



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

REPORT DIGEST

**PERFORMANCE
AUDIT**

**Release Date:
March 2019**

Audit performed in
accordance with
**House Resolution
Number 522**

Office of the Auditor General
lles Park Plaza
740 E. Ash Street
Springfield, IL 62703

Phone: (217) 782-6046
TTY: (888) 261-2887

The full audit report is available
on our website:
www.auditor.illinois.gov

EXECUTIVE SUMMARY

Morneau Shepell Contract

In November 2015, the State conducted an aggressively timed procurement for a Custom Benefit Solution in hopes of achieving \$500 million in annual savings through increased health insurance premiums to members and retirees and the implementation of 21 additional health plan options. As of December 4, 2018, over 1,000 days since the Custom Benefit Solution was awarded to Morneau Shepell, the State has **yet to produce any additional health plans or achieve the anticipated savings**. The State has **incurred \$27.7 million in total costs** associated with the Custom Benefit Solution procurement, through September 30, 2018.

The previous Governor's Office developed the idea for what became the Custom Benefit Solution based on labor contract negotiations. The audit found that the Custom Benefit Solution:

- originally, in a document dated October 23, 2015, was to be a "private exchange;"
- was advertised on November 4, 2015, but received **only one bid**;
- was awarded January 28, 2016, to Morneau Shepell; and
- contract was executed on May 3, 2016 – 96 days after the award announcement, for an estimated \$94 million over a 10-year period.

CMS failed to provide all relative information to evaluators of the solicitation, did not obtain conflict of interest disclosures for all individuals involved in the project, and did not maintain meeting minutes for evaluator meetings.

The **aggressive timeline for the procurement and implementation** of the Custom Benefit Solution caused a number of problems:

- CMS did not conduct a cost-benefit analysis of the project due to the aggressive timeline. A DoIT official indicated that the Department could have developed the product that the State was paying Morneau Shepell to provide.
- CMS did not include a BEP goal in the solicitation due to a concern it would slow the procurement.
- The Go-Live of September 30, 2016, was 2-4 months prior to what Morneau Shepell proposed. This resulted in multiple performance issues for the Custom Benefit Solution and CMS' consideration to rebid the project a year after Go-Live.

The Morneau Shepell contract contained performance guarantees for which CMS allowed, by contract, **self-reporting** by Morneau Shepell to determine compliance. CMS capped the fee reductions on missing guarantees to four per month. Our analysis showed that for the **original data** submitted on the guarantees, as many as seven monthly and ten quarterly guarantees were missed. Morneau Shepell **did not submit all written corrective action plans**, in violation of the contract, for 17 of the first 24 months of the project. We also found 24 instances where CMS **could have considered a breach of contract**, as outlined in the RFP, for missing performance metrics. However, **CMS did not include** that breach of contract language in the executed contract.

AUDIT SUMMARY AND RESULTS

On October 26, 2017, the Illinois House of Representatives adopted House Resolution Number 522, which directs the Auditor General to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell.

The Department of Central Management Services (CMS) oversees the administration of group health benefits for four separate and distinct benefit programs, which collectively cover approximately 450,000 lives. Relative to the procurement:

- In November 2015, CMS published a Request for Proposals (RFP) on the Illinois Procurement Bulletin to procure an organization to administer a Custom Benefit Solution. While the Custom Benefit Solution was advertised, it was not what the State **originally** looked to procure. The State originally wanted to procure a “private exchange” using an experienced intermediary to handle the marketplace.
- CMS conducted an accelerated procurement and implementation for what became the Custom Benefit Solution. CMS **received only one response**, from Morneau Shepell, to the solicitation. Morneau Shepell had not previously conducted business with the State and this State contract population would far exceed any population for any other Morneau Shepell client.
- The contract award was announced on January 28, 2016. Digest Exhibit 1 provides a timeline of procurement activities.
- On May 3, 2016, 96 days after the Custom Benefit Solution was awarded to Morneau Shepell, the final contract was executed. The initial contract term was five years, through April 25, 2021. There is a five-year renewal period included in the contract. Total Morneau Shepell compensation, absent optional services, is **estimated at \$94 million** for the 10-year period. (pages 6, 8, 10, 12-13)

