



Policy and Procedure No: PR 15.3	Revision No: 3
Division: Care Management	
Department: Provider Relations	
Title: PHC-CA Delegation and Subcontractor Relationships	
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Supersedes Policy No: PR 15.0, PR 15.1, PR 15.2	
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Approving Committee: Member Provider Committee	Date: 12/15/2025
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Purpose:

This Policy and Procedure details PHC California’s (the Health Plan) process guidelines for contracting with subcontractors, requirements for delegation and monitoring of subcontractors.

Policy:

1. It is Health Plan’s policy to maintain procedures to ensure that all subcontractors comply with all terms and conditions of the Department of Health Care Services (DHCS) contract. The Health Plan oversees and remains responsible and accountable for any functions and responsibilities delegated and shall meet the subcontracting requirements as stated in 42 CFR 438.230(b)(1),(c)(1)(i)-(iii), (c)(2), (c)(3), Title 22 CCR Section 53867 and the DHCS Contract.
2. The Health Plan ensures that all Subcontracts shall be in writing and in accordance with the requirements of the 42 CFR 438.230(b)(2) (c)(1)(i)-(iii), Knox-Keene Health Care Services Plan Act of 1975, Health and Safety Code Section 1340; Title 28, Section 1300; Welfare and Institutions Code Section 14200; Title 22 CCR Section 53800; and other applicable federal and State laws and regulations.
3. Delegation Accountability
 - a. If the Health Plan delegates any activity or obligation to a Subcontractor, whether directly or indirectly, the Subcontractor Agreement must:
 - i. Specify any and all delegated activities, obligations, and related reporting responsibilities;
 - ii. Include the Subcontractor’s agreement to perform the delegated activities, obligations, and reporting responsibilities; and
 - iii. Provide for the revocation of the delegation of activities or obligations or specify other remedies where DHCS or the Health Plan determines the Subcontractor is not performing satisfactorily.
 - b. The Subcontractor Agreement must also state that the Subcontractor agrees to comply with all applicable Medicaid laws and regulations, including all sub-regulatory guidance and Contract provisions, as well as the applicable state and federal laws. The Health Plan must maintain and communicate to Subcontractors their policies and procedures for monitoring Subcontractors’ compliance with all requirements related to all delegated activities, obligations, and related reporting responsibilities.

4. Ownership and Control Disclosures

- a. To identify potential conflicts of interest, the Health Plan is required to collect and review their Subcontractors' ownership and control disclosures as set forth in 42 CFR 455.104. The review of ownership and control disclosures applies to all Subcontractors that contract with the Health Plan, including disclosing entities, fiscal agents, and managed care entities.
- b. The Health Plan requires and ensures Subcontractors accurately provide all required information in their disclosures.
 - i. This information includes the date of birth and social security number for each person with an ownership or control interest and for each managing employee. An officer or director of a disclosing entity that is organized as a corporation should be considered a person with control interest.
 - ii. The CMS toolkit specifies that a board member of a disclosing entity must be listed as a "managing employee" to the extent that they meet that definition in 42 CFR 455.101. The CMS toolkit also specifies that a board member of the disclosing entity must be listed as a "person with an ownership or control interest" to the extent that they meet that definition in 42 CFR 455.101.
- c. The Health Plan shall review to identify potential conflicts of interest and make Subcontractors' ownership and control disclosures available upon request, as the information is subject to audit by DHCS. The Health Plan will alert their Managed Care Operations Division (MCO) Contract Manager within ten (10) Working Days upon discovery that a Subcontractor is noncompliant with these requirements, and/or if a disclosure reveals any potential violations of the ownership and control requirements.

