

LEGISLATIVE
AUDIT
COMMISSION



Management Audit
Department of Public Aid's Contracts with
The Delta Dental Plan of Illinois

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MANAGEMENT AUDIT

DEPARTMENT OF PUBLIC AID'S CONTRACTS WITH THE DELTA DENTAL PLAN OF ILLINOIS

SEPTEMBER 1999

NEW RECOMMENDATIONS - 14

**Prior Recommendations Not Fully Implemented
But Relevant To The New Contract - 7**

BACKGROUND

The Department of Public Aid provides dental care through the Medical Assistance Program, the jointly funded federal-State public assistance program which implements Medicaid. Under federal Medicaid guidelines, dental services are optional and each state can determine the range of services offered as well as the fee level. The federal government does mandate the inclusion of dental services for children and adolescents through age 20, and Public Aid has made adults eligible for non-emergency dental services also.

This management audit reviews Delta Dental of Illinois' administration of the Medicaid dental program from May 1, 1996 through February 28, 1999 (FY96-98), for which they received \$89.5 million from the Department of Public Aid. Delta first acquired the contract in 1984. Effective March 1, 1999, Public Aid awarded a new three-year contract for dental services to Doral Dental.

During FY98, 1,309,340 children and adults were eligible for dental services through Public Aid. This number does not include DCFS wards who qualify for a wider range of dental services than other Medicaid eligible clients. During FY98, Public Aid enrolled 3,311 dentists in the dental program, down 13% from 3,791 dentists enrolled in FY96.

In 1998 Delta spent a total of \$29.2 million on the Public Aid dental program, \$17.7 million for claims and \$11.5 million (40%) for administration. The contract anticipated that 27% would be spent for administration. Public Aid claims paid by Delta decreased from \$31.7 million in 1994 to \$17.7 million in 1998. Administrative cost over the same period remained fairly constant between \$9.2 million and \$11.5 million.

The Legislative Audit Commission adopted Resolution No. 113 on April 20, 1998 and directed the Auditor General to conduct a management audit of the Department of Public Aid's contracts with the Delta Dental Plan of Illinois (Delta). The resolution asked the Auditor General to determine the following:

- Whether recommendations from the prior management audit released in 1990 had been implemented;

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- Whether the current contract provides adequate controls to effectively manage the performance of Delta;
- Whether the Department has correctly assessed Delta's compliance with all pertinent contract provisions, including the timeliness of claims processing the disposition of claims denied for reimbursement;
- Whether the fees paid by the State are reasonable;
- Whether the manner of soliciting proposals for a new contract was adequate; and
- Whether the manner and basis of evaluating proposals for dental care were adequate.

The prior audit of Public Aid's contract with Delta, which was released in 1990, found the following:

- Public Aid contained costs for the program, but that Delta's administrative costs and surplus increased, while money spent on claims decreased;
- Some dentists discontinued treating Public Aid recipients and others reduced their level of involvement;
- Public Aid did not closely monitor contract provisions or contractor performance; and
- Public Aid did not follow federal requirements and document that their program costs were less expensive than the alternative of providing a fee-for-service program.

From August 1, 1984 to February 28, 1999, Public Aid contracted with Delta Dental to manage a pre-paid dental program. The Department paid a capitated rate for these services. A new three-year contract was awarded to Doral Dental Services of Illinois on March 1, 1999. The new contract with Doral is different because the risk for the cost of providing services has been transferred back to Public Aid. Doral is at risk only for its administrative expenses. Many of the issues discussed in this management audit relate to Public Aid's contract management and controls and are still relevant to the new contract with Doral.

During audit fieldwork, Public Aid either did not or could not provide sufficient information for the following:

- The number of denied claims;
- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) clients served by age group;
- The average cost Delta reported paying for some procedures exceeded the maximum allowable rate; and

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- Why the number of cases that met the Ollie Smith criteria (requests for prior approvals decided within 30 days or if no decision, then automatically approved) substantially increased in 1998.

Delta either did not or could not provide sufficient information for the following:

- A download of preauthorizations processed for 1998;
- EPSDT report for July through December 1998 showing the number of contractor claims and the number of fee-for-service claims processed by month;
- An explanation of why 2,400 subcontractor claims were paid during 1998; and
- Explanations for problems found when two individual claims were tested.