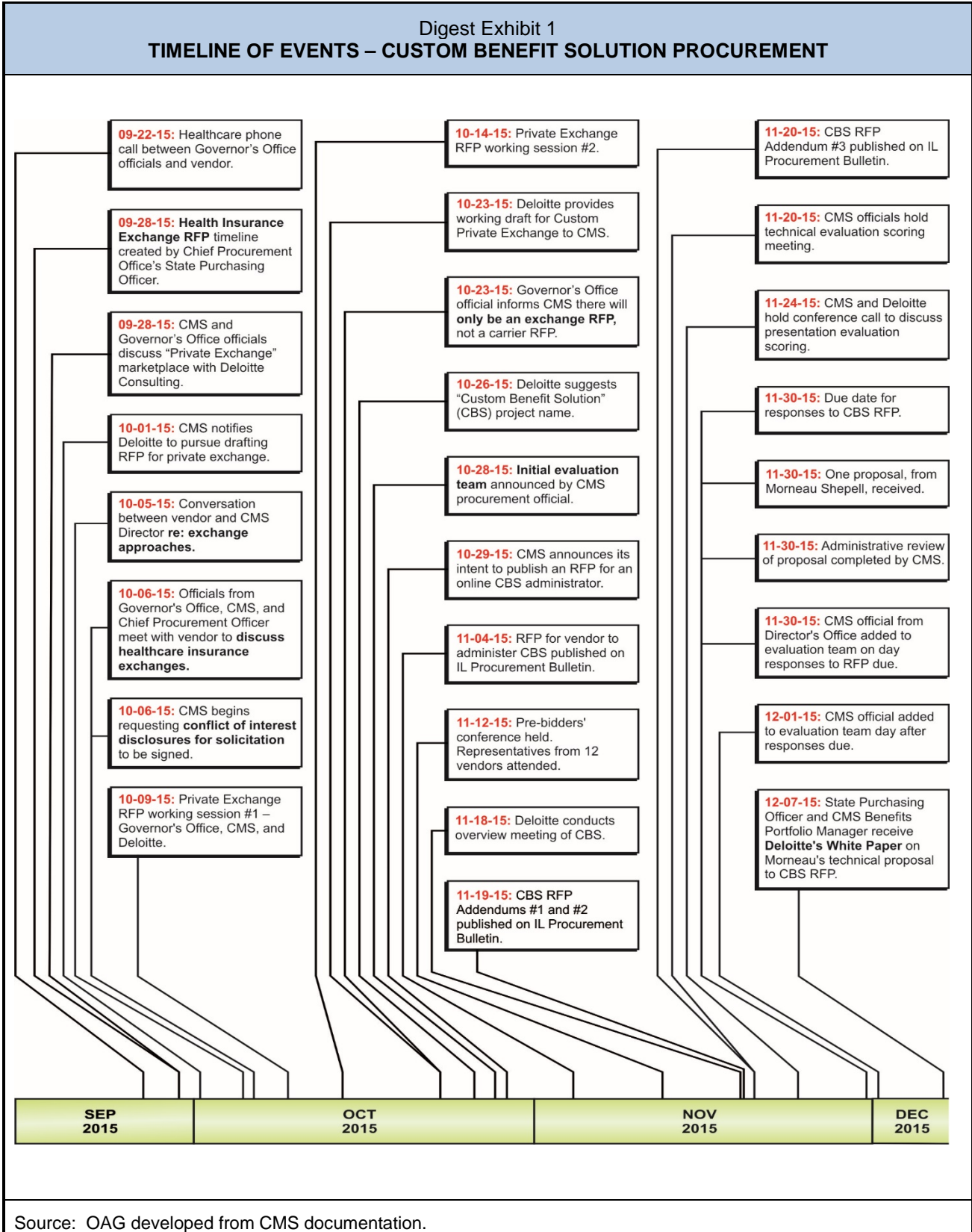
The idea for what became the Custom Benefit Solution procurement came out of **labor negotiations from the Governor’s Office** and focused on achieving \$500 million in annual savings. While the CMS Bureau of Benefits was unable to locate specific documentation from 2014-2015 relative to how the \$500 million in annual savings would result from this procurement, it did assert that the savings were to be generated from **changes to employee health insurance**. The proposed changes were to create a multi-tiered system of plans, called “metal bands,” for the existing health insurance program for employees and retirees. Four tiers were to be set up – platinum, gold, silver, and bronze. The new tiered plans would have different premiums, deductibles, and co-payments levels, which the employees could choose from for their health insurance needs. The end result would have been a **60/40 split in healthcare costs borne by the employer/employee**. **As of December 4, 2018, over 1,000 days since the Custom Benefit Solution was awarded to Morneau Shepell, CMS reported the State has not implemented the new health plan options. Without the new plans the State has not achieved any of the anticipated savings.** (page 9)