5. Data Reporting

- a. The Health Plan must monitor the quality and compliance of Subcontractor data that the Health Plan submits to DHCS or other entities, pursuant to reporting responsibilities under state and federal laws. The Health Plan must ensure the data reported by Subcontractors is complete, accurate, reasonable, and timely. This includes, but is not limited to, encounter data, monthly 274 Provider Network data files, data reported through quarterly templates, electronic visit verification reporting, and any other ad hoc data requests required by DHCS.
- b. The Health Plan requires Subcontractors to submit complete, accurate, and timely Network Provider encounter data to the Health Plan for all items and services furnished to Members either directly or through Downstream Subcontractors or other arrangements with Providers. The Health Plan must have in place mechanisms, including data validation and reporting systems, sufficient to ensure a Subcontractor's Network Provider encounter data is complete, accurate, reasonable, and timely prior to submission to DHCS.

6. Monitoring, Corrective Action, and Sanctions

- a. The Health Plan must regularly monitor all functional areas delegated to Subcontractors. The Health Plan must also impose corrective action and/or financial sanctions on Subcontractors upon discovery of noncompliance with the terms of their Subcontractor Agreement or any Medi-Cal requirements.

- b. The Health Plan must report any significant instances (i.e., in terms of gravity, scope and/or frequency) of noncompliance, imposition of corrective actions, or financial sanctions pertaining to their obligations under the contract with DHCS to their MCOD Contract Managers within three (3) Working Days of the discovery or imposition.

Procedure:

Initial Contract

1. When entering into a contract with a subcontract or delegate, the Health Plan's Provider Relations and Contracting department initiates outreach to clarify subcontractor interests. The Provider Relations (PR) department subsequently initiates credentialing and contracting discussion. Following confirmation of subcontractor contracting interest, the Health Plan's Provider Relations Department subsequently forwards appropriate credentialing and contracting documents for review and completion.
 - A. All Subcontractors will be evaluated by the Health Plan's Provider Relations department prior to contracting to determine whether the Subcontractor can perform the duties in a satisfactory and compliant manner. Upon execution of the contract, the Subcontractor will be monitored on an ongoing basis for Compliance.
 - B. It is the Health Plan policy to include the following requirements in all contracts with Subcontractors:
 - Specification of the services to be provided by the Subcontractor.
 - Specification of all delegated activities, obligations, and related reporting responsibilities.
 - Include the subcontractor's agreement to perform the delegated activities and reporting responsibilities.
 - Provide for the revocation of the delegation of activities or obligations or specify other remedies where DHCS or the Health Plan determines the subcontractor is not performing satisfactorily.
 - Specification that the Subcontract shall be governed by and construed in accordance with applicable Medicaid laws and regulations as well as applicable State and federal laws. The Health Plan will maintain the responsibility of ensuring that subcontractors are, and continue to be, in compliance with all applicable Medi-Cal, state and federal laws, and contractual requirements.
 - Specification of the term of the Subcontract, including the beginning and ending dates as well as methods of extension, renegotiation and termination.
 - Subcontractor's agreement to submit reports as required by the Health Plan.
 - Specification that the Subcontractor shall comply with all monitoring provisions of the DHCS Contract and any monitoring requests by DHCS.



- Subcontractor's agreement to make all of its premises, facilities, equipment, books, and records, contracts, computer and other electronic systems pertaining to the goods and services furnished under the terms of the Subcontract, available for the purpose of an audit, inspection, evaluation, examination or copying, including but not limited to access requirements and state's right to monitor.
- Full disclosure of the method and amount of compensation or other consideration to be received by the Subcontractor from the Health Plan.
- Subcontractor's agreement to notify DHCS in the event the agreement with the Health Plan is amended or terminated. Notice is considered given when properly addressed and deposited in the United States Postal Service as first-class registered mail, postage attached.
- Subcontractor's agreement that assignment or delegation of the Subcontract will be void unless prior written approval is obtained from DHCS.
- Subcontractor's agreement to hold harmless both the State and Members in the event the Plan cannot or will not pay for services performed by the Subcontractor pursuant to the Subcontract.
- Subcontractor's agreement to timely gather, preserve and provide to DHCS, any records in the Subcontractor's possession, in accordance with Exhibit E, Attachment 2, Provision 25. Records Related to Recovery for Litigation.
- Subcontractor's agreement to provide interpreter services for Members at all Provider sites.
- Subcontractor's agreement to participate and cooperate in the Health Plan's Quality Improvement System.
- Subcontractor's agreement to comply with all applicable requirements of the DHCS, DMHC and Medi-Cal Managed Care Program.