RECOMMENDATIONS

1. **Monitor the number and disposition of denied claims to ensure that dental providers are not being improperly denied payment for services to eligible clients.**

DPA Response: Implemented. Under Doral contract, denied claims are being monitored through quarterly on-site monitoring visits.

Delta Response: The report cannot imply that the denials were incorrectly applied. When Delta received a resubmitted claim or a request to review a denied claim, and the information had been updated to accurately reflect the patient's eligibility, the claim was adjusted and payment issued for covered services.

Findings: Public Aid has not monitored the number and disposition of denied claims. The auditors questioned 17 of 68 claims tested that were denied by Delta because the client was ineligible. Public Aid records indicated all 17 were eligible on the date of service. Eventually 11 of the 17 claims received payment, in some cases almost a year after the submission of the initial claim. In questioning four other denials of the 68, the auditors found that in two cases, data entry by Delta was incorrect and resulted in claim denial. In a third case, the claim was denied as having been previously paid one month before the claim was actually paid. In the fourth case, Delta paid four procedures on a claim and denied two others as having been previously paid. However, there was no record of the previous payments in Delta's claim history. Further Public Aid records indicated this recipient was not eligible on the date of service listed.

The new contract with Doral does not require the contractor to submit specific information regarding the number of denied claims or the reasons for denial.

2. **Monitor the timeliness of claims processing to ensure that the contractor is in compliance with federal regulations and contractual requirements.**

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DPA Response: Implemented. The timeliness of claims processing is being monitored through quarterly on-site monitoring visits. The average number of days required to pay claims among 39 randomly selected claims was 11.6 calendar days.

Delta Response: When the dates that claims were originally received were adjusted to reflect the dates the claims were received with the information requested, 96.2% of claims were processed in 30 days or less; 3.3% of claims in 31-60 days; .2% of claims in 61-90 days; and only 50, or .1%, of claims took more than 90 days to process in FY98.

Findings: According to Public Aid's records, Delta paid 95.3% of the claims in 30 days or less. For FY98, on average, Delta paid claims in about 10 days. The auditors noted that there was no evidence that any interest had been paid on claims that were paid after 30 days had elapsed. Public Aid records reflected more than 54,000 fewer claims processed than Delta's records.

3. Monitor the number of complaints filed by clients and providers and the disposition of these complaints. Ensure that a viable grievance procedure and committee exists to hear formal grievances.

DPA Response: On-going. The Department incorporated a log of complaints into the monitoring of the current contract with Doral. However, the Department believes that adequate review of client or provider complaints occurred in the Delta Contract. Public Aid maintained individual provider or participant complaint files for any complaint filed by clients or providers. Delta also kept a complaint log that contained 14 complaints for the calendar year 1998; that log was provided to the OAG auditors. In the last 10 years of the Delta contract, no issue has reached the grievance stage of the process.

Auditor Comment: The contract required that "The Department shall log complaints concerning accessibility indicating the recipient's name, access issue, and the contractor's handling of the complaint." During the audit, we found no evidence that the Department complied with this contract requirement. The log provided by Public Aid did not meet the criteria required in the contract.

Findings: Public Aid did not maintain a complaint log concerning accessibility and did not actively monitor complaints received by Delta. While Public Aid provided a list of complaints received by Delta for calendar years 1997 and 1998, there was no evidence of monitoring or follow-up on these complaints. A Public Aid official stated there are no procedures for review and follow-up on complaints. Further, Public Aid relies on the clients and providers to notify the Department if there is a problem with an unresolved complaint.

Delta did not submit required grievance summaries or grievance committee meeting minutes during fiscal years 1997 or 1998. If a complaint cannot be resolved informally, an eligible client or provider has a right to submit a written request for reconsideration to the grievance committee. Public Aid provided copies of Delta's grievance procedures and the names of the members of the grievance committee; both Public Aid and Delta have stated

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the grievance committee has never met because there has never been a formal grievance. Since the committee has never met, there were also no meeting minutes to submit.

4. Monitor the number of clients that receive an Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) to ensure that the contractor is complying with contract requirements.

DPA Response: Not applicable. Public Aid, through the RFP process, removed outreach for the EPSDT requirements in the Doral contract. In the current contract, Doral must reimburse the provider for preventive dental services and exams. Public Aid has eliminated the outreach for preventive dental care. There is no federal participation level for dental EPSDT services. However, Public Aid imposed a 50% participation level, but this requirement is not a part of the current contract.

