



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT

DEPARTMENT OF PUBLIC
AID'S CONTRACTS WITH
THE DELTADENTAL PLAN
OF ILLINOIS

SEPTEMBER 1999

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*To the Legislative Audit Commission, the Speaker and
Minority Leader of the House of Representatives, the
President and Minority Leader of the Senate, the
members of the General Assembly, and the Governor:*

This is our report of the Management Audit of the Department of Public Aid's Contracts with the Delta Dental Plan of Illinois.

The audit was conducted pursuant to Legislative Audit Commission Resolution Number 113, which was adopted April 20, 1998. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
September 1999

REPORT DIGEST

Management Audit of
**DEPARTMENT OF PUBLIC
AID'S CONTRACTS WITH
THE DELTA DENTAL PLAN
OF ILLINOIS**

Released: September 1999



State of Illinois
Office of the Auditor General

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SYNOPSIS

Legislative Audit Commission Resolution Number 113 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). Public Aid contracted with Delta from August 1, 1984 to February 28, 1999 to operate the Department's dental program.

Our audit found that:

- The Department's most recent contract with Delta, for the period May 1, 1996 through February 28, 1999, contained adequate controls to effectively manage the contractor's performance. However, Public Aid did not effectively monitor Delta's performance. Specifically, we found that:
 - The Department did not track required reports;
 - Excess surplus reports were submitted almost a year late in some cases; and
 - Provider participation and EPSDT reports also were not all submitted.
 - The Department did not monitor denied claims or the timeliness of claims processing;
 - The Department did not use enforcement provisions, such as liquidated damage clauses, to ensure contractor performance or sanction non-compliance;
 - Reviews of Delta's compliance with contract provisions were not timely and were limited in scope; and
 - The Department did not approve cost allocation plans in a timely manner.
- Administrative expenses charged by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. For every dollar spent on the program in 1998, about 60 cents was spent for claims while 40 cents was spent for administration. Also, while the amount of Public Aid claims paid by Delta has decreased from \$31.71 million in 1994 to \$17.73 million in 1998, administrative costs over the same period remained fairly constant between \$9.26 million and \$11.52 million.
- Public Aid's manner of soliciting and evaluating proposals for the new dental contract, effective March 1, 1999, generally conformed with applicable legal requirements and prudent business practices. However, there are practices that could be improved.

During this audit, Public Aid awarded a new three-year contract for dental services to Doral Dental Services of Illinois (Doral) effective March 1, 1999. Many of the issues discussed in this audit related to Public Aid's contract management and controls are still relevant to the new contract with Doral.

REPORT CONCLUSIONS

The Illinois Department of Public Aid (Public Aid) paid \$89.5 million to the Delta Dental Plan of Illinois (Delta) to administer the Medicaid dental program for fiscal years 1996-98. In fiscal year 1998, on average there were 1,309,340 persons eligible for dental services. The Department's most recent contract with Delta, for the period May 1, 1996 through February 28, 1999, contained adequate controls to effectively manage the contractor's performance.

While the contract with Delta contained adequate controls, Public Aid did not effectively monitor Delta's performance. We found that:

- The Department did not track whether required reports were submitted;
- The Department did not monitor denied claims or the timeliness of claims processing. Specifically, regarding denied claims, we questioned 17 of 68 denied claims tested that were initially denied by Delta because the client was ineligible. However, Public Aid records indicated that all 17 clients were indeed eligible on the date of service. Public Aid provided information that showed providers in 11 of the 17 claims eventually received payment, in some cases almost a year after the submission of the initial claim;
- The Department did not use enforcement provisions in the contract that could have resulted in over \$3 million in liquidated damages for contract violations related to the submission of excess surplus reports;
- Reviews of Delta's compliance with contract provisions were not timely and were limited in scope; and
- The Department was slow in making decisions related to managing the contract; contract amendments and cost allocation plans were signed and approved after the effective date in many cases.

The amount of Delta's excess surplus has not been adequately monitored. In some cases, surplus reports were submitted almost a year late. The Department also did not collect excess surplus funds due to the State with these reports. We also identified \$2.2 million in questionable expenses reported to Public Aid by Delta. These expenses were questionable because either there was a lack of supporting documentation or the expenses were inappropriately applied to the Public Aid program. Public Aid has agreed that it will examine these expenses in the Department's audit of this period.

Administrative expenses charged by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. In 1998, Delta spent a total of \$29.2 million related to the Public Aid dental program (\$17.7 million for claims expense and \$11.5 million for administration of the program). For every dollar spent on the program in 1998, about 60 cents was spent for claims while 40 cents was spent for administration. According to a 1990 Coopers and Lybrand study commissioned by Public Aid, reasonable administrative costs for a typical dental program range from 15 to 20 percent of benefits. The contract anticipated that 27 percent of the capitation rate be spent for administrative expenses. In 1998, Delta's administrative expenses charged to the program were 36 percent of total premiums. Also, while the amount of Public Aid claims paid by Delta has decreased from \$31.71 million in 1994 to \$17.73 million in 1998, administrative costs over the same period remained fairly constant between \$9.26 million and

\$11.52 million. Public Aid officials stated they will review these costs and take action to disallow inappropriate costs in the Department's audit of this period.

During this audit, Public Aid awarded a new contract for dental services to a different company. A three year contract was awarded to Doral Dental Services of Illinois (Doral) and went into effect March 1, 1999. The new contract with Doral is different from previous contracts with Delta. 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 audit related to Public Aid's contract management and controls are still relevant to the new contract with Doral.

Public Aid's manner of soliciting and evaluating proposals for the new dental contract, effective March 1, 1999, generally conformed with applicable legal requirements and prudent business practices. However, there are practices that could be improved such as date stamping proposals and keeping an official record of the proposal opening. The Department should also document evaluation committee meetings, discussions with proposers, oral presentations by proposers, and negotiations after the best and final offer.

Public Aid fully or partially implemented 20 of 26 recommendations from our 1990 audit of Public Aid's contract with Delta Dental. Many of these recommendations are applicable to Public Aid's new contract for dental services with Doral.

DENTAL PROGRAM OVERVIEW

The Department of Public Aid (Public Aid) provides dental care through the Medical Assistance Program, the jointly funded federal-State public assistance program which implements Title XIX and Title XXI of the Social Security Act (Medicaid). Under federal Medicaid guidelines, dental services are optional. Each state can determine the range of services offered as well as the fee level. An exception is the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) which was added in a 1983 amendment to the Social Security Act. The EPSDT program mandates the inclusion of dental services for children and adolescents through age twenty. From August 1, 1984 to February 28, 1999, the Department contracted with Delta to manage a pre-paid dental program. The Department paid a capitated rate for these services.

Client Population

Several groups of clients are eligible for differing levels of services under the Department's dental program, including children (ages 0-20), adults (ages 21 & over), and Department of Children and Family Services (DCFS) wards. **Digest Exhibit 1** shows that there were on average 1,309,340 eligible clients per month in fiscal year 1998.

Digest Exhibit 1 Average Monthly Eligible Clients Fiscal Year 1998	
Group	Number Eligible
Children (ages 0-20)	793,132
Adults (ages 21 & over)	516,208
Total	1,309,340
Note: Does not include DCFS clients Source: OAG analysis of Public Aid data	

Digest Exhibit 2 shows the average monthly eligible clients for fiscal years 1996 through 1998. The total number of eligible clients increased over this time period primarily because the adult dental program was reinstated on an emergency basis as of January 1, 1997. As can be seen in the exhibit, utilization of services by clients was the lowest in 1998 with only 18 percent of eligible clients receiving services in that year. While some of the decline in utilization percentage can be attributed to the addition of adults to the program in January 1997, the utilization percentage for children also declined six percent from 1997 to 1998.

Utilization of services by clients was the lowest in 1998 with only 18 percent of eligible clients receiving services in that year.

Digest Exhibit 2 Utilization Rates Fiscal Years 1996-1998			
Fiscal Year	Average Monthly Eligible Clients	Clients Receiving Dental Services	Utilization Rate
All Clients			
1996	851,985	280,746	32.95%
*1997	1,078,013	283,341	26.28%
1998	1,309,340	237,048	18.10%
Children			
1996	851,985	280,746	32.95%
1997	819,118	271,738	33.17%
1998	793,132	216,423	27.29%
Adults			
1996	-	-	-
1997	517,790	11,603	2.24%
1998	516,208	20,625	4.00%
Notes: *Average for all clients in fiscal year 1997 does not include adult data for the first six months of the fiscal year. Does not include DCFS clients Adult Emergency Dental Effective January 1, 1997 Source: OAG analysis of Public Aid data			

Dental Providers and Program Participation

The number of enrolled dentists by Public Aid has continually decreased over the last three years.

Digest Exhibit 3 shows the number of dentists enrolled by Public Aid for fiscal years 1996-1998. The number of enrolled dentists by Public Aid has continually decreased over the last three years. In fiscal year 1996, Public Aid had 3,791 enrolled dentists in the program. By fiscal year 1998, Public Aid had only 3,311 enrolled dentists in the dental program. This represents a 13 percent decrease. Of the 3,311 enrolled dentists in fiscal year 1998, 1,524 dentists or 46 percent received payment for services provided to Public Aid clients in fiscal year 1998. (pages 3-6)

Digest Exhibit 3 Number of Enrolled Dentists Fiscal Years 1996-1998	
Fiscal Year	Number of Dentists
1996	3,791
1997	3,476
1998	3,311
Source: OAG analysis of Public Aid data	

The contract between Public Aid and Delta for the period May 1, 1996 through February 28, 1999 contained adequate controls to allow Public Aid to effectively manage Delta's performance.

CONTRACTUAL CONTROLS ARE ADEQUATE

We found that the contract between Public Aid and Delta for the period May 1, 1996 through February 28, 1999 contained adequate controls to allow Public Aid to effectively manage Delta's performance. The contract contained provisions that allowed Public Aid to monitor the utilization of services, client access to services, the number of claims paid or denied, and Delta's financial stability. The contract contained program monitoring requirements, financial reporting requirements, and provisions for liquidated damages to ensure program requirements had been met by Delta. (pages 15-17)

Public Aid did not adequately monitor Delta's performance.

PUBLIC AID DID NOT ADEQUATELY MONITOR DELTA'S PERFORMANCE

Although the most recent contract between Public Aid and Delta contained adequate provisions related to management controls, Public Aid did not track whether required information was being submitted. Delta did not submit all the reports required by the contract. Furthermore, of the reports that we were able to collect, Public Aid utilized very few of them to assess performance or compliance with contract requirements. Public Aid did not have procedures related to how the program should be monitored, reports that should be run with data submitted by Delta, or how to track whether required data was being submitted. In many cases, the reports that were received from Delta were late.

Utilization Data

Even though the Department received all 24 of the required utilization tapes required for fiscal years 1997 and 1998, only 9 tapes were received by the contractual deadline. Also, the utilization tape was initially rejected for 6 of the 24 months for reasons such as an error rate greater than three percent or poor quality of tape.

Denied Claims

Public Aid was unable to provide us with the number and amount of denied claims for fiscal years 1997 and 1998. We identified a field in the utilization tape record referred to as the disposition code. This code would have shown which claims were denied and the reason for denial; however, the field was not readable. The computer record field was two bytes long but the disposition codes were three bytes in length. Therefore, the data was truncated and unreadable. Also, the edit program did not edit the disposition code field because these edits were removed by Public Aid 10 years ago.

Public Aid has not monitored the number and disposition of denied claims.

Public Aid has not monitored the number and disposition of denied claims. If denied claims are not monitored, the contractor could be improperly denying payment to dental providers for legitimate services to eligible clients. We questioned 17 of 68 denied claims tested that were initially denied by Delta because the client was ineligible. However, Public Aid records indicate that all 17 clients were indeed eligible on the date of service. Public Aid provided data that showed that providers in 11 of the 17 claims eventually received payment, in some cases almost a year after the submission of the initial claim. Delta's system does not record the date eligibility files are updated, so we could not determine when Delta received the correct eligibility information from Public Aid.

Timeliness of Claims Processing

We asked the Department to provide information that showed how long Delta takes to process claims. From the utilization data submitted by Delta, the Department provided us with the number of days from the provider billing date to the date the claim was paid by Delta. The data showed that during calendar year 1998, more than 95 percent of claims were paid within 30 days. Although the Department was able to provide this data upon our request, they did not monitor the timeliness of claims processing on an ongoing basis.

We conducted samples at Delta of 100 paid claims and 68 denied claims in calendar year 1998. Five of the 100 (5%) paid claims sampled were paid after 30 days, with one claim taking 101 days. Of the 68 denied claims, 7 (10%) were processed after 30 days, with one claim taking 60 days.

Federal regulations (42 CFR 447.45 (d)) require that 90 percent of all clean claims be paid within 30 days of the date received and 99 percent within 90 days. Section 5.11 of the contract between Delta Dental and Public Aid required all claims to be paid within 30 days after receipt of properly documented, complete, and accurate claims. Further, this section required that Delta pay nine percent interest on any claims from the 30th day until the claim is paid. In our examination of claims paid, we found no evidence that any interest had been paid on claims that were paid after 30 days had elapsed. (pages 18-30)

FINANCIAL MONITORING

Public Aid did not adequately monitor the financial requirements of the contract.

Public Aid did not adequately monitor the financial requirements of the contract. Although most of the required financial reports were submitted, key reports were either not submitted, submitted late, or were not approved in a timely manner.

We were unable to determine if some financial information was submitted in a timely manner because the Department did not date/time stamp the profit and loss statements and one of the audited financial statements or keep a log. In some instances, such as the excess surplus reports and audited financial statements, Department officials interviewed were unaware that they did not have this information and made no efforts to obtain this information until asked by OAG auditors.

Cost Allocation Plans

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 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.

Excess Surplus Reports

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 officials interviewed were unaware that the reports had not been submitted and only requested them from Delta after the issue was raised by OAG auditors.

Public Aid did not adequately monitor whether Delta was submitting excess surplus reports.

The interim and final excess surplus reports that covered the period of May 1, 1996 to April 30, 1997 showed that a total refund of \$110,292 was due to the Department. Delta was to submit 40 percent of the excess amount due (\$44,117) with the interim report and the remainder (\$66,175) with the final report. However, Delta did not submit the refunds with these reports as required in the contract. A Public Aid official stated that the refund was not submitted because amendment number four allowed Delta to use the surplus amount toward the increase in dental rates and the amendment superseded the contract requirement. However, amendment number four was not approved until October 23, 1998 which was after these payments should have been made.

The excess surplus report submitted by Delta on January 7, 1999 covered a 22 month period from May 1, 1997 through February 28, 1999. The contract required this report to cover the 12 month period from May 1, 1997 to April 30, 1998. The report projected that Delta owed Public Aid \$434,384 of

which 40 percent or \$173,754 should have been submitted with the report. However, again no payment was submitted with the report.

Liquidated Damages

Digest Exhibit 4 summarizes the required excess surplus reports submittal dates, number of days the reports were late, and the liquidated damages that could have been assessed. The interim report due December 1, 1997 was received 359 days late. The final report, due on June 1, 1998, was received 212 days late. The interim report due on December 1, 1998, was received 37 days late. Delta officials stated that they were not able to submit the interim excess surplus report due December 1, 1997 because there was no approved cost allocation plan.

Liquidated damages totaling \$3,040,000 could have been assessed against Delta.

Section 10.3(c) of the contract states “the Department **shall assess** the Contractor the sum of five thousand dollars (\$5,000.00) per day until the delinquent report is received.” [emphasis added] As shown in **Digest Exhibit 4**, liquidated damages totaling \$3,040,000 could have been assessed against Delta for failure to provide these reports by the dates specified in the contract. We asked Public Aid officials if the Department was going to assess liquidated damages regarding the late submission of excess surplus reports. Public Aid responded that 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. However, as of September 2, 1999 there has been no decision and no penalty assessed.

Digest Exhibit 4 Submittal of Excess Surplus Reports				
Report	Due Date	Date Received	Days Late	Potential Liquidated Damages
Interim	12-1-97	11-25-98	359	\$1,795,000
Final	6-1-98	12-30-98	212	\$1,060,000
Interim	12-1-98	1-7-99	37	\$185,000
Total			<u>608</u>	<u>\$3,040,000</u>
Source: OAG analysis of contract and Excess Surplus Reports submitted by Delta				

Audited Financial Statements and Profit & Loss Statements

Public Aid did not track whether Delta’s audited financial statements were received as required by the contract. In late 1998, the most recent 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 the required profit and loss statements. (pages 31-37)

OTHER REVIEWS

While internal audits and quality assurance/compliance reviews have been conducted, they have not been consistent or comprehensive. There has not been an internal audit or quality assurance/compliance review completed for the time

period during the last contract with Delta (May 1996 to February 1999). The Department also has not conducted an audit that evaluates Delta's performance as is required in the contract. (pages 37-40)

PUBLIC AID'S MANAGEMENT OF THE CONTRACT

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 May 1, 1996 through April 30, 1998, was not signed by Public Aid until June 3, 1996. 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. Amendment one added coverage for DCF's wards, amendment two added the adult emergency program, amendment three extended the contract through February 1999, and amendment four increased reimbursement rates to dentists. (page 41)

REASONABLENESS OF FEES

Overall, the amount of premiums paid to Delta to administer the dental program has decreased by nearly 28 percent from \$43.80 million in 1994 to \$31.75 million in 1998. However, adult services were eliminated from the program July 1, 1995 and then reinstated January 1, 1997 on an emergency only basis. The capitation rate paid to Delta for clients ages 0 through 20 increased from \$2.38 in 1985 to \$2.85 in 1998. This represents a 20 percent increase for the period 1985 to 1998 or about 1.4 percent per year.

The amount of surplus between premiums and expenses for the Public Aid dental program increased from \$720,000 in 1996 to over \$4.6 million in 1997 and \$2.5 million in 1998. The increase in surplus in 1997 and 1998 may be due to the addition of adult emergency services to the dental program in January 1997. In fiscal years 1997 and 1998, Public Aid paid premiums related to adults of \$2.6 million and \$5.1 million respectively. However, claims paid by Delta for adults amounted to only \$645,593 and \$1,060,864 for those years. Also, the adult program only served 12,832 clients in fiscal year 1997 and 21,390 clients in fiscal year 1998. Effective July 1, 1999, Public Aid amended the new contract with Delta to make adults eligible for non-emergency dental services also.

Our review of Delta's financial records identified over \$2.2 million in questionable expenses reported by Delta to Public Aid. These expenses were questionable because either there was a lack of supporting documentation or the expenses were inappropriately applied to the Public Aid program. Public Aid has agreed that it will examine these expenses in the Department's audit of this period. (pages 43-56)

DELTA'S ADMINISTRATIVE EXPENSES

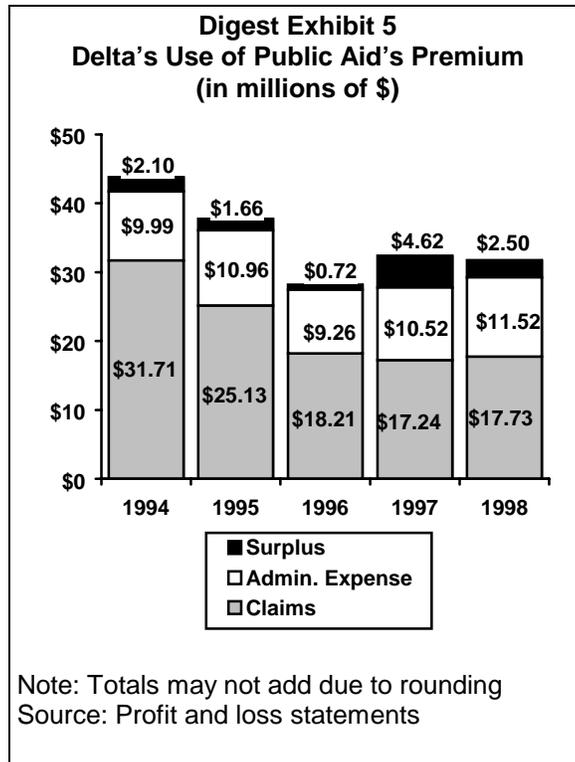
Administrative expenses charged to the Public Aid program by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. In 1998, Delta spent a total of \$29.2 million related to the Public Aid dental program (\$17.7 million for claims expense and \$11.5 million for administration of the program). In other words, for every dollar spent on the program in 1998, about 60 cents was spent for claims while 40 cents was spent for administration. According to a 1990 Coopers and Lybrand study commissioned by Public Aid, reasonable administrative costs for a typical program range from 15 to 20 percent of benefits. The contract anticipated that 27 percent of the capitation rate be spent for administrative expenses. In 1998, Delta's administrative expenses charged to the Public Aid dental program were 36 percent of total premiums received from Public Aid. Also, while the amount of Public Aid claims paid by Delta has decreased from 1994 to 1998, administrative costs over the same period remained fairly constant.

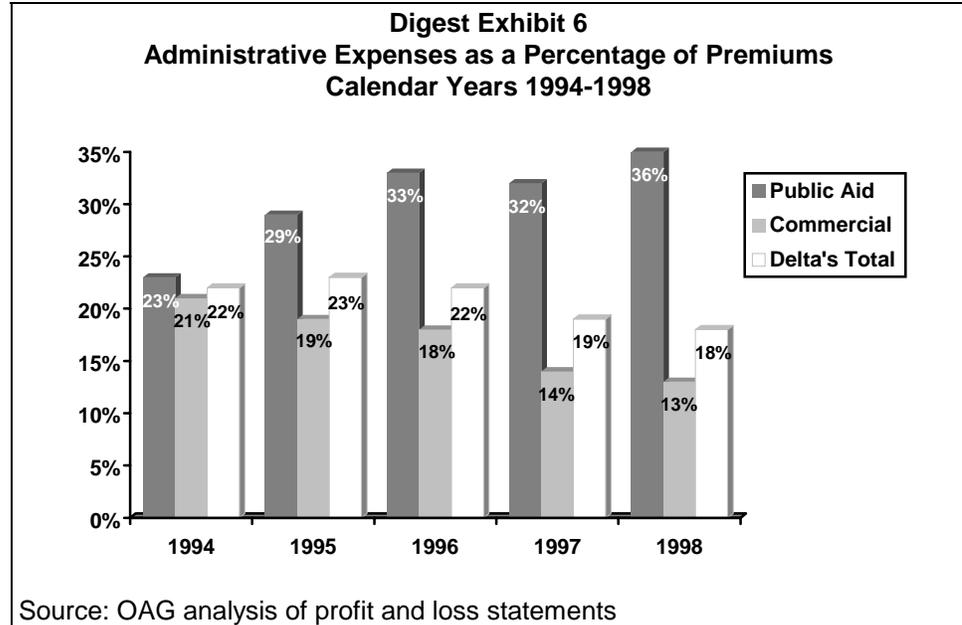
Administrative expenses charged to the Public Aid program by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract.

Digest Exhibit 5 shows how Delta used the premiums paid by Public Aid. The amount of claims paid by Delta significantly decreased from 1994 to 1998. In 1994, Delta paid out \$31.71 million (72% of premiums) for claims. Claims paid by Delta decreased to \$17.2 million (53% of premiums) in 1997 and \$17.7 million (56% of premiums) in 1998.

In 1994, the percent of premiums Delta spent for administrative expenses were very similar between Public Aid and other commercial clients. In 1994, administrative expenses charged to Public Aid amounted to 23 percent of Public Aid premiums while

commercial clients' administrative expenses amounted to 21 percent of commercial premiums. However, after 1994, Public Aid began to pay increasingly more in administrative expenses as a percentage of their premium than did commercial clients. By 1998, 36 percent of Public Aid premium was used for administrative expenses. During this same time period, the administrative costs charged to commercial clients dropped from 21 percent of their premiums in 1994 to 13 percent of their premiums in 1998 (*see Digest Exhibit 6*).





Contract Allocation Regarding Usage of the Capitation Rate

The contract that was effective May 1996 through February 1999 detailed the capitation rate to be paid to Delta. As shown in *Digest Exhibit 7*, the capitation rate was comprised of two components: administration and benefits. (pages 46-52)

Digest Exhibit 7
Breakout of Contract Capitation Rate by
Administration vs Benefit

Time Period	Administration Amount	Percent Administration	Benefits Amount	Percent Benefit	Total Rate
5/96 - 4/97	\$.75	26.8%	\$2.05	73.2%	\$2.80
5/97 - 2/99	\$.78	27.4%	\$2.07	72.6%	\$2.85

Source: OAG analysis of Delta Dental contract

The fees that Illinois pays to dentists for dental procedures are comparable to the rates paid by other states.

PROVIDER REIMBURSEMENT RATES

The fees that Illinois pays to dentists for dental procedures are comparable to the rates paid by other states. Prior to July 1998, reimbursement rates paid to providers under the program ranked very low in comparison to other state dental programs. However, effective July 1, 1998, Public Aid amended the contract with Delta to increase the rates paid to dentists for certain commonly performed procedures. Rates paid to providers, with the exception of x-rays, are now comparable with rates paid by Medicaid programs in other states. (pages 56-58)

SOLICITATION AND EVALUATION OF PROPOSALS

The Department of 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. However, there are practices that could be improved. Public Aid did not date stamp proposals as they were received or keep an official record of the proposal opening. Public Aid also did not document committee meetings held to discuss evaluations, discussions with proposers, oral presentations by proposers, or negotiations after the best and final offers.

During the time the RFP was released, procurement was governed by Executive Order 3. This executive order required that agency procurement be substantially in accordance with the Illinois Procurement Code from February 6, 1998 to July 1, 1998. Public Aid officials stated that the new contract for dental services is arguably a purchase of care contract. However, we questioned whether the new contract met the definition of purchase of care. Both Executive Order 3 and the Illinois Procurement Code make that type of contract exempt from requirements. (pages 59-75)

The Department of 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.

PREVIOUS AUDIT

Public Aid fully or partially implemented 20 of 26 recommendations from our 1990 audit of Public Aid's contract with Delta Dental. Many of these recommendations are applicable to Public Aid's new contract for dental services with Doral. (pages 77-91)

AUDIT RECOMMENDATIONS

This audit contains 15 recommendations to improve the management of Public Aid's contract for dental services. This audit makes recommendations to improve the monitoring of denied claims, the timeliness of claims processing, complaints and grievances, EPSDT requirements, and providers and provider participation ratios. In addition, the audit recommends that Public Aid track whether financial reports are being submitted in a timely manner, approve cost allocation plans in a more timely manner, monitor and collect excess surplus when due, and enforce contract provisions. The Department should also conduct audits and other reviews in a timely manner and should ensure that the contractor documents expenses and adjustments related to the calculation of excess surplus. Finally, the audit recommends ways that the Department can improve the solicitation and evaluation process and recommends that the Department implement recommendations from the previous audit that were not fully implemented which are applicable to the new contract for dental services.

The Department of Public Aid generally agreed with most of the recommendations in the audit. The Department of Public Aid's responses are provided after each recommendation. Public Aid's and Delta's complete written responses are reproduced in Appendix D.

WILLIAM G. HOLLAND
Auditor General

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GLOSSARY

- Administrative Expenses** - The operating expenses of Delta that are allocated to Public Aid based on the cost allocation plan. Administrative expenses, along with claims, are deducted from premiums in determining the excess surplus.
- Capitation Rate** - The rate per eligible recipient which is paid to the contractor on a monthly basis.
- Claims** - Bills for services sent to Delta from participating providers.
- Cost Allocation Plan** - The plan submitted by the contractor and approved by Public Aid which explains the basis upon which all expenses will be allocated.
- Eligible Recipient** - Any individual who is eligible to receive benefits under the Medical Assistance Program.
- EPSDT Dental Program** - The Early and Periodic Screening, Diagnosis, and Treatment Program.
- Excess Surplus** - The surplus in excess of four percent of the contractor's earned premiums. Delta must return 75 percent of the excess surplus to Public Aid. Surplus means the excess of earned capitation over the sum of incurred claims and administrative expenses.
- Fee-for-Service** - A method of payment whereby providers are paid on the basis of charges for individual services.
- FQHC** - Federally Qualified Health Center
- Liquidated Damages** - Damages specified in the contract that can be imposed on the contractor for failure to perform certain duties and obligations.
- Ollie Smith (Smith vs. Miller)** - A court ruling that sets an upper limit on the processing time of prior authorizations.
- Participating Provider** - Any dentist licensed to provide dental services who is enrolled with the Illinois Department of Public Aid and provides covered services to an eligible recipient.
- Premiums** - The capitation payments made by Public Aid to Delta on a monthly basis. The premiums paid are used to calculate the excess surplus.
- Pre-paid Plan** - A type of plan where an entity provides services to enrolled recipients on the basis of prepaid capitation fees.
- RFP** - Request For Proposal
- Utilization Tape** - The monthly data file submitted by Delta which is to consist of records of all dental services requested, approved, denied, and paid.

Chapter One

INTRODUCTION

On April 20, 1998, the Legislative Audit Commission (LAC) adopted Resolution Number 113, directing the Auditor General to conduct a management audit of the Department of Public Aid's contracts with the Delta Dental Plan of Illinois (See Appendix A). The resolution asked us to determine:

- P Whether the Department of Public Aid had addressed concerns expressed in the prior management audit and implemented the recommendations contained in the prior audit;
- P Whether the Department of Public Aid's current contract provides the Department with adequate controls to effectively manage the performance of Delta Dental Plan of Illinois;
- P Whether the Department's review of Delta Dental Plan of Illinois' performance assessed compliance with all pertinent contract provisions, including the timeliness of claims processing and the disposition of claims denied for reimbursement;
- P Whether the fees paid by the State, under the terms of the current contract and any new contract, for dental care are reasonable;
- P Whether the manner of soliciting proposals for a new contract was adequate and in conformity with any applicable laws and prudent business practices; and
- P Whether the manner and basis of evaluating proposals for dental care was adequate and in conformity with any applicable laws and prudent business practices.

REPORT CONCLUSIONS

The Illinois Department of Public Aid (Public Aid) paid \$89.5 million to the Delta Dental Plan of Illinois (Delta) to administer the Medicaid dental program for fiscal years 1996-98. In fiscal year 1998, on average there were 1,309,340 persons eligible for dental services. The Department's most recent contract with Delta, for the period May 1, 1996 through February 28, 1999, contained adequate controls to effectively manage the contractor's performance.

While the contract with Delta contained adequate controls, Public Aid did not effectively monitor Delta's performance. We found that:

- P The Department did not track whether required reports were submitted;

- P The Department did not monitor denied claims or the timeliness of claims processing. Specifically, regarding denied claims, we questioned 17 of 68 denied claims tested that were initially denied by Delta because the client was ineligible. However, Public Aid records indicated that all 17 clients were indeed eligible on the date of service. Public Aid provided information that showed providers in 11 of the 17 claims eventually received payment, in some cases almost a year after the submission of the initial claim;
- P The Department did not use enforcement provisions in the contract that could have resulted in over \$3 million in liquidated damages for contract violations related to the submission of excess surplus reports;
- P Reviews of Delta's compliance with contract provisions were not timely and were limited in scope; and
- P The Department was slow in making decisions related to managing the contract; contract amendments and cost allocation plans were signed and approved retroactively in many cases.

The amount of Delta's excess surplus has not been adequately monitored. In some cases, surplus reports were submitted almost a year late. The Department also did not collect excess surplus funds due to the State with these reports. We also identified \$2.2 million in questionable expenses reported to Public Aid by Delta. These expenses were questionable because either there was a lack of supporting documentation or the expenses were inappropriately applied to the Public Aid program. Public Aid has agreed that it will examine these expenses in its close-out audit of the Delta contract.

Administrative expenses charged by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. In 1998, Delta spent a total of \$29.2 million related to the Public Aid dental program (\$17.7 million for claims expense and \$11.5 million for administration of the program). For every dollar spent on the program in 1998, about 60 cents was spent for claims while 40 cents was spent for administration. According to a 1990 Coopers and Lybrand study commissioned by Public Aid, reasonable administrative costs for a typical dental program range from 15 to 20 percent of benefits. The contract anticipated that 27 percent of the capitation rate be spent for administrative expenses. In 1998, Delta's administrative expenses charged to the program were 36 percent of total premiums. Also, while the amount of Public Aid claims paid by Delta has decreased from \$31.71 million in 1994 to \$17.73 million in 1998, administrative costs over the same period remained fairly constant between \$9.26 million and \$11.52 million. Public Aid officials stated they will review these costs and take action to disallow inappropriate costs as it completes its audit of this period.

