

TEXAS HEALTH AND HUMAN SERVICES COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT REPORT

**DENTAQUEST USA INSURANCE
COMPANY, INC.**

*A Texas Medicaid and CHIP
Dental Maintenance Organization*



January 9, 2020
OIG Report No. AUD-20-003



DENTAQUEST USA INSURANCE COMPANY, INC.

A Texas Medicaid and CHIP Dental Maintenance Organization

WHY OIG CONDUCTED THIS AUDIT

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division conducted an audit of DentaQuest USA Insurance Company, Inc. (DentaQuest), a Texas Medicaid and CHIP Dental Maintenance Organization (DMO).

The audit objective was to evaluate the effectiveness of DentaQuest's performance in complying with selected contract requirements, achieving related contract outcomes, and reporting financial and performance results to HHSC.

The audit scope included DentaQuest policies, practices, and activities related to (a) claims processing and (b) financial and performance reporting for the period of September 2016 through February 2018, and other relevant activities through April 2019.

WHAT OIG RECOMMENDS

Medicaid and CHIP Services (MCS), through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should require DentaQuest to:

- Address and correct unallowable and overstated expenses reported on the FSR.
- Ensure corporate allocations are effectively tracked, appropriately recorded in its financial system, and accurately reported to HHSC.
- Timely disable individuals' access to its claims and financial system upon termination of employment.

For more information, contact:
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WHAT OIG FOUND

DentaQuest adjudicated paid dental claims selected for review in accordance with requirements and reasonably processed and resolved selected provider complaints.

However, as detailed in Table 1, DentaQuest's 2017 Administrative Expenses FSR included unallowable costs that were not related to Texas Medicaid and CHIP, such as communications and postage costs, sales and marketing costs, and amortization costs. It also overstated its salary expenses and did not have support for some depreciation costs.

Table 1: 2017 Unallowable, Unsupported, and Overstated Expenses

Category	Subtotal	Total
Other States' Expenses		\$ 510,610
Amortization and Depreciation		307,926
Goodwill	147,304	
Impairment	63,834	
Depreciation	96,788	
Sales and Marketing		273,926
Salaries		104,000
Bid Preparation and RFP Activities		167,995
Other Unallowable Expenses		163,887
Total		\$1,528,344

Source: OIG Audit Division

By reporting \$1.53 million in unallowable, unsupported, and overstated expenses on its Administrative Expenses FSR, DentaQuest reduced the initial experience rebate amount paid to HHSC. MCS engages an independent external accounting firm to conduct annual Agreed Upon Procedures (AUP) audits of DentaQuest. As of December 2019, the AUP audit of DentaQuest's 2017 Administrative Expenses FSR had not been conducted. Completion of the annual AUP audit will establish the final experience rebate amount owed to HHSC.

DentaQuest did not timely remove four accounts from its financial and claims system upon termination of employment.

In its management responses, MCS indicated it will (a) require DentaQuest to address and correct unsupported and overstated expenses, (b) ensure DentaQuest corporate allocations are appropriately tracked, recorded, and reported, (c) require DentaQuest to timely disable individuals' access to its financial and claims system upon termination of employment, and (d) require DentaQuest to implement a control process to address inactive accounts for systems that create, process, transfer, or store confidential HHS System information. The MCS management responses are included in the report following the recommendations.

DentaQuest indicated in a comment letter that it agreed with some of the audit issues but did not agree with others. The DentaQuest comment letter is included in Appendix D of the report.

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INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division conducted an audit of DentaQuest USA Insurance Company, Inc. (DentaQuest), a Texas Medicaid and CHIP Dental Maintenance Organization (DMO).

Unless otherwise described, any year referenced is the state fiscal year, which covers the period from September 1 through August 31.

Eligible Texas managed care members¹ receive medical and dental services through Children Health Insurance Program (CHIP) and Children’s Medicaid Dental Services (CMDS). CHIP and CMDS, which are jointly funded state-federal programs, provide dental coverage for eligible members through managed care medical and dental plans.

Members who receive dental services through CHIP or CMDS are required to select a dental plan, also known as a DMO, and a primary dentist. A primary dentist serves as the member’s dental home and is responsible for providing routine care, maintaining continuity of patient care, and initiating referrals for specialty care. DentaQuest is one of two DMOs contracted to provide dental services to Texas CHIP and CMDS members with an objective to create a comprehensive dental care system offering quality dental services to members through a network of licensed dentists contracted with DentaQuest.²

HHSC pays DentaQuest a monthly capitation rate per member for CHIP and CMDS dental members based on age rate levels, as illustrated in Appendix B.