Auditor Comment: Monitoring of EPSDT services is still applicable to the new contract with Doral. The Social Security Act requires that each state operate an EPSDT program. Although there is no formal participation level established by law, the Health Care Financing Administration does set EPSDT participation goals. In addition, section 4.22 of the new contract with Doral discusses EPSDT services and makes provisions for outreach programs and access to these services. Section 4.31(O) requires the contractor to submit an EPSDT outreach report.

Delta Response: Delta processed claims but denied coverage for clients ineligible for EPSDT services.

Findings: Public Aid does not adequately monitor Delta's compliance with the EPSDT (Early and Periodic Screening, Diagnosis, and Treatment) requirements in the contract. Delta had only submitted data on three of the eight quarters for the two years tested.

Public Aid did not conduct data analysis to assess whether EPSDT requirements were being met and did not monitor the case tracking system. Department officials stated they did not look at the ratios for each age group as specified in the contract but only at the overall percentage. The reports submitted did not show enough detail to assess contractual compliance with EPSDT requirements because they did not include statistics by age group. The Department was unable to provide information requested regarding the number of eligible clients that received EDSDT screenings by age group for fiscal years 1995 through 1998. According to Public Aid, Delta was unable to provide EDSDT data for fiscal year 1998 due to a problem with their claims processing system and the reports that have been submitted do not break out the numbers by age groups, as is required in the contract.

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- 5. Ensure that provider reports required by the contract are submitted. Utilize these reports to assess whether the contractor is in compliance with related contractual requirements.**

DPA Response: Implemented. Public Aid incorporated monitoring of required reports into monitoring plan for the Doral contract. Public Aid maintains a master log of current reports due from the contractor. These reports are due monthly, quarterly, and/or annually. Doral has submitted the reports timely through the first five months of the contract.

Findings: The contract required Delta to submit three types of provider reports: a provider referral list; a participating provider report; and a listing of new participating providers. Public Aid, however, did not effectively monitor these reports. During the audit period, Public Aid was able to provide only seven of 40 of the provider reports required to be submitted by Delta. In addition, Public Aid was unable to provide any of the reports for the referral list of providers, and provided only six of 24 monthly new participating provider reports.

- 6. Closely monitor the ratio of eligible clients to participating providers to identify Health Service Areas (HSAs) with low provider participation levels. Public Aid should also utilize enforcement provisions in the contract, if necessary, to obtain compliance from the contractor.**

DPA Response: Implemented. The Department included monitoring the ratio of eligible clients to participating providers as a part of the monitoring plan for the Doral contract. The Doral contract allows 12 months for Doral to reach the required participation levels. The Department is continuing to explore what would provide a more meaningful measure of client access.

Delta Response: When defining participating provider as the number of provider locations instead of the number of providers, Delta meets the required access ratios for each HSA.

Findings: The contract between Public Aid and Delta requires Delta to maintain a specific eligible client to participating provider ratio in each of the 10 (HSA) on a monthly basis. A comparison of contract requirements (for the eligible client to participating provider ratio) to the actual ratio as calculated by the Department, four of the 10 HSAs did not meet the eligible client to participating provider ratio. Further, HSAs located in the Chicago Metro area, which has a large portion of Medicaid eligible clients in the state, did not meet the required ratio.

The contract contains a liquidated damage clause for lack of access to services, which also allows Public Aid to consider the failure to achieve these ratios as cause for termination of the contract. The new contract with Doral also contains a minimum requirement of clients to participating dental providers that the contractor must maintain.

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- 7. Ensure that a cost allocation plan has been approved and is in place before the covered period begins. Public Aid should also specify the basis for allocating administrative expenses in the plan.**

DPA Response: Public Aid will make finalization of the cost allocation plan a part of future contract negotiations. Discussions are continuing with Doral to finalize the cost allocation plan. These plans require an extensive process to itemize the direct service and indirect service costs and the methodology to breakout Department related costs from company costs. Department staff have to be certain the administrative costs adequately reflect the program service plan.