During this audit, Public Aid awarded a new contract for dental services to a different company. A three year contract was awarded to Doral Dental Services of Illinois (Doral) and went into effect March 1, 1999. The new contract with Doral is different from previous contracts with Delta. 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 audit related to Public Aid's contract management and controls are still relevant to the new contract with Doral.

Public Aid's manner of soliciting and evaluating proposals for the new dental contract, effective March 1, 1999, generally conformed with applicable legal requirements

and prudent business practices. However, there are practices that could be improved such as date stamping proposals and keeping an official record of the proposal opening. The Department should also document evaluation committee meetings, discussions with proposers, oral presentations by proposers, and negotiations after the best and final offer.

Public Aid fully or partially implemented 20 of 26 recommendations from our 1990 audit of Public Aid's contract with Delta Dental. Many of these recommendations are applicable to Public Aid's new contract for dental services with Doral. (see Chapter Five).

BACKGROUND

A prior audit of Public Aid's contract with Delta Dental (Delta) was released by the Auditor General's Office in January 1990. The audit found that Public Aid contained costs for the program, but that Delta's administrative costs and surplus increased, while money spent on claims decreased. The audit also found that some dentists discontinued treating Public Aid recipients and others reduced their level of involvement. The audit reported that while the contracts were adequate for their intended purpose, Public Aid did not closely monitor contract provisions or contractor performance. Public Aid also did not follow federal requirements and document that their program costs were less expensive than the alternative of providing a fee-for-service program. The audit contained 26 recommendations and two Matters for Consideration by the General Assembly. The specific previous audit recommendations are discussed further in Chapter Five.

DENTAL PROGRAM OVERVIEW

The Department of Public Aid (Public Aid) provides dental care through the Medical Assistance Program, the jointly funded federal-State public assistance program which implements Title XIX and Title XXI of the Social Security Act (Medicaid). Under federal Medicaid guidelines, dental services are optional. Each state can determine the range of services offered as well as the fee level. An exception is the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) which was added in a 1983 amendment to the Social Security Act. The EPSDT program mandates the inclusion of dental services for children and adolescents through age twenty. From August 1, 1984 to February 28, 1999, the Department contracted with Delta to manage a pre-paid dental program. The Department paid a capitated rate for these services.

Client Population

Several groups of clients are currently eligible for differing levels of services under the Department's dental program, including children (ages 0-20), adults (ages 21 & over), and Department of Children and Family Services (DCFS) wards. The Department's dental program for child clients and KidCare participants is a comprehensive dental care program for children age zero through 20. Kidcare is a State program that began in January 1998, that allows eligibility for children whose family incomes are up to 133 percent of the federal poverty level and pregnant women whose incomes are up to 200 percent of the federal poverty level. Heads of households who have not yet reached their

21st birthday are also eligible for these services. Children through age 20 make up the majority of Public Aid's eligible clients.

Exhibit 1-1 shows that of the 1,309,340 average monthly eligible clients in fiscal year 1998, 793,132 (61%) were between the ages of 0-20 while 516,208 (39%) were adults age 21 and over. Effective July 1, 1997, Medicaid eligibility is determined by the Department of Human Services (DHS) per an interagency agreement with Public Aid.

Exhibit 1-1 Average Monthly Eligible Clients Fiscal Year 1998	
Group	Number Eligible
Children (ages 0-20)	793,132
Adults (ages 21 & over)	516,208
Total	1,309,340
Note: Does not include DCFS clients Source: OAG analysis of Public Aid data	

The dental program discontinued adult services in July 1995. The Department reinstated dental services to adults in January 1997, but only on an emergency basis. During this time only limited services were available for adult clients that met the definition of emergency. Effective July 1, 1999, Public Aid amended the new contract with Doral to make adults eligible for non-emergency dental services also.

DCFS wards qualify for a wider range of dental services than are provided to other Medicaid eligible clients. Claims for service to DCFS wards, for procedures that are not normally covered for other clients but that are approved by DCFS staff, are processed through a special process unique to these children. This group was added effective July 1, 1996.

Exhibit 1-2 shows the average monthly eligible clients for fiscal years 1996 through 1998.

Exhibit 1-2 Utilization Rates Fiscal Years 1996-1998			
Fiscal Year	Average Monthly Eligible Clients	Clients Receiving Dental Services	Utilization Rate
All Clients			
1996	851,985	280,746	32.95%
*1997	1,078,013	283,341	26.28%
1998	1,309,340	237,048	18.10%
Children			
1996	851,985	280,746	32.95%
1997	819,118	271,738	33.17%
1998	793,132	216,423	27.29%
Adults			
1996	-	-	-
1997	517,790	11,603	2.24%
1998	516,208	20,625	4.00%
Notes: *Average for all clients in fiscal year 1997 does not include adult data for the first six months of the fiscal year. Does not include DCFS clients Adult Emergency Dental Effective January 1, 1997 Source: OAG analysis of Public Aid data			

The total number of eligible clients increased over this time period primarily because the adult dental program was reinstated on an emergency basis as of January 1, 1997. As can be seen in the exhibit, utilization of services by clients was the lowest in 1998 with only 18 percent of eligible clients receiving services in that year. While some of the decline in utilization percentage can be attributed to the addition of adults to the program

in January 1997, the utilization percentage for children also declined six percent from 1997 to 1998.

Dental Providers and Program Participation

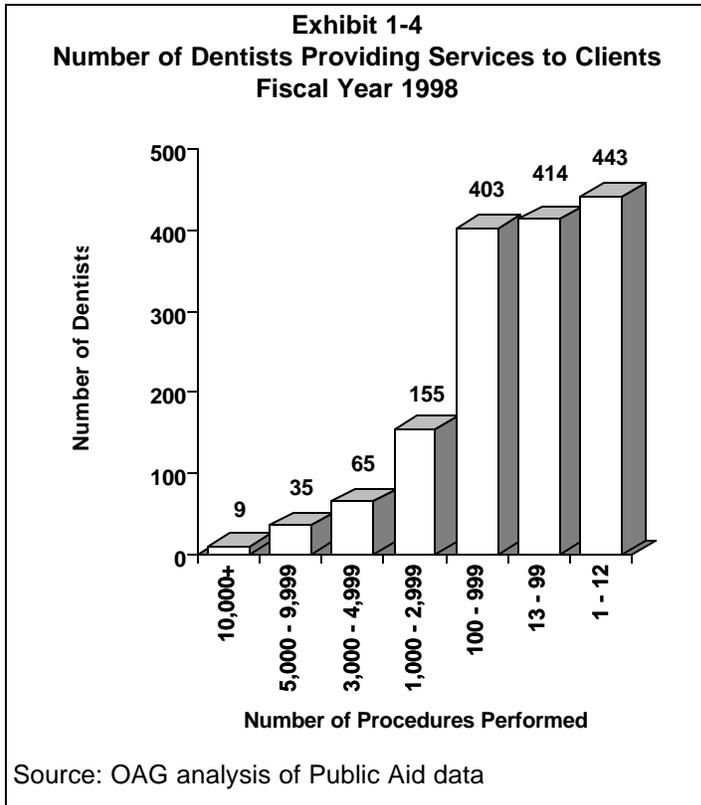
Along with individual dentists, some Federally Qualified Health Centers (FQHC) around the State provide services to eligible clients. A FQHC is a clinic that either receives federal funding or has met certain criteria for designation, such as a county health center. Public Aid has established special procedure codes for services provided by a FQHC that distinguishes them from procedures provided by other dentists.

Dentists must be actively licensed by the Illinois Department of Professional Regulation (DPR) and enrolled in the dental program to be reimbursed for providing services to clients. Dentists can enroll in the dental program in two ways. Under the first method, the dentist can submit an application directly to Public Aid. The other way is for dentists to either submit an application or claim to Delta in which case Delta will enroll the dentist in the program. Delta will then fill out and submit applications to Public Aid for the dentists. Both Public Aid and Delta maintain databases with enrolled providers.

As of December 1, 1998, the State of Illinois had 9,014 actively licensed dentists with the Department of Professional Regulation (DPR). Of these actively licensed dentists, 7,877 had addresses in the State. This does not include the dentists licensed by DPR with inactive licenses.

Exhibit 1-3 shows the number of dentists enrolled by Public Aid for fiscal years 1996-1998. The number of enrolled dentists by Public Aid has continually decreased over the last three years. In fiscal year 1996, Public Aid had 3,791 enrolled dentists in the program. By fiscal year 1998, Public Aid had only 3,311 enrolled dentists in the dental program. This represents a 13 percent decrease.

Exhibit 1-3 Number of Enrolled Dentists Fiscal Years 1996-1998	
Fiscal Year	Number of Dentists
1996	3,791
1997	3,476
1998	3,311
Source: OAG analysis of Public Aid data	



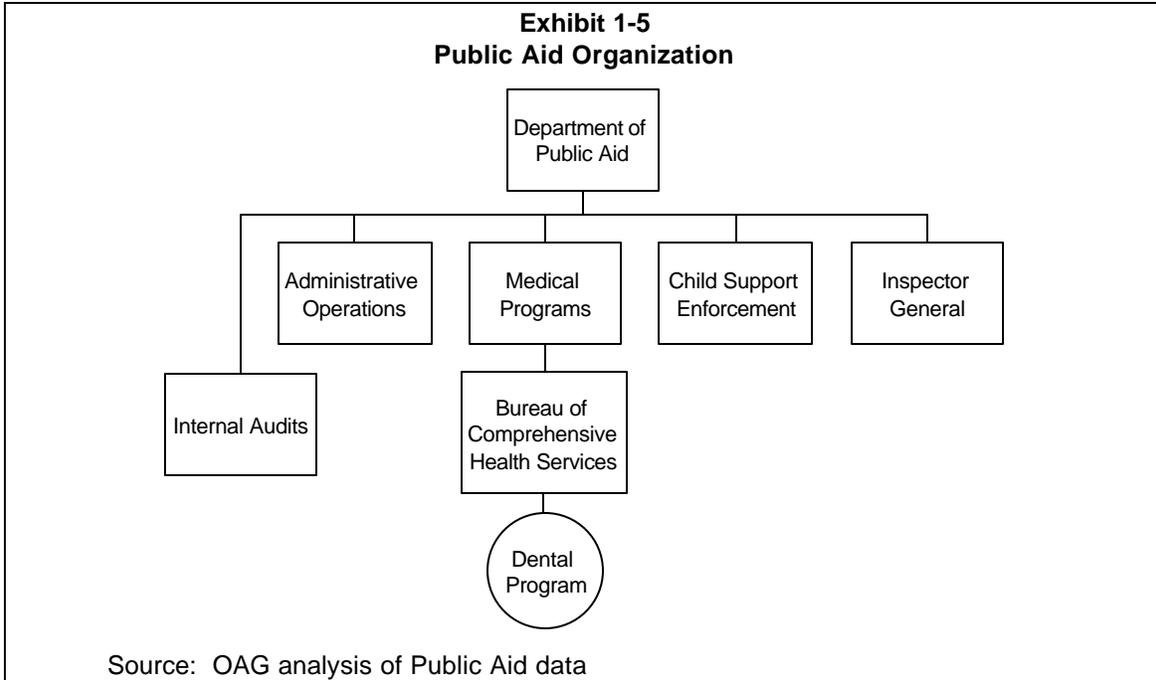
Of the 3,311 enrolled dentists in fiscal year 1998, 1,524 dentists or 46 percent received payment for services provided to Public Aid clients in fiscal year 1998. As **Exhibit 1-4** indicates, there was a wide variation in the participation level of the 1,524 dentists who received payment for services provided to clients in fiscal year 1998.

Forty-four dentists provided 5,000 or more procedures each to clients. These 44 dentists accounted for almost 32 percent of all claim dollars charged in fiscal year 1998. On the other end of the spectrum, there were 443 dentists who provided 1 to 12 procedures each to clients. These 443 dentists accounted for only 0.4 percent of claim

dollars charged in 1998.

Public Aid Organization

During our audit, Public Aid had four divisions: Administrative Operations, Medical Programs, Child Support Enforcement, and the Inspector General. The primary administrative and monitoring responsibility for the dental program lies within the Division of Medical Programs, in the Bureau of Comprehensive Health Services (BCHS). Some financial monitoring is conducted by the Bureau of Internal Audits (BIA). The Inspector General also investigates allegations of impropriety against providers. **Exhibit 1-5** is an abbreviated organization chart that illustrates where the administrative and monitoring responsibilities lie.



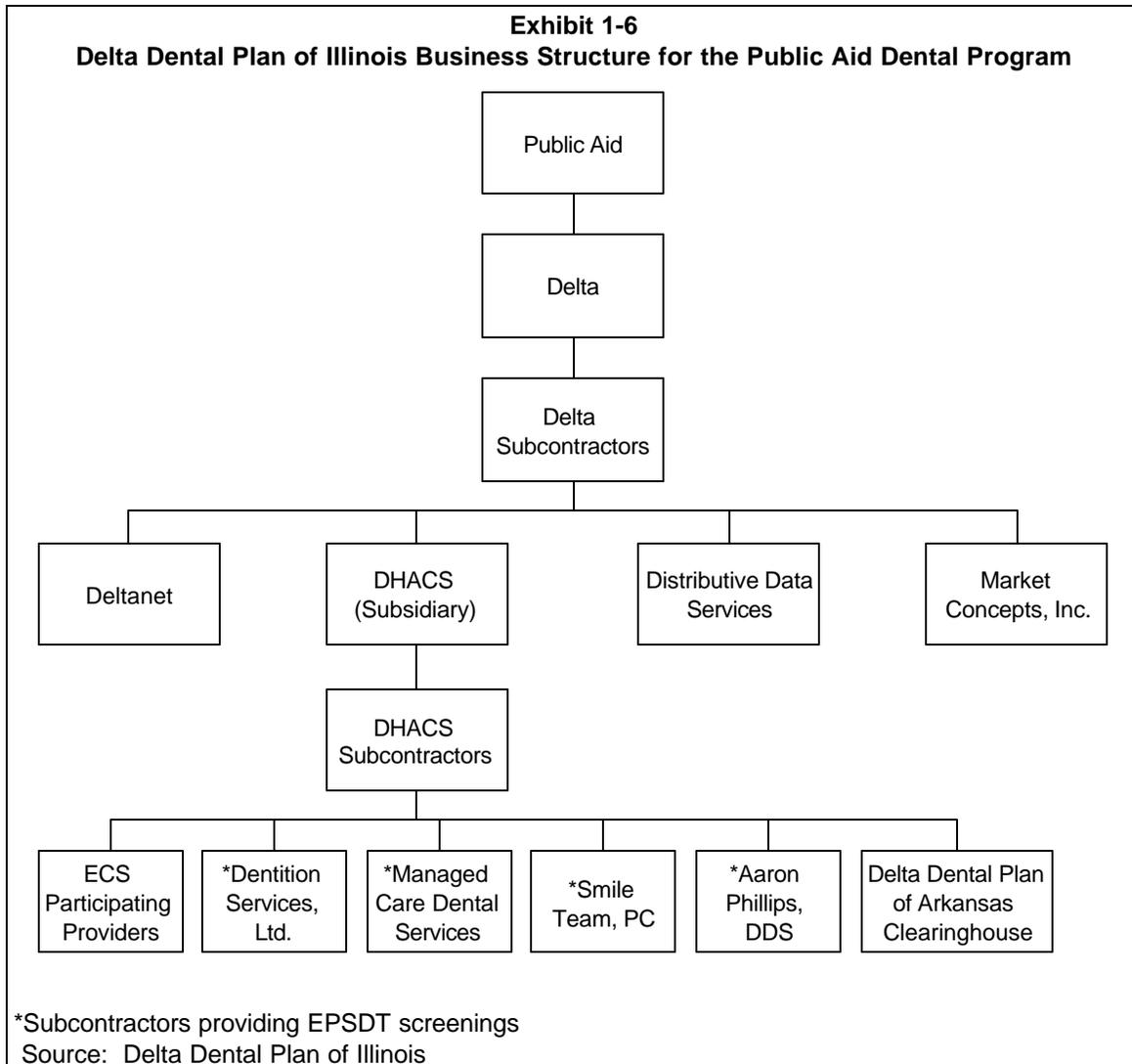
Delta Dental Plan of Illinois

Public Aid contracted with Delta from August 1, 1984 to February 28, 1999 to operate the dental program. Prior to 1984, Public Aid administered the dental program in-house, but contracted with a subsidiary of Delta, Dental Health Administrative and Consulting Services (DHACS), to conduct prior approval authorizations, patient in-mouth reviews, and a peer review program.

Delta received its charter from the Illinois Department of Insurance in 1967, pursuant to the Dental Service Plan Act, to establish and operate non-profit prepayment dental service plans. Delta is the only company chartered under the Dental Service Plan Act. Headquartered in Downers Grove, Illinois, the Delta Dental Plan of Illinois is affiliated with other Delta plans across the United States through the Delta Dental Plans Association.

Delta has two wholly owned subsidiaries, Dental Health Administrative and Consulting Services, Inc. (DHACS) and Security Continental Insurance Company (SCIC). DHACS is a licensed third party administrator and dental benefits consulting company. SCIC is a licensed full service insurance company.

In addition to owning DHACS and SCIC, Delta subcontracted with several other companies to provide services related to the Public Aid dental program. According to Delta officials, Delta contracted with DHACS, Delta Net (DNET), Distributive Data Processing, and Market Concepts. DHACS in turn subcontracted with four different companies to perform screenings for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program. These contracts totaled over \$3 million for the last full year of the contract. **Exhibit 1-6** shows the business structure of Delta.



The following is a brief description for each of Delta’s subcontracts:

- P ***Deltanet*** - provided the data processing, computing, and software consulting services.
- P ***DHACS*** - contracted with dental screening providers to secure the provision of dental screenings under the EPSDT program.
- P ***Distributive Data Services*** - printed a form used by participating dentists and mailed them to the dentists when orders were received.
- P ***Market Concepts, Inc.*** - conducted a quarterly survey on provider availability.

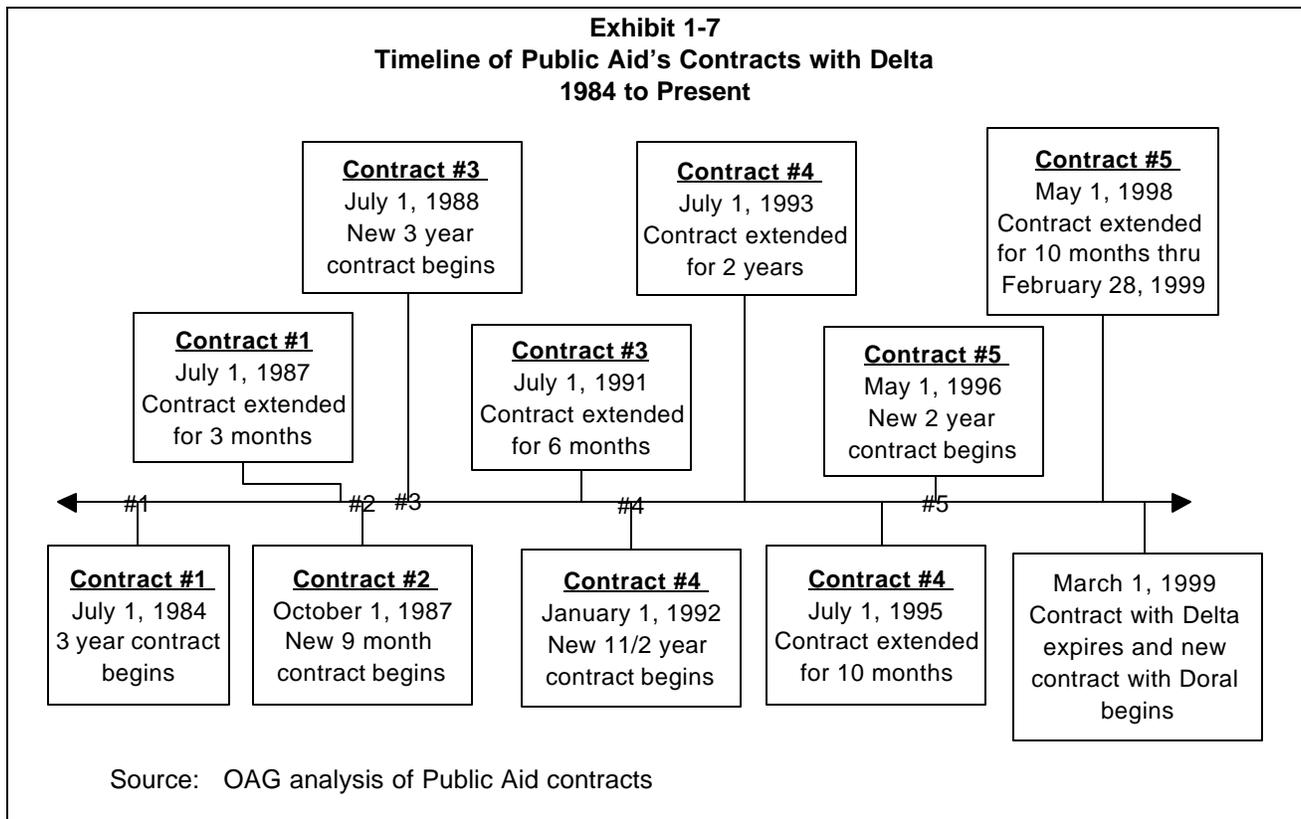
DHACS, in turn, had six subcontracts for services related to the Public Aid dental program as follows:

- P ***ECS Participating Providers*** - Electronic Claims Service agreements made with individual providers using Electronic Claims Submission (ECS). These were actually many separate agreements but were classified as a subcontract by Delta.

- P **Dentition Services, Ltd.** - (located in Peoria) provided EPSDT screenings to eligible clients.
- P **Managed Care Dental Services** - (located in Northbrook) provided EPSDT screenings to eligible clients.
- P **Smile Team, PC** - (located in Belleville) provided EPSDT screenings to eligible clients.
- P **Aaron Phillips, DDS** - (located in Belleville) provided EPSDT screenings to eligible clients.
- P **Delta Dental Plan of Arkansas Clearinghouse** - collected, stored, filed, and processed electronic claim data.

Contract History

Since 1984, Public Aid has had five contracts with Delta (**See Exhibit 1-7**). Four of the five contracts were amended to extend the length of the contract. The second contract, which covered a nine-month period, was the only contract with no extension. The most recent contract with Delta originally covered the period of May 1, 1996 through April 30, 1998. The contract was extended for 10 months through February 28, 1999 in order to prepare a Request For Proposal (RFP) for a new contract. Public Aid signed a new contract with Doral Dental to administer the program for the next three years effective March 1, 1999.



Capitation Rates

Under the contract with Delta, the dental program was a pre-paid plan. Public Aid paid Delta a flat rate per eligible client each month called a capitation rate. This rate was multiplied by the number of eligible clients each month to determine the monthly premium to be paid to Delta. Delta then paid the dentists for services provided to clients based on an established fee scale in the contract.

The capitation rate was negotiated between Public Aid and Delta. From fiscal year 1985 to 1998, the rate increased from \$2.38 to \$2.85 per eligible client per month. Changes in the capitation rates were a result of either new contracts or amendments that changed the rate.

The capitation rate included administrative costs as well as the cost of dental claims. In some of the contracts, the capitation rate was broken out by the amount anticipated to be spent for administration and dental services. For example, in fiscal year 1998 the capitation rate was \$2.85 of which \$2.07 (72.6%), was allotted for dental claims expenses and \$.78 (27.4%) for administrative costs. Other contracts just included the overall rate. Administrative costs include such items as salaries, telephone use, association fees, and other costs to administer the contract. Delta paid dental claims to the individually enrolled dentists for the services that they provided to Public Aid clients.

Fees Paid to Delta

Public Aid paid \$89.5 million to Delta over fiscal years 1996, 1997, and 1998 (**See Exhibit 1-8**). These payments included monthly premiums paid to the contractor calculated based on the contract capitation rates, reimbursement for services provided to DCFS wards, and other adjustments. For instance, the \$32,715,566 paid to Delta in fiscal year 1998 is based on the number of eligible clients each month multiplied by the capitation rate (\$32,175,566) and reimbursement for DCFS claims (\$540,000).

Exhibit 1-8 Total Payments to Delta Fiscal Years 1996-98	
Fiscal Year	Total Payments
1996	\$26,599,710
1997	\$30,205,577
1998	\$32,715,566
Total	\$89,520,853
Source: Public Aid data	

The DCFS reimbursement was authorized in the most recent contract under a contract amendment for covering services of children in the DCFS foster care program (\$540,000 for fiscal year 1998). Delta was paid \$10 per claim processed for DCFS wards. For these services, Public Aid advanced the sum of \$60,000 on a quarterly basis to Delta which they used to pay claims. Public Aid then made additional payments as the balance of the \$60,000 approached \$15,000.

New Contract

During this audit, Public Aid awarded a new three year contract for dental services to Doral Dental Services of Illinois (Doral) effective March 1, 1999. The Department has obligated over \$108 million for the three year contract with more than

\$19 million (18%) obligated for the administration (service fee portion) of the contract and just under \$89 million (82%) for claims payments.

The new contract was the result of two separate RFPs that were issued by the Department. On February 4, 1998, Public Aid released the first of these two RFPs for the new dental contract. Although the Department received three letters of intent to bid, only a single proposal was received from Delta. On April 17, 1998, the Director signed a decision memo to cancel the RFP, extend the current contract 10 months, and reissue a new RFP. The Department reissued the RFP for dental services on June 18, 1998. This RFP resulted in three bids for proposal and the new contract with Doral.

The new contract with Doral is different from previous contracts with Delta. It is an administrative services agreement, and the risk for the cost of providing services has been transferred back to Public Aid. Past contracts with Delta used a capitated risk model for contracting dental services in which the risk for the cost of both claims and administration were assumed by the contractor. For example, if the premiums paid to the contractor exceed the costs, the contractor realizes a gain. However, if the costs exceed the premiums, the contractor realizes a loss.

The new contractor (Doral) will only administer the program services and will not assume the risk associated with the cost of services. However, since the new contract payment methodology is still based on a rate per eligible client per month, there is some risk that Doral's administrative expenses may fall short or exceed the premiums paid to them by Public Aid.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

In conducting this audit, we obtained and reviewed information from the Department of Public Aid including contracts with Delta, monitoring reports, computerized data, financial information, and other various documents. We interviewed or contacted officials with Public Aid, the Department of Professional Regulation, the Illinois State Dental Society, the Illinois Department of Insurance, and the Delta Dental Plan of Illinois.

We also reviewed federal laws as well as related State statutes, administrative rules and departmental policies and procedures. We obtained electronic downloads from Public Aid, the Department of Professional Regulation, and Delta. We reviewed financial data and detailed claims information on site at Delta including 100 paid claims and 68 denied claims. We also verified the amounts in the 100 paid claims through a confirmation survey letter sent to dentists (For methodology see Appendix B). During the audit, we contracted with the accounting firm of Pandolfi, Topolski, Weiss, & Company Ltd. to assist us in performing certain accounting and financial tasks at Delta Dental.

To assess management controls, we reviewed the most recent contract for dental services between Public Aid and Delta for the period May 1, 1996 through February 28, 1999. In order to assess the manner of soliciting and evaluating proposals

for the new contract, we waited until all phases of the contracting process were completed and a final contract was signed. After Public Aid and Doral signed the contract, we reviewed the process used by the Department and the related documentation. Follow-up and monitoring of recommendations presented in this audit, related to the new contract with Doral, will be conducted as part of the financial and compliance audits of the Department of Public Aid conducted by the Illinois Office of the Auditor General.

During audit fieldwork we requested information from Public Aid and Delta related to the dental program. Public Aid either did not or could not provide sufficient information for the following:

- P The number of denied claims;
- P EPSDT clients served by age group;
- P Why the average cost Delta reported paying for some procedures exceeded the maximum allowable rate; and
- P Why the number of cases that met the Ollie Smith criteria substantially increased in 1998.

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

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

REPORT ORGANIZATION

The remainder of this report is organized as follows:

- Chapter Two: Contract Management and Controls**
- Chapter Three: Reasonableness of Fees**
- Chapter Four: Solicitation and Evaluation of Proposals**
- Chapter Five: Prior Audit Recommendations**

Chapter Two

CONTRACT MANAGEMENT AND CONTROLS

CHAPTER CONCLUSIONS

We found that the Department's most recent contract with Delta, for the period May 1, 1996 through February 28, 1999, contained adequate controls to effectively manage the contractor's performance. However, Public Aid has not adequately monitored Delta's performance or required Delta to submit information required by the contract. Also, the Department did not monitor denied claims or the timeliness of claims processing. Specifically regarding denied claims, we questioned 17 of 68 denied claims tested that were initially denied by Delta because the client was ineligible. However, Public Aid records indicated that all 17 clients were indeed eligible on the date of service. Public Aid provided information that showed providers in 11 of the 17 claims eventually received payment, in some cases almost a year after the submission of the initial claim. The Auditor General's 1990 audit contained similar findings regarding a lack of monitoring of Delta on the part of Public Aid.

Cost allocation plans were not approved in a timely manner and did not comply with contract provisions. In addition, excess surplus reports were almost a year late in some cases and did not include the required payments to the State.

Even though required information was not submitted and Delta did not comply with certain contractual requirements that could have resulted in liquidated damages, the Department has not assessed a penalty against Delta during the contract period of May 1, 1996 through February 28, 1999. Excess surplus reports that were not submitted by the required date in the contract could have resulted in liquidated damages of more than \$3 million. Public Aid stated in a written response that the Department is currently reviewing this issue and does intend to pursue liquidated damages for the late submittal of excess surplus reports, but is still considering the amount and timing. Delta officials stated that they were not able to submit the excess surplus report for the first contract year because there was no approved cost allocation plan. The Department did not approve the cost allocation plan until nearly 18 months after the initial submission.

PRIOR AUDIT ISSUES

In the prior audit (1990), we found that Public Aid did not closely monitor contract provisions or contractor performance. Some of the specific control problems identified include:

- P The contract did not provide audit access to all aspects of Delta’s financial records;
- P The status and disposition of complaints submitted to Delta were not regularly reviewed;
- P Delta’s compliance with preauthorization requirements was not adequately monitored;
- P The timeliness of claims processing was not adequately reviewed; and
- P Public Aid did not have effective enforcement provisions in the contract to ensure compliance with claim timeliness, data accuracy, submittal of documents, and access provisions.

We also made several recommendations to improve controls. These recommendations included that Public Aid should:

- P Conduct thorough and consistent annual reviews of Delta’s performance;
- P Enforce requirements for claims data submission and require actual claim dates;
- P Review timeliness of prior authorizations and claim processing; and
- P Require Delta to submit full, complete disclosure statements.

MONITORING AND CONTRACT MANAGEMENT RESPONSIBILITIES

Several bureaus were involved in activities related to monitoring Delta’s performance with contract provisions, but there was neither procedures nor formal assignment of responsibility. The bureau directly responsible for administering and monitoring the Delta contract was the Bureau of Comprehensive Health Services (BCHS). However, there were no specific written procedures regarding monitoring the contract, tracking information required to be submitted by the contractor, or reviews to be conducted with data that is submitted. Two other bureaus, the Bureau of Budget and Analysis (BBA) and the Bureau of Information Services (BIS) checked the data sent to Public Aid by Delta for errors and ran reports. However, running reports from these data files was passed among different bureaus in 1996 and 1997. Currently, BBA is

Exhibit 2-1 Overview of Public Aid Bureaus and Their Monitoring Responsibilities	
Bureau of:	Responsibilities Include:
Comprehensive Health Services (BCHS)	Monitoring compliance with contract provisions, tracking and monitoring whether required information is submitted, and soliciting and evaluating proposals for any new contract for dental services. (entire contract period)
Internal Audits (BIA)	Monitoring excess surplus amounts, conducting audits which recalculate the surplus amounts, and determining whether Delta must refund surplus to the State. (entire contract period)
Budget and Analysis (BBA)	Performing reviews and analysis of utilization data. (as of May 1998)
Information Services (BIS)	Maintaining the database of utilization data. (entire contract period)
Source: OAG analysis of Public Aid organizational responsibilities	

responsible for running utilization reports. The primary responsibilities for monitoring the contract are shown in **Exhibit 2-1**.

CONTRACTUAL CONTROLS ARE ADEQUATE

We found that the contract between Public Aid and Delta for the period May 1, 1996 through February 28, 1999 contained adequate controls to allow Public Aid to effectively manage Delta's performance. The contract contained provisions that allowed Public Aid to monitor the utilization of services, client access to services, the number of claims paid or denied, and Delta's financial stability. The contract contained program monitoring requirements, financial reporting requirements, and provisions for liquidated damages to ensure program requirements had been met by Delta.