All Subcontractors will be evaluated by the Health Plan's Provider Relations Department prior to contracting to determine whether the Subcontractor can perform the duties in a satisfactory and compliant manner. Upon execution of the contract, the Subcontractor will be monitored on an ongoing basis for Compliance.

Review of Subcontractor's Ownership and Control Disclosures

The Director of Provider Relations and Contracting or their designee shall review to identify potential conflicts of interest and make Subcontractors' ownership and control disclosures available upon request, as the information is subject to audit by DHCS. The Director of Provider Relations and Contracting or their designee shall alert the Health Plan's Compliance Officer of any non-compliance with any of the above referenced requirements.

The Health Plan's Compliance Officer or their designee will alert their Managed Care Operations Division (MCO) Contract Manager within ten (10) Working Days upon discovery that a Subcontractor is noncompliant with these requirements, and/or if a disclosure reveals any potential violations of the ownership and control requirements.



Audit and Inspection of Subcontractor

The Plan ensures through subcontracts or written agreements that subcontractors allow DHCS, CMS, the Department of Health and Human Services (DHHS) Inspector General, the Comptroller General, Department of Justice, and the Department of Managed Health Care, or their designees, to audit, inspect, and evaluate information related to Medi-Cal enrollees.

Subcontractors must make available for purposes of an audit, evaluation or inspection, its premises, physical facilities, equipment, books, records, contracts, computers or other electronic systems related to Medi-Cal enrollees. The subcontract must also specify that the right to audit will exist through ten (10) years from the final date of the contract period, or from the date of completion of any audit, whichever is later.

If DHCS, CMS, or the DHHS Inspector General determine there is a reasonable possibility of fraud or similar risk, DHCS, CMS, or the DHHS Inspector General may inspect, evaluate, and audit the subcontractor at any time. Upon resolution of a full investigation of fraud, DHCS reserves the right to suspend or terminate the subcontractor from participation in the Medicaid program; seek recovery of payments made to the subcontractor; or impose other sanctions provided under the State Plan or governing APLs.

The Health Plan shall implement and maintain and contractually require subcontractors and other delegated entities to implement and maintain, policies and procedures that are designed to detect and prevent fraud, waste, and abuse.

Monitoring Subcontracted and Delegated Functions

The Director of Provider Relations or designee monitors all subcontractors and delegate contractual relationships with the Health Plan. The Health Plan is responsible for ensuring that their subcontractors and delegated entities comply with all applicable State and federal laws and regulations; contract requirements; reporting requirements; and other DHCS guidance including, but not limited to, All Plan Letters (APLs). The Health Plan's Provider Relations and Contracting Department, in collaboration with the Compliance Officer or their designee, shall disseminate these requirements to all subcontractors and delegated entities. The Health Plan will impose corrective action and financial sanctions on subcontractors upon discovery of noncompliance with the subcontract or other Medi-Cal requirements.

The Health Plan monitors subcontractor's compliance with all applicable state and federal laws and regulations, contract requirements and APLs. The Health Plan's Compliance Officer or their designee shall report any significant instances of non-compliance, imposition of corrective actions, or financial sanctions pertaining to their obligations under the contract with DHCS to their MCO contract managers within three (3) Working days of discovery or imposition.

The Health Plan shall monitor applicable subcontractor compliance with State of California Medi-Cal Rx Executive Order N-01-19 (EO-N-01-19) as a result of pharmacy carve out requirements.

All Health Plan policies and procedures relating to monitoring and oversight of subcontractors and delegated entities shall be made available to DHCS upon request.