Delta Response: The May 1, 1996 contract eliminated all prior provisions, therefore the due date for a cost allocation plan for that contract period was April 30th of the following year. Delta did not submit a cost allocation plan for FY98 which commenced on May 1, 1997, because the plan was not approved until October 1998. Justification for the plan was provided to Public Aid prior to approval; however, the auditors stated that the rates did not match those in the approved plan.

Findings: Although the contract required Delta to submit a cost allocation plan on an annual basis, only one cost allocation plan was approved for the contract period (May 1996 – February 1999). The Department did not approve the most recent plan in a timely fashion or provide documentation on how the final plan was decided. Furthermore, Public Aid did not approve the cost allocation plan for the previous contract period ending April 30, 1996 until nearly 18 months after it had ended (November 18, 1997).

The purpose of the cost allocation plan is to set forth a methodology by which all administrative expenses incurred by the contractor are charged to the Department. The amount of administrative expenses allocated to the Department is deducted, along with incurred claims, from the total premium paid to Delta to determine the amount of excess surplus.

The contract requires Delta to submit a cost allocation plan to the Department on an annual basis, due no later than the 30th day of April of each calendar year. However, the contract is unclear whether the submission of the cost allocation plan is to precede the year it covers or whether it is to be submitted following the year covered. The contract should require the cost allocation plan be submitted before the expenses are incurred.

The auditors contracted with Pandolfi, Topolski, Weiss & Co., Ltd. to perform agreed upon procedures at Delta. The firm performed a review of Delta's cost allocation plan to determine if costs are fairly applied and reviewed the cost allocation methodology. They found that:

- Delta did not submit cost allocation plans in accordance with time frames specified in the original agreement because Delta did not submit a plan annually;

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- Delta was unable to provide the justification plan requested by Public Aid that describes how the costs per eligible client were arrived at;
- Delta did not apply the cost allocation plan in accordance with the approved methods for general and administrative expenses for the profit and loss statements; and
- The cost allocation plan contained a weakness in that it did not specify if expenses that were to be allocated on a ratio of claims processed, were to be based on dollar volume of claims processed or based on the number of claims processed. Delta used percent of total number of claims which results in a significantly larger allocation of administrative expenses than the other method, which reduces the amount of excess surplus Delta would have to refund.

Although Public Aid assumes the risk of the cost of dental services provided to clients in the new contract with Doral, the cost of administration is paid on a capitated basis to the contractor. The contract contains a provision that limits the amount of profit to 8% of payments to Doral and requires that 75% of the excess surplus be returned to the Department. The new contract also contains a provision that requires the contractor to submit a cost allocation plan regarding administrative costs charged to Public Aid at the start of each contract year for Public Aid to review and approve.

- 8. Ensure that excess surplus (the amount the contractor owes back to Public Aid for excess profits) is calculated on an annual basis independently of other years, that reports are submitted in a timely manner, and that money owed as a result of any excess surplus calculation is collected when due. The Department should also use available enforcement provisions, such as liquidated damages to ensure that the contractor complies with contract provisions.**

DPA Response: Implemented. The Department incorporated monitoring the receipt of excess surplus reports into the monitoring plan for the Doral contract. A log was developed to compare due date with receipt date. Public Aid will levy liquidated damages from the first payment due the contractor for every report received late.

Auditor Comment: We find it curious that, for whatever reason, Public Aid did not assess liquidated damages when Delta Dental was over 600 days late in filing excess surplus reports, but now with Doral Dental the Department intends to “levy liquidated damages from the first payment due the contractor for every report received late.”

Delta Response: Delta blames the lack of interim payment for excess surplus on the delayed approval of the cost allocation plan.

Findings: Public Aid did not adequately monitor whether Delta was submitting excess surplus reports. Delta did not submit the excess surplus reports in a timely fashion and, once submitted, they did not include the contractually required refund payments. Public Aid was unaware that the reports had not been submitted and only requested them

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from Delta after the issue was raised by OAG auditors. The excess surplus also was not being calculated and applied independently for each year of the agreement as was required in the contract. Although the late submission of these reports could have resulted in liquidated damages of more than \$3 million, Public Aid so far has not assessed the contractor a penalty.

Public Aid is also not enforcing provisions of the contract by collecting amounts due with the interim and final excess surplus reports. Money owed Public Aid as a result of these surpluses was not available to the State to earn interest or use for other purposes. Public Aid stated the Department does intend to pursue liquidated damages for the late submittal of excess surplus reports, but is considering carefully the amount and the timing. As of September 2, 1999 there had been no decision and no penalty assessed.