Monitoring Requirements

The contract required Delta to submit a wide array of reports and information that could be used to manage their performance. The contract required Delta to submit data related to program performance measures and information that could be used to monitor Delta financially. These reports could be used not only to determine if Delta was complying with program requirements but also to determine if Delta was making more profit than is allowable under the contract and whether a refund is owed to the State. **Exhibit 2-2** outlines the information Delta was required to submit to Public Aid and a brief description of each. Some information such as Department of Insurance Reports, Peer Review Meeting Minutes, and DCFS Reports were all received. However, other information such as Choice of Provider Reports and Quarterly Summaries were not received at all. Also, some required reports were received well after the due date.

Exhibit 2-2 Contract Reporting Requirements May 1, 1996 to February 28, 1999	
Report Name:	Description:
Utilization Reports	A monthly report on electronic media consisting of records of all dental services requested, approved, denied, and paid to participating providers.
Grievance Reports	On a quarterly basis, Delta must provide written summaries of all written complaints by eligible clients processed by the contractor through its grievance procedure and the actions taken to resolve the complaint.
Meeting Minutes	All minutes of Utilization Review Committee meetings, Grievance Committee meetings, and Peer Review Committee meetings. The minutes and decisions of the Grievance Committee hearings must be submitted within 15 days of the meeting date.
Quarterly Summaries	Quarterly summaries of peer review, utilization review, client referrals, and quality assurance activities.
Provider Reports	Quarterly listing of participating providers by county and a list of participating providers who have rendered covered services in the last 12 months. Delta is also required to submit to the Department information on all new providers.
EPSDT Outreach Report and Referral Results	Quarterly reports on outreach and referral activities for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program.
DCFS Reports	Reports that reflect the services rendered to DCFS children and whether such service was claimable under the original agreement or amendment number one. These monthly reports shall be outcomes for all claims adjudicated in that reported month.
Cost Allocation Plans	A plan showing the allocation of all administrative expenses to the Department for their approval on an annual basis, due no later than the 30th of April each year.
Profit/Loss Statements	Profit/loss statements on a quarterly basis, no later than 45 days after the close of the reporting quarter.
Excess Surplus Reports	Interim excess surplus reports are due December 1, 1997 and December 1, 1998 and final excess surplus reports are due June 1, 1998 and June 1, 1999.
Audited Financial Statements	Delta must submit annual audited financial statements to Public Aid's Bureau of Internal Audits and BCHS.
Department of Insurance Reports	Delta must submit copies of quarterly and annual reports to Public Aid that are filed with the Department of Insurance.
Source: OAG analysis of contract	

Contract Enforcement Provisions

To ensure that Delta submitted the required information, the contract contained provisions that provide for liquidated damages if certain information is not submitted in a timely manner. According to the contract, Public Aid will assess liquidated damages in the amount of 1 to 15 percent of Delta's total premium quarterly payment for the following:

- P More than three percent error in the utilization data claim records;

- P Inappropriate actions taken by Delta resulted in non-provision of covered services, inappropriate services provided, or discrimination based on health status in more than three percent of the treatment plans examined for a given quarter;
- P Pretreatment utilization reviews do not satisfy legal time requirements in more than three percent of pretreatment reviews examined;
- P Services provided to persons who are not eligible clients;
- P Uncorrected access problems as noted by the complaint log;
- P Access ratios not met and no improvements made after implementing a corrective action plan for 90 days; or
- P If less than 97 percent of clients calling for appointments do not have availability within 30 days.

Public Aid can also assess liquidated damages on a flat rate or per diem basis in the following instances:

- P Failure to provide an annual oral examination and oral prophylaxis to at least 50 percent of the average number of eligible clients ages 3-20. The damages are calculated by multiplying the current fee by the number of screenings below 50 percent which the contractor failed to perform;
- P Failure to submit a quarterly profit/loss statement within 45 days after the close of the quarter. The liquidated damages are assessed at \$1,000 per day until the delinquent statement is received; or
- P Failure to submit an interim or final excess surplus statement by certain dates. Liquidated damages are assessed at \$5,000 per day late.

Other Contract Requirements

In addition to requirements mentioned above, the contract also contains requirements that can help Public Aid effectively manage the program including provisions related to record retention, the timeliness of claims processing, and access to care. The contract required that:

- P Delta must maintain a current database that can retrieve, within five business days, a patient name, dates of service, services provided, and name and medical assistance program provider number of the provider providing the service;
- P Delta must maintain a grievance procedure for reviewing complaints about participating providers;
- P Delta shall submit to the Department information on all new participating providers including provider name, state license number, office address, county, and specialty;
- P Delta must pay all claims within 30 days after receipt of properly documented, complete and accurate claims (date of postmark is deemed date of payment). If not, Delta must pay interest at the rate of nine percent per annum from the 30th day after the receipt of the documented claim through and including the date of late payment; and
- P Delta agrees to maintain the eligible client to participating provider ratio within each of the contracts' ten service areas on a monthly basis.

PUBLIC AID'S MONITORING OF DELTA'S PERFORMANCE

Although the most recent contract between Public Aid and Delta contained adequate provisions related to management controls, Public Aid did not track whether required information was being submitted. Delta did not submit all the reports required by the contract. Furthermore, of the reports that we were able to collect, Public Aid utilized very few of them to assess performance or compliance with contract requirements. Public Aid did not have procedures related to how the program should be monitored, reports that should be run with data submitted by Delta, or how to track whether required data was being submitted. In many cases, the reports that were received from Delta were late. We tested whether Public Aid received all required reports from Delta for fiscal years 1997 and 1998. The results of our testing are discussed in the following sections.

Utilization Data and Denied Claims

Even though the Department received all 24 of the required utilization tapes for the period tested, many of the tapes were submitted after the required deadline and the tapes did not contain readable information regarding denied claims as was required by the contract. The contract states that utilization tapes will be submitted monthly on or

Report Name	# Provided	# Required
Utilization Reports	*24	24
*Note: 15 of 24 tapes were submitted late		

about the 15th calendar day of each following month or the first business day after the 15th if the 15th does not fall on a business day. Of the 24 months we examined, only 9 tapes were received by the contractual deadline. Also, the utilization tape was initially rejected for 6 of the 24 months for either an error rate greater than three percent, poor quality of tape, or data check.

Public Aid did not notify Delta in a timely manner when utilization tapes were late or assess liquidated damages. For the month of April 1998, an acceptable tape was received 21 days after written notification. However, the initial tape was received 52 days late. In this case, if Public Aid had sent notification at an earlier date that a tape had not been received, liquidated damages could possibly have been assessed.

Pursuant to the contract, after written notification is sent, the contractor has 60 days to correct any deficiencies to avoid liquidated damages. For the month of September 1996, an acceptable tape was not received until 109 days following written notification. The tape for that month was rejected twice for poor quality.

The contract stated that "this data will consist of records of all dental services requested, approved, denied and paid for, to the participating providers for the eligible recipients...". We reviewed the utilization tape record lay

"this data will consist of records of all dental services requested, approved, denied and paid for, to the participating providers for the eligible recipients..."
 Sec. 5.8(c)(2) of 1996 contract with Delta

out and requested data from Public Aid for the required data elements. Public Aid officials stated that the data only contained paid claims.

We identified a field in the record referred to as the disposition code. This code would have shown which claims were denied and the reason for denial, however, the field was not readable. The computer record field was two bytes long but the disposition codes were three bytes in length. Therefore, the data was truncated and unreadable. Also, the edit program did not edit the disposition code field because these edits were removed 10 years ago. We requested the number and amount of denied claims for fiscal years 1997 and 1998 from Public Aid several times over the course of the audit, however, Public Aid was unable to provide this data.

Denied Claims Testing

Public Aid has not monitored the number and disposition of denied claims. If denied claims are not monitored, the contractor could be improperly denying payment to dental providers for legitimate services to eligible clients. We questioned 17 of 68 denied claims tested that were initially denied by Delta because the client was ineligible. However, Public Aid records indicated that all 17 clients were indeed eligible on the date of service. Public Aid provided information that showed providers in 11 of the 17 claims eventually received payment, in some cases almost a year after the submission of the initial claim. Delta's system does not record the date eligibility files are updated, so we could not determine when Delta received the correct eligibility information from Public Aid.

We also questioned 4 other denials of the 68. In two instances, the data entry was incorrect and resulted in the claim denial; in both instances, the data entry errors were missed by Delta claim auditors. A third 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, we could find no record of the previous payments for these procedures in Delta's claim history information. Further, Public Aid records indicated this recipient was not eligible on the date of service listed, even though Delta paid some of the procedures. Delta did not provide complete explanations of these claims.

The new contract with Doral requires the contractor to adjudicate claims for services provided and to serve as a fiscal intermediary on behalf of the State. However, the new contract does not contain provisions that require the contractor to submit specific information regarding the number of denied claims or the reasons for denial.

DENIED CLAIMS	
RECOMMENDATION NUMBER 1	<i>The Department should monitor the number and disposition of denied claims to ensure that dental providers are not being improperly denied payment for services to eligible clients.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Implemented. The Department has incorporated monitoring the number and disposition of denied claims to ensure that dental providers are not being improperly denied payment for services to eligible clients. Under the Doral contract, denied claims are being monitored through quarterly on-site monitoring visits. Claims are randomly selected by the Department for auditing purposes. The first on-site visit was conducted on July 27-28, 1999.

Ollie Smith Reports

Public Aid did not actively monitor the timeliness of claims processing or Delta's compliance with the requirements of the Ollie Smith consent decree. The monitoring reports sent to Public Aid by Delta consisted of a one page summary of cases that met the Ollie Smith criteria. Public Aid did not verify the information submitted by Delta and did not conduct annual reviews or audits to determine Delta's compliance with this requirement.

Section 5.5 of the contract between Public Aid and Delta required Delta to comply with the Ollie Smith court order. The consent decree, agreed to on July 31, 1989, requires prior approval requests be decided and mailed within 30 days of receipt of the request. If the request is not decided and mailed within 30 days, then the request for services will be deemed automatically approved. The consent decree does, however, allow Delta to deny prior approvals after 30 days in certain instances. These exceptions include reasons such as:

- P If the client was ineligible at the time the claim was submitted;
- P If the service/procedure is not covered by the dental program;
- P If the procedure was previously paid; or
- P If a dentist does not submit all required information.

The Ollie Smith consent decree also states that Public Aid must ensure that Delta submits computer generated reports that verify compliance with the order. Delta submits a one page monthly Ollie Smith report to Public Aid which shows the number of preauthorization requests, the number not approved within 30 days, and whether those not issued within 30 days were approved or denied. If Delta does not issue a decision on a preauthorization request within 30 days, per the court order, the request for services is deemed automatically approved.

We reviewed the reports submitted by Delta for the last two fiscal years and found that the number of cases that met the Ollie Smith criteria and the number of

preauthorizations not issued within 30 days increased sharply in February 1998. The number of requests for preauthorization increased from 1,634 in January 1998 to 9,455 in February 1998. Also, the number not issued within 30 days increased from 52 to 1,107 during the same month. All of these claims were either approved or one of the exceptions above was cited as the reason for denial. This increase in the number of cases coincided with the implementation of a new computer system at Delta Dental in January 1998. However, the number of cases that met the Ollie Smith criteria continued to be very high throughout the remainder of the testing period (June 1998). When asked about the increase in cases that met the Ollie Smith criteria, Public Aid officials stated that they would have to check with Delta to determine why there was an increase.

Section 10.2(c) of the contract allows the Department to impose liquidated damages if audits reveal that the requirements were not met in more than three percent of the pretreatment reviews examined. We reviewed the Department's internal audits and noted that BIA has never audited the Ollie Smith reports submitted by Delta or whether Delta is in compliance with the consent decree. BIA officials noted that they audit financial information of Delta. Because the Department does not audit the Ollie Smith report requirements, the Department would not be able to levy liquidated damages if Delta did not meet the Ollie Smith consent decree requirements.

Compliance with the requirements of the Ollie Smith consent decree was last reviewed for the period May 1, 1995 through April 30, 1996. This review was conducted by an outside contractor and it is noted in their final report that they were unable to verify whether several of the cases sampled met the requirements because Delta did not provide documentation needed for verification. Public Aid has not assessed compliance with this requirement for the most recent Delta contract period, May 1, 1996 through February 28, 1999.

Timeliness of Claims Processing

We reviewed data provided by Public Aid and Delta related to the timeliness of claims processing. We asked the Department to provide information that showed how long Delta takes to process claims. From the utilization data submitted by Delta, the Department provided us with the average number of days from the provider billing date to the date the claim was paid by Delta. For fiscal year 1998, on average, it took about 10 days to pay a claim.

Exhibit 2-3 shows a break out of the number of days it took to pay a claim in calendar year 1998 using utilization data submitted by Delta to Public Aid. As can be seen in the exhibit, more than 95 percent of claims were paid within 30 days of being submitted by the provider in 1998. Although the Department was able to provide this data upon our request, they did not monitor the timeliness of claims processing on an ongoing basis.

Federal regulations (42 CFR 447.45 (d)) require that 90 percent of all clean claims be paid within 30 days of the date received and 99 percent within 90 days. Section 5.11 of the contract between Delta Dental and Public Aid required all claims to be paid within 30 days after receipt of properly documented, complete, and accurate claims. Further, this section required that Delta pay nine percent interest on any claims from the 30th day until the claim is paid.

In our examination of claims paid, we found no evidence that any interest had been paid on claims that were paid after 30 days had elapsed. We conducted samples at Delta of 100 paid claims and 68 denied claims in calendar year 1998. Five of the 100 (5%) paid claims sampled were paid after 30 days, with one claim taking 101 days. Of the 68 denied claims, 7 (10%) were processed after 30 days, with one claim taking 60 days.

Because Delta did not provide us with detailed information on prior approvals, we could not examine compliance with the Ollie Smith requirement in this audit. The information provided by Delta contained claim documents requesting payment.

Data provided by Public Aid (Exhibit 2-3) shows that less than five percent of claims take more than 30 days to be paid. However, data we collected from Delta's system showed that almost 15 percent of claims take more than 30 days to be paid. Delta provided data as part of their written responses to this audit which are similar to Public Aid's data but there is a significant difference in the total number of claims. This demonstrates the need for Public Aid to independently verify the timeliness of claims processing.

Exhibit 2-3 Timeliness of Claims Processing According to Public Aid's Records for Claims Paid Calendar Year 1998		
Days	Claims	Percent
0-30	347,741	95.3%
31-60	15,739	4.3%
61-90	1,070	0.3%
over 90	435	0.1%
Total claims over 30 days	17,244	4.7%
Total Claims	364,985	100%
Source: Public Aid's Bureau of Budget and Analysis		

TIMELINESS OF CLAIMS PROCESSING	
RECOMMENDATION NUMBER 2	<i>Public Aid should monitor the timeliness of claims processing to ensure that the contractor is in compliance with federal regulations and contractual requirements.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Implemented. The Department has incorporated the monitoring timeliness of claims processing to ensure that the contractor is in compliance with federal regulations and contractual requirements. The timeliness of claims processing is being monitored through quarterly on-site monitoring visits by means of random selection of claims by the Department. The first on-site visit was conducted on July 27-28, 1999. The random selection covered 39 claims and the average number of days required to pay the claims was 11.6 calendar days.

Complaints

Public Aid did not maintain a complaint log concerning accessibility as required by the contract 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, we found no evidence of monitoring or follow-up on these complaints. The Public Aid Office of Inspector General has conducted investigations related to the dental program. One investigation involved a 1996 complaint by a provider against Delta and another involved a 1998 complaint regarding billings to a Delta subcontractor. However, there have been no investigations into complaints regarding access issues.

The contract requires that "The Department shall log complaints concerning accessibility indicating the recipient's name, access issue, and the Contractor's handling of the complaint." Department officials stated that BCHS does not maintain a complaint log but rather has individual files by provider or client. Public Aid provided Delta's complaint logs that showed Delta received five complaints against providers in 1997 and fourteen in 1998. A Public Aid official also stated that there are no procedures for review and follow-up on complaints. Public Aid stated that they rely on the clients and providers to notify the Department if there is a problem with an unresolved complaint.

"The Department shall log complaints concerning accessibility indicating the recipient's name, access issue, and the Contractor's handling of the complaint."
 Sec. 6.5(a) of 1996 contract with Delta

Grievances

Delta did not submit required grievance summaries or grievance committee meeting minutes during fiscal years 1997 or 1998. Public Aid officials stated that this was because there were no formal grievances. The grievance committee has never met and we could not determine when the grievance procedures and committee members

were last updated. Also, grievance procedures were not numbered but instead contained temporary section numbers (i.e. sec. xx) and attached form letters which contained Delta's old address in River Forest, Illinois.

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 that 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.

Both the grievance procedures and the list of committee members were undated and we could not determine

Report Name	# Provided	# Required
Grievance Reports	0	8
Grievance Committee Minutes	0	*
*Note: According to Delta and Public Aid, no formal grievances were filed, therefore the committee did not meet.		

when they were last updated. We performed a search of the grievance committee members to determine their current status. Eight members had active licenses but one member was listed as deceased. We received confirmation that the dentist was deceased from both the Department of Professional Regulation and an Internet genealogy website. However, the date of death was in 1986 indicating that the list of committee members had not been updated for 13 years.

The new contract with Doral Dental provides for the contractor to establish a written grievance process which is approved by Public Aid. The new contract establishes an informal and formal grievance system with levels of internal administrative appeals. Therefore, the importance of establishing written grievance procedures and monitoring the number of complaints and grievances extends to the new contract.

COMPLAINTS AND GRIEVANCES	
RECOMMENDATION NUMBER 3	<i>Public Aid should monitor the number of complaints filed by clients and providers and the disposition of these complaints. The Department should also ensure that a viable grievance procedure and committee exists to hear formal grievances.</i>
DEPARTMENT OF PUBLIC AID'S 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. The Department 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 ten 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.

Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program

Public Aid does not adequately monitor Delta's compliance with the EPSDT requirements in the contract. Delta had only submitted data on three of the eight quarters for the two years tested. The two reports obtained for this time period were an annual report that covered a one year period from May 1, 1996 to April 30, 1997 and a quarterly report for January through March 1997. Since these two reports covered three entire quarters tested, we counted them as three reports.

Section 5.16(a) of the contract states that

Report Name	# Provided	# Required
EPSDT Reports	3	8

Delta must provide an annual clinical oral examination and cleaning to eligible clients. **Exhibit 2-4** shows the minimum percentages of average number of eligible clients in each age grouping who must receive at least one exam and cleaning annually.

Delta was required to submit an additional number of calculations to the Department for approval and must calculate these statistics for ages 3-5, 6-12, 13-18, 19-20, and 3-20 inclusively. The calculations to be submitted included:

- P The unduplicated number of eligible clients ages 3 through 20 who received at least one oral prophylaxis (cleaning) and clinical oral exam during the previous twelve months in total and by the end of each twelve months of the contract term.
- P The percentage of children who have received these services in total and by quarter by dividing the average number of children ages 3 through 20 eligible during the same periods.
- P The contractor must also determine how provision of these services was distributed throughout the year.

Exhibit 2-4 EPSDT Contractual Service Requirements May 1, 1996 to February 28, 1999	
Age Group	Required Ratio
Age 3-5	60%
Age 6-12	67%
Age 3-20	55%
Source: OAG analysis of Delta/Public Aid contract	

We were able to obtain two types of EPSDT reports from Public Aid that were submitted by Delta. The first report was a quarterly report for the provider referral system follow-up for the period of January through March 1997 as was required in the contract. The first quarter of 1997 was the only quarter for which Public Aid could provide a report.

The second report covered the period of May 1, 1996 to April 30, 1997. This report contained five different sections. The first section contained the number of screenings performed for each county for the month to date, quarter to date, and year to date. The other four sections contained cost data that appears unrelated to the contract reporting requirements.

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 that they did not look at the ratios for each age group as specified in the contract but only at the overall percentage. The reports that were submitted did not show enough detail to assess contractual compliance with EPSDT requirements because they did not include statistics by age group. We requested the number of eligible clients that received EPSDT screenings by age group for fiscal years 1995 through 1998 on several occasions. However, the Department could not provide this information.

We also reviewed a sample of 100 claims to determine the number of cases with EPSDT procedures. We then compared the age of the client with the EPSDT requirements in the contract which calls for screenings of children ages 3 through 20. Based on our review, 88 claims could have been counted as EPSDT. However, we identified three claims that had EPSDT procedure codes that were for children under three years of age which were not eligible. We also found that seven adults received procedures previously listed as EPSDT services. These claims and clients might be inappropriately included in the EPSDT calculations and reports.

According to Public Aid, Delta was unable to provide EPSDT 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. The reports also do not show the information for each month, each quarter, and the distribution of services throughout the year as required by the contract. Therefore, we were unable to calculate whether or not liquidated damages could have been assessed.

EPSDT REQUIREMENTS	
RECOMMENDATION NUMBER 4	<i>Public Aid should monitor the number of clients that receive an EPSDT screening and ensure that the contractor is complying with contract requirements.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Not Applicable. The Department, 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. The Department has eliminated the outreach for preventive dental care. There is no federal participation level for dental EPSDT services. However, the Department imposed a 50% participation level. 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.

Provider Reports

The contract required Delta to submit three types of provider reports. The first report was a referral list of providers that the contractor used to afford each eligible client a choice in selecting a dentist. The list was maintained so that selection of a dentist could be made based on their geographic location. The referral list was to be submitted to Public Aid on a quarterly basis. The second provider report required by the contract was a listing of participating providers who had provided services within the last twelve months. This report was also to be submitted on a quarterly basis and was to include a listing of

Report Name	# Provided	# Required
Provider Referral List	0	8
Participating Provider Report	1	8
New Participating Providers	6	24

participating providers by county. The final provider report was a listing of all new participating providers which was to be submitted on a monthly basis.

Delta had the responsibility to provide access to dental services throughout the State. The provider reports could be used to monitor whether this goal was being met. These reports could be used to determine if Delta was referring clients to participating providers, if areas in the State were lacking in participating providers, and to monitor the number of new dentists who were participating in the program and their locations.

Public Aid, however, did not effectively monitor these reports. During the two year period tested, Public Aid was able to provide only 17.5 percent (7 of 40) of the provider reports required to be submitted by Delta. When asked to provide the referral list of providers, Public Aid provided reports on a dental access survey which was required by a different section of the contract. Public Aid was unable to provide any of these reports for the two year period tested.

The second report on participating providers was a large computer printout and Public Aid kept only the June report of each year because it was so large. Public Aid provided one of the eight reports (June 1997 report) required during the two year period tested.

Public Aid provided six (6 of 24) of the monthly new participating provider reports for the two year period tested. A Public Aid official stated that Delta supplied the initial reports but then began submitting applications for enrollment in the dental program on a weekly basis which was more timely than the monthly report. Although a weekly report would be more timely, it is unclear whether the submission of the enrollment forms by Delta constitutes an actual report or was merely a function of enrolling new providers. Simply because a provider submits an enrollment application does not ensure they will be providing services.

PROVIDER REPORTS	
RECOMMENDATION NUMBER 5	<i>The Department should ensure that provider reports required by the contract are submitted. The Department should also utilize these reports to assess whether the contractor is in compliance with related contractual requirements.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Implemented. The Department incorporated monitoring of required reports into monitoring plan for the Doral contract. The Department 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.

Provider Participation

Section 5.13 (c) of the contract between Public Aid and Delta requires Delta to maintain, on a monthly basis, a specific eligible client to participating provider ratio in each of the ten Health Service Areas (HSA). The contract defined participating provider as:

“any Dentist licensed to provide dental services who is enrolled with the Illinois Department of Public Aid and provides Covered Services to an Eligible Recipient.”

“The Contractor shall maintain, on a monthly basis, the Eligible Recipient to Participating Provider ratio within each of the ten [Health] Service Areas ...”

Section 5.13 (c) of 1996 contract with Delta

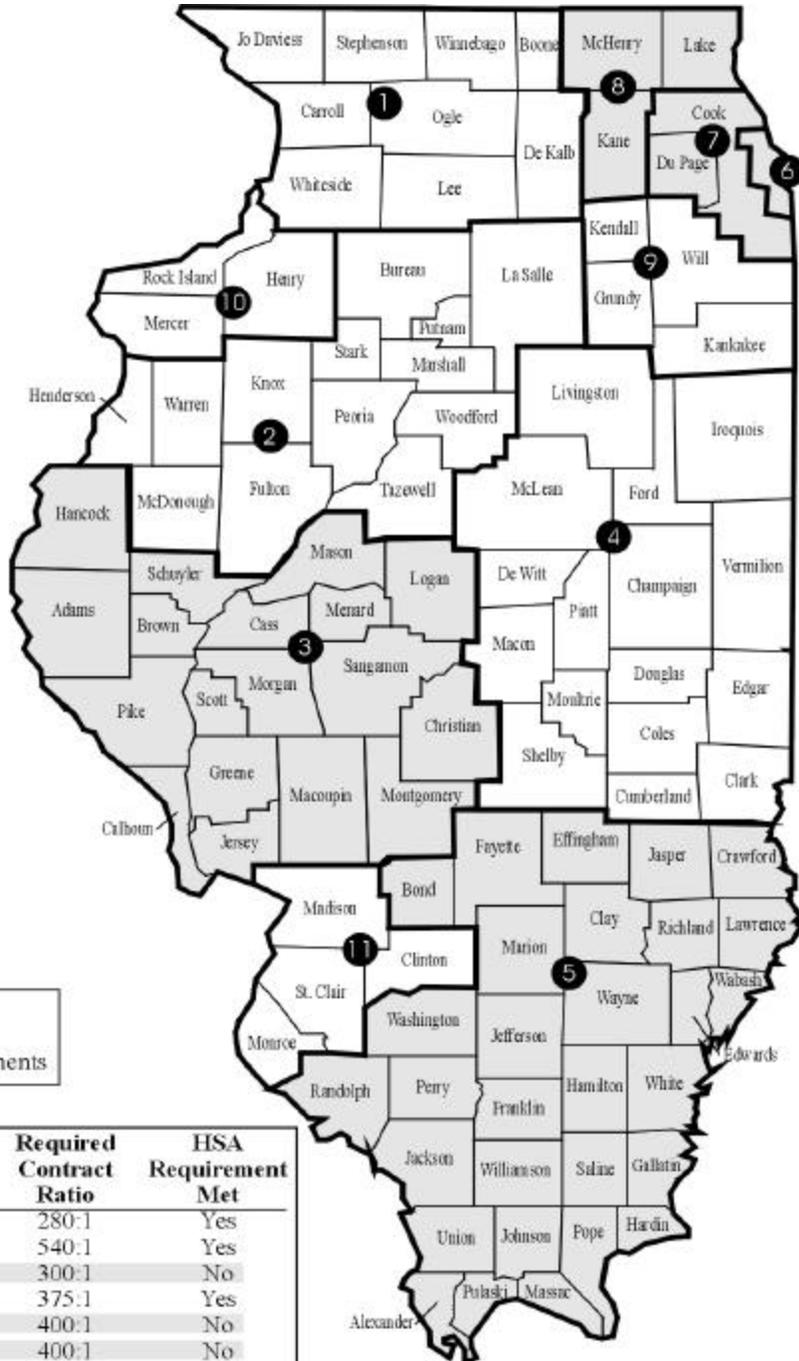
Public Aid provided us with data that showed the average number of eligible clients (ages 0 through 20) in each of the HSAs for the period January 1997 through June 1998. The calculation for the HSA ratios was required, by contract, to include only eligible clients ages 0 through 20. The Department provided data showing the number of participating providers who submitted at least one claim for the same 18 month period (January 1997 to June 1998).

Exhibit 2-5 compares the contract requirements (for the eligible client to participating provider ratio) to the actual ratio as calculated by the Department. Four of the ten HSAs did not meet the eligible client to participating provider ratio. The map exhibit also shows that HSAs located in the Chicago Metro area, which also has a large portion of Medicaid eligible clients in the State, did not meet the required ratio. This does not include multiple site locations in which the same dentist has more than one office.

Contract section 10.2 (f) contains a liquidated damage clause for lack of access to services. This section also allows Public Aid to consider the failure to achieve these ratios as cause for termination of the contract. This illustrates again why Public Aid needs to more actively monitor contract requirements. The new contract with Doral also contains a minimum requirement of clients to participating dental providers that the contractor must maintain.

PROVIDER PARTICIPATION	
RECOMMENDATION NUMBER 6	<i>The Department should closely monitor the ratio of eligible clients to participating providers to identify HSAs with low provider participation levels. The Department should also utilize enforcement provisions in the contract, if necessary, to obtain compliance from the contractor.</i>
DEPARTMENT OF PUBLIC AID'S 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 clients access.

Exhibit 2-5
 Health Service Areas
 Eligible Client to Participating Provider Ratios Compared to Contract Requirements
 January 1997 to June 1998



Meets Requirements
 Does Not Meet Requirements

HSA	Actual HSA Ratio	Required Contract Ratio	HSA Requirement Met
1	206:1	280:1	Yes
2	354:1	540:1	Yes
3	343:1	300:1	No
4	218:1	375:1	Yes
5	426:1	400:1	No
6 & 7	458:1	400:1	No
8	281:1	250:1	No
9	423:1	540:1	Yes
10	334:1	425:1	Yes
11	461:1	540:1	Yes

Source: OAG Analysis of Public Aid Data

FINANCIAL MONITORING

Public Aid did not adequately monitor the financial requirements of the contract. Although most of the required financial reports were submitted, key reports were either not submitted, submitted late, or were not approved in a timely manner. The cost allocation plan for the time period covering the most recent contract was not approved until nearly 18 months after it was submitted by Delta. One of the excess surplus reports was not submitted until almost a year after it was due and although the contract makes provisions for liquidated damages, none were assessed.

Report Name	# Provided	# Required
Cost Allocation Plan	1	2
*Excess Surplus	3	3
Audited Financial Statements	2	2
Profit Loss Statements	8	8
*All three Excess Surplus Reports and one of the Audited Financial Statements were submitted to Public Aid by Delta only after being requested by OAG staff.		

We were unable to determine if some financial information was submitted in a timely manner because the Department did not date/time stamp the profit and loss statements and one of the audited financial statements or keep a log. In some instances, such as the excess surplus reports and audited financial statements, Department officials were unaware that they did not have this information and made no efforts to obtain this information until asked by OAG auditors.

Cost Allocation Plans

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 (see Chapter Three).

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 to be submitted before the expenses are incurred. Otherwise a contractor could tailor the plan to maximize its administrative costs to avoid having to refund surplus to the Department.

“The contractor shall submit a cost allocation plan to the Department on an annual basis”
 Sec. 5.8(e) of 1996 contract with Delta

The following is a timeline of the cost allocation plan submittal and approval:

- P May 1, 1996 - New contract begins.
- P May 1, 1997 - Delta submits a proposal for a cost allocation plan for the period of 5-1-96 to 4-30-97.
- P July 1, 1997 - Public Aid submits a letter to Delta questioning methodology of new plan. Specifically, Public Aid asked Delta for justification of the Occupancy and Operations Overhead Cost charges of 20.75 cents per eligible client per month and the Staffing Cost charges of 28.25 cents per eligible client per month.
- P October 19, 1998 - Public Aid approves a cost allocation plan for current contract for the period of 5-1-96 to 2-28-99. In this plan the Occupancy and Operations Overhead Cost charges approved were 19.25 cents per eligible client per month (1.5 cents less than the originally submitted plan). The approved Staffing Cost charges were 23.25 cents per eligible client per month (5 cents less than the originally submitted plan).

The approval of the cost allocation plan was not completed in a timely fashion. The Department did not approve the cost allocation plan until nearly 18 months after the initial submission. Public Aid officials could not explain the delay but agreed that it was "really late". Public Aid officials also could not provide documentation as to how the cost allocation plan was finalized. Prior to the cost allocation plan approved in November 1997, which was for the previous contract, the most recently approved plan was approved in 1992.

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

- P Delta did not submit the cost allocation plans in accordance with time frames specified in the original agreement because Delta did not submit a plan annually;
- P Delta was unable to provide the justification plan requested by Public Aid that describes how the costs per eligible client were arrived at;
- P 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
- P 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 eight percent of payments to Doral and requires that 75 percent 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.

COST ALLOCATION PLANS	
RECOMMENDATION NUMBER 7	<i>Public Aid should 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.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	The Department 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.

Excess Surplus Reports

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 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.