CMS oversees health benefits for approximately 450,000 lives.

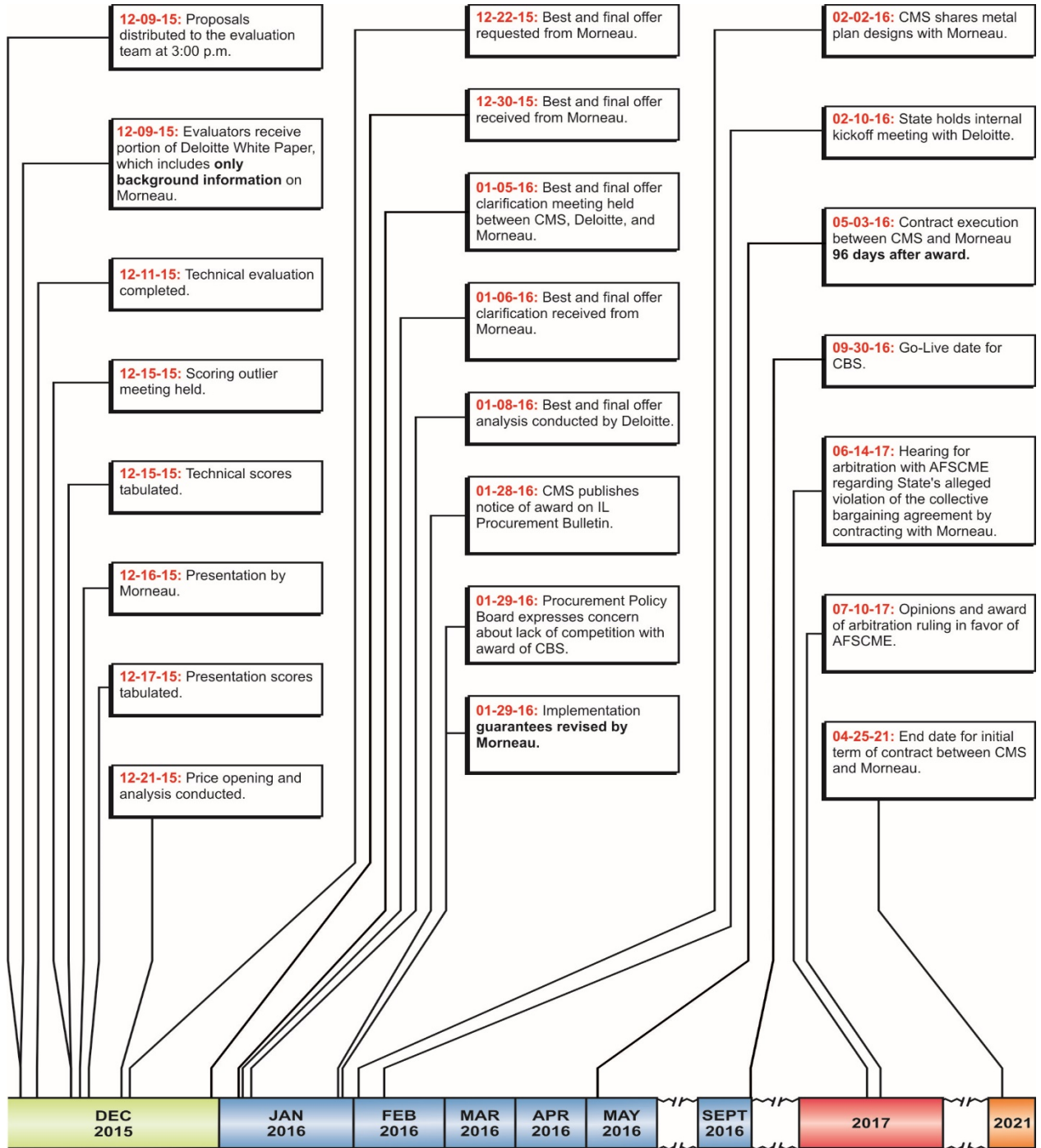
CMS originally wanted to procure a private exchange but instead changed focus and solicited a Custom Benefit Solution.