9. Track whether all required financial reports are being submitted in a timely manner.

DPA Response: Implemented. The Department incorporated monitoring the receipt of financial reports into the monitoring plan for the Doral contract. A log was developed to compare due date with receipt date. The Department will levy liquidated damages from the first payment due the contractor for every report received late.

Findings: Public Aid did not track whether Delta's audited financial statements were received as required by the contract. In late 1998, the most recently audited financial statements of Delta on file at Public Aid were for 1995 and 1996. Public Aid officials were unaware that they did not have the 1997 report. Public Aid was able to provide all required profit and loss statements.

Delta submitted all profit and loss statements for the period tested. However, Public Aid does not keep a log of the reports or the date received for the profit and loss statement. Public Aid also does not stamp them; therefore, the auditors could not determine if the statements were received in a timely manner or if liquidated damages could have been assessed.

10. Conduct reviews in a timely manner. Reviews and audits should check compliance with contract provisions, review claims expense data for accuracy, and determine if the Division of Medical Program is adequately monitoring compliance.

DPA Response: Not applicable. The Bureau of Internal Audits (BIA) initiated its audit of Delta timely. However, completion of the audit may have been delayed due to circumstances beyond BIA's control. For example, the most recent BIA audit (surplus periods 5/1/96 – 4/30/97) of Delta, BIA staff was to conduct the entrance conference and field work on January 19, 1999. However, Delta requested BIA to postpone our field work because the Office of the Auditor General's auditors were conducting their field work at

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Delta during January and February 1999. BIA had to reschedule the field work to a later date in February. BIA reviews supporting documentation to verify the allowability of expenses charged to the Department. For example, BIA audits for the surplus calculation period 1/1/92 - 6/30/94, the Department recovered \$139,526; for the period 7/1/94 - 4/30/96, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period 5/1/96 - 4/30/97, BIA auditors have identified \$4.3 million in questionable expenses and requested Delta provide supporting documentation for expenses charged to the Department.

Auditor Comment: Audits and reviews of Delta's performance were limited in scope. Bureau of Internal Audit reviews only audited the calculation of excess surplus and did not assess compliance with other contract provisions. In the past, these audits also did not test claims expenses at Delta which accounted for a large portion of overall expenses used to calculate the excess surplus. The contract requires that "The Department shall conduct audits that evaluate the Contractor's performance. Such audits shall include examination of a minimum of .5% of the Dentists whose services have been reported to the Department as participating in the program." However, for the contract period May 1996 through February 1999, Public Aid has not conducted a compliance review.

Findings: The BIA checks to verify certain contract provisions such as allowable administrative expenses, refund of surplus, withhold, and other financial provisions. Since the reviews are financial in nature, issues such as access, dentist participation, and the cost to administer the program on a fee-for-service basis are not covered in the internal audits. The Department has not conducted an audit of the contractors performance as required by the contract.

The Department's internal audits are intended to determine the financial stability of Delta, identify potential losses, and the potential of Delta to bear the risk of potential financial loss. They are also intended to ensure Delta's compliance with financial provisions of the contract, including the excess surplus calculations and to determine if the Division of Medical Programs is adequately monitoring contract compliance. However, they are limited in scope and do not meet the contract's audit requirements.

The contract with Delta called for Public Aid to conduct audits that evaluate the contractor's performance. The auditors' review found these audits do not assess Delta's performance and do not check compliance with contract provisions other than excess surplus requirements.

Since 1990, there have been four quality assurance/compliance reviews conducted by or for BCHS. However, there have been no reviews of the most recent contract with Delta. Public Aid contracted with outside organizations for three of the four reviews. Generally these reviews only assessed compliance on a partial basis.

11. Ensure that contract amendments are signed by all parties in a timely manner.

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DPA Response: On-going. The Department has made and will continue efforts to ensure that the contract and contract amendments are signed by all parties prior to the effective date. This effort began with the 1996 contract and has carried forward to the present contract. In all instances, the contract and contract amendments were timely. However, this is not possible when legislative mandates and budget resources dictate retroactive implementation.