Delta was required by the contract to annually refund to the Department 75 percent of the excess generated under this agreement in excess of four percent of its premium ("excess surplus"). Excess surplus was to be calculated and applied independently for each year of the agreement regardless of the previous or subsequent years in the calculation. Interim and final excess surplus reports were to be submitted in December and June of each year respectively. For instance, the interim report for the contract period May 1, 1996 through April 30, 1997 was due December 1, 1997. These excess surplus reports were completed based on the approved methodology in the cost allocation plan. See Chapter Three for a detailed review of Excess Surplus Funds.

When asked about the excess surplus reports, a BCHS official stated that he thought they were included with the profit and loss statements. This official later stated that the excess surplus reports were sent directly to BIA. However, BIA officials thought

that BCHS officials received the reports. Public Aid was unaware that the reports had not been submitted and only requested them after realizing that neither bureau had been receiving them.

The contract required Delta to submit 40 percent of the excess surplus reported in the interim report by the due date of the interim report. The amount of excess surplus reported in the final report was due on the same day as the report, less any amount already paid.

Exhibit 2-6 shows the amount of excess surplus payment due that was not submitted with each report. The interim and final excess surplus reports that covered the period of May 1, 1996 to April 30, 1997 showed that a total refund of \$110,292 was due to the Department. Delta

was to submit 40 percent of the excess amount due (\$44,117) with the interim report and the remainder (\$66,175) with the final report. However, Delta did not submit the refunds with these reports as required in the contract. A Public Aid official stated that

Exhibit 2-6 Excess Surplus Amounts Not Submitted			
Time Period	Report Name	Due Date	Amount Due
5-1-96 to 4-30-97	Interim	12-1-97	\$44,117
	Final	6-1-98	\$66,175
*5-1-97 to 2-28-99	Interim	12-1-98	\$173,754
Total			<u>\$284,046</u>
*Note: Amount due was projected Source: OAG analysis of Excess Surplus Reports			

the refund was not submitted because amendment number four allowed Delta to use the surplus amount toward the increase in dental rates and the amendment superseded the contract requirement. However, amendment number four was not approved until October 23, 1998 which was after these payments should have been made.

The excess surplus report submitted by Delta on January 7, 1999 covered a 22 month period from May 1, 1997 through February 28, 1999. The contract required this report to cover the 12 month period from May 1, 1997 to April 30, 1998. The report projected that Delta owed Public Aid \$434,384 of which 40 percent or \$173,754 should have been submitted with the report. However, again no payment was submitted with the report.

In addition, Public Aid has allowed Delta to keep excess surplus amounts that were due and apply them to other reporting periods. For instance, Public Aid allowed Delta to apply the amount due for the period May 1, 1996 through April 30, 1997 (\$110,292) to amendment four which was effective during the next reporting period. Therefore, excess surplus is not being calculated independently each year as is required in the contract.

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 should make a timely effort to collect money owed the State.

Liquidated Damages

Exhibit 2-7

summarizes the required excess surplus reports submittal dates, number of days the reports were late, and the liquidated damages that could have been assessed. The interim report due December 1, 1997 was received 359 days late. The final report, due on June 1, 1998, was

Exhibit 2-7 Submittal of Excess Surplus Reports				
Report	Due Date	Date Received	Days Late	Potential Liquidated Damages
Interim	12-1-97	11-25-98	359	\$1,795,000
Final	6-1-98	12-30-98	212	\$1,060,000
Interim	12-1-98	1-7-99	37	\$185,000
Total			<u>608</u>	<u>\$3,040,000</u>
Source: OAG analysis of contract and Excess Surplus Reports submitted by Delta				

received 212 days late. The interim report due on December 1, 1998, was received 37 days late. Delta officials stated that they were not able to submit the interim excess surplus report due December 1, 1997 because there was no approved cost allocation plan.

Section 10.3(c) of the contract states “the Department shall assess the Contractor the sum of five thousand dollars (\$5,000.00) per day until the delinquent report is received.” Liquidated damages totaling \$3,040,000 could have been assessed against Delta for failure to provide these reports by the dates specified in the contract. BCHS officials stated that Public Aid’s legal staff felt that the liquidated damages would be unenforceable because the amount is so large. We asked Public Aid officials if the Department was going to assess liquidated damages regarding the late submission of excess surplus reports. Public Aid responded that 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. However, as of September 2, 1999 there had been no decision and no penalty assessed.

“The Department shall assess the Contractor the sum of five thousand dollars (\$5,000.00) per day until the delinquent report is received.”
 Sec. 10.3(c) of 1996 contract with Delta

EXCESS SURPLUS	
RECOMMENDATION NUMBER 8	<i>Public Aid should ensure that excess surplus is calculated on an annual basis independent 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.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Implemented. The Department incorporated monitoring receipt of excess surplus 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.
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."

Audited Financial Statements and Profit & Loss Statements

Public Aid did not track whether Delta's audited financial statements were received as required by the contract. In late 1998, the most recent 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 the required profit and loss statements.

Section 5.8(h) of the contract required Delta to submit copies of their annual audited financial statements to both BIA and BCHS. The contract, however, does not specify a due date for the reports. BIA uses the annual audited financial statements when conducting their financial audits. Public Aid provided us with a copy of Delta's annual audited financial statement for calendar year 1996 but were initially unable to provide the calendar year 1997 statement. A BCHS official stated that these statements were sent directly to BIA. However, the contract clearly states that Delta was to submit a copy to both BIA and the contract compliance monitors. BIA obtained a copy of the calendar year 1997 annual audited financial statements from Delta on November 25, 1998. Public Aid does not keep a log of whether these reports are received or the dates received.

Section 5.8(f) of the contract required that Delta submit quarterly profit and loss statements no later than 45 calendar days after the close of the reporting quarter. The profit and loss statements consisted of two pages. The first page showed the premiums received, claims paid, administrative expenses, beginning surplus, and ending surplus. These figures show Delta's overall dollars for premiums and expenses as well as the Public Aid portion. The profit and loss statements also included an analysis of the surplus generated for the period of July 1, 1994 to the present. The second page of the profit and loss statement consisted of a breakdown of the administrative expenses. Section 10.3(b) of the contract states that if Delta failed to submit the profit and loss statements, the Department shall assess liquidated damages of \$1,000 per day until the delinquent statement is received.

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 date stamp them, therefore, we could not determine if the statements were received in a timely manner or if liquidated damages could have been assessed.

FINANCIAL REPORTING	
RECOMMENDATION NUMBER 9	<i>The Department of Public Aid should track whether all required financial reports are being submitted in a timely manner.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Implemented. The Department incorporated monitoring 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.

OTHER REVIEWS

While internal audits and quality assurance/compliance reviews have been conducted, they have not been consistent or comprehensive. There has not been an internal audit or quality assurance/compliance review completed for the time period during the last contract with Delta (May 1996 to February 1999). The Department also has not conducted an audit that evaluates Delta's performance as is required in the contract.

Internal Audits

The Bureau of Internal Audits (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 contractor's performance as is 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, we found that they are limited in scope and do not meet the contract's audit requirements. We also found that internal audits do not test the accuracy of claims data.

The contract with Delta called for Public Aid to conduct audits that evaluate the contractor's performance. Section 9.4(c) states 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." We reviewed the internal audits and found that these audits do not assess Delta's performance and do not check compliance with contract provisions other than excess surplus requirements.

"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."
 Sec. 9.4(c) of 1996 contract with Delta

Exhibit 2-8 shows that three internal audits have been completed since the previous OAG audit in 1990. The first audit was for the two year period January 1990 through December 1991. A second audit was conducted for the three year period January 1992 through December 1994. Finally, an audit was conducted for the period January 1994 through December 1996. Although this audit overlapped the previous audit period, the excess surplus periods audited do not. This audit was not finalized until the beginning of 1999, even though a draft was prepared in July 1998. Public Aid's Bureau of Internal Audits began audit fieldwork in February 1999 for the period May 1996 through April 1997. In previous audits, BIA did not review or test claims expense information which was the largest component of expenses reported by Delta. BIA officials noted that Delta has approximately 12 months from the end of the excess surplus period to submit the excess surplus report and that completion of these audits may have been delayed due to circumstance beyond BIA's control.

Exhibit 2-8 Internal Audits Conducted of Delta Since 1990				
Audit Period Covered	Excess Surplus Period Covered	Date Initiated	Date of Draft Report	Date Completed
1-1-90 to 12-31-91	7-1-90 to 12-31-91	*	*	6-28-93
1-1-92 to 12-31-94	1-1-92 to 6-30-94	8-14-95	9-5-96	3-03-97
1-1-94 to 12-31-96	7-1-94 to 4-30-96	3-24-97	7-7-98	1-29-99
5-1-96 to 4-30-97	5-1-96 to 4-30-97	10-5-98	In progress	in progress
*Dates not available		38		
Source: OAG analysis of Public Aid internal audits				

Other Compliance Reviews

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. Our prior audit recommended that an annual compliance review be performed. The following is a summary of those reviews:

- P Two reviews conducted for the periods of FY91/92 and FY93 were conducted by an outside consultant. These were more comprehensive than other reviews and covered issues such as the criteria manual, clinical utilization review of treatment plans, appeals, quality and review, patient records, peer review, access to care, grievance procedures, payment for services, and the accuracy of utilization data. However, a subsequent review by Public Aid of one of these reports concluded that the contractor was not aware of some amendments to the contract and did not review EPSDT requirements.
- P For calendar year 1995, a staff person at BCHS conducted a review of contract compliance. This review relied on some work from previous reviews. The review concluded that Delta was complying with most of the contract clauses and appeared to be performing the essential quality assurance even though it was not a comprehensive review of all compliance issues. The review did not cover issues such as access to services, utilization, appeals, and grievances and only looked primarily at EPSDT screenings, client referrals, and other reports and audits that were completed in the past. One problem noted in the review was that Delta failed to meet the EPSDT screening goal of 50 percent. The review also stated that there were areas of concern attributable to Public Aid including the failure of Public Aid staff to follow-up with Delta on audit findings and the inability of the Bureau of Information Systems and the Bureau of Program and Reimbursement Analysis to produce monthly data reports on dental service.
- P A compliance review was conducted by another outside consultant for the period May 1995 through April 1996. The review scope was limited to only specified contract requirements in the agreement between Public Aid and Delta. These issues included preauthorization timeliness (Ollie Smith), quality and review (utilization & peer review), and grievance procedures. The report identified several weaknesses in the quality and review process and a lack of grievance procedures. The report also concluded that the grievance procedure does not provide for a process to ensure complaint resolution. It should also be noted that the contractor was not able to verify 6 of 13 Ollie Smith exceptions tested because Delta did not provide requested documentation. Delta also kept the report for six months before responding.

REVIEWS AND AUDITS	
RECOMMENDATION NUMBER 10	<p><i>The Department of Public Aid should 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 Programs is adequately monitored contract compliance.</i></p>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	<p>Not applicable. The Bureau of Internal Audits initiated its audit of Delta timely. However, completion of the audit may have been delayed due to circumstances beyond BIA's control. For example, for the most recent BIA audit (surplus period 5-1-96 to 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 Auditor General's auditors were conducting their field work at Delta during January and February 1999. BIA had to reschedule the field work to a later date in February. Circumstances such as this causes delay in completing audits. BIA reviews supporting documentation to verify the allowability of expenses charged to the Department. For example, BIA audits for the surplus calculation period January 1, 1992 to June 30, 1994 the Department recovered \$139,526; for the period July 1, 1994 to April 30, 1996, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period May 1, 1996 to April 30, 1997 BIA auditors have identified \$4.3 million in questionable expenses and requested Delta for supporting documentation for expenses charged to the Department.</p>
AUDITOR COMMENT:	<p>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.</p>

PUBLIC AID'S MANAGEMENT OF THE CONTRACT

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 May 1, 1996 through April 30, 1998, was not signed by Public Aid until June 3, 1996. The contract was also amended four times. **Exhibit 2-9** shows that three of the four amendments to the final contract with Delta were signed after the effective date of the changes. Amendment one added coverage for DCFS wards, amendment two added the adult emergency program, amendment three extended the contract through February 1999, and amendment four increased rates to dentists.

Exhibit 2-9 Amendments to the Delta Contract May 1, 1996 to February 28, 1999		
Amendment	Effective Date	Date Signed by Director
1	7/1/96	12/13/96
2	1/1/97	2/17/97
3	4/30/98	4/30/98
4	7/1/98	10/23/98
Source: OAG analysis of contract amendments		

CONTRACT CHANGES	
<p>RECOMMENDATION NUMBER</p> <p style="text-align: center; font-size: 2em;">11</p>	<p><i>The Department of Public Aid should ensure that contract amendments are signed by all parties in a timely manner.</i></p>
<p>DEPARTMENT OF PUBLIC AID'S RESPONSE:</p>	<p>Ongoing. 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.</p>
<p>AUDITOR COMMENT:</p>	<p>Contract amendments were not always timely. As is shown in Exhibit 2-9 in the report, contract amendment one was approved more than five months after the effective date, amendment two was approved a month and a half after the effective date, and amendment four was approved almost four months after the effective date.</p>

Chapter Three

REASONABLENESS OF FEES

CHAPTER CONCLUSIONS

Overall, the amount of premiums paid to Delta to administer the dental program has decreased by nearly 28 percent from \$43.80 million in 1994 to \$31.75 million in 1998. However, adult services were eliminated from the program July 1, 1995 and then reinstated January 1, 1997 on an emergency only basis. The capitation rate paid to Delta for clients ages 0 through 20 increased from \$2.38 in 1985 to \$2.85 in 1998. This represents a 20 percent increase for the period 1985 to 1998 or about 1.4 percent per year.

Administrative expenses charged to the Public Aid program by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. In 1998, Delta spent a total of \$29.2 million related to the Public Aid dental program (\$17.7 million for claims expense and \$11.5 million for administration of the program). In other words, for every dollar spent on the program in 1998, about 60 cents was spent for claims while 40 cents was spent for administration. According to a 1990 Coopers and Lybrand study commissioned by Public Aid, reasonable administrative costs for a typical program range from 15 to 20 percent of benefits. The contract anticipated 27 percent of the capitation rate be spent for administrative expenses. In 1998, Delta's administrative expenses charged to the Public Aid dental program were 36 percent of total premiums received from Public Aid. Also, while the amount of Public Aid claims paid by Delta has decreased from 1994 to 1998, administrative costs over the same period remained fairly constant.

The amount of surplus between premiums and expenses for the Public Aid dental program increased from \$720,000 in 1996 to over \$4.6 million in 1997 and \$2.5 million in 1998. The increase in surplus in 1997 and 1998 may be due to the addition of adult emergency services to the dental program in January 1997. In fiscal years 1997 and 1998, Public Aid paid premiums related to adults of \$2.6 million and \$5.1 million respectively. However, claims paid by Delta for adults amounted to only \$645,593 and \$1,060,864 for those years. Also, the adult program only served 12,832 clients in fiscal year 1997 and 21,390 clients in fiscal year 1998.

Our review of Delta's financial records identified over \$2.2 million in questionable expenses reported by Delta to Public Aid. These expenses were questionable because either there was a lack of supporting documentation or the expenses were inappropriately applied to the Public Aid program. Public Aid has agreed that it will examine these expenses in its close-out audit of the Delta contract.

Prior to July 1998, reimbursement rates paid to providers under the program ranked very low in comparison to other state dental programs. However, effective July 1, 1998, Public Aid amended the contract with Delta to increase the rates paid to dentists for certain commonly performed procedures. Rates paid to providers, with the exception of x-rays, are now comparable with rates paid by Medicaid programs in other states.

PREMIUMS PAID TO DELTA

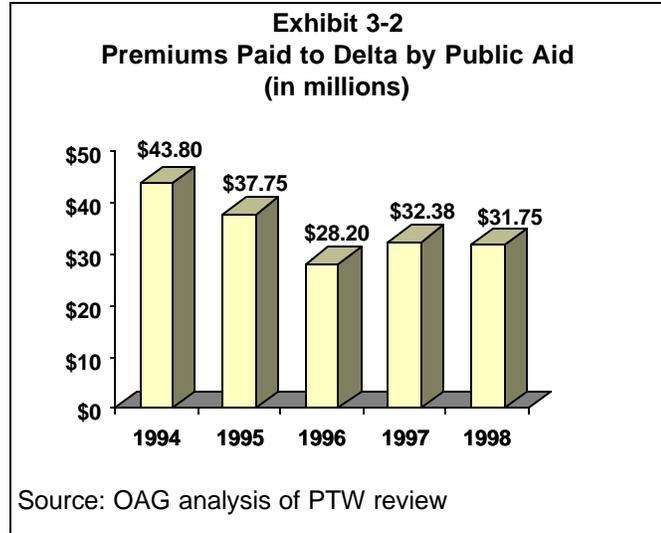
Public Aid paid Delta a premium on a monthly basis to administer the dental program. For this premium, Delta was required to pay dentists for services performed on eligible clients and administer the dental program. Delta also bore any risk in administering the dental program. For example, if the cost of claims and administration exceeded the premium paid then Delta would lose money. If the premium exceeded administrative costs and claims, then Delta would earn a surplus.

The contract between Public Aid and Delta contained a clause that limited the amount of profit (excess surplus) Delta could earn. **Exhibit 3-1** shows how excess surplus was calculated using the period May 1996 through April 1997. Net profit

Exhibit 3-1 Example of How the Excess Surplus is Calculated For the Period May 1, 1996 to April 30, 1997	
*Premiums (Total Public Aid payments to Delta)	\$29,419,093
Less: Delta's Claims Expense	-17,930,752
Less: Delta's Administrative Expenses	-10,164,521
Net Profit	\$1,323,820
Less: Allowable Surplus (4% times Premiums)	-1,176,764
Profit Subject to Excess Surplus Calculation	\$147,057
Surplus to be Returned to Public Aid (x .75)	\$110,292
*Excludes DCFS payments	
Note: May not foot due to rounding.	
Source: OAG analysis of Delta's Excess Surplus Statement	

was derived after deducting claims expense and administrative expense from the premiums received. Delta was allowed to further deduct four percent of the premiums received from Public Aid and keep that as profit on the contract. The amount that results was called excess surplus. Delta was required to return 75 percent of the excess surplus over the four percent. In summary, Delta's profit would be equal to four percent of the earned premiums plus 25 percent of any profit over and above that amount. As can be seen from **Exhibit 3-1**, the higher the administrative expense charged to Public Aid, the lower the net profit. The lower the net profit, the lower the surplus that must be returned to Public Aid by Delta.

Exhibit 3-2 shows the amount of premiums related to the capitation rate that Public Aid paid Delta for calendar years 1994 to 1998. Overall, the amount of premiums paid to Delta to administer the dental program has decreased by nearly 28 percent from \$43.80 million in 1994 to \$31.75 million in 1998. Premiums paid to Delta have fluctuated from 1994 to 1998 due primarily to changes in eligibility requirements. The adult dental program was eliminated in July 1995 but was then reinstated on an emergency only basis in January 1997.



Capitation Rates

The contract specified that Public Aid would pay Delta a monthly capitation fee based on the number of eligible clients per month as is discussed in Chapter One. The capitation rates were negotiated between Public Aid and Delta. **Exhibit 3-3** shows the capitation rates paid since the first contract.

The rate has ranged from a low of \$2.20 per eligible client in 1993 to a high of \$2.85 per client in 1998. Changes in the capitation rates are caused by new contracts such as the changes in 1988 and 1992 or amendments that raise the capitation rate such as the changes in 1990 and 1995. Sometimes the new capitation rate is retroactively applied such as in 1995 when a new rate was approved on November 9, 1994 but effective as of July 1, 1994.

The capitation rate has increased from \$2.38 in 1985 to \$2.85 in 1998. This represents a 20 percent increase or about 1.4 percent per year.

Fiscal Year	Original Rate	Changes in the Capitation Rate	
		New Rate	Effective Date
1985	\$2.38		
1986	\$2.38		
1987	\$2.38		
1988	\$2.38	\$2.46	10/01/87
1989	\$2.38		
1990	\$2.40	\$2.45	10/01/89
1991	\$2.42	\$2.47	07/01/90
1992	\$2.47	\$2.20	01/01/92
1993	\$2.20		
1994	\$2.60		
1995	\$2.60	\$2.63	07/01/94
		\$2.75	05/01/95
1996	\$2.75	\$2.85	07/01/95
		\$2.80	05/01/96
1997	\$2.80	\$2.85	05/01/97
1998	\$2.85		

Note: The 1985-1995 rate included both children and adults. Coverage for adults was eliminated July 1, 1995. Emergency dental care for adults was reinstated January 1, 1997 with a rate of \$0.83 for 1997 and \$0.80 for the remainder of the contract.

Source: OAG analysis of Delta contract

ADMINISTRATIVE COST REQUIREMENTS

Federal regulations require that the payments to a contractor of a pre-paid risk capitation program cannot exceed the cost to the agency of providing those services and administering the program itself. The requirement states that:

“Under a risk contract, Medicaid payments to the contractor, for a defined scope of services to be furnished to a defined number of recipients, may not exceed the cost to the agency of providing those same services on a fee-for-service basis. (42 CFR 447.361)

The previous audit in 1990 found that Public Aid did not have documentation to support that the contract with Delta is no more costly than if the program were administered on a fee-for-service basis in-house. The previous audit included a matter for consideration that the General Assembly may wish to consider requiring the Department to undertake a feasibility study to determine if it is less expensive to administer the dental program on a fee-for-service basis.

In 1990, after the release of the prior audit, Public Aid engaged the firm of Coopers and Lybrand to analyze the cost to Public Aid of the capitated contract with Delta relative to a comparable fee-for-service contract.

The report found that overall, if Public Aid administered the dental program on a fee-for-service basis, the total costs paid for claims and administration would have been in a range of \$1.2 million less to \$1.5 million more than Delta’s costs for fiscal year 1989. The report concluded that expected claims cost would have been higher if Public Aid operated the program. However, administrative costs would have been less than Delta’s. The report also found that reasonable administrative costs for a typical dental program would be in the range of 15 percent to 20 percent of benefits and that Delta’s administrative costs of 30 percent to 35 percent of benefits were excessive when compared to benefits. Public Aid has not conducted an analysis of whether the cost of contracting the program is less expensive than operating the program on a fee-for-service basis since 1990.

The Dental Service Plan Act

The Delta Dental Plan of Illinois is chartered under the Dental Service Plan Act. This Act places limits on the maximum amount of administrative expenses. The Act allows Delta to disburse a total of 30 percent of payments received from subscribers for expenses (20 percent for administrative expenses and 10 percent for soliciting subscribers (215 ILCS 110/33&34)).

Contract Provisions Regarding Usage of the Capitation Rate

The contract that was effective May 1996 through February 1999 detailed the capitation rate to be paid to Delta and showed the amount of the capitation rate to be spent on administration and benefits. **Exhibit 3-4** shows that Public Aid agreed in the

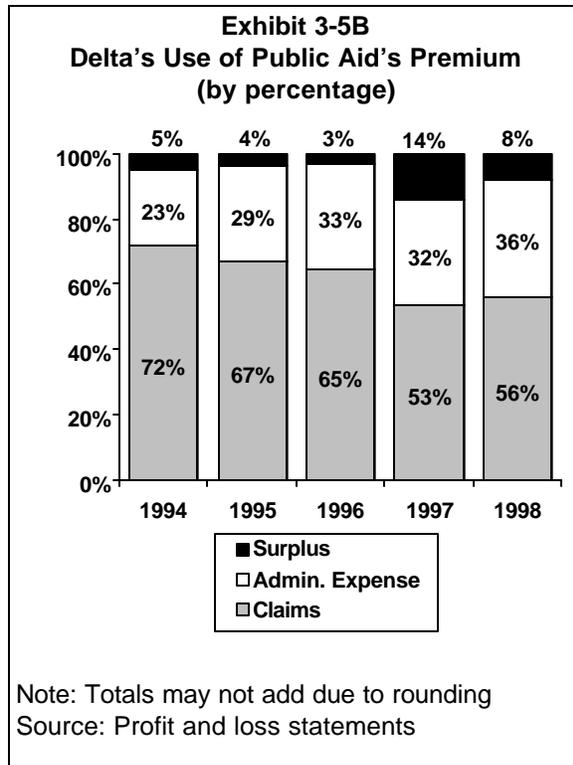
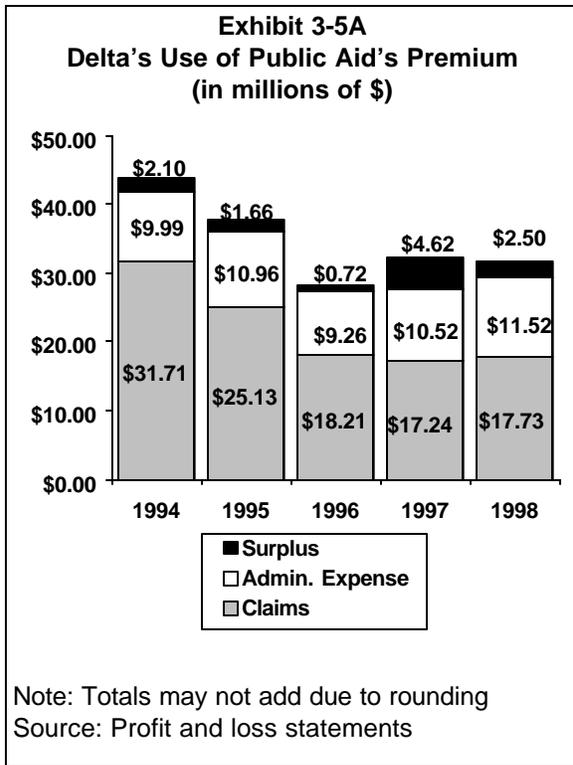
contract that Delta could spend approximately 27 percent of the premium received for administration of the program.

Exhibit 3-4 Breakout of Contract Capitation Rate by Administration vs Benefit					
Time Period	Administration Amount	Percent Administration	Benefits Amount	Percent Benefit	Total Rate
5/96 - 4/97	\$.75	26.8%	\$2.05	73.2%	\$2.80
5/97 - 2/99	\$.78	27.4%	\$2.07	72.6%	\$2.85
Source: OAG analysis of Delta Dental contract					

DELTA'S ADMINISTRATIVE EXPENSES

Administrative expenses charged to the Public Aid program by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. We compared administrative expenses in two ways; as a percentage of claims (benefits) and as a percentage of premiums (total dollars). We found that Delta charged more administrative expenses to Public Aid than to their other clients as a percentage of premiums and claims. We contracted with the firm of Pandolfi, Topolski, Weiss & Co., Ltd. (PTW) to perform a financial review of Delta including administrative expenses charged to Public Aid. They found that, even though claims expense decreased significantly between 1994 and 1998, administrative expenses over the same period remained fairly constant between \$9.26 million and \$11.52 million.

Exhibits 3-5A and 3-5B show how Delta used the premiums paid by Public Aid. The amount of claims paid by Delta significantly decreased from 1994 to 1998. In 1994, Delta paid out \$31.71 million (72% of premiums) for claims. Claims paid by Delta decreased to \$17.2 million (53% of premiums) in 1997 and \$17.7 million (56% of premiums) in 1998.



The last two years show a surplus of over \$4.6 million in 1997 and \$2.5 million in 1998 between the total premiums received from Public Aid and the total expenses charged to the Public Aid dental program. However, during the previous three years (1994-1996) surplus was decreasing. This increase in 1997 and 1998 may be due to Public Aid adding adult emergency services to the dental program in January 1997. When the adult emergency program was introduced in January 1997 premiums increased. However, after the adult emergency program was added claims expense actually fell. Effective July 1, 1999, Public Aid amended the new contract with Doral to make adults eligible for non-emergency dental services also.

We conducted an analysis of the amount of premiums, claims, and clients served under the adult emergency program. 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.

We also conducted a survey of Department of Human Services (DHS) local offices 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 us 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.

ADULT DENTAL SERVICES	
RECOMMENDATION NUMBER 12	<i>Public Aid should continue its efforts to ensure that eligible adult clients are aware of available dental services.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	On-going. The Department has been very proactive in responding to the needs of the DHS local office caseworker. 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.

Delta's Administrative Expenses Charged to the Public Aid Dental Program as a Percent of Claims and Premiums

Administrative expenses charged to the Public Aid program by Delta were excessive when compared to typical programs and exceeded the anticipated amount for administration in the contract. Delta's administrative expenses charged to the Public Aid dental program as a percent of claims increased each year over the last five years from a low of 32 percent in 1994 to a high of 65 percent in 1998(See Exhibit 3-6). The 1990 Coopers and Lybrand report commissioned by Public Aid stated that reasonable administrative costs for a typical program range from 15 to 20 percent of claims (benefits).

Exhibit 3-6 Administrative Expenses as a Percent of Premiums and Claims		
Calendar Year	Administrative Expenses as a % of Premiums	Administrative Expenses as a % of Claims
1994	23%	32%
1995	29%	44%
1996	33%	51%
1997	32%	61%
1998	36%	65%
Source: OAG analysis of profit and loss statements		

Administrative expenses charged by Delta to Public Aid when viewed as a percentage of premiums also appear excessive. Over the last several years about one third of all premiums received from Public Aid have been spent on administrative expenses. The contract capitation rate allowed Delta to spend about 27 percent of premiums for administrative expenses.

Administrative Costs Charged by Delta to Commercial Clients vs Public Aid

Delta's reliance on the Public Aid program as a source of income has steadily decreased since 1994. Also, the amount of claims has decreased as a percent of Delta's total claims paid. Delta charges substantially more administrative costs to the Public Aid program than to other commercial clients as a percentage of premiums and claims.

Exhibit 3-7 compares premiums received by Delta and claims costs for Public Aid's dental program to Delta's total premiums and claims cost. Public Aid premiums in 1994 amounted to 48 percent of Delta's total premiums for that year. Delta's reliance on Public Aid premiums as a source of income has decreased steadily since 1994 to a low of 24 percent of Delta's total premiums in 1998.

Exhibit 3-7 Public Aid Premiums and Claims As a Percent of Delta's Total Business		
Calendar Year	Public Aid Premiums as a Percent of Delta's Total Premiums	Public Aid Claims as a Percent of Delta's Total Claim Dollars
1994	48%	44%
1995	39%	33%
1996	29%	23%
1997	27%	18%
1998	24%	16%
Source: OAG analysis of profit and loss statements		

Public Aid claims expense as a percent of Delta's total claims expense dropped even more dramatically than the percent of premiums. In 1994, Public Aid claims accounted for 44 percent of all claims expense at Delta. However, in 1998 the percentage had dropped to about a third of that (16%).

In 1994, the percent of premiums Delta spent for administrative expenses were very similar between Public Aid and other commercial clients. In 1994, administrative expenses charged to Public Aid amounted to 23 percent of Public Aid premiums while commercial clients' administrative expenses amounted to 21 percent of commercial premiums. However, after 1994, Public Aid began to pay increasingly more in administrative expenses as a percentage of their premium than did commercial clients. By 1998, 36 percent of Public Aid premium was used for administrative expenses. During this same time period, the administrative costs charged to commercial clients dropped from 21 percent of their premiums in 1994 to 13 percent of their premiums in 1998 (*see Exhibit 3-8*).

