedures, including LOC Requirements, may be adjusted by other factors that provide similar financial security as determined by the IEHP Chief Executive Officer or designee of the IEHP Chief Executive Officer.

V.Z. Upon request by IPA(s), at its sole discretion, IEHP may change/waive any/or part of the IPA Financial Viability Requirements as it deems necessary either globally or specific to an IPA.

19. FINANCE AND REIMBURSEMENT

A. IPA Financial Viability

INLAND EMPIRE HEALTH PLAN		
Regulatory/ Accreditation Agencies:	<input type="checkbox"/> DHCS	<input type="checkbox"/> CMS
	<input type="checkbox"/> DMHC	<input type="checkbox"/> NCQA
Original Effective Date:	January 1, 2007	
Revision Effective Date:	January 1, 2024	

19. FINANCE AND REIMBURSEMENT

B. Medicare Capitation

1. IPA

APPLIES TO:

- A. This policy applies to all IEHP DualChoice (HMO D-SNP); Independent Physician Associations (IPAs).

POLICY:

- A. IEHP delegates the responsibility of providing medical services for its Members to its IPAs who are contracted with IEHP under a capitated arrangement. In exchange for these services IEHP makes monthly capitation payments to the IPA for their assigned Members.
- B. The amount of capitation is paid per contract on a percent of premium basis and is paid in full to the IPA for a specified list of services provided to an assigned Member. The list of services covered by capitation is described in the IEHP Capitated Agreement with the IPA.
- D. Capitation is only paid for Members with active eligibility at the end of the prior month as noted on the file received from the Centers for Medicare & Medicaid Services (CMS).
- E. It is the responsibility of the IPA to provide or arrange for services that are the financial responsibility of the IPA.

PROCEDURES:

- A. IEHP calculates capitation payments per the contract for each IPA based on the current (new) month's membership and any retroactive adjustments.
- B. Capitation payments are transferred via EFT to the IPA no later than the 16th day of each month for the month of service, and by the first of each month following the month of service. Retroactive enrollment and disenrollment activities of Members assigned to IPAs are automatically calculated and included in the monthly capitation payments.
- C. Each month IEHP creates a capitation file containing all of the detail information from the capitation reports. These files are placed on the Secure File Transfer Protocol (SFTP) server by the first of the month for the prior month's capitation, and by the 16th of the month for the mid-month capitation. (See Attachment "Capitation Data File Format" in Section 19 or refer to the IEHP Provider Electronic Data Interchange (EDI) Manual).
- ~~D.~~ To reconcile the amount paid each month, IPAs should review the electronic cap files and capitation reports provided by IEHP. (See Attachments, "Capitation Date File Format" in Section 19).

INLAND EMPIRE HEALTH PLAN		
Chief Approval: Signature on file	Original Effective Date:	January 1, 2007

19. FINANCE AND REIMBURSEMENT

- B. Medicare Capitation
1. IPA

Chief Title: Chief Operating Officer	Revision Date:	January 1, 2023
<u>INLAND EMPIRE HEALTH PLAN</u>		
<u>Regulatory/ Accreditation Agencies:</u>	<input type="checkbox"/> DHCS	<input type="checkbox"/> CMS
	<input type="checkbox"/> DMHC	<input type="checkbox"/> NCQA
<u>Original Effective Date:</u>	January 1, 2007	
<u>Revision Effective Date:</u>	January 1, 2024	

19. FINANCE AND REIMBURSEMENT

B. Medicare Capitation 2. IEHP Direct Providers

APPLIES TO:

- A. This policy applies to all IEHP DualChoice [\(HMO D-SNP\)](#) Primary Care Provider (PCPs).

POLICY:

- A. IEHP delegates the responsibility of providing medical services for its Members to its Primary Care Providers (PCPs) who are contracted with IEHP under a capitated arrangement. In exchange for these services, IEHP makes monthly capitation payments to the PCPs for their assigned Members.
- B. The amount of capitation paid is based on the Medicare Hierarchical Condition Code (HCC) score and is paid in full to the PCP for a specified list of services provided to their assigned Member. The list of services covered by capitation is described in the IEHP Capitated Agreement.
- D. Capitation is only paid for Members with active eligibility at the end of the prior month as noted on the file received from the Centers for Medicare & Medicaid Services (CMS).
- E. It is the responsibility of the PCP to provide or arrange for services that are the financial responsibility of the PCP.

PROCEDURES:

- A. IEHP calculates capitation payments for each PCP based on the current (new) month's membership and any retroactive adjustments.
- B. Capitation payments are transferred via [Electronic Funds Transfer \(EFT\)](#) to the PCP no later than the first of each month following the month of service for all assigned Members. Retroactive enrollment and disenrollment activities of Members assigned to the PCP are automatically calculated and included in the monthly capitation payments.
- C. Each month IEHP creates capitation files containing all of the detail information. These files are accessible from the secure Provider Portal by the first of the month for the prior month's capitation.
- D. To reconcile the amount paid each month, PCPs should review the capitation reports provided by IEHP.