Auditor Comment: Contract amendments were **not** always timely. The first contract amendment was approved more than five months after the effective date. The second amendment was approved a month and one-half after the effective date. Amendment four was approved almost four months after the effective date.

Findings: Public Aid's overall management of the contract raises some concerns, especially related to contract changes and amendments. The last contract signed by Delta and Public Aid originally effective 5/1/96 through 4/30/98 was not signed by Public Aid until 6/3/96. The contract was also amended four times. Three of the four amendments to the final contract with Delta were signed after the effective date of the changes.

12. Continue efforts to ensure that eligible adult clients are aware of available dental services.

DPA Response: On-going. The Department has been very proactive in responding to the needs of the DHS local office caseworkers. A DHS representative was on the Dental RFP Evaluation Committee and two meetings have been held between DHS and DPA staff regarding the July 1999 Adult Dental Program changes. The Department also sent information notices to all Medical Assistance participants informing them of the Adult Emergency Program effective January 1, 1997 and in July 1999 for funding the Adult Program.

Findings: An analysis of the amount of premiums, claims, and clients served under the adult emergency program was conducted. In fiscal years 1997 and 1998, Public Aid paid premiums of \$2.6 million and \$5.1 million, respectively. However, paid claims by Delta for adults amounted to only \$645,593 and \$1,060,864 for those years. The adult program only served 12,832 clients in fiscal year 1997 and 21,390 clients in fiscal year 1998.

A survey of Department of Human Services (DHS) local offices was conducted to determine if they were aware of the availability of dental services for adults. Of the 41 local offices contacted, 32 (78%) responded that either emergency services were available or they did not know and referred the caller to Delta or a provider. Nine (22%) of the offices contacted replied that no services were available for adults. Public Aid officials stated that notices were sent to local office caseworkers and clients notifying them of the availability of services.

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- 13. Ensure that the dental contractor documents expenses and adjustments related to the calculation of excess surplus amounts. Conduct a detailed review to verify that expenses are not overstated and only consider expenses that can be supported by documentation when calculating the excess surplus.**

DPA Response: Not applicable. The OAG auditors are only restating what the Bureau of Internal Audits (BIA) is doing during their audit of Delta. BIA reviews supporting documentation to verify the allowability of expenses charged to the Department. For example, BIA audits for the surplus calculation period 1/1/92 - 6/30/94 the Department recovered \$139,526; for the period 7/1/94 - 4/30/96, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period 5/1/96 - 4/30/97, BIA auditors have identified \$4.3 million in questionable expenses and requested Delta for supporting documentation for expenses charged to the Department. Since BIA is following the standard auditing practices and conducting tests to verify the allowability of expenses, we believe the OAG's recommendation is not applicable.

Auditor Comment: Documenting expenses and verifying charges by the contractor to the dental program is applicable to the past contract with Delta and the new contract with Doral. We identified several expenses charged by Delta on the profit and loss statements for which Delta could not provide documentation. Also, BIA audits have not examined claims expense which is the largest expense item reported on Delta's excess surplus reports. In addition, the new contract with Doral **still** contains provisions that limit the amount of profit that that the contractor can retain and requires the contractor to return to the Department a portion of the excess.

Delta Response: The Public Aid Medicaid Dental Program is not a "typical" dental program and therefore administrative costs as a percentage of total premiums would be higher. The premium for Public Aid clients is one-tenth the amount of a typical client; the typical commercial claim is almost four times larger than the Public Aid claim; the typical dental plan is more comprehensive and not limited to emergency services for adults; and premium amounts for commercial dental programs include sales or broker commissions. Additionally, the report does not take into account rising overhead costs.

Findings: Administrative expenses charged to Public Aid by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. Administrative expenses as a percent of premiums rose from 23% in 1994 to 36% in 1998. Administrative expenses as a percent of claims rose from 32% in 1994 to 65% in 1998. Delta charged Public Aid substantially more to administer the Public Aid program than to other commercial clients expenses. Pandolfi, Topolski, Wiess and Company identified over \$2.2 million in questionable expenses for reinsurance, claims reserves, administrative expenses, and other direct expenses due to a lack of supporting documentation or the inappropriately applied expenses.