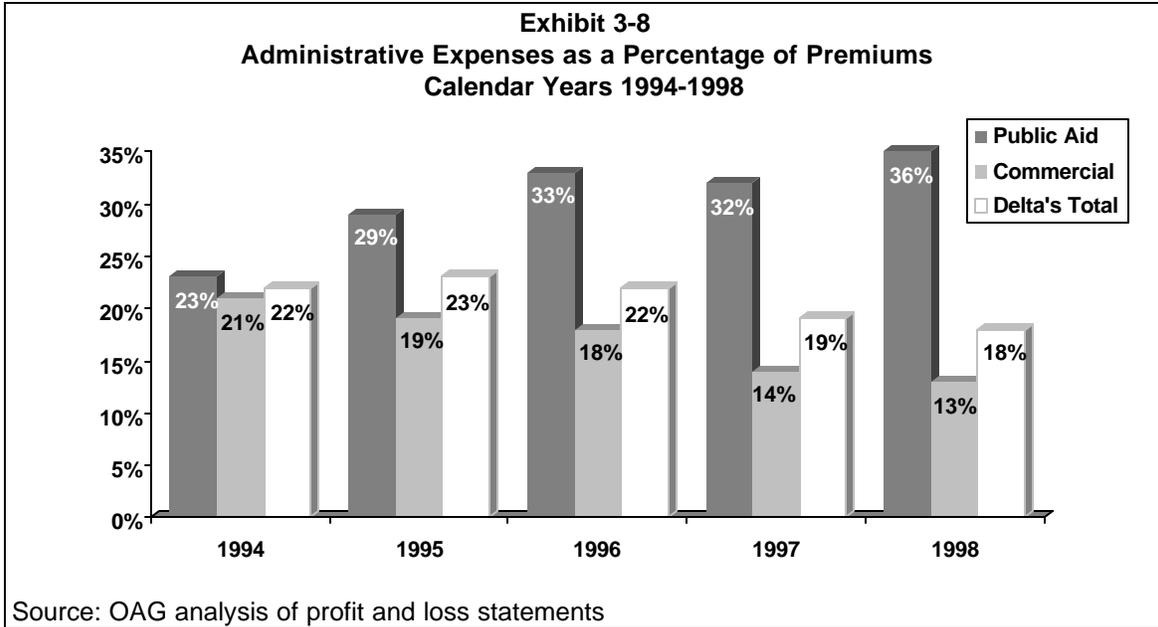
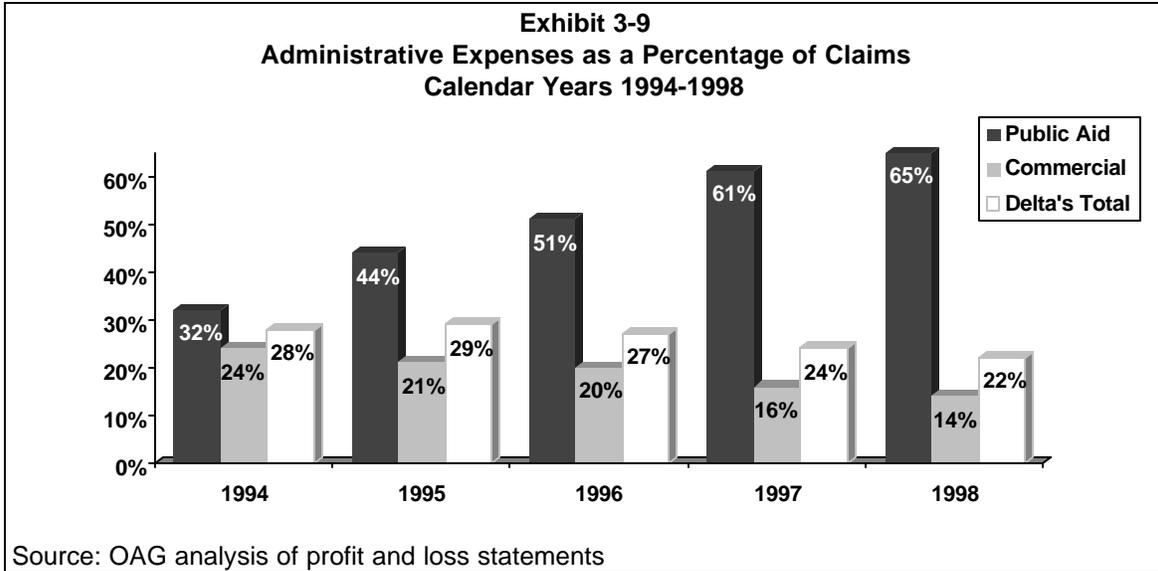


Exhibit 3-9 presents administrative expenses as a percentage of claims. As can be seen in the exhibit, Public Aid's administrative expenses as a percentage of claims rose considerably from 1994 to 1998 while the percentage for other commercial accounts continually declined. In 1994, Public Aid's administrative expenses were 32 percent of Public Aid's claims while for other commercial clients administrative expenses amounted to 24 percent of commercial claims. As with the previous exhibit, again the gap between Public Aid and commercial administrative costs widened. By 1998, Public Aid's administrative expenses were 65 percent of Public Aid's claims paid for the Public Aid program while commercial administrative expenses for the same period were only 14 percent of commercial claims paid by Delta. Also, Delta's total administrative expenses were 22 percent of total claims. This indicates that Delta is charging substantially more administrative expenses to Public Aid's dental program than to other commercial clients.



Delta officials stated that administrative expenses charged to Public Aid are higher because the average individual premium paid by commercial clients is over ten times the rate paid by Public Aid. Delta officials also added that the average dollar amount of a claim processed for a commercial client is 3.8 times the size of the average Public Aid claim. While this explanation may explain why Public Aid and commercial costs would be different, it does not explain why the percent of administrative expenses has been increasing for Public Aid while it has been decreasing for commercial clients.

EXPENSES REPORTED BY DELTA

During the audit, the firm of Pandolfi, Topolski, Weiss & Company Ltd. reviewed Delta's financial records and identified over \$2.2 million in questionable expenses reported by Delta to Public Aid. These expenses were questionable because there was either a lack of supporting documentation or the expenses were inappropriately applied. These questionable expenses could affect the amount of excess surplus that should be refunded to the Department. However, the actual amount is dependent on if and by how much Delta exceeded the four percent threshold for refunding excess surplus.

Exhibit 3-10	
Questionable Expenses Identified at Delta	
By PTW	
Questioned Expense	Effect on Account
Premiums Income:	
(1) Reinsurance deducted from premiums	\$90,000
Claims Expenses:	
(2) Claims Reserves Change	\$870,000
Administrative Expenses:	
(1) Over allocation on schedule A	\$17,423
(2) Other Direct Expenses	\$1,266,356
Total	\$2,243,779
(1) Inappropriately applied	
(2) Lack of supporting documentation	
Source: OAG analysis of PTW review	

Exhibit 3-10 lists the expenses that PTW identified as questionable. As can be seen in the exhibit, Delta deducted large amounts for which they could not provide adequate support.

- P **Reinsurance** - Delta inappropriately reduced the amount of premiums earned by \$90,000 for reinsurance costs related to the dental program. This expense is the sum of two \$45,000 payments in both 1997 and 1998. The original contract agreement and the reinsurance contract do not provide an explanation why these payments should be charged against Public Aid premiums. Contract section 5.12(a) states that "The Contractor shall assume the underwriting risk with respect to the cost of Covered Services under this Agreement to the extent that such costs exceed the monthly premium." By charging the cost of reinsurance to the Public Aid program, Delta passed the costs back to Public Aid.

- P **Claims Reserves Change** - Claims expense included an \$870,000 balance in the Claim Reserves Change account as of December 31, 1998. This account was judgmentally determined and could not be supported by actual documentation.

- P **Over Allocation of Administrative Expenses** - Delta's administrative expenses on schedule A did not trace to the general ledger in all cases. Delta overstated these administrative expenses by \$17,423 for the quarter ended March 31, 1997. This would increase the costs charged to the dental program and decrease the excess surplus.

- P **Other Direct Expenses** - Delta charged \$1,266,356 to Other Direct Expenses for the quarter ended December 31, 1998. However, Delta did not provide auditors with documentation to support this amount.

We also questioned past reductions in the amount of excess surplus for the period January 1, 1992 to December 31, 1994 of over \$1.6 million. Documentation of this deduction was based on an October 27, 1994 letter sent to Public Aid by Delta, which

Public Aid was unable to provide. Public Aid claimed that the deduction was based on an October 17, 1994 letter. However, we questioned this statement because the deduction amounts referenced to the October 27, 1994 letter were not listed in the October 17, 1994 letter provided by Public Aid.

We were able to obtain other information that showed the deduction was based on an agreement between Delta and Public Aid to reconcile errors made in calculating the number of eligible clients for the years 1991, 1992, and 1993. According to Delta and Public Aid, these errors caused Delta to be underpaid by \$2.8 million. Public Aid then allowed Delta to recoup this money by reducing refunds owed the Department for fiscal years 1994, 1995 and 1996.

VERIFICATION OF CONTRACTOR EXPENSES	
RECOMMENDATION NUMBER 13	<i>Public Aid should ensure that the dental contractor documents expenses and adjustments related to the calculation of excess surplus amounts. Public Aid should conduct a detailed review to verify that expenses are not overstated and should only consider expenses that can be supported by documentation when calculating the excess surplus.</i>
DEPARTMENT OF PUBLIC AID'S RESPONSE:	Not applicable. The OAG auditors are only restating what the Bureau of Internal Audits 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 January 1, 1992 to June 30, 1994 the Department recovered \$139,526; for the period July 1, 1994 to April 30, 1996, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period May 1, 1996 to April 30, 1997 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 the contractor can retain and requires the contractor to return to the Department a portion of
<p><i>Continued on next page: Continued from previous page:</i></p>	

	the excess.
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CLAIMS TESTING

As part of this audit we conducted several samples of claims to test for accuracy of reporting, appropriateness of payment, and timeliness of processing. We also conducted a survey in which we asked dentists to confirm the amount they were paid for performing services. We found that claims expense reported in Delta's general ledger may have been overstated because Delta paid thousands of EPSDT claims to providers which were also paid through subcontractors of Delta. These overstatements and inappropriate payments reduce the amount that Delta would return to Public Aid as excess surplus. A dental claims confirmation survey we conducted found that in no case was there an instance in which a dentist responded that Delta paid them less than what was in Delta's records.

According to information supplied by Delta, they processed 422,266 claim documents in 1998. The total amount paid for these claim documents was \$15,572,540. This includes all claim documents submitted for payment, whether the claim was paid or denied, and also included adjustments made for changes in reimbursement rates and voided checks. Not included in this total are prior authorization documents or EPSDT claims submitted electronically by contract dentists.

The 422,266 claims included 32,836 denied claims (7.8 percent), or claims where the amount paid was listed as zero. There were also 2,378 claims (0.6 percent) listed with negative payment amounts, which Delta officials said were adjustments to previous payments. Paid claims, therefore, comprised the majority of claims processed during 1998. However, because Delta Dental did not provide a download of the number of prior authorizations received or processed during 1998, we could not determine the total number of documents processed by Delta for Public Aid in 1998.

Inappropriate Payment of EPSDT Claims

Delta does not usually pay EPSDT claims submitted by contract providers. These claims are processed as if they are paid but no check is written, because the providers have been paid by the subcontractors. However, in 1998 Delta actually paid 2,443 contractual EPSDT claims for a total of \$28,723. Since these claims should be paid by the subcontractors that Delta has agreements with, this would have inflated the amount of claims Delta paid.

Delta officials initially stated that subcontractors were not notifying them that the provider was a contract provider. They said if the subcontractors had properly notified them of any new contractual providers, they would have inserted the proper code in the provider record to ensure proper handling of the claim form. When we checked the provider record screen for the providers who received improper payments, we noted the proper code was there. Because the provider record does not contain fields which show the date the record was created or updated, we could not determine when that information was input.

Further, two providers of EPSDT services who received the bulk of the improper payments were on Delta's system only as contract providers. According to Delta records, they had no other locations or offices from which they could have submitted claims. Also, the payments to these providers occurred in various months throughout the year. However, Delta Dental officials did not provide any further explanation to resolve this issue.

Dentist Claims Confirmation Survey

As part of the audit, we sampled 100 dental claims from calendar year 1998. Information from these claims was sent to the dentists who provided the services to confirm the accuracy of the date the services were provided for the specific eligible client, the number of procedures performed, and the amount Delta paid each dentist for the services.

We received 78 (78%) responses from dentists. Overall, there were no exceptions in the sample that indicated Delta reported paying a claim but did not send the payment to the dentists who provided the service. Of the confirmations we received, all dentists provided services to the eligible clients listed on the claim sheet. Although there were minor differences in some information in the confirmation responses, in no case was there an instance in which a dentist responded that Delta paid them less than what was in Delta's records.

An exception of note is that one dentist surveyed in the confirmation provided services to a Public Aid client while his license was in a non-renewed status. By law, dentists are not allowed to practice dentistry without a valid dental license issued by the Department of Professional Regulation.

PROVIDER REIMBURSEMENT RATES

The fees that Illinois pays to dentists for dental procedures are comparable to the rates paid by other states with the exception of radiographs (x-rays). We examined surveys conducted by the National Conference of State Legislatures (NCSL) and the Illinois State Dental Society (ISDS) that compared the Medicaid reimbursement rates paid for dental procedures in Illinois to the rates paid in other states. Of the procedures used in either survey, x-rays are the only procedures where Illinois is not comparable to other states. The rates paid by Illinois for the three x-ray procedures included in the ISDS survey are far below the average paid by the states in the survey and rank among the lowest amounts paid if not the lowest paid when compared to the other states. Amendment Number Four to the most recent Delta contract, which increased many dental procedures, did not increase the rates paid for x-ray procedures. Other key procedures, such as exams, cleanings, fillings, and fluoride treatments are close to the average paid by the states surveyed.

Increase in Reimbursement Rates

Amendment Number Four to the most recent contract, effective July 1, 1998, increased the reimbursement rates paid to participating providers for certain dental procedures. We compared the old price for each procedure and the new price as specified in Amendment Number Four for both the children and adult programs. We determined that Public Aid increased the amount paid to dentists for 48 procedures in the children's program and for 12 procedures in the adult program. The dollar amount of the increases for these procedures in the children's program ranged from \$1.88 to \$134.51 and the percentage increases ranged from 10.94 percent to 147.62 percent.

To assist in deciding which rates to change and how much the changes should be, Public Aid obtained opinions from Delta and ISDS. Public Aid also obtained the rates paid through the State employee insurance program and compared those fees.

NCSL Survey

We obtained a survey conducted by the National Conference of State Legislatures (NCSL) on Medicaid reimbursement rates for children's dental care. The survey, released in 1998, collected reimbursement rates for seven dental procedures from all states.

Exhibit 3-11 shows Illinois' old reimbursement rates and new reimbursement rates for the procedures used in the NCSL survey. The reimbursement rate for all seven of these procedures was increased by Amendment Number Four.

Exhibit 3-11 Illinois' Reimbursement Rates for Procedures from NCSL Survey			
Procedure Code	Procedure Description	Old Rate	New Rate
02140	Filling (One Surface)	\$14.76	\$25.00
02120	Filling (Two Surface)	\$21.46	\$39.00
01120	Cleaning (Prophylaxis)	\$12.40	\$22.50
01203	Fluoride Treatment	\$5.25	\$13.00
02930	Stainless Steel Crown	\$34.91	\$53.00
07110	Single Tooth Extraction	\$16.05	\$26.36
01351	Sealant	\$7.00	\$15.00
Source: OAG analysis of contract and amendments			

As part of our analysis, we compared Illinois' old and new rates to those of other selected large or Midwestern states in the NCSL survey. We also created an index that is the average of the seven procedures and ranked each state by the index in **Exhibit 3-12**. Illinois' old reimbursement rates ranked second lowest, with Missouri being the only state ranked lower. However, Illinois' new reimbursement rates rank in the middle. For the full results of the NCSL survey see Appendix C.

**Exhibit 3-12
Dental Procedure Medicaid Reimbursement Rates for Selected States
from NCSL State Medicaid Reimbursement Survey**

	State	Filling One Surface Permanent	Filling Two Surface Deciduous	Cleaning	Topical Fluoride Treatment for Children	Stainless Steel Crown on a Primary Tooth	Single Tooth Extraction	Sealant for One Tooth	Index
1	MO	\$13.20	\$18.00	\$10.00	\$5.00	\$35.00	\$12.00	\$7.00	14.31
2	IL (Old Rate)	\$14.76	\$21.46	\$12.40	\$5.25	\$34.91	\$16.05	\$7.00	15.98
3	MI	\$14.85	\$26.52	\$15.47	\$11.13	\$44.57	\$26.52	\$5.15	20.60
4	NY	\$8.50	\$26.60	15.40	\$12.00	\$39.00	\$25.00	\$18.00	20.64
5	FL	\$25.00	\$33.00	\$13.00	\$10.00	\$56.00	\$23.00	\$12.00	24.57
6	IL (New Rate)	\$25.00	\$39.00	\$22.50	\$13.00	\$53.00	\$26.36	\$15.00	27.69
7	OH	\$27.20	\$33.90	\$15.59	\$10.35	\$63.33	\$31.25	\$18.00	28.52
8	TX	\$25.00	\$35.00	\$18.75	\$7.50	\$68.75	\$32.50	\$16.25	29.11
9	WI	\$32.03	\$39.25	\$22.61	\$12.40	\$84.13	\$38.62	\$16.49	35.08
10	CA	\$39.00	\$41.00	\$30.00	N/A	\$75.00	\$45.00	\$15.00	40.83
11	IN	\$55.50	\$64.50	\$34.50	\$22.25	\$139.75	\$72.25	\$27.75	59.50

Source: 1998 NCSL Survey

ISDS Survey

In June 1998, the Illinois State Dental Society (ISDS) conducted a Medicaid fee survey of other states to determine the amounts paid for 13 dental procedures. The survey compared 13 different selected procedures and the amount that each state reimbursed providers for those procedures. Public Aid increased the rate paid for all of the procedures in the survey except for the three radiograph procedures (Full X-ray, Bitewings, and Panoramic). A Public Aid official stated that the radiograph procedures were not increased because dentists overuse and abuse the use of radiographs.

We compared the new reimbursement rates that Illinois pays to the amounts paid by other selected states from the ISDS survey. As with the results of the NCSL survey, the amounts paid by Illinois appear to be in line with the amounts paid by the other selected states. Illinois generally ranks somewhere in the middle except for the three radiograph procedures surveyed. Illinois ranks last or next to last for the amounts paid for these three procedures.

Chapter Four

SOLICITATION AND EVALUATION OF PROPOSALS

CHAPTER CONCLUSIONS

The Department of 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. However, there are practices that could be improved. Public Aid did not date stamp proposals as they were received or keep an official record of the proposal opening. Public Aid also did not document committee meetings held to discuss evaluations, discussions with proposers, oral presentations by proposers, or negotiations after the best and final offers.

During the time the RFP was released, procurement was governed by Executive Order 3. This executive order required that agency procurement be substantially in accordance with the Illinois Procurement Code from February 6, 1998 to July 1, 1998. Public Aid officials stated that the new contract for dental services is arguably a purchase of care contract. However, we questioned whether the new contract met the definition of purchase of care. Both Executive Order 3 and the Illinois Procurement Code make these types of contracts exempt from requirements.

INTRODUCTION

The final two determinations of Legislative Audit Commission Resolution Number 113 ask the Auditor General to determine:

- P Whether the manner of soliciting proposals for a new contract was adequate and in conformity with any applicable laws and prudent business practices; and
- P Whether the manner and basis of evaluating proposals for dental care was adequate and in conformity with any applicable laws and prudent business practices.

We compared the process used to procure the new contract for dental services to prudent business practices we identified, requirements in the Public Aid RFP, and other legal requirements. The purpose of our audit work in this area was to assess the process used to procure the new contract for dental services. It was not our objective to rescore or question the judgments of Public Aid in the scoring of proposals.

Legal Issues

Executive Order 3 (1998) governed procurement by all agencies under the Governor's jurisdiction when the June 18, 1998 RFP for dental services was released. This order required that agency procurement be substantially in accordance with the Illinois Procurement Code from February 6, 1998 to July 1, 1998. However, Executive Order 3 and the Illinois Procurement Code contain provisions that exempt purchase of care contracts from the requirements in the Illinois Procurement Code. Public Aid officials have stated that the new contract is arguably a purchase of care contract. We questioned whether this contract met the definition of purchase of care. The Illinois Procurement Code defines "Purchase of Care" as:

"A contract with a person for the furnishing of medical, educational, psychiatric, vocational, rehabilitation, social, or human services directly to a recipient of a State aid program." (30 ILCS 500/1-15.68)

The decision memo to cancel the February 4, 1998 RFP stated that the contract was purchase of care and is therefore exempt from the Illinois Procurement Code. However, the contract with Delta was an agreement for furnishing dental services and the contractor was responsible for the entire dental program including the cost of claims, administration, EPSDT service, and other program outreach services. The new contract is an administrative services agreement and it is not clear whether it meets the definition of purchase of care under the Illinois Procurement Code. The new contract also is not a traditional administrative services only contract because payments are based on a capitated rate and therefore the contractor assumes some risk for administrative costs. In addition, the contract requires the contractor to perform duties other than claims processing such as establishing a program for recruiting providers, assisting clients in locating providers, and ensuring that clients have access to necessary covered services.

If the contract were not considered purchase of care, under the Executive Order Public Aid would have had to meet the requirements in the Illinois Procurement Code. These include:

- P Soliciting proposals through a request for proposal (RFP);
- P Giving public notice at least 14 days before the date set in the invitation for opening of proposals;
- P Opening proposals publicly in the presence of one or more witnesses and preparing a record of the proposals for public inspection;
- P Stating the relative importance of price and other evaluation factors in the RFP;
- P Submitting proposals in two parts: the first, covering items except price; and the second, covering price. The first part shall be evaluated and ranked independently of the second part;
- P Documenting the basis on which the award is made in the contract files;
- P Not exceeding a 10 year period for each contract; and
- P Requiring that offers from proposers be accompanied by disclosure of financial interest if the annual value of the contract is over \$10,000.

The process used by Public Aid to procure the new contract for dental services generally followed these requirements. The only exceptions are that the proposals were

not opened publicly in the presence of one or more witnesses and an official record of the opening was not prepared for public inspection. The June 18, 1998 RFP for dental services also contains provisions for other statutorily required certifications such as nondiscrimination, medical assistance fraud and abuse, and sexual harassment. In addition, the contract contains vendor certifications which include, among others, certifications related to:

- P Bribery;
- P Bid-Rigging, Bid Rotating, and Inducements;
- P Business Enterprise for Minorities, Females and Persons with Disabilities;
- P Conflict of Interest;
- P Tax Compliance;
- P Licenses and Certifications; and
- P Lobbying.

Public Aid now has appointed a purchasing officer and has established formal procedures that govern procurement.

PRUDENT BUSINESS PRACTICES FOR CONTRACTING

During the audit we identified two primary sources that define what prudent business practices should be followed when procuring goods and services. These two sources were:

- P State and Local Government Purchasing (4th Edition), National Association of State Purchasing Officials; and
- P The Model Procurement Code for State and Local Governments, American Bar Association.

The two sources above describe the characteristics of a good competitive sealed bidding and competitive sealed proposals process. These include, for example, public notice, a designated time and place at which proposals will be received, and receipt and registration of proposals. **Exhibit 4-1** presents a list of issues and the acceptable practices according to the two sources identified above for contracting by competitive sealed proposals.

Exhibit 4-1 Business Practices for Contracting by Competitive Sealed Proposal	
Public Notice	Public notice should be given by distributing the RFP to a sufficient number of proposers for the purpose of securing competition. The RFP should be publicized in a newspaper of general circulation, industry media, or in a government publication designed for giving public notice. A copy of the RFP should also be available for public inspection.
Use of Proposers' List	A Proposers' lists <i>may</i> be compiled to provide the State with the names of businesses that may be interested in competing for various state contracts. Names and addresses on the proposers' list should be made available for public inspection.
Pre Proposal Conference	A pre-proposal conference <i>may</i> be conducted to explain the procurement requirements and should be announced to all prospective proposers known to have received an RFP. Any conference should be held prior to the submission of the initial proposals. The conference should be held long enough after the RFP has been issued to allow proposers to become familiar with it, but sufficiently before proposal opening to allow consideration of the conference results in preparing their proposals. A summary of the conference shall be supplied to all those prospective proposers known to have received an RFP. If a transcript is made it should be a public record.
The Request for Proposal	The RFP must include: <ul style="list-style-type: none"> ▪ A description of the item or service desired; ▪ The criteria, in order of their importance or individually weighted, that will be used in evaluating the proposals; and ▪ The format or outline in which proposals are to be submitted.
Amendments to the RFP	Amendments to the RFP should be identified as such and should require that the proposer acknowledge receipt of all amendments issued. Amendments should be sent to all prospective proposers known to have received an RFP and they should be distributed within a reasonable amount of time to allow proposers to consider them in preparing their proposals.
Modification or Withdrawal of Proposals	Proposals may be modified or withdrawn by written notice received in the office designated in the RFP prior to the time and date set for proposal opening. For late proposals, withdrawals, or modifications, the established due date is either the time and date announced for receipt of proposals or modifications; or if discussions have begun, it is the time and date by which best and final offers must be submitted.
Late Proposals	Any proposal received after the time and date set for receipt of proposals is late. No late proposal, modification, or withdrawal will be considered unless received before contract award, and the proposal, modification, or withdrawal would have been timely but for the action or inaction of State personnel directly serving the procurement activity. A record of late proposals, modifications, and withdrawals should be kept.
<i>Exhibit 4-1 continued on next page -</i>	
<i>Exhibit 4-1 continued from previous page -</i>	

<p>Receipt and Registration of Proposals</p>	<p>Proposals should not be opened publicly but should be opened in the presence of two or more procurement officials. Proposals and modifications should be time/date stamped upon receipt and should be held in a secure place until the established due date. After the established due date, a register of proposals shall be prepared including for all proposals the name of each proposer, the number of modifications received, and a description sufficient to identify the supply, service or construction item offered. The register of proposals should be open to public inspection only after award of the contract.</p>
<p>Evaluation of Proposals</p>	<p>Prior to issuing the RFP, the evaluation criteria should be developed carefully in relation to their importance to the proposed acquisition or project. The RFP should state all the evaluation factors, including price, and their relative importance. The evaluation should be based on the factors set forth in the RFP and factors not set forth in the RFP should not be considered. Proposals should be classified as acceptable, potentially acceptable, or unacceptable. Those that are unacceptable should be notified promptly. If an evaluation committee or team is employed, members should be selected and briefed before the RFP is issued and there should be an understanding and consensus of the evaluation criteria.</p>
<p>Discussions with Proposers</p>	<p>Proposers should be accorded fair and equal treatment with respect to opportunity for discussions and revisions to proposals. The procurement officer should establish procedures and schedules for conducting discussions. Auction techniques (revealing one proposer's price to another) and disclosure of any information derived from competing proposals are prohibited. It is desirable for the procurement officer to keep a record of the date, place and purpose of meetings and those attending. Modification and negotiations should be conducted with each qualified proposer and should be documented by minutes of each session. The proposer may modify or withdraw its proposal at any time prior to submission of best and final offers. Changes are not allowed after best and final offers are received.</p>
<p>Mistakes in Proposals</p>	<p>If the procurement officer knows or has reason to conclude before award that a mistake has been made, the officer should request the proposer to confirm the proposal. If the proposer alleges a mistake, the proposal may be corrected or withdrawn during any discussion that are held.</p>
<p>Award</p>	<p>The procurement officer should make a written determination showing the basis on which the award was found to be most advantageous to the State based on the factors set forth in the RFP. After the contract is entered into, notice of award shall be posted in the procurement officer's office or public information office of the officer's agency. When the award exceeds a certain amount, each unsuccessful proposer should also be notified of the award.</p>
<p>Source: <u>State and Local Government Purchasing (4th Edition)</u>, National Association of State Purchasing Officials; and <u>The Model Procurement Code for State and Local Governments</u>, American Bar Association.</p>	

SOLICITATION PROCESS

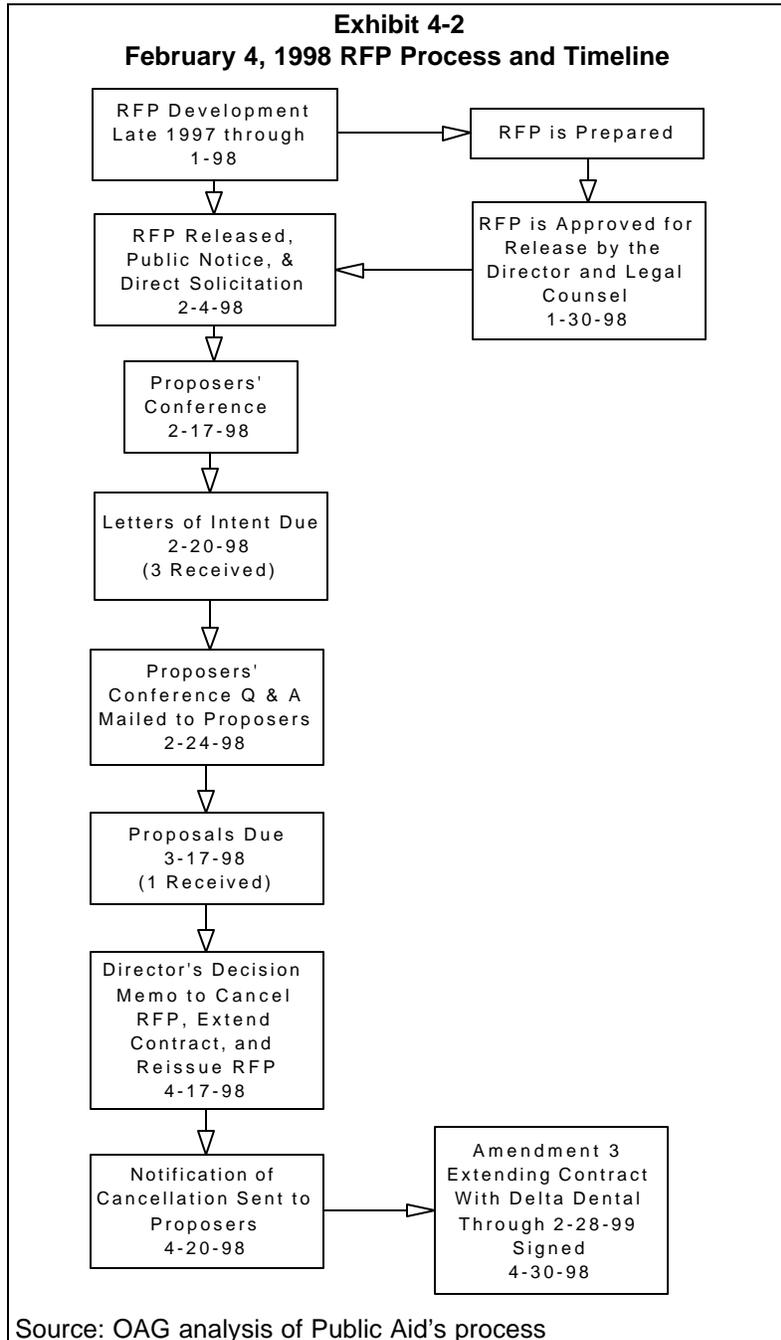
The Department of Public Aid's manner of soliciting proposals for the new dental contract was generally in conformity with prudent business practices and other legal requirements. However, Public Aid could improve the process by date stamping proposals as they are received, ensuring proposals are stored together in a secure place, and keeping an official record of the proposal opening.

The solicitation process for the new dental services contract began in late 1997 with the development of the first of two RFPs that would be released to replace the contract for dental services that was to expire April 30, 1998. Public Aid's Bureau of Comprehensive Health Services (BCHS) released the first RFP for the dental services contract in February 1998 and subsequently canceled it in April 1998 because of a lack of competition. A second RFP was released in June 1998 and resulted in Public Aid's new contract for dental services with Doral Dental (Doral).

The February 4, 1998 RFP

On February 4, 1998, Public Aid released the first of two RFPs for the new dental program. **Exhibit 4-2** summarizes the events and process that occurred during the first RFP.

The February 1998 RFP contained a fundamental change in the way the program and contract would operate. Previous contracts had always been risk bearing contracts in which the contractor was responsible for the administration and



delivery of services based on a capitated rate per eligible client. If the premiums exceed the costs, the contractor realizes a gain but if the costs exceed the premiums, the contractor realizes a loss. The February 1998 RFP called for an administrative services only contract that eliminated the majority of the risk and required the contractor only to process the claims for dental services provided to eligible clients with the Department bearing the risk for the cost of services.

Although the Department received three letters of intent, they only received a single proposal. This proposal was received from Delta and, according to Public Aid officials, the proposal was returned unopened.

On April 17, 1998 the Director signed a decision memo to cancel the RFP, extend the current contract through February 28, 1999 (Amendment Three), and reissue a new RFP. The decision memo noted that the RFP did not allow sufficient time for any potential proposer other than the current contractor to put into effect an adequate transition plan from the current operation to the program resulting from the RFP. The memo further stated that this likely resulted in the unintended consequence of discouraging potential proposers and thereby excluding competition. Public Aid officials also stated that the requirement in the RFP to include EPSDT services in their proposal may have also limited the number of proposals. This was because companies that may have potentially proposed were familiar with processing claims but were not accustomed to running a program that needed outreach services.