CMS received only one response and awarded a contract to Morneau Shepell estimated at \$94 million for ten years.

The Governor’s Office developed the idea for what became the Custom Benefit Solution. They anticipated \$500 million a year in healthcare savings through changes to employee and retiree health plan options. No savings have been achieved to date.



Digest Exhibit 1
TIMELINE OF EVENTS – CUSTOM BENEFIT SOLUTION PROCUREMENT



Source: OAG developed from CMS documentation.

Procurement process deficiencies included:

Evaluators did not receive all relative information to score the evaluation;

Not all Conflict of Interest disclosures were obtained by CMS; and

Evaluation meeting minutes were not maintained.

During the audit, we found some issues with the **procurement process** for the Custom Benefit Solution. Those issues are:

- CMS failed to provide all relative information to evaluators prior to the evaluation process. This lack of information included the views on the Morneau Shepell proposal from the State’s subject matter expert, Deloitte Consulting. Considering the **State had not conducted a procurement** like the Custom Benefit Solution and **two-thirds of the technical evaluators we interviewed were new to the process**, this information may have lessened the wide range of scores and resulted in a more accurate evaluation process. (pages 14-18)
- CMS failed to require and obtain **Conflict of Interest disclosures for all individuals who were involved in the procurement process** for the Custom Benefit Solution that was awarded to Morneau Shepell. Through available documentation, we identified 24 individuals who were involved with procurement activities for which CMS **could not provide a disclosure**. These individuals were from the Governor’s Office, the Executive Ethics Commission, Deloitte Consulting, and CMS. (pages 18-23)
- CMS did not **develop and maintain evaluator meeting minutes** for either of the two evaluation committee meetings. This included a meeting to discuss scoring for evaluators that had drastically different scores for the Custom Benefit Solution procurement. In 66 percent (59 of 90) of evaluation criteria categories, the evaluation team had a **difference of at least 50 percent in the scoring of criteria** for the Morneau Shepell proposal. (pages 23-25)

Adequacy of Scope to Meet State’s Needs and Allow Adequate Competition

During the audit we attempted to find documentation to **support the need** for what became the Custom Benefit Solution. While the CMS Bureau of Benefits generally does some form of cost analysis for new programs, the **aggressive timeline to issue the RFP did not allow** for a formal cost analysis for the Custom Benefit Solution. CMS and the Department of Innovation and Technology (DoIT) could provide **no such cost-benefit analysis**. The Governor’s Office, CMS, and DoIT officials disagreed on the **State’s ability to develop and operate** an online system like the State receives from Morneau Shepell. Our examination found:

- A former Governor’s Office official told agency directors that *“The State does not have the expertise and resources to provide the services needed to develop this state of the art technology efficiently and effectively.”*
- The CMS Deputy Director of Benefits reported it was determined that DoIT **could not** handle the size and complexity of the portal.
- DoIT officials said they were not aware of any analyses conducted in determining whether DoIT could create and maintain an online health portal. Further, the officials said no CMS or Governor’s Office official even asked about DoIT’s capability. Finally, a DoIT official said the

CMS did not conduct a cost-benefit analysis for the Custom Benefit Solution due to the aggressive timeline for the procurement.