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14. The Department of Public Aid should:

- **Date/time stamp proposals as they are received or keep a log that reflects the time and date each proposal is received;**
- **Ensure that all proposals are kept together in a secure place until such time as the deadline for receiving proposals has passed;**
- **Prepare a register when opening proposals which should include for all proposals the name of each proposer, the number of modifications received, and a description sufficient to identify the service offered;**
- **Document changes during the RFP process;**
- **Select and brief committee members before the RFP is issued;**
- **Document presentations given by proposers, committee meeting discussions, and other discussions that show the basis for scoring and evaluation decisions; and**
- **Document discussions and correspondence regarding contract negotiations.**

DPA Response: The bid for the latest dental contract was initiated prior to the implementation of the Procurement Code. However, care was taken to follow as many requirements as possible. Specifically, the proposals were kept in a secure area, two people opened the bids, document and notification changes were made and officially sent to the proposers, proposers were given opportunity to make an oral presentation, and scoring evaluations were made by the evaluation committee members.

The Department's current contracting procedures already incorporates many of the suggested improvements; however, we will incorporate the suggestion that contract negotiation correspondence be documented. However, the Department disagrees with several of the suggestions relating to this recommendation. The suggestion to document a description sufficient to identify the service offered by each proposer is not feasible during the proposal opening. The Department does document project name on the proposal register. A determination of such magnitude could not be made until a review of the proposal has been performed, which occurs after the proposal opening. Public Aid disagrees with the suggestion that evaluation members be briefed prior to releasing the RFP. The members are briefed prior to initiating the evaluation portion of the RFP process. Public Aid disagrees with the suggestion to document committee meeting discussions and other discussions. The members discuss the evaluations and make decisions based on those discussions which are documented in the form of an evaluation summary and member recommendation. The recommendation is then used to formulate the Recommendation To Award document (RTA). The basis for award is the recommendation and then ultimately, the contract.

Auditor Comment: The audit resolution required us to compare the manner of solicitation and evaluation to prudent business practices. We used sources such as the State and Local Government Purchasing (4th Edition), National Association of State

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Purchasing Officials and The Model Procurement Code for State and Local Governments, American Bar Association. The items to which the Department objects are suggested procurement practices contained in these sources. The proposal register and other requirements now in effect at Public Aid were not yet developed when the RFP for Dental Services was issued on June 18, 1998.

Delta Response: After being notified that Doral was awarded the contract for 1999-2000, Delta filed a Freedom of Information request to review material related to the award. Public Aid denied the request. Delta filed a formal appeal of the award alleging that Public Aid engaged in unfair dealing and favoritism. Public Aid denied the appeal.

Findings: Public Aid's manner of soliciting and evaluating proposals for the new dental contract was generally in conformity with prudent business practices and legal requirements. There are practices that could be improved as noted in the recommendation. Public Aid officials state that the new contract for dental services is arguably a purchase of care contract which is exempt from certain procurement requirements.

15. Implement the recommendations that the Department did not fully implement from the prior OAG audit of Public Aid's contract with Delta that are still relevant to the new contract with Doral. These recommendations included that Public Aid should:

- 1) Comply with records requirements of the State Records Act and federal regulations and maintain documentation of decisions concerning agency contracts and their procurement history (prior audit recommendation #1);**
- 2) Enforce requirements for the contractor to submit information on requested, denied, approved, and paid services on the utilization tapes. Require the contractor to submit actual dates of claim receipt, processing, and payment (prior audit recommendation #9);**
- 3) Specify criteria and methodology when assessing access for clients. Include a methodology and specific criteria to determine if a decrease in access is attributable to the contractor (prior audit recommendation #22);**
- 4) Monitor access to determine the number of participating dentists and their level of involvement in the program in conjunction with other methods of monitoring (prior audit recommendation #23);**
- 5) Monitor the contractor's referral system to ensure clients are referred to dentists actively participating in the program (prior audit recommendation #24);**
- 6) Periodically re-evaluate the fees that are allowed under the program and how they affect participation by dentist. Program requirements, particularly the prior authorization requirements, should also be re-evaluated to determine their effect on participation (prior audit recommendation #25); and**

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7) Monitor utilization rates and analyze potential causes for low rates (prior audit recommendation #26).

DPA Response: The Department has or is in the process of implementing these seven previous recommendations that were included in the new recommendations.