The June 18, 1998 RFP

The Department issued another RFP for dental services on June 18, 1998. In an effort to increase competition, the second RFP allowed more time for proposers to develop proposals and implement the program. The RFP also allowed proposing for EPSDT services to be optional. **Exhibit 4-3** shows differences in the time tables from the two RFPs. The initial RFP contained much tighter time frames and did not allow for a contract change over period. The first RFP only allowed 86 days from the release of the RFP to the contract effective date whereas the second RFP allowed 256 days. The June 1998 RFP also allowed over two months for contract change over.

The RFP document generally followed prudent business practices in that it included:

- P A full description of the service desired;
- P The criteria, in order of their importance or individually weighted, that will be used in evaluating the proposals; and
- P The format or outline in which proposals are to be submitted.

Proposers' List and Public Notice

Public Aid provided auditors with a list of potential proposers that showed that 89 RFPs were mailed to 85 potential proposers. Public Aid officials stated that potential proposers were identified by contacting trade associations, the Department of Insurance, and other states. Public Aid provided evidence that they gave public notice of the release of the RFP and it was placed on the Internet for public viewing. However, many of the memos provided regarding release and advertising were not dated or dates were hand written.

Proposers' Conference

After perspective proposers were given time to review the RFP (27 days), a proposers' conference was held to answer questions and concerns about the RFP. For the June 1998 RFP the proposers' conference was held on July 15, 1998. At the conference, Public Aid officials received a total of 58 questions from prospective proposers. A public record of the meeting was kept that shows the discussions that took place.

Exhibit 4-3 Timetable of Principle Dates for the Dental Services RFPs		
Critical Events	February 1998 RFP	June 1998 RFP
Release of RFP	2/4/98	6/18/98
Proposers' Conference	2/17/98	7/15/98
Letters of Intent Due	2/20/98	7/20/98
Proposals Due	3/17/98	9/15/98
Proposal Evaluations, Oral Presentations, & Site Visits	3/17/98	10/1/98
Contract Negotiations and Internal Review and Approval	4/6/98	12/1/98
Contract Change Over Period	(none)	12/31/98 - 3/1/99
Contract Effective Date and Program Implementation	5/1/98	3/1/99
Total Days from Release to Effective Date	86 Days	256 Days
Source: OAG analysis of February 4, 1998 RFP and June 18, 1998 RFP		

Answers to questions raised at the proposers' conference were compiled and formal written responses were sent on July 31, 1998 to those attending the proposers' conference. After the proposers' conference, Public Aid received five letters of intent to propose for the RFP. Of the five companies that submitted letters of intent, three submitted proposals.

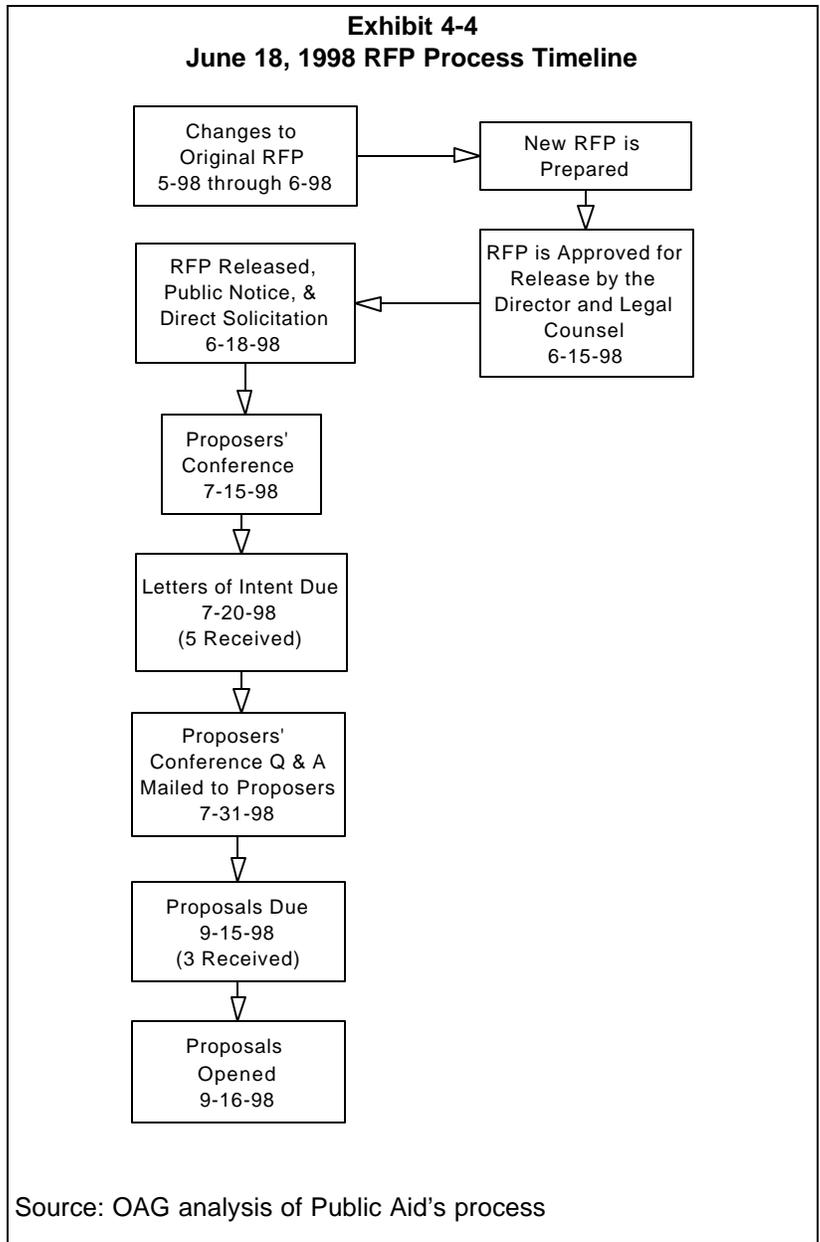
Proposals

For the June 18, 1998 dental services RFP, Public Aid received proposals from three companies; Delta Dental, Doral Dental, and OHS/HMS. However, we could not determine if the Department received each by the September 15, 1998 due date because there was no evidence of receipt such as a date/time stamp or official register. It is also unclear whether the proposals were properly stored after receipt. Public Aid officials offered conflicting information in interviews about whether the proposals were kept in a secure room. In one interview, a Public Aid official stated that all proposals were placed in a locked room as they were received. However, in a previous interview Public Aid officials stated that proposals that had been received were kept in different places including the Director's conference room closet and a Public Aid employee's office.

Proposal Opening and Screening

The three proposals were opened and screened by BCHS officials the day after the due date. Public Aid officials stated that two employees were present when the proposals were opened. However, there is no record of the opening. The two officials then completed an initial screening instrument for each proposal. The screening instrument contained questions regarding whether each proposal met the basic requirements such as whether:

- P the letter of intent was on time;
- P the proposal was properly labeled;
- P the proposal was submitted on time to the proper address;
- P the proper number and form of copies submitted;
- P the format was correct; and
- P each required tab and attachments were complete.



All three proposal screening worksheets were signed by two BCHS employees and all completed questions were answered “yes”. The screening worksheets did not contain an area for the name of the company or any other descriptive information such as the service to be supplied, the RFP name, date, description, or whether the proposal was modified. No record of the opening other than the initial screening instrument was kept by Public Aid.

Changes to the RFP and Amendments to Proposals

During the solicitation phase there was one change to the RFP. Public Aid amended the RFP to include the increase in reimbursement rates paid to dentists. Public Aid officials stated that this was sent to all potential proposers. However, the only documentation found was an undated letter with the increased rates addressed to potential proposers. Attached to the letter was a spreadsheet of rates that were increased. Prudent business practices would require that the correspondence be documented.

EVALUATION PROCESS

The Department of Public Aid’s manner of evaluating proposals for the new dental contract generally conformed with prudent business practices. However, there are some areas for improvement. Public Aid did not document meetings held to discuss the evaluations, discussions with proposers, oral presentations by proposers, or negotiation discussions.

The Evaluation Committee

After the proposals were opened and initially screened on September 16, 1998 to determine whether they met certain basic requirements, evaluation of the proposals began. A committee of 16 people was assigned to review and evaluate the three proposals received. The original evaluation review committee was approved September 15, 1998. However, the membership of the review committee was changed after initial approval on two occasions. On September 16, 1998, two different members were added to the committee including another Public Aid employee from BCHS and a representative from the Department of Human Services (DHS). On September 25, 1998, changes were again made to the committee. The representative from DHS was replaced with a new one and the role of the Public Aid dental consultant changed from reviewing the overall proposal to just consulting on special policy issues.

The final committee of 16 people included Public Aid employees from the BCHS, Bureau of Budget Analysis, Office of Health Finance, Bureau of Program and Reimbursement Analysis, Bureau of Information Systems, and the Bureau of Technical Support. The committee also included an official from the Department of Human Services and a Public Aid dental consultant.

While certain members of the committee were responsible for reviewing and evaluating the program section of the proposal, others were assigned to subcommittees that reviewed only specific parts of the proposals. Subcommittees were formed of three members each in the areas of financial, technical, and reporting. The only record of the

responsibilities of the subcommittee members were found in e-mails collected from Public Aid's files. These show the specific sections of the evaluation scoring instrument that each subcommittee was responsible for reviewing and scoring.

Public Aid did not keep records of various discussions of the evaluation committee including discussions about the RFP, proposals, or scoring instrument. Upon inquiry by auditors, Public Aid officials did provide a one page overview of the committee meetings that shows that the entire committee met on September 16, 1998 to hand out scoring tools, copies of proposals, discuss the scoring methods and answer any questions. However, since the committee was not initially approved until September 15, 1998, and changes to membership were made up until September 25, 1998, it does not appear that the full committee could have met for the first time until after the proposals were due. Guidelines for State and Local Government Purchasing (4th Edition) recommends that if an evaluation committee or team is used to evaluate proposals, members should be selected and briefed before the RFP is issued. This is so there can be an understanding and consensus of the evaluation criteria among the members.

Evaluating Criteria and Scoring Instrument

Public Aid established the criteria for evaluating the proposals and the importance of each area in the RFP which is a good business practice. The scoring instrument

Exhibit 4-5 Evaluation Criteria From the June 18, 1998 RFP and Scoring Instrument		
Category	RFP	Scoring Instrument
Dental Program	25%	125 pts (25%)
Organizational Strength	15%	75 pts (15%)
Prior Experience	20%	100 pts (20%)
Reporting	15%	75 pts (15%)
Price	25%	125 pts (25%)
Source: OAG analysis of RFP and scoring instrument		

developed for the evaluation also followed the criteria and the importance given to each in the RFP. The proposals were scored in five general areas including the dental program, organizational strength, prior experience, reporting, and price (**see Exhibit 4-5**).

Scoring Proposals

Each of the committee members scored the three proposals for the areas they were assigned. During the evaluations of the proposals there were some problems with the scoring of several areas including the technical capability of each proposer's computer system, the references submitted, and the financial condition of one proposer.

The technical subcommittee team was concerned with the capabilities of each proposer's computer system and Public Aid decided that each proposer would give an oral presentation. A memo was sent to proposers requesting them to give oral presentations including a list of topics to be included in the presentation. These topics included the hardware platform for the claims processing system, support staff, electronic data submission, claims processing of rejected claims, Y2K status and plans, disaster recovery plans, and offsite storage for recovery files.

The oral presentations were given on October 7th and 8th, 1998. However, the only documentation of these presentations is the handout materials from the proposers and sign in sheets. Public Aid did not keep meeting minutes of these presentations even

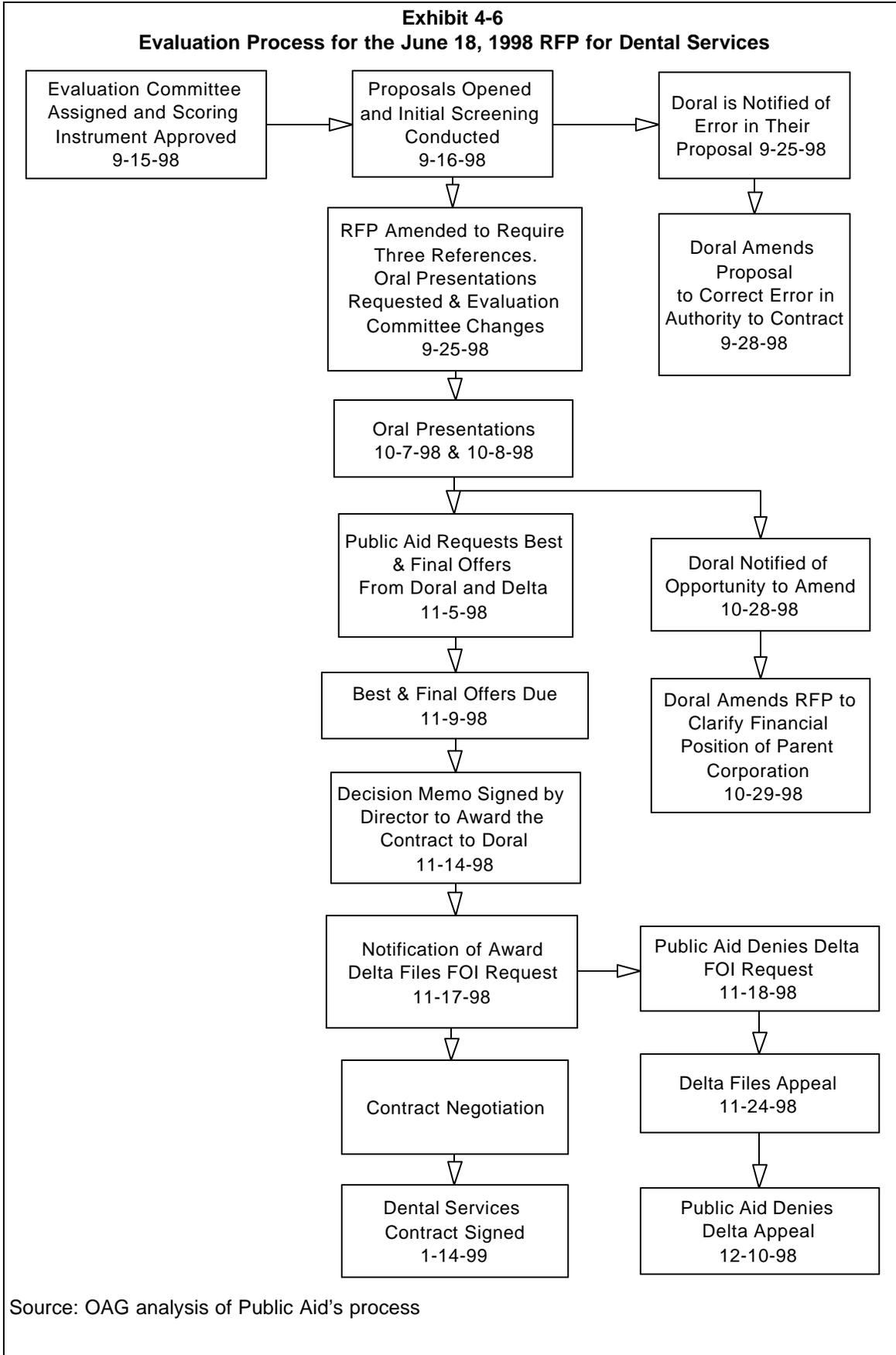
though the scoring of the technical committee was based at least in part on these presentations.

The financial subcommittee team was concerned about scoring the financial aspect of the Doral proposal. On October 28, 1998, Public Aid notified Doral that they needed additional clarification of financial statements because Doral had submitted the parent company's statements instead of Doral Dental of Illinois' statements. Doral responded on October 29, 1998 with documentation that Doral Dental of Illinois was a newly formed company and the parent company would stand behind the company financially.

As can be seen in **Exhibit 4-6**, Doral was given an opportunity to amend their proposal on three separate occasions. The first was to correct an error in the initial proposal submitted. This involved replacing the authority to contract part of the proposal. Doral erroneously submitted a document not relevant to their proposal. The second was to clarify the financial position of the parent company. The other amendment was requested of all three proposers and asked each to submit three references.

One concern that surfaced during the scoring was that proposers had submitted a number of references and it would be time consuming to call all of them. Public Aid decided that rather than pick references randomly, they would amend the RFP and ask each proposer to provide the three most relevant references. In a memo dated September 25, 1998, Public Aid notified the three proposers of the amendment to the RFP requesting three references. The amendments were to be received no later than October 1, 1998 at 5:00 p.m. All three proposers amended their proposals. These amendments were not date/time stamped, therefore we were not able to determine whether all were received by the deadline.

Overall, the scoring instruments provided by Public Aid to the audit staff were adequate to document the scores that each committee member had given each proposer. In most cases, the scoring instruments contained written narrative justifying the scores. Many of the scoring instruments did not contain the date completed or the total scores for each section. However, we did not find mathematical errors in the scoring instruments. After the scoring was completed, the scores were summarized and the summary sheet was signed by each member of the committee.



Best and Final Offers

The evaluation process narrowed the field to two proposers that Public Aid officials scored very closely. Public Aid determined that the overall scores for Doral and Delta were both in the “zone of contention”. On October 30, 1998, Public Aid officials requested that each of the two proposers submit a “best and final offer” by November 9, 1998 at 5 pm. Both Doral and Delta submitted a best and final offer which lowered their proposal price. However, neither of the offers was time or date stamped so we were unable to determine whether each was received by the deadline specified in the request by Public Aid. Doral’s best and final offer was faxed with a time and date of November 9, 1998 at 5:38 pm but it was noted in writing on the offer by a Public Aid official that Doral’s fax machine was still on daylight savings time. Delta’s best and final offer was received by first class mail and the date and time received was hand written by a Public Aid official.

In response to the request for best and final offers, both Doral and Delta lowered their previous proposals by roughly \$3 million. Public Aid staff calculated the projected three-year cost based on the anticipated volume of clients and claims as stipulated in the RFP. Public Aid staff projected the cost over three years for Doral’s offer at \$19.49 million and \$19.90 million for Delta’s offer. Although the projected cost of Doral’s offer was lower than Delta’s, Doral’s offer allowed Doral to retain up to \$1.56 million in profit while Delta’s offer only allowed for \$597,000 in profit. Public Aid concluded in the director’s decision memo that given the large reductions the best and final offers represented, it was questionable whether either company’s profit will be high enough to result in a refund of excess profits. The division of medical programs recommended that because of the cost savings Doral should be awarded the contract.

Contract Award

The director signed the decision memo to award the contract to Doral on November 14, 1998. The three proposers were notified of the award on November 17, 1998, and public notice was also given the same day. After negotiating specific requirements, Public Aid signed the new contract for dental services on January 14, 1999 with Doral. The contract obligated more than \$108 million over the effective dates of March 1, 1999 through February 28, 2002. Of the total dollars obligated in the new contract, almost \$89 million (82%) is for claims payment while the remaining \$19 million (18%) is obligated for the administrative service portion of the contract.

Appeals and Protests

After being notified of the award, Delta filed a Freedom of Information (FOI) request on November 17, 1998 to view:

- P All documents related to the proposals submitted by Doral and OHS including original submission, materials provided as part of the oral presentations and any amendments; and
- P All documents related to the scoring of the organizational strength, dental program, prior experience, reporting, and price including the screening worksheets.

Public Aid denied the request the next day, November 18, 1998. The Department denied the FOI request on the grounds that the request was exempt from disclosure pursuant to 5 ILCS 140/7(1)(h) of the Illinois Freedom of Information Act. Under this section, documents are exempt from release until a final award is made. At the time Public Aid was still in negotiations with Doral and had not signed a formal contract.

On November 24, 1998, Delta filed a formal appeal of the award alleging that Public Aid never had any intention of awarding the contract to Delta, engaged in unfair dealing, favoritism toward the winning proposer, and revamped the dental program so as to award the contract to Doral. More specifically Delta alleged that:

- P The Department arbitrarily awarded the contract to a less qualified administrator of dental plans;
- P The Department failed to follow its own criteria and criteria weighting in the scoring of the proposals;
- P The Department failed to fairly consider Delta's proposal because it had already pre-determined that Doral would be awarded the contract;
- P The Department exercised favoritism toward Doral;
- P The Department unfairly evaluated the qualifications of Delta with regard to the award;
- P The Department failed to protect State funds by awarding the contract to Doral and eliminating risk sharing with the contractor thus leaving the State more vulnerable to loss with regards to the dental program; and
- P The Department failed to follow its own criteria when it awarded the contract to an entity which does not have a business office located within Illinois.

Public Aid denied the appeal on December 10, 1998. Their response to Delta stated that they reviewed and investigated the basis for protest and found the protest had no merit.

Negotiations

After the award notice, the details of the contract were then negotiated with the winning proposer. We were unable to obtain documentation to show what the negotiation discussions entailed or how many times discussions were held with the new contractor. However, it took nearly two months from the time of the notice of award until the contract was signed by both Public Aid and the new contractor. When asked to provide documentation of the contract negotiations, Public Aid officials responded that the contract is the documentation of the results of the negotiations and no transcripts or correspondence of the negotiations exist.

IMPROVING THE SOLICITATION AND EVALUATION PROCESS	
<p>RECOMMENDATION NUMBER</p> <p>14</p>	<p><i>The Department of Public Aid should:</i></p> <ul style="list-style-type: none"> P <i>Date/time stamp proposals as they are received or keep a log that reflects the time and date each proposal is received;</i> P <i>Ensure that all proposals are kept together in a secure place until such time as the deadline for receiving proposals has passed;</i> P <i>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;</i> P <i>Document changes during the RFP process;</i> P <i>Select and brief committee members before the RFP is issued;</i> P <i>Document presentations given by proposers, committee meeting discussions, and other discussions that show the basis for scoring and evaluation decisions; and</i> P <i>Document discussions and correspondence regarding contract negotiations.</i>
<p>DEPARTMENT OF PUBLIC AID'S RESPONSE:</p>	<p>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.</p> <p>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</p>

<p><i>Continued on next page:</i> <i>Continued from previous page:</i></p>	<p>the proposal opening. The Department 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. The Department 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 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.</p>
<p>AUDITOR COMMENT:</p>	<p>The audit resolution required us to compare the manner of solicitation and evaluation to prudent business practices. We used sources such as the <u>State and Local Government Purchasing (4th Edition)</u>, National Association of State Purchasing Officials and <u>The Model Procurement Code for State and Local Governments</u>, 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.</p>

Chapter Five

Previous Audit Recommendations

CHAPTER CONCLUSIONS

The Department of Public Aid did not fully implement 16 of the 26 audit recommendations from the 1990 management audit of the contracts between Public Aid and Delta. Of the 16, 11 were only partially implemented and 5 were not implemented at all. Many of the recommendations not fully implemented are relevant to the new contract between Public Aid and Doral. *Exhibit 5-1* summarizes the status of the previous audit's recommendations and their relevance to the new contract.

Nine of the 26 prior audit recommendations in the prior management audit were implemented by the Department. One recommendation was no longer applicable to the contract between Public Aid and Delta.

INTRODUCTION

Determination number one of the Legislative Audit Commission's Resolution Number 113 required the Auditor General to follow-up on the prior audit recommendations in the 1990 management audit of Public Aid's contracts with Delta. There were 26 recommendations in the prior audit. This chapter follows up on each of the 26 recommendations in the previous audit.

On March 1, 1999, Doral began administering the dental program for Public Aid. This chapter also determines if the 1990 audit's recommendations are applicable to the new contract with Doral.

Exhibit 5-1 Summary of Previous Audit Recommendations		
Number	Status	Relevance to New Contract
1	Partial	Yes
2	Yes	Yes
3	Yes	No
4	Yes	Yes
5	Yes	Yes
6	No	Yes
7	Yes	Yes
8	Partial	Yes
9	Partial	Yes
10	Partial	Yes
11	No	Yes
12	Yes	Yes
13	Yes	Yes
14	No	No
15	N/A	No
16	Yes	Yes
17	Partial	Yes
18	Partial	Yes
19	Yes	Yes
20	Partial	No
21	Partial	Yes
22	Partial	Yes
23	No	Yes
24	Partial	Yes
25	Partial	Yes
26	No	Yes

Source: OAG analysis of prior audit.

PREVIOUS AUDIT RECOMMENDATIONS

Previous Recommendation Number One		
Public Aid should comply with records requirements of the State Records Act and Federal regulations and maintain documentation of decisions concerning agency contracts and their procurement history.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation one from the prior audit. Public Aid provided us with all the contracts and amendments to the contracts since the 1988 contract. However, Public Aid only had 7 of 15 decision memos to award and amend the dental program for the last two Delta contracts. In addition, one of the amendments Public Aid provided was not signed and dated.

Recommendation number one is relevant to the new contract between Public Aid and Doral. The State Records Act (5 ILCS 160/8) requires Public Aid to preserve adequate and proper documentation of the Department's policies, decisions, and transactions.

Previous Recommendation Number Two		
Public Aid should amend the audit provisions of the contract to give Public Aid or its designee the authority to audit complete financial and general operations data of Delta.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation two from the prior audit. The contract provided the Department, OAG, and federal auditors access to all information or records pertaining to the contract.

This recommendation is relevant to the new contract with Doral. The new contract contains a provision that allows the Department, State, and federal auditors access to records at Doral for audit purposes.

Previous Recommendation Number Three		
Public Aid should amend the surplus clause of the contract to require that Public Aid surplus funds be used to enhance the Public Aid program.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation three from the 1990 audit. At the time of the 1990 audit, the contract did not contain requirements for Delta in regards to the surplus earned. Although, Public Aid did not amend the contract with Delta to require that excess surplus funds be used to enhance the dental program, they did amend the contract to require Delta return a portion of the excess surplus to Public Aid if it reached a certain level. Public Aid also provided documentation showing the Department used two

of the excess surpluses to increase rates in services and enhance programs at Public Aid.

This recommendation is not relevant to the contract with Doral. This contract also contains a clause that requires Doral to return a portion of the excess surplus to Public Aid after it reaches a certain level. This type of clause eliminates the need for requiring surplus funds to be used to enhance the program because the surplus is to be returned to Public Aid.

Previous Recommendation Number Four		
Public Aid should revise the contract requirement for payment of claims from 35 to 30 days to adhere to Federal regulations. Public Aid should enforce the State law requiring interest to be paid on claims paid more than 30 days after receipt of due proof of loss.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation four. Public Aid amended the contract to include the requirement. Although the contract was amended, our testing found no evidence that interest was paid on claims which were not paid within 30 days of receipt. Chapter two discusses this subject further.

Recommendation four is relevant to the new contract with Doral. The new contract requires Doral to pay 99 percent of claims within 90 days of receipt. However, the contract does not include the amount of interest that must be paid to dentists if Doral submits payment to the dentists late. The contract does contain a liquidated damage clause which states that the contractor must pay a one percent liquidated damage if the contractor fails to meet the requirements noted above.

Previous Recommendation Number Five		
Public Aid should identify effective enforcement provisions and incorporate them into the contract to ensure compliance with requirements for timeliness of claim processing and prior approvals, utilization tape accuracy and submission, submittal of documents, and access provisions.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation five of the prior audit. The contract contained all of the provisions specified in the recommendation. Also, the contract contains adequate controls to effectively manage the performance of Delta.

This recommendation is relevant to the new contract between Public Aid and Doral because effective enforcement provisions are relevant to all contracts. The new contract contains a variety of controls for enforcing the contract with Doral. However, we did not evaluate the effectiveness of the provisions in the contract because they were outside the scope of the audit.

Previous Recommendation Number Six		
Public Aid should implement procedures to review and follow up on the status of complaints submitted to Delta.	Implemented	
	Not Implemented	✓
	Partially Implemented	
	Not Applicable	

Public Aid did not implement recommendation six. Public Aid does not have procedures for review and follow-up on complaints. A Public Aid official stated that complaints are handled differently depending on who receives the complaints. Without procedures, Public Aid may not consistently handle complaints received by clients. Chapter two contains more information about grievances and complaints.

Recommendation six is relevant to the contract with Doral. The new contract with Doral contains a provision that requires Doral to set up a grievance committee. This committee is required to meet to address issues filed by clients. Although Doral is required to set up this committee, Public Aid should not rely on this requirement alone to monitor complaints.

Previous Recommendation Number Seven		
Public Aid should ensure that Departmental policies are upheld in the appeal process.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation number seven from the prior management audit of Delta. Public Aid has procedures over the appeals process.

This recommendation is relevant to the new contract because an appeals process is necessary to the program so that eligible clients who have a problem will be heard by the Department.

Previous Recommendation Number Eight		
Public Aid should conduct, at the minimum, an annual review of Delta's performance to determine contract compliance. These reviews should be conducted in a thorough and consistent manner.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation eight. Public Aid hired medical review firms to conduct compliance reviews and the Department conducted one of their own reviews. In total, there were four reviews conducted over eight years. This is equal to a review every two years rather than yearly as recommended in the prior audit. In addition, one of the review's scope was limited to a few specific areas and the Department's in-house review relied on the work and conclusions of a prior review instead of verifying contract compliance during the period the review covered. No reviews have been conducted for any period since May 1996. In addition to the compliance reviews conducted, the Bureau of Internal Audits conducts their own audits. However, these audits are financial in nature.

Recommendation eight is relevant to the new contract. Regular reviews or audits of Doral's performance would help ensure that all contract provisions are being followed. The contract allows the Department, State, and Federal auditors access to Doral's records. In addition, the contract allows Public Aid the right to conduct performance reviews. However, the provision does not specify how often Public Aid may conduct the performance reviews.

Previous Recommendation Number Nine		
Public Aid should enforce requirements for Delta to submit information on requested, denied, approved, and paid services on the utilization tapes. Public Aid should also require Delta to submit actual dates of claim receipt, processing, and payment.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation nine from the prior audit. The utilization tapes do not contain usable information on denied claims as required by the contract. Although, Delta provided the data on the tape, the field length contained only two digits instead of the three digits necessary to hold the denial codes. Public Aid was not aware of this problem. In addition, Public Aid officials did not know that Delta was submitting any information about denied claims. If Public Aid reviewed this data and if Delta updated the fields on the utilization tapes, then this problem could have been corrected.

Recommendation nine is relevant to the new contract because the contract requires Doral to send claims data to Public Aid in an electronic format.

Previous Recommendation Number Ten		
Public Aid should monitor prior authorizations for compliance with the <u>Smith vs. Miller</u> ruling.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Recommendation ten was partially implemented by Public Aid. However, Public Aid does not prepare any reports directed towards this requirement and the reports submitted by Delta contained only basic information. Also, the Department does not utilize these reports for monitoring purposes (see Chapter Two). Public Aid stated that they hired medical review firms to analyze compliance with the Smith ruling. Two of the reviews compiled the reports produced by Delta but the reports were not verified for accuracy. The final review attempted to verify the accuracy of the reports produced by Delta by verifying one of the monthly Ollie Smith reports. However, Delta did not provide all the necessary documentation for the firm to complete the review of the report. In addition, the review did not compile any information or analyze the Smith requirements. Public Aid has not conducted any contract compliance reviews since April 30, 1996. Chapter Two contains additional information on the Ollie Smith reports and timeliness of claims processing.

This finding is relevant to the new contract. The contract between Public Aid and Doral contains a clause that requires Doral to process all prior authorizations for dental services within the time frame established by the Smith ruling.

Previous Recommendation Number Eleven		
Public Aid should review claim processing timeliness at Delta to ensure compliance with State, Federal, and contract regulations. The review should include a regular and periodic analysis of internal controls at Delta and random samples of actual claims.	Implemented	
	Not Implemented	✓
	Partially Implemented	
	Not Applicable	

Public Aid did not implement recommendation 11 from the prior management audit. This should include an analysis of internal controls at Delta and a random sample of actual claims. Public Aid does not monitor claims processing timeliness. Public Aid officials stated in October of 1998 that they did not monitor claims processing timeliness. In January of 1999, Public Aid officials stated that in the past they hired compliance review firms to monitor this issue. However, the last compliance review conducted that examined this issue was for a period ending June 30, 1993. This does not constitute active monitoring by Public Aid. In addition, the compliance reviews that examined claims processing timeliness only compiled information from Delta without testing the information for accuracy.

Recommendation 11 is relevant to the new contract with Doral. Because Doral is responsible under the contract to process claims in a timely manner, Public Aid should monitor the claims processing system at Doral. In addition, Public Aid should be concerned with internal controls in place at Doral to ensure that the claims are processed accurately and timely.

Previous Recommendation Number Twelve		
Public Aid should require Delta to submit full and complete disclosure statements as required by federal regulations and contract provisions.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation 12 in the prior audit. Article 9.7 of the contract requires Delta to submit disclosure statements to Public Aid every six months. We received all the required disclosure statements for the period tested.