Department of Innovation and Technology officials reported they could have internally developed the solution awarded to Morneau Shepell.

portal could have been put together by the State, but the State could not necessarily staff the call center.

- On October 3, 2018, the DoIT official reported that the **Bureau of Communication and Computer Services had provided a demonstration of an online enrollment system in 2012** to the head of the Bureau of Benefits at the time. At that time, it was demonstrated not as an exchange, but as only online enrollment, just as Morneau Shepell is doing now. CMS officials told us they were unclear as to whether the system demonstrated could accommodate metal band plan designs. Additionally, relative to the call center aspect of Morneau Shepell’s current contract, the DoIT official said that function has always been done within the State through the use of the group insurance representatives. (pages 29-31)

CMS had no documentation to show why there were last minute changes to the RFP. Additionally, CMS requested more services than needed which may have affected competition.

CMS failed to **adequately plan** the procurement process for the Custom Benefit Solution, including the development of the need for all elements in the scope of the project. This failure led to **undocumented reasons** for late changes to the RFP prior to publication. Additionally, in its rush to complete the procurement and get a system implemented, CMS **requested more services** than it actually needed in an unreasonable timeframe and left some of the requested services out of the contract. Had the State not had such an aggressive timeline, the procurement process **may have resulted in increased competition** for the Custom Benefit Solution. (pages 31-36)

Adequacy of Time Frame to Respond to RFP

While the time frame to respond to the RFP complied with the minimum time frame established in the Illinois Procurement Code, the size and complexity of the Custom Benefit Solution likely warranted a longer time frame. Representatives from 11 vendors attended the pre-bidders conference but only one vendor submitted a bid. In addition, CMS **may have limited competition** on the Custom Benefit Solution by requesting an **aggressive timeline** for the implementation of the online health portal. The timeline was so aggressive that even the single bidder **could not meet** the May 2016 Benefits Choice Period as originally detailed in the RFP. Five vendors who did not bid on the Custom Benefit Solution reported some issue relative to the timeline as the reason for not proposing. (pages 36-40)

The vendor was not able to meet the aggressive time frame to implement a system by May 2016.

Rationale for Not Including a Business Enterprise Goal

CMS did not document why a business enterprise goal was not included in the Custom Benefit Solution procurement. While CMS was not required to include a Business Enterprise Program (BEP) goal in this procurement, it **appears that the decision to not include a goal was due to a concern that including a goal would slow the procurement process.**

CMS did not include a BEP goal in the RFP for fear it would slow the procurement process.

While CMS has designated contracts procured by the Bureau of Benefits Group Insurance Division as “exempt” from the BEP goal, CMS **did not consistently apply that exemption** to other benefit procurements during the audit period. Additionally, approximately a year after the Custom Benefit Solution went live, CMS was considering re-soliciting for a vendor to

CMS was considering a BEP goal for a possible re-solicitation of the procurement a year after Go Live.

administer the program. This procurement was to **include** a 10 percent BEP goal. (pages 40-44)

Rationale for Awarding Rather Than Re-issuing the RFP

Documentation we reviewed, and officials we spoke with, appear to indicate that CMS was not concerned over a lack of competition and the **tight timeline to implement a system** for the May 2016 Benefit Choice Period drove the decision not to re-issue the RFP. However, approximately a year after the Custom Benefit Solution was implemented, documentation showed that CMS was **exploring the option of re-issuing an RFP**. (pages 44-46)

Cost of the Procurement

For the period May 2016 through September 2018, the total cost of the Custom Benefit Solution project **exceeded \$27.7 million**. Digest Exhibit 2 breaks out the total cost of the Custom Benefit Solution for the period ended September 2018.