Monitoring of Subcontractor Data Reporting

The Health Plan is responsible for the data submitted by subcontractors. The Health Plan communicates the requirements to all subcontractors and delegated entities and monitors the quality

and compliance of subcontractor data and, specifically, data that is submitted to DHCS or other entities pursuant to reporting responsibilities under state law.

The Health Plan ensures all other data reported by subcontractors is complete, accurate, reasonable, and timely. This includes, but is not limited to, encounter data, monthly 274 provider network data files, data reported through quarterly templates, and any other ad hoc data requests required by DHCS, CMS and DMHC.

The Health Plan ensures subcontractors submit complete, accurate, and timely encounter data to DHCS for all items and services furnished to Medi-Cal beneficiaries through subcontracts or other arrangements, including capitated providers. Subcontractors are required to submit claims and encounter data to the Health Plan.

The Health Plan has mechanisms, including edits and reporting systems, sufficient to ensure encounter data, including subcontractor encounter data, is complete, accurate, reasonable, and timely prior to submission to DHCS.

Monitoring of Subcontractor Care Coordination Requirements

The Health Plan is responsible for meeting the care coordination requirements contained in the contract with Health Plan beneficiaries across delegated entities. The Health Plan ensures subcontractors meet all applicable care coordination requirements for Medi-Cal beneficiaries as required in the contract with DHCS. Such care coordination activities include, but are not limited to, those designated to assure availability and access to care, clinical services, quality of service and care along with specialty services and care management services, including comprehensive basic and complex case management.

The Health Plan exchanges available information and data, including member-level data, with subcontractors to facilitate care coordination activities. Information and data sharing must be conducted in accordance with all applicable Health Insurance Portability and Accountability Act (HIPPA) requirements, and other State and federal statutes and regulations.

The Health Plan monitors subcontractor compliance with care coordination requirements and ensures that care coordination is provided in compliance with the oversight and reporting requirements set forth in their contract with DHCS and all applicable APLs.

Monitoring:

This policy is updated as often as necessary, reviewed and approved at least annually by the Member Provider Committee.

Definitions:

1. Subcontractor: an individual or entity that has a Subcontractor Agreement with the Plan that relates directly or indirectly to the performance of the MCP's obligations under its contract with DHCS. A Network Provider is not a Subcontractor solely because it enters into a Network Provider Agreement.
2. Downstream Subcontractor: an individual or entity that has a Downstream Subcontractor Agreement with a Subcontractor of the MCP or a Downstream Subcontractor that relates directly or



indirectly to the performance of the Subcontractor's obligations under its Subcontractor Agreement with the MCP.

3. Subcontractor Network: a Provider Network of a Subcontractor or Downstream Subcontractor, wherein the Subcontractor or Downstream Subcontractor is delegated risk and is responsible for arranging for the provision of and paying for Covered Services as stated in their Subcontractor or Downstream Subcontractor Agreement.
4. Subcontracted Network Certification (SNC): a process that entails MCPs reporting on their monitoring of Subcontractors' and Downstream Subcontractors' Provider Networks and submitting documentation to DHCS verifying the compliance and/or noncompliance reported.

Reference(s):

1. 42 CFR § 438.2
2. 42 CFR § 438.230(b)(1),(c)(1)(i)-(iii), (c)(2), (c)(3)
3. 42 CFR § 438.602(c)
4. 42 CFR § 438.608(a)
5. Title 22 CCR Section 53867
6. DHCS Contract Attachment 6, Section 14
7. Knox-Keene Health Care Services Plan Act of 1975
8. Health and Safety Code Section 1340
9. Title 28, Section 1300
10. Welfare and Institutions Code Section 14200
11. Title 22 CCR Section 53800
12. DHCS All Plan Letter (APL) 23-006, [Delegation and Subcontractor Network Certification \(Supersedes APL 17-004\)](#), published March 28, 2023.
13. HS 1367.03(c), (d)
14. Title 28 CCR 1300.67.2.2(a)(3), (d), (h)(6)(A)(iii)