The new contract with Doral contains a clause requiring Doral to submit certain disclosures. Although this clause makes the recommendation relevant, the clause only requires the disclosure to be updated upon Department request.

Previous Recommendation Number Thirteen		
Public Aid should require Delta to form a grievance committee as required by the contract and to submit all committee minutes in a timely manner.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation 13 from the prior audit. Public Aid and Delta officials stated the grievance committee exists, but has never met because Delta resolves all complaints on an informal basis. Public Aid provided us with a list of grievance committee members and the committee's procedures. However, one committee member died in 1986. This may indicate that the list was not updated in a timely manner. This issue is discussed further in Chapter Two.

This recommendation is relevant to the new contract between Public Aid and Doral. The new contract requires Doral to establish a grievance committee and submit reports of this committee.

Previous Recommendation Number Fourteen		
Public Aid should define "substantial" risk in their contract with Delta after consulting with the Department of Insurance. Public Aid should require full disclosure by Delta of the effects of reinsurance on surplus amounts.	Implemented	
	Not Implemented	✓
	Partially Implemented	
	Not Applicable	

Public Aid did not implement recommendation 14. Public Aid did not include a definition of "substantial risk" in the contract with Delta. In addition, this finding is relevant to our audit because Delta reinsured the dental program in 1997 and 1998. However, the effect of this reinsurance was not disclosed on the most recent excess surplus report.

This recommendation is not relevant to the new contract because Doral is not at risk for payment to vendors under the contract. The new contract for dental services requires Doral to process claims for a fee and pay claims on behalf of Public Aid. The risk of payment for the services remains with Public Aid because the Department is responsible for paying Doral for services rendered by dentists.

Previous Recommendation Number Fifteen		
Public Aid should consult with the Department of Insurance to clarify reporting treatments for withheld funds. Public Aid should require Delta to disclose withheld amounts retained under the Public Aid contract.	Implemented	
	Not Implemented	
	Partially Implemented	
	Not Applicable	✓

Recommendation 15 is no longer applicable to the contract between Public Aid and Delta. Public Aid eliminated Delta's ability to withhold funds from amounts due dentists in 1990 from the contract.

The new contract does not contain a clause requiring Doral to withhold funds from dentists. As such, this recommendation is not relevant to the new contract.

Previous Recommendation Number Sixteen		
Public Aid should revise the current contract to change Delta's ability to terminate the contract from 30 and 60 days to 12 months.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation 16. Public Aid amended the contract with Delta by eliminating Delta’s ability to terminate the contract.

This recommendation is relevant to the new contract with Doral. The new contract contains a clause that states if the contract is breached, the non-breaching party may give the party who breaches the contract a 30 day notice to meet the terms of the contract. If the breaching party does not come back into compliance with the contract within the 30 days, the contract will be terminated.

Previous Recommendation Number Seventeen		
Public Aid should ensure that actual revenues and expenses, including interest income, withhold income, and reinsurance expenses, are properly allocated to the Public Aid program on the quarterly profit and loss statement.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation 17 from the prior audit. Public Aid’s Bureau of Internal Audits (BIA) is responsible for monitoring financial information received from Delta. The audits performed by BIA since 1992 did not examine whether revenues and expenses were properly allocated to Public Aid on the quarterly profit and loss statements. BIA audits check whether revenues and expenses were properly allocated for the excess surplus calculation. In addition, BIA does not audit these reports in a timely manner (see Chapter Two for additional information).

This recommendation is relevant to the new contract with Doral. The new contract requires excess profits be reported to the Department every agreement year on the excess profit reports. In addition, costs are to be audited by BIA over the same period.

Previous Recommendation Number Eighteen		
Public Aid should monitor Delta’s financial information to determine the extent of surplus generated under the Public Aid contract.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented prior audit recommendation 18, but the State may be losing money by not monitoring Delta in a timely manner. Public Aid completed three audits of Delta since 1990. All three of these audits examined the excess surplus calculation. Public Aid failed to assess liquidated damages, and obtain amounts refundable to Public Aid from the excess surplus calculation in a timely manner.

Recommendation 18 is relevant to the new contract between Public Aid and Doral. The new contract contains a clause requiring Doral to submit Excess Profit Reports within 90 days after the end of each agreement year. Public Aid is responsible for auditing these reports.

Previous Recommendation Number Nineteen		
Public Aid should amend the contract to require documentation for administrative cost in the form of detail time sheets, cost studies of actual time spent on Public Aid work, and travel and entertainment logs that support cost to the related function.	Implemented	✓
	Not Implemented	
	Partially Implemented	
	Not Applicable	

Public Aid implemented recommendation 19. Public Aid amended the contract in 1990 requiring Delta to submit documentation for administrative costs. According to BIA officials, they analyze Delta's documentation supporting their administrative cost. The most recent contract did not contain the clause but did have provisions for a cost allocation plan.

This recommendation is relevant to the new contract. The new contract with Doral limits the amount of excess surplus that the vendor can retain and requires Doral to submit a cost allocation plan regarding administrative cost. In addition, the contract allows Public Aid the ability to audit the excess profit report each agreement year including administrative cost. However, the contract does not require Doral to submit documentation as is suggested by the recommendation.

Previous Recommendation Number Twenty		
Public Aid should amend the contract to limit the maximum allowable percentage of administrative cost that can be charged to the Public Aid program, based on an analysis of their in-house administered program and a detailed review of Delta's past administrative expenditures.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Recommendation 20 was partially implemented by Public Aid. Public Aid amended the contract to limit the amount of administrative cost chargeable to the dental program. However, Public Aid did not limit administrative cost based on an analysis of the in-house dental program cost.

Recommendation 20 is relevant to the contract between Public Aid and Doral. The new contract makes Doral responsible for administrative cost. Unlike the last contract with Delta, Doral is not at risk for payment of services to dentists under the new contract.

Previous Recommendation Number Twenty-one		
Public Aid should amend the contract to define access on a county rather than a regional basis. Public Aid should also use other methods, such as systematically tracking recipient complaints and monitoring the number of participating dentists, to assist the Department in monitoring and assessing access.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Recommendation 21 was partially implemented by Public Aid, because the contracts subsequent to the 1988 contract improved the definition of access. The 1988 contract between the Department and Delta contained only two Health Service Areas (HSA). Public Aid amended the 1988 contract to require ten HSA. The amendment the Department provided us did not contain a Department signature or effective date.

However, the two contracts following the amendment contained the same ten HSA. Although, Public Aid did not implement the recommendation as originally suggested, the change in the contract improved the monitoring of access. In addition, Public Aid lacks a formal procedure to track client complaints. The Department receives complaints from clients but handles these complaints differently depending on who receives the complaint at Public Aid. Public Aid does maintain a database of participating dentists in the dental program. However, we did not verify whether or not the database was up to date.

This recommendation is relevant to the new contract between Public Aid and Doral. The new contract requires the contractor to maintain a specific number of dentists per eligible client. In addition, the contract requires Doral to maintain a problems log and form a grievance committee.

Previous Recommendation Number Twenty-two		
Public Aid should amend the contract to specify criteria and methodologies when assessing access for recipients. Public Aid should also include a methodology and specific criteria to determine if a decrease in access is attributable to Delta.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation 22 from the prior audit. The contract with Delta was amended to require them to ensure eligible clients receive an appointment for care within 30 days of requesting the appointment. The contract also requires Delta to maintain a specific eligible client to participating provider ratio. However, the contract does not contain any methodology or specific criteria to determine if a decrease in access is attributable to Delta.

This recommendation is relevant to the new contract with Doral. The new contract requires Doral to maintain an eligible client to provider ratios similar to the ratio in the contract between Public Aid and Delta. However, the contract does not contain a clause to determine if a decrease in access is attributable to Doral.

Previous Recommendation Number Twenty-three		
Public Aid should amend the contract to define a participating dentist as any dentist submitting a claim within the last fiscal or calendar year. Additionally, Public Aid and Delta should monitor access to determine the number of participating dentists and their level of involvement in the program in conjunction with other methods of monitoring.	Implemented	
	Not Implemented	✓
	Partially Implemented	
	Not Applicable	

Public Aid did not implement recommendation 23 of the prior audit. The contract defines "Participating Provider" as any dentist licensed to provide dental services who is enrolled with Public Aid and provides services to an eligible client. By this definition, any dentist who is enrolled in the program and provided one covered service to a client is defined as a participating provider. Not including a time frame in the definition could overstate the number of dentists considered participating in the program, thereby inflating the eligible client to provider ratio. Also, Public Aid does not actively monitor access to care and dentists involvement in the program. According to a Public Aid official, the Department just recently started working on this issue and may begin monitoring this on a quarterly basis.

This recommendation is relevant to the new contract. 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.

Previous Recommendation Number Twenty-four		
Public Aid should monitor Delta's referral system to ensure recipients are referred to dentists actively participating in the program. Additionally, Public Aid should require Delta to provide phone numbers of dentists to recipients seeking referrals.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation 24 from the prior audit. Public Aid does not monitor Delta's referral system. However, the contract requires Delta to provide the phone numbers of dentists to clients seeking referrals. Also, we observed Delta's referral system during an onsite visit to Delta's headquarters. The referral system appears to be adequate to address this issue.

Recommendation 24 is relevant to the new contract with Doral. The new contract requires Doral to maintain a referral system for any eligible client who calls to get an appointment.

Previous Recommendation Number Twenty-five		
Public Aid should critically reevaluate the fees that are allowed under the Delta program and how they affect participation by dentists. Program requirements, particularly the prior authorization requirements, should also be reevaluated to determine their effect on participation.	Implemented	
	Not Implemented	
	Partially Implemented	✓
	Not Applicable	

Public Aid partially implemented recommendation 25 from the prior audit. Public Aid officials stated that their reimbursement rates are low and affect provider participation as was noted by a budget committee's recommendations. Public Aid increased rates on two occasions to address the problem of low reimbursement rates. However, Public Aid has not evaluated the effect of fees or program requirements on provider participation.

This recommendation is relevant to the new contract with Doral. Rates paid to dentists will be relevant to any contract. Under the new contract, Public Aid can raise rates at any time because Doral is not at risk for the payments to dentists.

Previous Recommendation Number Twenty-six		
Public Aid should monitor utilization rates and analyze potential causes for low rates. Public Aid should also examine denied claims to determine the appropriateness of these denials.	Implemented	
	Not Implemented	✓
	Partially Implemented	
	Not Applicable	

Public Aid has not implemented recommendation 26. Public Aid does not monitor utilization rates, or analyze reasons for low utilization rates.

In addition, the recommendation stated Public Aid should determine the appropriateness of denied claims. We asked Public Aid to provide documentation to show how they examine denied claims on December 2, 1998, but to date we have not received any documentation.

This recommendation is relevant to the contract with Doral. The Department will need to monitor the dental program's impact by monitoring utilization rates and analyzing potential reasons for low rates. In addition, Public Aid should monitor denied claims to ensure appropriate claims are approved and paid and that inappropriate claims are denied.

Public Aid did not fully implement 16 of 26 recommendations from the prior OAG management audit of Public Aid's contract with Delta. In addition, one of the 26 recommendations was not relevant to the contract between Delta and Public Aid. Several of the 1990 audit's recommendations are repeated in this report in chapters 2 through 4.

PRIOR AUDIT RECOMMENDATIONS REPEATED	
RECOMMENDATION NUMBER 15	<p><i>Public Aid should 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 include that Public Aid should:</i></p> <ul style="list-style-type: none"> <i>P 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);</i> <i>P Enforce requirements for the contractor to submit information on requested, denied, approved, and paid services on the utilization tapes. Public Aid should also require the contractor to submit actual dates of claim receipt, processing, and payment (prior audit recommendation 9);</i> <i>P Specify criteria and methodologies when assessing access for clients. Public Aid should also include a methodology and specific criteria to determine if a decrease in access is attributable to the contractor (prior audit recommendation 22);</i> <i>P 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);</i> <i>P Monitor the contractor's referral system to ensure clients are referred to dentists actively participating in the program (prior audit recommendation 24);</i> <i>P Periodically reevaluate the fees that are allowed under the program and how they affect participation by dentists. Program requirements, particularly the prior authorization requirements, should also be reevaluated to determine their effect on participation (prior audit recommendation 25); and</i> <p><i>Monitor utilization rates and analyze potential causes for low utilization rates (prior audit recommendation 26).</i></p>
DEPARTMENT OF	<p>The Department has or is in the process of implementing these seven previous recommendations that were included in the new</p>

<p>PUBLIC AID'S RESPONSE:</p> <p><i>Continued on next page: Continued from previous page:</i></p>	<p>recommendations.</p> <p>#15-1 Partially Implemented #1 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.</p> <p>#15-2 Partially Implemented #9 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.</p> <p>#15-3 Partially Implemented #22 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.</p> <p>#15-4 Not Implemented #23 The Department included monitoring the ratio of eligible clients to participating providers 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 clients access.</p> <p>#15-5 Partially Implemented #24 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.</p> <p>#15-6 Partially Implemented #25 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</p>
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	<p>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.</p> <p>#15-7 Not Implemented #26 The Department fundamentally disagrees with this recommendation. The Department has made two rate increases in the last two 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 visit. Claims are randomly selected by the Department for auditing purposes. The first on-site visit was conducted on July 27-28, 1999.</p>
<p>AUDITOR COMMENT:</p>	<p>#15-6 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.</p> <p>#15-7 Public Aid did not monitor utilization rates and denied claims, or analyze reasons for low utilization rates.</p>

APPENDIX A

LAC RESOLUTION NUMBER 113

LEGISLATIVE AUDIT COMMISSION

RESOLUTION NO. 113

Presented by Representative Mautino

WHEREAS, the Illinois Department of Public Aid administers the State of Illinois' medical assistance program and has contracted since 1984 with the Delta Dental Plan of Illinois to provide dental care for Medical Assistance grant recipients;

WHEREAS, the dental care program provides services to over one million individuals in Illinois;

WHEREAS, the Department of Public Aid over \$30 million to Delta Dental in Fiscal Year 1997 alone;

WHEREAS, a 1990 management audit of the Department of Public Aid's contract with Delta Dental Plan of Illinois made 26 recommendations and found the Department did not have adequate documentation supporting key decisions for any of the contracts with Delta Dental, the Department had not closely monitored contract provisions or contractor performance, and had not documented that it is less expensive to contract this program than it would be to administer it on a fee-for-service;

WHEREAS, the current contract between the Department of Public Aid and the Delta Dental Plan expires May 1, 1998; therefore be it

RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to conduct a management audit of the Department of Public Aid's contracts with the Delta Dental Plan of Illinois, or any subsequent contractor; and be it further

RESOLVED, that the management audit shall include, but need not be limited to, the following determinations:

- Whether the Department of Public Aid has addressed concerns expressed in the prior management audit and implemented the recommendations contained in the prior audit;
- Whether the Department of Public Aid's current contract provides the Department with adequate controls to effectively manage the performance of Delta Dental Plan of Illinois;
- Whether the Department's review of Delta Dental Plan of Illinois' performance assessed compliance with all pertinent contract provisions, including the timeliness of claims processing and the disposition of claims denied for reimbursement;
- Whether the fees paid by the State, under the terms of the current contract and any new contract, for dental care are reasonable;
- Whether the manner of soliciting proposals for a new contract was adequate and in conformity with any applicable laws and prudent business practices; and
- Whether the manner and basis of evaluating proposals for dental care was adequate and in conformity

with any applicable laws and prudent business practices; and be it further

RESOLVED, that all State agencies, dental care contractors, including the Delta Dental Plan of Illinois, and any other dental care contractors, or other entities which may have information relevant to the audit, are directed to cooperate fully and promptly with the Office of the Auditor General in the conduct of the audit; and be it further

RESOLVED, that the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion in accordance with the provisions of the Illinois State Auditing Act.

Adopted this 20th day of April, 1998.

_____ Senator Thomas J. Walsh Cochairman	_____ Representative Julie A. Curry Cochairman
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APPENDIX B
AUDIT METHODOLOGY

Appendix B METHODOLOGY

On April 20, 1998, the Legislative Audit Commission adopted Resolution Number 113, directing the Auditor General to conduct a management audit of the Illinois Department of Public Aid's (Public Aid) contracts with the Delta Dental Plan of Illinois (Delta). Appendix A contains resolution number 113. The resolution required we answer six determinations. The following information is an overview of the methodology used in the audit.

Analytical Methodology

We contracted with Pandolfi, Topolski, and Weiss & Co., Ltd. (PTW) to assist in determining whether fees paid by Public Aid were reasonable. PTW performed agreed upon procedures at Delta concerning premiums collected, claims expense, administrative expenses, surplus amounts, and reinsurance for calendar years 1994 to 1998.

The Cost Allocation Plans were reviewed for reasonableness regarding how administrative expenses were allocated to the dental program. Analytical reviews were conducted to determine how expenses were allocated between Delta's commercial clients and the Public Aid dental program. Administrative expenses were compared to the cost allocation plan to determine if the plan was appropriately applied to the dental program. An analytical review of surplus amounts was conducted to determine how premiums, claims, and administrative expenses affected the surplus. We traced amounts in Delta's Profit and Loss Statement for premiums, claims, administrative expenses, and surplus amounts to the general ledger and then to supporting documentation. We also recalculated vouchers to determine if Public Aid properly paid Delta based on the number of eligible clients on the voucher.

We reviewed utilization data for accuracy. Delta is required by the contract to send Public Aid a tape of utilization data on a monthly basis. This tape is required to contain a variety of information about the claims processed by Delta for Public Aid's dental program. This information is used by the Department to create various reports. We requested a variety of downloads and data sorts from this information for our audit. We reviewed the data on the utilization tapes by comparing the data reports for consistency and examining data for duplicate dentists and invalid license numbers. We also used this data to calculate the average cost per procedure for fiscal year 1998. This average was then compared to the maximum allowable rate in the contract to determine if Delta has been over paying dentists for procedures performed and reducing the amount of excess surplus.

Dental Claims Sampling Methodology

We examined claims from Delta's data processing system to assess the adequacy of the claim payment system, including recording of claim receipt, timeliness of payments and denials, whether denials and payments were reasonable, and whether prior approvals were properly processed. We obtained and combined data files containing

the claim volume report for the Public Aid program for each of the four quarters of calendar year 1998. This report contained all the claims processed during each quarter, including denied claims. From this database, we analyzed the timeliness of claim payments for the entire year and determined the time between claim receipt and claim payment to determine compliance with contract requirements.

In addition, we used the information in the database to select two samples. For the first sample, we selected a random sample of 100 claims. However, because only three denied claims were selected in that sample, we selected a second sample of 68 denied claims. These samples provided the audit with at least a 90 percent confidence level and a tolerable error of 10 percent for each sample. For each claim selected, we examined the information contained in Delta's data processing system including the date received, date paid, number of procedures performed, client, dentist's license number, and amount paid by Delta. We examined the claim forms for completeness and accuracy. We also analyzed the time between the date the claim was received and the payment date. In addition, we examined the denial codes used by Delta to determine if the denial appeared reasonable and if the claim was eventually paid. Using selected information collected from the claims in the samples, we created separate databases for the two distinct claim samples for analysis.

Dental Claims Confirmation Sample

We sent a confirmation of dental claims to the 100 dentists selected in the first sample above. The purpose of the claims confirmation was to determine if the claims contained reliable information. The confirmation letters specifically asked dentists to verify whether they provided services to the specific client, on the date or dates specified, whether they provided the stated number of procedures, and received the amount specified on the claim. In addition, we compared the dentists license numbers from the claims in the sample to the license numbers of dentists in the Illinois Department of Professional Regulation files to determine if services provided to Public Aid clients were performed by licensed professionals.

APPENDIX C
1998 NCSL MEDICAID
REIMBURSEMENT SURVEY

Appendix C 1998 NCSL Medicaid Reimbursement Survey

State	Filling One Surface Permanent	Filling Two Surface Deciduous	Cleaning	Topical Fluoride Treatment for Children	Stainless Steel Crown on a Primary Tooth	Single Tooth Extractions	Sealant for One Tooth
Alabama	\$26.00	\$34.00	\$16.00	\$9.00	\$56.00	\$24.00	\$14.00
Alaska	\$69.00	\$85.50	\$48.00	\$18.00	\$156.50	\$77.00	\$30.50
Arkansas	\$27.00	\$38.00	\$18.00	NA	\$64.00	\$31.00	\$14.00
Arizona	\$40.92	\$48.36	\$29.76	\$16.74	\$87.42	\$54.87	\$20.46
California	\$39.00	\$41.00	\$30.00	NA	\$75.00	\$45.00	\$15.00
Colorado	\$18.25	\$22.99	\$16.72	\$11.10	\$57.50	\$19.00	\$12.50
Connecticut	\$29.65	\$41.40	\$21.70	\$15.15	\$89.20	\$40.10	\$17.75
Delaware	Reimburses services at 85 percent of usual and customary charges.						
District of Columbia	\$12.00	\$14.00	\$9.00	\$8.00	\$39.00	\$14.00	\$6.00
Florida	\$25.00	\$33.00	\$13.00	\$10.00	\$56.00	\$23.00	\$12.00
Georgia	\$36.72	\$37.29	\$19.44	\$11.55	\$68.20	\$41.76	\$16.94
Hawaii	\$20.19	\$21.00	\$15.00	\$13.20	\$48.00	\$27.00	\$16.00
Idaho	\$34.00	\$35.00	\$22.00	\$12.00	\$73.00	\$34.00	\$16.00
Illinois (Old Rates)	\$14.76	\$21.46	\$12.40	\$5.25	\$34.91	\$16.05	\$7.00
Illinois (New Rates)	\$25.00	\$39.00	\$22.50	\$13.00	\$53.00	\$26.36	\$15.00
Indiana	\$55.50	\$64.50	\$34.50	\$22.25	\$139.75	\$72.25	\$27.75
Iowa	\$22.07	\$26.97	\$16.90	\$27.50	\$49.04	\$23.29	\$14.00
Kansas	\$44.00	\$51.00	\$25.00	\$15.00	\$110.00	\$45.00	\$20.00
Kentucky	\$28.31	\$36.04	\$28.08		\$69.62	\$28.67	\$11.00
Louisiana	\$25.00	\$35.00	\$10.00	\$11.00	\$73.00	\$30.00	\$15.00
Maine	\$38.00	\$48.00	\$30.00	\$12.00	\$120.00	\$55.00	\$16.00
Maryland	\$13.00	\$17.00	\$8.00	\$7.00	\$27.00	\$14.00	\$3.00
Massachusetts	\$30.00	\$40.00	\$19.00	\$15.00	\$56.00	\$45.00	\$15.00
Michigan	\$14.85	\$26.52	\$15.47	\$11.13	\$44.57	\$26.52	\$5.15
Minnesota	\$26.92	\$34.61	\$17.38	\$11.53	\$72.13	\$31.73	\$13.46
Mississippi	\$20.78	\$25.98	\$21.59	\$29.21	\$49.37	\$25.78	\$13.91
Missouri	\$13.20	\$18.00	\$10.00	\$5.00	\$35.00	\$12.00	\$7.00
Montana	\$38.00	\$50.00	\$23.00	\$30.00	\$90.00	\$42.00	\$18.00
Nebraska	\$30.00	\$37.00	\$13.00	\$7.00	\$58.00	\$35.00	\$11.00
Nevada	\$55.00	\$56.00	\$45.00	\$10.00	\$90.00	\$65.00	\$20.00
New Hampshire	\$33.00	\$41.00	\$20.00	\$10.00	\$80.00	\$40.00	\$16.00
New Jersey	\$15.00	\$20.50	\$7.00	\$12.00	\$35.00	\$15.00	\$6.00
New Mexico	\$28.45	\$36.87	\$19.60	\$13.54	\$69.77	\$31.18	\$11.44
New York	\$8.50	\$26.60	\$15.40	\$12.00	\$39.00	\$25.00	\$18.00
North Carolina	\$28.09	\$30.91	\$20.61	NA	\$68.55	\$31.28	\$13.02
North Dakota	\$45.00	\$55.00	\$24.00	\$16.00	\$92.00	\$49.00	\$19.00
Ohio	\$27.20	\$33.90	\$15.59	\$10.35	\$63.33	\$31.25	\$18.00
Oklahoma	\$35.43	\$37.08	\$28.84		\$74.16	\$32.96	\$12.36
Oregon	\$28.84	\$32.96	\$28.06	\$12.24	\$56.65	\$43.26	\$18.96
Pennsylvania	Did not respond to survey.						
Rhode Island	Did not respond to survey.						
South Carolina	\$24.00	\$30.00	\$17.00	\$9.00	\$50.00	\$30.00	\$11.00
South Dakota	\$26.73	\$31.83	\$15.70	\$11.48	\$77.87	\$29.25	\$12.98
Tennessee	Statistics not available. TennCare pays a capitation rate to nine managed care companies.						
Texas	\$25.00	\$35.00	\$18.75	\$7.50	\$68.75	\$32.50	\$16.25
Utah	\$33.46	\$36.00	\$26.92	NA	\$60.00	\$31.50	\$12.60
Vermont	\$32.00	\$42.00	\$23.00	\$8.00	\$80.00	\$45.00	\$22.00
Virginia	\$17.60	\$24.20	\$11.00	\$10.00	\$55.00	\$16.50	\$13.20
Washington	\$50.50	\$60.62	\$15.15	\$13.13	\$70.70	\$50.50	\$22.22
West Virginia	\$29.00	\$39.00	\$26.00	\$15.00	\$70.00	\$40.00	\$17.00
Wisconsin	\$32.03	\$39.25	\$22.61	\$12.40	\$84.13	\$38.62	\$16.49
Wyoming	\$37.00	\$50.00	\$23.00	\$32.00	\$90.00	\$40.00	\$18.00

Source: 1998 NCSL Medicaid Reimbursement Survey

APPENDIX D
AGENCY RESPONSES

PUBLIC AID'S RESPONSES



George H. Ryan, Governor
Ann Patla, Director

Illinois Department of Public Aid

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AUDITOR GENERAL
SPFLD.

1999 SEP 13 P 2 26

September 13, 1999

William G. Holland
Auditor General
Iles Park Plaza
740 East Ash
Springfield, IL 62703-3154

Dear Mr. Holland:

Thank you for the opportunity to provide responses to the Office of the Auditor General's *Report of the Management Audit of the Illinois Department of Public Aid's Contracts with Delta Dental Plan of Illinois*. The Report concluded that the competitively procured contract ending February 28, 1999, contained adequate controls. The Department competitively procured a new dental services contract that became effective March 1, 1999. I submit this letter and its attachments for publication in the final Report.

I respectfully request that the following rebuttal be published in the report immediately following the Report Conclusions:

The Report spuriously concludes that the Department could have collected \$3,000,000 in liquidated damages from Delta for failure to submit certain reports on time. The Department agrees that Delta failed to submit the reports timely and that the Department did not notify Delta, in writing, of its delinquency in a timely manner although verbal notice was provided. The Department acted prudently in not assessing a penalty that is grossly disproportionate to the actual harm sustained by the State, potentially \$3,529 in interest not earned.

The Report Conclusions fail to recognize that auditors found that the Department has fully or partially implemented 21 of 26 recommendations from the OAG's last audit and that one of the remaining findings is no longer relevant. Again, the conclusions are misleading.

The following points respond to specific statements in the Report Conclusions. Documents attached to this letter provide responses to the recommendations contained in the body of the Report.

OAG Conclusion: "While the contract with Delta contained adequate controls, Public Aid did not effectively monitor Delta's performance."

Page 1

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AUDITOR COMMENTS

Auditor Comment:

Contract section 10.3(c) states that the Department **shall** assess the Contractor the sum of five thousand dollars (\$5,000) per day until the delinquent report is received. We found no evidence that Public Aid had contacted Delta to obtain the delinquent reports until auditors requested the information from Public Aid.

In May 1999 Public Aid responded to our initial inquiry about the liquidated damages calculation by stating that "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." Furthermore, in a letter accompanying its submission of the excess surplus report for the period May 1, 1996 through April 30, 1997, Delta acknowledged Public Aid's ability to assess liquidated damages when it wrote:

"As we are now in compliance with section 5.8g(1)B of the contract Delta Dental would request that the Department not invoke the liquidated damages portion of the contract."

Auditor Comment:

The number of recommendations fully or partially implemented has been added to the report conclusions. However, 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 Number 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.

IDPA Response: Although, IDPA did not have in place formal monitoring systems of the type recommended by OAG, it did, however, monitor Delta's performance. IDPA has established formal monitoring and tracking systems for the contract currently in place with Doral Dental Services of Illinois (Doral.)

OAG Conclusion: "The Department did not track whether required reports were submitted."

IDPA Response: IDPA did process and track required reports. The Department is establishing a new Contract Compliance Unit with a systematic process for tracking reports under the current contract with Doral.

OAG Conclusion: "The Department did not monitor denied claims or the timeliness of claims processing."

IDPA Response: The Department has determined that all but one of the claims which the Report concludes were denied in error were subsequently appropriately disposed of by Delta.

OAG Conclusion: "The Department did not use enforcement provisions in the contract that could have resulted in over \$3 million in liquidated damages for contract violations related to the submission of excess surplus reports."

IDPA Response: It is spurious to conclude that the Department should have assessed a \$3,000,000 penalty for late filing of a report when that amount is grossly disproportional to the actual potential harm of \$3,529 in lost interest sustained by the State for the late filing. Nonetheless, the Department has already taken steps to establish a new Contract Compliance Unit to assure that it will enforce sanction provisions in its contract with Doral when appropriate.

OAG Conclusion: "Reviews of Delta's compliance with contract provisions were not timely and were limited in scope."

IDPA Response: The Department used several review mechanisms. Audits were conducted routinely. On three occasions, external reviewers were engaged to review Delta's performance on specific issues such as prior approval (Ollie Smith), claims payment timeliness, peer review and utilization. IDPA staff actively participated in Delta's quarterly peer review and utilization activity committee meetings through which claims dental providers whose practice deviated from established standards were regularly reviewed. The Department reviewed complaints levied against the contractor and in several cases conducted on-site dental office reviews in response to specific complaints from dentists.

OAG Conclusion: "The Department was slow in making decisions related to managing the contract; contract amendments and cost allocation plans were signed and approved retroactively in many cases."

IDPA Response: IDPA followed procurement policies in place at the time of each contract or amendment. The process of procuring and negotiating contracts is complex and is often

AUDITOR COMMENTS

Auditor Comment:

As shown below, Public Aid did **not** receive many of the reports required by the contract. Given the number of reports not submitted or submitted late, we question Public Aid's statement that it tracked required reports.

Report Name	Number Received/Required
EPSDT	3 of 8
Provider Referral List	0 of 8
Participating Provider	1 of 8
New Participating Provider	6 of 24

Auditor Comment:

Contract section 10.3(c) states that the Department **shall** assess the Contractor the sum of five thousand dollars (\$5,000) per day until the delinquent report is received. We found no evidence that Public Aid had contacted Delta to obtain the delinquent reports until auditors requested the information from Public Aid. Recommendation #8 in this audit recommends that Public Aid ensure that reports, such as excess surplus reports, are submitted in a timely manner. The non-submission of excess surplus reports is additional evidence that Public Aid was not tracking required reports, as noted in the prior auditor comment.

In May 1999 Public Aid responded to our initial inquiry about the liquidated damages calculation by stating that "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." Furthermore, in a letter accompanying its submission of the excess surplus report for the period May 1, 1996 through April 30, 1997, Delta acknowledged Public Aid's ability to assess liquidated damages when it wrote:

"As we are now in compliance with section 5.8g(1)B of the contract Delta Dental would request that the Department not invoke the liquidated damages portion of the contract."

Auditor Comment:

Audits and reviews of Delta's performance were limited in scope. 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, in the past, the Bureau of Internal Audits only reviewed the calculation of excess surplus and did not assess compliance with other contract provisions. In addition, no compliance review was conducted for the contract period May 1996 through February 1999.

affected by the legislative process, especially appropriation decisions. Signing a contract or amendment after its effective date is not uncommon, is not prohibited, and is often the result of circumstances beyond IDPA's control. OAG has provided no evidence that so doing provided an undue benefit to Delta. On the other hand, with 1.3 million Medicaid participants relying on these dental services, IDPA acted prudently to assure services were not disrupted while formal contract terms were awaiting a signature.

OAG Conclusion: "The amount of Delta's excess surplus has not been adequately monitored. In some cases, surplus reports were submitted almost a year late. The Department also did not collect excess surplus funds due to the State with these reports. We also identified \$2.2 million in questionable expenses reported to Public Aid by Delta."