CMS was not concerned with the lack of competition for the procurement. However, a year after Go-Live, CMS was taking steps to replace Morneau Shepell.

Digest Exhibit 2 TOTAL COST OF CUSTOM BENEFIT SOLUTION May 2016 – September 2018		
Service Dates	Cost Element	Amount
<i>Morneau Shepell</i>		
05/31/16-06/30/18	Invoiced and Partially Paid by CMS	\$16,762,835.92
07/01/18-09/30/18	Invoiced Only – Not Paid by CMS	\$2,784,460.95
09/01/17-01/31/18	Prompt Pay Interest Paid by State	\$38,503.79
02/01/18-05/31/18	Prompt Pay Interest Owed by the State	\$50,070.37
<i>Total – Morneau Shepell</i>		<i>\$19,635,871.03</i>
<i>Deloitte Consulting</i>		
08/01/15-10/31/16	Invoiced and Paid by CMS	\$2,227,730.75
08/01/15-06/30/16	Prompt Pay Interest Paid by the State	\$32,064.98
11/01/16-09/30/18	Invoiced Only – Not Paid by CMS	\$4,276,774.00
11/01/16-04/30/18	Prompt Pay Interest Owed by the State	\$282,414.08
<i>Total – Deloitte Consulting</i>		<i>\$6,818,983.81</i>
<i>Additional Contractual Staff</i>		
07/01/15-02/20/19	CMS	\$641,193.75
05/12/16-03/31/19	Department of Innovation and Technology	\$679,110.00
<i>Total – Additional Contractual Staff</i>		<i>\$1,320,303.75</i>
TOTAL COST		\$27,775,158.59
Note: Some of the contractors for CMS and the Department of Innovation and Technology have terms into calendar year 2019. For reporting purposes, we included the full value of those contracts.		
Source: OAG developed from CMS documentation.		

CMS requested two changes in March 2017 related to new health care options that will cost the State over \$1.6 million. The options were never implemented.

Morneau Shepell documentation showed CMS requested two changes from Morneau Shepell, **which will eventually cost the State an additional \$1,652,000**. CMS officials indicated that these changes were part of the contract which called for a Special Enrollment Period in September 2016, an enrollment period that never occurred. However, both changes, per Morneau Shepell documentation, were requested by CMS in March 2017 and relate to new health care options that were to be included as part of the May 2017 Open Enrollment Period. Those **options were never implemented**.

While auditors **cannot place a dollar value on the activities that DoIT conducts** relative to the Custom Benefit Solution project, the activities utilize additional State resources and contribute to **increased overall cost** of the project. DoIT staff participates in State system modifications and report development as part of the management of the Custom Benefit Solution.

The contract with Morneau Shepell lists a number of optional services the State can elect to have Morneau Shepell perform for additional costs. CMS selected three of those optional services, **one (COBRA Administration and Billing) which already was being performed by CMS staff**. (pages 46-53)

Compliance with Performance Standard Guarantees

According to the former Governor’s Deputy Director of Government Transformation, prior to even awarding a contract to Morneau Shepell for the Custom Benefit Solution, a CMS official had *“some grave concerns about delays and unforeseen barriers related to [Morneau Shepell] that may jeopardize overall success.”* [Emphasis Added]

There were a number of concerns with the Custom Benefit Solution prior to the Go-Live date on September 30, 2016.

Prior to Go-Live, a number of groups had concerns with the Custom Benefit Solution. These groups included the Teachers’ Retirement System, the Custom Benefit Solution Steering Committee, and a health check conducted by DoIT for the Custom Benefit Solution project with results reported to CMS officials on September 29, 2016, **the day before the Go-Live** for the system. It is not clear that CMS brought all the groups to the table that would be affected by the Custom Benefit Solution. (pages 56-58)

CMS failed to ensure that **all components** of the Custom Benefit Solution **were properly tested prior to implementation** of the system. This resulted in instances where employees and retirees: were **charged incorrect amounts**; were **incorrectly cancelled** from benefits; and had **members listed as having coverage when they should have been terminated**.