- 1) Partially Implemented. The Department has made and will continue efforts to ensure that the contract and contract amendments are signed by all parties prior to the effective date. This effort began with the 1996 contract and has carried forward to the present contract. In all instances, the contract and contract amendments were timely. The Department did not have all of the documents OAG required, but many of those documents exceeded the time period retention stipulation.
- 2) Partially Implemented. The Department now has a contractor that must process claims through Department's edits before the contractor is credited for and paid for the claim. The Department makes monthly advance payments to the contractor and reconciles the paid claims. The Department has more control over the program expenditures and denial of claims. In addition, the Department has implemented a quarterly on-site monitoring function to review the Doral contract.
- 3) Partially Implemented. The Department will review the contract to determine if the Doral contract should be amended. The new contractor has been successful in referring clients to dentists who are willing to participate in the Medicaid Program. The participants have been utilizing the contractor's free 800 number phone line to learn of available dentists in their area.
- 4) Not Implemented. The Department included monitoring the ratio of eligible clients to participating providers as part of the monitoring plan for the Doral contract. The Doral contract allows 12 months for Doral to reach the required participation levels. The Department is continuing to explore what would provide a more meaningful measure of client access.
- 5) Partially Implemented. The Department has and will continue to monitor the contractor's referral system. The new contractor has been successful in referring clients to dentists who are willing to participate in the Medicaid Program. The contractor has been able to provide adequate coverage for participants needing a referral dentist. The participants have been utilizing the contractor's free 800 number phone line to learn of available dentists in their area.
- 6) Partially Implemented. The Department fundamentally disagrees with this recommendation. The Department has made two rate increases in the last two years, during the implementation of the Doral contract, reduced the number of procedures requiring prior approvals significantly, and adopted both the ADA procedures coding and claim form. Department staff have worked with the Illinois State Dental Society, the Dental contractor and other interested parties to increase dental rates for participants. Rate surveys from Illinois State Employee program and other states were used to formulate the rate increases.
- 7) Not Implemented. The Department fundamentally disagrees with this recommendation. The Department has made two rate increases in the last two

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years. Department staff have worked with the Illinois State Dental Society, the Dental contractor and other interested parties to increase dental rates for participants. Rate surveys from Illinois State Employee program and other states were used to formulate the rate increases. The denied claims will be monitored through a quarterly on-site monitoring visit. Claims are randomly selected by the Department for auditing purposes. The first on-site visit was conducted on July 27-28, 1999.

Auditor Comment: Public Aid's responses indicate in many instances that the recommendation was implemented in its administration of the new contract with Doral Dental. LAC Resolution No. 113 directed the Auditor General to conduct a post audit of Public Aid's contracts with the Delta Dental Plan of Illinois. Therefore, changes that may have occurred as a result of the new contract with Doral were not in place during the contract with Delta Dental. Follow up to these audit recommendations will be conducted as part of our regular financial and compliance audits.

Auditor Comment, #6: We acknowledge that Public Aid did increase provider reimbursement rates in 1998. However, the recommendation goes beyond just reimbursement rates and includes other variables such as paperwork, claims denial, and timeliness of payment and their effect on participation.

Auditor Comment, #7: Public Aid did not monitor utilization rates and denied claims, or analyze reasons for low utilization rates.

Findings:

- 1) The State Records Act requires Public Aid to preserve adequate and proper documentation of the Department's policies, decisions, and transactions. (Recommendation #1)
- 2) Delta's data on tape was insufficient for anyone to process information on reasons for denial of benefits. If Public Aid reviewed the data and if Delta had updated the denial code field, this problem could have been corrected. (Recommendation #9)
- 3) The new contract with Doral does not contain a clause to determine if a decrease in access is attributable to Doral. (Recommendation #22)
- 4) The new contract defines participating provider as a person who submits a claim for covered services within the previous 18 months or has enrolled as a participating provider in the last six months. (Recommendation #23)
- 5) Public Aid did not monitor Delta's referral system. The new contract requires Doral to maintain a referral system for any eligible client who calls for an appointment. (Recommendation #24)
- 6) Public Aid has not evaluated the effect of fees (increases) or program requirements on provider participation. Under the new contract, Public Aid can raise reimbursement rates to dentists at any time because Doral is not at risk for the payments to dentists. (Recommendation #25)

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- 7) Public Aid does not monitor utilization rates, analyze reasons for low utilization rates, or examine the appropriateness of denied claims. (Recommendation #26)