IDPA Response: OAG's field work ended before the Department completed its most recently initiated audit of Delta. The Department is examining expenses in its close-out audit as has been its practice. In addition, the establishment of the new Contract Compliance Unit will ensure more stringent monitoring of all contracts.

OAG Conclusion: "Administrative expenses charged by Delta were excessive when compared to typical programs and exceeded contract provisions."

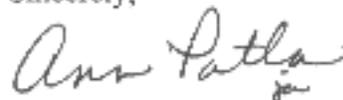
IDPA Response: Until the Department finalizes its audit of Delta, the appropriateness of administrative expenses cannot be assessed. The two most recent contracts with Delta were procured competitively and represented the best value available to the State. Finally, Delta performed administrative functions that are not typical even of other Medicaid programs.

OAG Conclusion: "Public Aid has not implemented all the 26 recommendations from our 1990 audit of Public Aid's contract with Delta Dental."

IDPA Response: The conclusion fails to recognize the substance of the OAG's findings: one recommendation is no longer applicable and the Department has fully or partially implemented 21 of the remaining 25. As set forth in the Department's specific responses to each recommendation, it can be shown the Department implemented even more of the previous recommendations.

You personal consideration of the above concerns relative to the Report Conclusions will be sincerely appreciated.

Sincerely,



Ann Patla, Dr.HL
Director

AUDITOR COMMENTS

No Auditor Comments have been included for this page.

RESPONSES TO CURRENT DELTA DENTAL AUDIT

1. The Department should monitor the number and disposition of denied claims to ensure that dental providers are not being improperly denied payment for services to eligible clients.

Department of Public Aid's Response: Implemented. The Department has incorporated monitoring the number and disposition of denied claims to ensure that dental providers are not being improperly denied payment for services to eligible clients. Under the Doral contract, denied claims are being monitored through quarterly on-site monitoring visits. Claims are randomly selected by the Department for auditing purposes. The first on-site visit was conducted on July 27-28, 1999.

2. Public Aid should monitor the timeliness of claims processing to ensure that the contractor is in compliance with federal regulations and contractual requirements.

Department of Public Aid's Response: Implemented. The Department has incorporated the monitoring timeliness of claims processing to ensure that the contractor is in compliance with federal regulations and contractual requirements. The timeliness of claims processing is being monitored through quarterly on-site monitoring visits by means of random selection of claims by the Department. The first on-site visit was conducted on July 27-28, 1999. The random selection covered 39 claims and the average number of days required to pay the claims was 11.6 calendar days.

3. Public Aid should monitor the number of complaints filed by clients and providers and the disposition of these complaints. The Department should also ensure that a viable grievance procedure and committee exists to hear formal grievances.

Department of Public Aid's 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. The Department 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 ten years of the Delta contract, no issue has reached the grievance stage of the process.

4. Public Aid should monitor the number of clients that receive an EPSDT screening to ensure that the contractor is complying with contract requirements.

Department of Public Aid's Response: Not applicable. The Department, 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. The Department has eliminated the outreach for preventive dental care. There is no federal participation level for dental EPSDT services. However, the Department imposed a 50% participation level. This requirement is not a part of the current contract.

AUDITOR COMMENTS

Recommendation #3

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.

Recommendation #4

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.

5. The Department should ensure that provider reports required by the contract are submitted. The Department should also utilize these reports to assess whether the contractor is in compliance with related contractual requirements.

Department of Public Aid's Response: Implemented. The Department incorporated monitoring of required reports into monitoring plan for the Doral contract. The Department 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.

6. The Department should closely monitor the ratio of eligible clients to participating providers to identify HSAs with low provider participation levels. The Department should also utilize enforcement provisions in the contract, if necessary, to obtain compliance from the contractor.

Department of Public Aid's 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 clients access.

7. Public Aid should 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.

Department of Public Aid's Response: The Department 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.

8. Public Aid should ensure that excess surplus 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.

Department of Public Aid's Response: Implemented. The Department incorporated monitoring receipt of excess surplus 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.

9. The Department of Public Aid should track whether all required financial reports are being submitted in a timely manner.

AUDITOR COMMENTS

Recommendation #8

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.”

Department of Public Aid's Response: Implemented. The Department incorporated monitoring 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.

10. The Department should 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 Programs is adequately monitoring compliance.

Department of Public Aid's Response: Not applicable. The Bureau of Internal Audits initiated its audit of Delta timely. However, completion of the audit may have been delayed due to circumstances beyond BIA's control. For example, for the most recent BIA audit (surplus period 5-1-96 to 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 Auditor General's auditors were conducting their field work at Delta during January and February 1999. BIA had to reschedule the field work to a later date in February. Circumstances such as this causes delay in completing audits. BIA reviews supporting documentation to verify the allowability of expenses charged to the Department. For example, BIA audits for the surplus calculation period January 1, 1992 to June 30, 1994 the Department recovered \$139,526; for the period July 1, 1994 to April 30, 1996, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period May 1, 1996 to April 30, 1997 BIA auditors have identified \$4.3 million in questionable expenses and requested Delta for supporting documentation for expenses charged to the Department.

11. The Department of Public Aid should ensure that contract amendments are signed by all parties in a timely manner.

Department of Public Aid's 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.

12. Public Aid should continue its efforts to ensure that eligible adult clients are aware of available dental services.

Department of Public Aid's Response: On-going. The Department has been very proactive in responding to the needs of the DHS local office caseworker. 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.

AUDITOR COMMENTS

Recommendation #10

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.

Recommendation #11

Auditor Comment:

Contract amendments were **not** always timely. As is shown in Exhibit 2-9 in the report, contract amendment one was approved more than five months after the effective date, amendment two was approved a month and a half after the effective date, and amendment four was approved almost four months after the effective date (see below).

Exhibit 2-9 Amendments to the Delta Contract May 1, 1996 to February 28, 1999		
Amendment	Effective Date	Date Signed by Director
1	7/1/96	12/13/96
2	1/1/97	2/17/97
3	4/30/98	4/30/98
4	7/1/98	10/23/98
Source: OAG analysis of contract amendments		

13. Public Aid should ensure that the dental contractor documents expenses and adjustments related to the calculation of excess surplus amounts. Public Aid should conduct a detailed review to verify that expenses are not overstated and should only consider expenses that can be supported by documentation when calculating the excess surplus.

Department of Public Aid's Response: Not applicable. The OAG auditors are only restating what the Bureau of Internal Audits 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 January 1, 1992 to June 30, 1994 the Department recovered \$139,526; for the period July 1, 1994 to April 30, 1996, BIA disallowed (adjusted) \$941,488 in administrative expenses. For the current audit in progress for the surplus calculation period May 1, 1996 to April 30, 1997 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

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.

Department of Public Aid's 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

AUDITOR COMMENTS

Recommendation #13

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 the contractor can retain and requires the contractor to return to the Department a portion of the excess.

Recommendation #14

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 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.

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. The Department 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. The Department 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 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.

15. Public Aid should 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:
 - 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);
 - Enforce requirements for the contractor to submit information on requested, denied, approved, and paid services on the utilization tapes. Public Aid should also require the contractor to submit actual dates of claim receipt, processing, and payment (prior audit recommendation 9);
 - Specify criteria and methodology when assessing access for clients. Public Aid should also include a methodology and specific criteria to determine if a decrease in access is attributable to the contractor (prior audit recommendation 22);
 - 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);
 - Monitor the contractor's referral system to ensure clients are referred to dentists actively participating in the program (prior audit recommendation 24);
 - Periodically reevaluate 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 reevaluated to determine their effect on participation (prior audit recommendation 25); and
 - Monitor utilization rates and analyze potential causes for low rates (prior audit recommendation 26).

AUDITOR COMMENTS

No Auditor Comments have been included for this page.

CURRENT RESPONSES TO PRIOR AUDIT

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

#15-1 Partially Implemented # 1

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.

#15-2 Partially Implemented #9

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.

#15-3 Partially Implemented #22

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.

#15-4 Not Implemented #23

The Department included monitoring the ratio of eligible clients to participating providers 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 clients access.

#15-5 Partially Implemented #24

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.

#15-6 Partially Implemented #25

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

AUDITOR COMMENTS

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 Number 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.

Recommendation #15-6

Auditor Comment:

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.

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.

#15-7 Not Implemented #26

The Department fundamentally disagrees with this recommendation. The Department has made two rate increases in the last two 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.

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AUDITOR COMMENTS

Recommendation #15-7

Auditor Comment:

Public Aid did not monitor utilization rates and denied claims, or analyze reasons for low utilization rates.

DELTA DENTAL'S RESPONSES

EOE
FOR
S.F.

September 13, 1999

2001 Butterfield Road
Suite 900
Downers Grove, IL 60515
Telephone 630-964-2400

Mr. Michael S. Paoni, Audit Manager
Office of the Auditor General
Isles Park Plaza
740 East Ash
Springfield, Illinois 62703-3154

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AUDITOR GENERAL
SPFLD.

Dear Mr. Paoni:

On behalf of Delta Dental Plan of Illinois (Delta) this will serve to respond to the Management Audit of the Illinois Department of Public Aid's (Public Aid) contract with Delta Dental Plan of Illinois conducted by the Office of the Auditor General. Our comments, limited to Chapters One through Three, have neither addressed each finding point by point, nor challenged each inaccurate statement. We have, instead, singled out for comment only the principal areas of concern.

Although dealt with more fully below, we have serious concerns regarding two specific issues raised in the report. First, Delta strongly objects to the conclusion that liquidated damages could or should be assessed for late submission of excess surplus reports. The calculations for the excess surplus report were a function of the cost allocation plan. Delta could not have submitted the excess surplus reports pursuant to the schedule detailed in the contract because Public Aid did not approve this cost allocation plan until October 1, 1998. Furthermore, the contract was not ambiguous regarding the date the cost allocation plan was to be submitted. That date was April 30, 1997. In as much as the contract did not take effect until May 1, 1996, the contract could not mandate Delta to assume an obligation to submit this plan prior to the contract's inception date (i.e. April 30, 1996).

Second, we strongly disagree with the characterization that certain expenses were questionable or inappropriately applied to the Illinois Department of Public Aid Medicaid Dental Program. Justification for the expenses had been provided to Pandolfi, Topolski, Weiss & Company (PTW), a firm contracted by the Auditor General. It is unfortunate that said justification was omitted from the final report.

**CHAPTER ONE
DENTAL PROGRAM OVERVIEW**

1. Client Population: This section provides information on the size and categories of the population eligible for dental benefits under the Public Aid program. It also offers information on the level of service utilization during fiscal years 1996-1998. Exhibit 1-2 presents program utilization rates which represent utilization of both children (recipients up to 21 years of age) and adults (recipients 21 years of age and older)

Delta Response:

The Public Aid contract contains minimum utilization requirements only for recipients up to the age of 21. Delta's EPSDT records indicate over 50% of eligible children received a dental screening during the audit period.

2. Dental Providers and Program Participation: This section provides information on the number of providers participating in the Public Aid dental program. This section of the

AUDITOR COMMENTS

Auditor Comment:

Delta was afforded the same opportunity and time under OAG rules as all other auditees are given to review and comment upon the content of the audit report. An exit conference was held with Delta Dental on September 3, 1999 for the express purpose of affording Delta the opportunity to make comments on the draft report. A total of 24 days elapsed between the time Delta first received a draft report and the time written responses were due. As a result of Delta's comments and these discussions, changes were made and statements incorporated into the final draft.

Auditor Comment:

The date referred to in Delta's response, April 30, 1997, does not appear in the contract.

Auditor Comment:

Delta did **not** provide PTW with all documentation of expenses that was requested. The audit report identifies these costs for follow-up by Public Aid in their audits of Delta Dental.

Auditor Comment:

In February 1999 we requested information from Delta related to EPSDT utilization but did not receive this information until September 3, 1999 at the exit conference.

report states that of the 3,311 dentists enrolled in the Public Aid program, 1524 providers received payment in fiscal year 1998 for services provided to Public Aid clients.

Delta Response:

Participating dentists, for the purpose of the IDPA Medicaid Dental Program, included all dentists who had submitted a claim within the previous 18 months. While the report identifies that 1,524 dentists received payment in fiscal year 1998 for services rendered under the program, it does not identify the number of providers who had submitted a claim within the previous 18 months. The report therefore does not accurately reflect the number of dentists who were participating in the program at the time as defined in the contract.

3. **Capitation Rates:** This section provides information on the description of a capitation rate and the dollar amount of the rates per client in 1985 and 1998. Beginning with this section, and several times throughout the report, reference is made to the increase in the capitation rate from \$2.38 to \$2.85 in July 1995.

Delta Response:

The increase in the capitation rate occurred in July 1995 because of a major change in the program which eliminated coverage for over 500,000 adults. Coverage for the remaining 800,000 recipients was substantially more comprehensive than that provided for the adults up until that time. When the adult program was eliminated in July 1995 the children-only program was re-rated to reflect a non-blended rate, as opposed to the blended rate in place up until that time.

SCOPE AND METHODOLOGY

4. This section of the report indicates Delta did not supply EPSDT reports showing the number of contractor claims and the number of fee for service claims processed per month.

Delta Response:

Delta had supplied the information requested by the audit team, although it was not presented in the format requested. Delta has since provided EPSDT reports in the requested format showing the number of contractor and fee-for-service procedures performed per month for the period July-December 1998.

CHAPTER TWO CONTRACT MANAGEMENT AND CONTROLS

5. This Chapter discusses the aspects of the program which were not adequately monitored by Public Aid. This section of the report states that 17 of 68 claims were denied initially by Delta as ineligible, when Public Aid files indicate the recipient was eligible at the time serviced were rendered.

Delta Response:

The report, however, cannot imply that the denials were incorrectly applied for several reasons.

- **First, Public Aid often provided updated eligibility information with the effective dates of coverage retroactive one or more months. While the Public Aid files may indicate that the recipient's eligibility was retroactively added, it does not indicate when that update was made and the information transmitted to Delta.**
- **Second, there was a significant time lag between the time the recipient was granted eligibility by the local Public Aid office and that eligibility was**

AUDITOR COMMENTS

Auditor Comment:

The contract with Delta did not define a participating dentist as one submitting a claim within the last 18 months. Our data is accurate and is intended to provide background information on the number of dentists that provided services during the 12 month period of fiscal year 1998.

Auditor Comment:

EPSDT information was requested from Delta multiple times. In February 1999 we requested information from Delta related to EPSDT utilization but did not receive this information until September 3, 1999 at the exit conference.

communicated to the Medicaid eligibility system and ultimately to Delta through a tape.

- **Third, many clients' eligibility changed from month to month. This contributed to the lag in receiving information from the actual effective date of eligibility. Thus, while the client may have ultimately been eligible, Delta was not aware the recipient was eligible on the day the claim was processed.**
- **Finally, the report indicates that one "could not determine when Delta received the correct eligibility information".**

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. It is important to note that Delta has performed adjustments on 12 of the claims.

UTILIZATION DATA AND DENIED CLAIMS

6. Utilization Data and Denied Claims: This section of the report provides information on the data required to be provided by Delta on the utilization tapes, the number of such tapes submitted during the period under review and the disposition of such tapes. The report states that utilization tapes provided by Delta were rejected because they did not contain readable information or the required information as set forth the contract.

Delta Response:

This statement was based on communications from Public Aid and was not the result of an independent test of said tapes by the Auditor General. Acceptable tapes containing all required information on services provided under the program were issued by Delta and received by Public Aid for each month during the audit period. Rather than work through each instance where Public Aid claimed a tape was not readable, Delta chose to submit a duplicate tape. In addition, all utilization tapes requested contained all approved, paid and denied dental services for the period as required by the contract.

7. Denied Claims Testing: Four claims denied by Delta were questioned in this section of the report.

Delta Response:

Delta provided detailed claim information for each of the claims in question. Of the four claims noted one was denied as a duplicate submission (the identical services had been paid two weeks prior), and the other three were incorrectly denied due to data entry or interpretive errors by claim staff. However, all were subsequently adjusted.

8. Ollie Smith Reports: This section of the report provides information on the contractual requirements, the results of the reports issued by Delta and the monitoring activities of Public Aid. This section of the report stated "the number of cases that met the Ollie Smith criteria and the number of preauthorizations not issued within 30 days increased sharply in February 1998." The report further stated "the number of cases that met the Ollie Smith criteria continued to be very high throughout the remainder of the testing period (June 1998)."

Delta Response:

Delta provided to the Public Aid compliance auditors the documentation requested regarding Ollie Smith compliance verification on multiple occasions. It is important to note that while the conversion to a new claim operating system did create processing challenges and caused delays in the timelessness of claims during the first half of 1998, Delta complied with the requirements of Ollie Smith. All applicable requests

AUDITOR COMMENTS

Auditor Comment:

We question how Delta can state that "Delta was not aware the recipient was eligible on the day the claim was processed" when Delta officials told us that the Delta computer system does not record the date that client eligibility information is updated.

Auditor Comment:

We identified a field in the record referred to as the disposition code. This code would have shown which claims were denied and the reason for denial, however, the field was not readable. The computer record field was two bytes long but the disposition codes were three bytes in length. Therefore, the data was truncated and unreadable. Also, Public Aid's edit program did not edit the disposition code field because these edits were removed 10 years ago.

for treatment for which the 30 day limitation was exceeded were processed and approved, thereby fully complying with the consent decree.

9. Timeliness of Claims Processing: This section of the report provides information on the number of claims processed for payment and the timeliness of the processing. The report provides data from Public Aid and from the Auditor General on the percentage of claims processed within specific time periods. Exhibit 2-4 stated that only 85.2% of claims were processed within 30 days of receipt.

Delta Response:

The report used by the Auditor General to calculate timeliness of claims processing in Exhibit 2-4 was not designed to support such calculations. When previously submitted claims are re-processed or adjusted, the claim record will reflect a new receipt date. However, the originally issued document control number (DCN) will remain the same. This DCN has logic embedded within it identifying the original receipt (Julian) date. The report used by the auditor General did not contain the receipt date field. Unfortunately, the Auditor General used the DCN which includes the original receipt (Julian) date of the claim and used the date calculated from the DCN as the receipt date. Since the DCN reflects the date the claim was originally received, not the date the claim was returned with the information requested, a large number of claims would appear to have taken longer to process than was actually the case. Delta was not aware of the intent to use the reports for that purpose. Delta has specific reports used to make such calculations which include the adjusted receipt date. Based on a review of these reports for calendar year 1998 Delta achieved the following results

Days	Claims	Percent
0-30	404,117	96.2%
31-60	14,025	3.3%
61-90	1,071	0.2%
91+	50	0.1%

When the correct received date is used to perform the calculations Delta's timeliness in processing paid claims was well within contractual requirements for 1998.

10. Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program: This section provides information on the contractual requirements associated with the EPSDT program and the reports used to assess program status. This section of the report states that children under the age of three were not eligible for services and that seven adults received procedures previously listed as EPSDT services. The report further stated that those "claims and clients might be inappropriately included in the EPSDT calculations and reports."

Delta Response:

Children are eligible for services through the age of 20. It is possible that Delta received claims for screening services for clients over the age of 20, but in such situations Delta would process the claim but deny coverage as those clients were not eligible for such services. The implication in the report that such claims were included in EPSDT reporting is inaccurate.

11. Provider Participation: This section provides information on the contractual requirement to maintain a level of provider access to achieve specific ratios of providers to clients in ten HSA regions in Illinois. The discussion of Exhibit 2-6 states that Delta failed to meet

AUDITOR COMMENTS

Auditor Comment:

The original exhibit 2-4 was deleted from the audit report because of our inability to verify Delta's timeliness of claims processing methodology. Although we cannot confirm the accuracy of the data submitted by Delta related to the timeliness of claims processing, there remains a difference of 54,278 claims between the claims Delta reports in their calculation and the data received from the Department of Public Aid.

provider participation levels required by the contract in four of ten Health Service Areas (HSAs).

Delta Response:

Delta and Public Aid agreed to use the number of provider locations instead of the number of providers to calculate access to care ratios. The number of provider locations more accurately reflects the number of offices from which recipients would be able to receive dental services. Recipients often do not have a high degree of mobility and, therefore, it is the location of an office that determines access to dental care. In addition, Public Aid agreed to allow dentists with offices bordering Illinois to be included in the access to care calculation when they provided services to Public Aid Medicaid recipients. Exhibit 2-6, however, incorrectly uses the number of providers, not the number of provider locations as basis for the access to care calculation. Using the agreed definition of participating provider, the access ratios for each HSA for the period January 1997-June 1998 are as follows:

Region	Required Ratio	Actual Ratio
1	280:1	132:1
2	540:1	243:1
3	300:1	213:1
4	375:1	141:1
5	400:1	292:1
6&7	400:1	302:1
8	250:1	169:1
9	540:1	311:1
10	425:1	214:1
11	540:1	356:1

Using the number of provider locations for the calculations Delta met the required access ratios for each of the HSA regions.

FINANCIAL MONITORING

12. Cost Allocation Plans: This section contains a discussion of the cost allocation plans Delta is required to submit under the Public Aid contract. This section references opinions from a report by Pandolfi, Topolski, Weiss & Company (PTW) which states:
- Delta did not apply the cost allocation plan in accordance with time frames specified in the original agreement because Delta did not submit a plan annually;
 - Delta was unable to provide the justification plan requested by Public Aid that describes how the costs per eligible 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 Response:

- The May 1, 1996 contract with Public Aid eliminated all prior provisions, therefore the due date for a cost allocation plan for that contract period was April 30, 1997. Delta's submission of the cost allocation plan on May 1, 1997 was one day late. Delta did not submit a cost allocation plan on April 30, 1998 because the 1997 plan had not yet approved, and would not be approved until October of 1998. Once approved, the cost allocation plan was in effect for the entire contract period.

AUDITOR COMMENTS

Auditor Comment:

The contract states that “The Contractor shall maintain, on a monthly basis, the Eligible Recipient to Participating provider ratios within each of the ten Service Areas...” The contract does not define a participating provider as a participating provider **location**.

- The documentation justifying the calculations in the cost allocation plan in effect during the audit period was provided to PTW. Delta provided Public Aid with same justification for the plan prior to its approval thereof.
- The PTW report states that "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." This statement does not reflect the fact that the cost allocation plan which became effective during the period audited was not approved until October of 1998. Thus, Delta could not fully determine and report the existence of any excess surplus until the cost allocation plan had been approved by Public Aid. Delta attempted to provide Public Aid with as accurate a projection as possible under the circumstances on the profit and loss statements. Indeed, the OAG report itself concludes, in the following section, that "the excess surplus reports were completed based on the approved methodology."
- The approved cost allocation plan did not incorporate the ratio of claims processed as an allocation methodology.

13. Excess Surplus Reports: This section of the report provides information on the contractual requirement to submit excess surplus reports and the timeframes for which any refundable surplus was to be returned to Public Aid. The report states that "Delta did not submit the excess surplus reports in a timely fashion and once submitted, they did not contain the contractually required refund payments." The report further states that "The excess surplus also was not being calculated and applied independently for each year of the agreement as was required in the contract."

Delta Response:

The lack of an interim payment of excess surplus for the period May 1, 1996 to April 30, 1997 involved two factors.

- First, since the cost allocation plan for the period had not been approved, any amount identified by Delta as "refundable surplus" was only a projection.
- Second, by the time the cost allocation plan had been approved, Public Aid indicated a desire to apply said surplus to the increase in the table of allowances which were made retroactive to July, 1, 1998. This was accepted by Delta as part of amendment 4 of the contract.

Thus, Delta calculated the excess surplus (once it was possible to identify said amount) in a manner consistent with the Public Aid contract.

14. Liquidated Damages This section of the report discusses the amount of liquidated damages which could be imposed by Public Aid due to the failure of Delta to submit timely excess surplus reports. The report states:

- The interim report due December 1, 1997 was received 359 days late
- The final report, due on June 1, 1998, was 212 days late.
- The interim report due on December 1, 1998, was received 37 days late.

The report then identifies liquidated damages it concludes could be assessed because of their conclusion that the reports were not submitted in a timely manner.

Delta Response:

The statement that Delta could have been required to pay liquidated damages because excess surplus reports were not submitted does not take into consideration the fact that it was impossible for Delta to submit excess surplus reports in the absence of an approved cost allocation plan. There was no way for Delta to know what, if any, excess surplus existed until that plan was approved. Further, as was acknowledged in the report, Delta provided estimates of the excess surplus in the Profit and Loss

AUDITOR COMMENTS

Auditor Comment:

Delta did not provide the justification plan used to arrive at the rates, rather it provided a spreadsheet attempting to recalculate how the rates in the plan were determined. The rates did not match those in the approved plan.

Auditor Comment:

The issue raised by PTW was that methods used by Delta to allocate costs in the profit and loss statements submitted to Public Aid were not consistent with the methodology Delta stated it used to prepare the reports.

Auditor Comment:

Delta did not submit the excess surplus reports in a manner consistent with the contract. The contract required that Delta submit reports for the period May 1, 1996 through April 30, 1997 and for the period May 1, 1997 through April 30, 1998. Although the first excess surplus report covered the correct 12 month period the second excess surplus report covered the 22 month period from April 1997 through February 1999. In addition, all excess surplus reports were submitted well after the required due dates and did not include the required payment.

reports which were regularly submitted to Public Aid. Thus, Public Aid was aware of Delta's estimates of excess surplus. Delta's inability to prepare and submit excess surplus reports in the absence of an approved cost allocation plan until October 1998 would not result in an interpretation that liquidated damages could be imposed.

CHAPTER THREE
REASONABLENESS OF FEES
Administrative Cost Requirements

15. The Dental Service Plan Act: This section of the report discusses the provisions of the Dental Service Plan Act regarding the existence of limitations on the percentage of total premium a dental service plan may use for administrative costs.

Delta Response:

The report does not identify that the act imposes separate limits on acquisition and administration costs for all group in the aggregate, and said limits are not applied on a group-by-group basis. Applying the cost designations provided for in the Dental Service Plan Act to incurred expenses, Delta has been in full compliance of the Dental Service Plan Act's provisions at all times!

16. Contract Allocation Regarding Usage of the Capitation Rate: This section of the report provides information on the capitation rates charged by Delta and, in particular, the level of administrative costs allocated to the program. The report suggests that the contract provided for fixed limits on the amount of claim and administrative expenses which Delta could receive. In addition it makes reference to the percentage of administrative costs a "typical" dental program would require.

Delta Response:

The existence of a cost allocation plan precludes an interpretation that the contract provided fixed dollar limits on the amount of administrative costs which could be allocated to the program. While the rate was calculated based on projections of claims and administrative expenses, neither Delta nor Public Aid was held to those amounts. For example, Delta's ability to keep 4% of premium as surplus would have been irrelevant if under any circumstances it could keep up to the amount of the rate associated with claim payments. Further, the excess surplus calculation was based on the total rate; not the projected amounts independent of one another. There is no contractual provision which limits the amount Delta could spend on administrative expenses or claims other than the schedule of benefits and the cost allocation plan.

17. Delta's Administrative Expenses Charged to the Public Aid Dental Program as a Percent of Claims and Premiums: The report makes a number of references to "typical" dental programs. This section of the report comments on the percentage of administrative premium associated with administrative expenses.

Delta Response:

At no time does the report comment on whether the Public Aid program is or should be considered typical. Any such reference would be incorrect. The Public Aid Medicaid Dental Program is not a "typical" dental program.

- First, the premium Delta received from Public Aid is one-tenth the amount of premium received from a Delta commercial client for a risk program.
- Second, the payment amount for a typical commercial claim is 3.8 times larger than that for a Public Aid claim.

AUDITOR COMMENTS

Auditor Comment:

The contract contained a provision requiring the Department to assess liquidated damages for the late submission of excess surplus reports. Section 10.3(c) of the contract states "the Department shall assess the Contractor the sum of five thousand dollars (\$5,000.00) per day until the delinquent report is received." The audit simply reports that such damages have not been assessed. Furthermore, Delta was aware that they were not in compliance with contract requirements related to the submission of excess surplus reports. In a December 30, 1998 letter to Public Aid which included the excess surplus report for the period May 1, 1996 through April 30, 1997, Delta stated that:

"As we are now in compliance with section 5.8g(1)B of the contract Delta Dental would request that the Department not invoke the liquidated damages portion of the contract."

- Third, coverage under a commercial dental plan is more comprehensive(not limited to emergency services for adults).
- Finally, premium amounts for commercial dental programs include sales or broker commissions.

Thus, a comparison of the Public Aid Medicaid dental program to commercial dental programs would require the equalization of several factors, some of which are described above, to do an "apples to apples" comparison. Such considerations are absent from this analysis. Further, the report states that the Public Aid program was next to last in payment rates in comparison to other state's Medicaid dental programs. In addition, Public Aid's coverage of only emergency services for clients age 21 and older is not typical of Medicaid dental programs. For these reasons administrative costs as a percentage of total premium would necessarily be higher in this program than they would be for a "typical" dental program, either commercial or Medicaid.

18. The report suggests that Delta's administrative costs are excessive because it used a higher percentage of premium for administrative costs in the Public Aid program than for Delta's other clients.

Delta Response:

The attempt to compare Delta's administrative costs for the Public Aid program to its commercial programs without considering the numerous significant differences in the programs, makes said comparison invalid. For example, in addition to the significant differences in claim costs and premium rates previously discussed, there had been no increase in the table of allowance for the Public Aid Medicaid Dental Program since 1994. Thus, while the cost of equipment, supplies, printing, telecommunications, data processing, computer hardware and staff salaries increased, the amount paid for dental services remained flat. Therefore the percentage of administrative expenses would increase relative to the level of benefits. This is not a function of the amount of administrative costs, as the report indicates that the amount of administrative costs did not increase significantly over the years. Nevertheless, in the absence of an increase in claim reimbursement rates, an increase in administrative expenses, which did occur, would necessarily increase the percentage of premium associated with program administration.

EXPENSES REPORTED BY DELTA

19. This section of the report provides information on specific cost items in Delta's administrative costs during the contract period of May 1, 1996 through December 31, 1998. Exhibit 3-10 of the report suggests the existence of "questionable" expenses.

Delta Response:

Two items in this exhibit, in particular, demand clarification. The first involves the claim reserve charge of \$870,000. The report suggests that this amount is questionable because it was "judgmentally" determined. The existence of claim reserves for risk programs is not only acceptable: it is required. While reserves are a projection on the amount of claims which have not yet been, but will be received, and inherently require the exercise of judgment, there are actuarial standards used in making such projections. Delta has always followed such standards. Thus, until a program has ended and all claims have been processed, some amount of reserves is appropriate and estimating the amount of reserves require involves the use judgement. In fact, a subsequent calculation demonstrated that the reserve calculation reviewed by the Auditor General was actually understated by \$375,000.

AUDITOR COMMENTS

Auditor Comment:

The audit does not question the \$870,000 amount because it was judgmental but because Delta could not provide sufficient documentation to show how the number was calculated.

Nevertheless, at Public Aid's final audit the reserve amount will be zero. Until that time some level of reserves will be necessary and must be reflected in Delta's financial analysis.

The second item involves the \$1,266,356 of other direct expenses. Until the cost allocation plan for the contract period effective May 1, 1996-February 28, 1999 was approved in October 1998, Delta could only use estimates to allocate costs. Subsequent to approval of the cost allocation plan, the expenses incurred during the contract period were reviewed to determine which expenses were allocable to the program. The adjustment identified as the "Other Direct Expenses" is a cumulative one, covering the entire contract period and is, therefore accurate and appropriate. Delta met the Auditor General's requests for information relative to this item.

CLAIMS TESTING

20. Inappropriate Payment of EPSDT Claims: The section of the report discusses the situation where EPSDT contractors received payments for claims on a fee-for-service basis when said contractors were not entitled to payment in this manner.

Delta Response:

The report suggests that Delta's expenses are overstated because a number of claims submitted by special contractors performing only EPSDT screening services were paid on a fee-for-service basis. While such payments did occur, Delta reported to the Auditor General that all such payments had been returned by the contractors and that Delta had adjusted all of the payments issued. Thus, Delta's expenses are not overstated.

We hope the responses contained herein have clarified the findings relating to Delta's administration of the IDPA Medicaid Dental contract. Delta took its role very seriously and made every effort to not only meet contract requirements, but also to exceed them. The company worked diligently to meet the needs of Medicaid recipients, the Illinois Department of Public Aid and the State of Illinois.

Sincerely,



Robert E. Dennison DMD
Chief Operating Officer
Delta Dental Plan of Illinois

AUDITOR COMMENTS

No Auditor Comments have been included for this page.