The accelerated implementation led to a system that had multiple performance problems which affected employees and retirees.

While the procurement of the Custom Benefit Solution was **accelerated**, so too was the implementation of the Custom Benefit Solution. The “Go-Live” for the project was **two to four months prior** to what Morneau Shepell had proposed in its response to the solicitation. This aggressive implementation led to a **system that had multiple performance problems**, which affected employees and retirees prior to problem resolution.

Performance guarantees were written into the contract between CMS and Morneau Shepell. The contract provides guarantees to be met or penalties to be imposed if the guarantees are not met. Guarantees were broken into implementation guarantees and ongoing service guarantees.

Relative to performance guarantee reporting:

Morneau Shepell did not report on every performance guarantee monthly pursuant to the contract.

CMS did not ensure that written plans of correction were submitted by Morneau Shepell.

We found 24 instances where a breach of contract, as defined in the RFP, would have occurred in the first two years of the system. However, CMS failed to include this language in the contract.

It took over 600 days after contract execution for CMS to define how to report monthly.

CMS has withheld the maximum fees applicable to not meeting performance guarantees. However, due to changes in reporting of guarantee compliance, Morneau Shepell may be receiving credit for these deductions.

CMS’ contract with Morneau Shepell provided for self-reported performance guarantee statistics; however, the vendor **did not always report on every guarantee as required by the contract**. We found issues relative to CMS oversight of the performance guarantees including:

- CMS provided **little incentive** for Morneau Shepell to meet all of the performance guarantees outlined in the contract by **capping the fee reduction** on the administrative fee charged to four missed guarantees. Our analysis of Morneau Shepell **initial reporting figures** showed as many as seven monthly and ten quarterly guarantees missed, yet by contract CMS was only allowed to penalize for four missed guarantees. CMS eventually allowed Morneau Shepell to **revise its self-reported compliance guarantees as many as three times** when reporting monthly performance.
- CMS did not consistently enforce the contractual requirement for Morneau Shepell to **submit written plans of correction** for failure to meet a performance guarantee for two consecutive months. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was **no written corrective action plan submitted**, which was a violation of the contract.
- CMS **failed to include the breach of contract language from the RFP in the contract** for guarantees missed in three consecutive months. Our analysis of the **initial** self-reported Morneau Shepell monthly performance metrics found **24 instances** where it missed the metric for three consecutive months.

CMS failed to enforce the time reporting requirements from the contract with Morneau Shepell for reporting on performance guarantees. While the contract executed May 3, 2016, called for “monthly” reporting, it **took CMS over 600 days to define when Morneau Shepell had to submit those “monthly” reports**. (pages 58-69)

Reductions in Administrative Fee

Between May 2016 and September 2018, Morneau Shepell invoiced CMS 28 times for the implementation and ongoing support of the Custom Benefit Solution. Morneau Shepell has been paid in full for 19 of the 28 invoices, four of those being for implementation services. For the 15 invoices paid related to ongoing support, CMS deducted the 20 percent maximum performance fee penalty **in all 15 instances**. In total, CMS has withheld performance penalties from the administrative fees, per the contract, of over \$2.1 million. As of September 30, 2018, CMS had a total of \$6,770,003.56 worth of invoices to be paid to Morneau Shepell for the Custom Benefit Solution. (pages 69-70)

RECOMMENDATIONS

This audit report contains nine recommendations directed to the Department of Central Management Services. The Department agreed with all the recommendations. Appendix C to the audit report contains the agency responses.

This performance audit was conducted by staff of the Office of the Auditor General.

SIGNED ORIGINAL ON FILE

Joe Butcher
Division Assistant Director

This report is transmitted in accordance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:MJM