19. FINANCE AND REIMBURSEMENT

- B. Medicare Capitation
 - 2. IEHP Direct Providers
-

<u>INLAND EMPIRE HEALTH PLAN</u>		
<u>Regulatory/ Accreditation Agencies:</u>	<input type="checkbox"/> <u>DHCS</u>	<input type="checkbox"/> <u>CMS</u>
	<input type="checkbox"/> <u>DMHC</u>	<input type="checkbox"/> <u>NCQA</u>
<u>Original Effective Date:</u>	<u>January 1, 2007</u>	
<u>Revision Effective Date:</u>	<u>January 1, 2024</u>	

19. FINANCE AND REIMBURSEMENT

- B. Medicare Capitation
 - 2. IEHP Direct Providers
-

INLAND EMPIRE HEALTH PLAN		
Chief Approval: <i>Signature on file</i>	Original Effective Date:	January 1, 2007
Chief Title: Chief Operating Officer	Revision Date:	January 1, 2023

19. FINANCE AND REIMBURSEMENT

€ — CB. - IPA Financial Supervision

APPLIES TO:

- A. This policy applies to all IPAs ~~contracted with IEHP~~ participating in the DualChoice (HMO D-SNP) line of business.

POLICY:

- A. IEHP complies with all regulatory requirements to protect its Members and Providers from the consequences of financial failure of an IEHP-contracted IPA.
- B. IEHP requires all contracted IPAs to meet IEHP's and California Department of Managed Health Care's (DMHC) financial viability standards/requirements for Risk Bearing Organizations (RBOs) prior to assignment of Members to the IPA's Primary Care Providers (PCPs) and on an ongoing basis.¹
- C. IEHP monitors the financial viability of all contracted IPAs and has established funding requirements to ensure all contracted IPAs are financially sound and can handle the risks associated with capitation.
- D. IEHP shall place IPAs under the financial supervision program in the event an IPA is in breach of its contract with IEHP due to non-compliance with IEHP's financial viability standards and/or with the above-mentioned California regulation requirements.

PROCEDURES:

- A. IPAs failing to meet IEHP's financial viability standards ~~requirements~~, shall be required to complete a Corrective Action Plan (CAP).² The CAP shall include a timeline for when the IPA shall come into compliance with the financial viability requirements. IEHP shall place the IPA under Financial Supervision until breach is cured.
- B. IPAs under Financial Supervision due to contractual breach may be subject to any or all of following actions at IEHP's discretion:
1. Freezing of new membership.
 2. Withholding of monthly capitation revenue and other monies owed to the IPA.
 3. Managing and releasing withheld capitation and other monies owed to the IPA to fund:
 - a. Administrative Expenses funded monthly as specified in the IPA/Management Services Organization (MSO) contract
 - b. PCP Capitation Payments for IEHP enrollees funded monthly for the current capitation period based on submission of a check run

¹ Title 28 California Code of Regulations (CCR) §1300.75.4.2

² Ibid.

19. FINANCE AND REIMBURSEMENT

~~c.~~ CB. - IPA Financial Supervision

- c. Fee-For-Service (FFS) claims payments for professional services rendered to IEHP enrollees funded monthly or at other intervals to coincide with IPA check runs limited specifically to months/date-of-service (DOS) withheld capitation was intended for payment.
- d. Any other legitimate business expense subject to approval by IEHP
- 4. Withdrawal of the funds available in the Standby Letter of Credit (LOC)
- 5. Immediate termination as stated in the IPA contract
- C. Any exceptions to the above including the limitation for FFS payments to fund existing claims run out (IBNR) must be approved by IEHP.
- D. Any remaining funds resulting from the implementation of the Financial Supervision may be netted against any claims expenses paid by IEHP for that IPA.
- E. IEHP shall review financial and other statements, including bank statements and/or other records to ensure payments are made and checks have been cleared.

<u>INLAND EMPIRE HEALTH PLAN</u>		
<u>Regulatory/ Accreditation Agencies:</u>	<input type="checkbox"/> DHCS	<input type="checkbox"/> CMS
	<input type="checkbox"/> DMHC	<input type="checkbox"/> NCQA
<u>Original Effective Date:</u>	<u>July 1, 2012</u>	
<u>Revision Effective Date:</u>	<u>January 1, 2024</u>	

19. FINANCE AND REIMBURSEMENT

€ — CB. - IPA Financial Supervision

INLAND EMPIRE HEALTH PLAN		
Chief Approval: <i>Signature on file</i>	Original Effective Date:	July 1, 2012
Chief Title: <i>Chief Operating Officer</i>	Revision Date:	January 1, 2023