CMDS program rates are based on claims experience for the covered population in the base period. In order to project the total cost for the rating period, HHSC determines the base cost, calculates trends in the time period for which the rates apply, and adds a reasonable provision for administrative expenses, taxes, and risk margin to the claims component. These projected total costs are then converted to a set of statewide rates that vary by age group.³

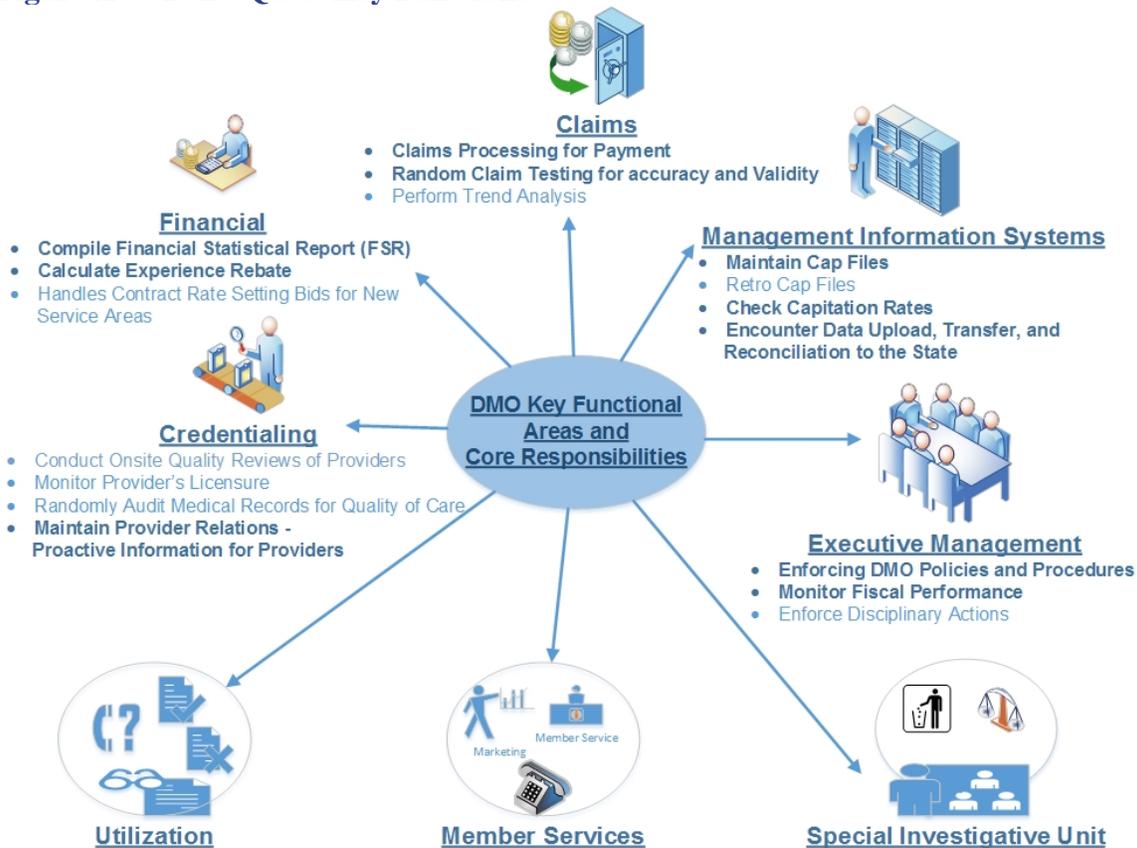
¹ A “member” is an individual who is enrolled with a state contracted Medicaid or CHIP DMO as a subscriber or dependent.

² HHSC Dental Contract, Attachment A, § 1.01 v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

³ *Texas Medicaid and CHIP in Perspective*, Part IV, Chapter 14, Eleventh Edition (Feb. 2017).

Figure A illustrates key functional areas and related core responsibilities of DentaQuest. During this audit, core responsibilities, indicated in bold, were selected and examined within the following DentaQuest key functions: financial services, claims processing, management information systems, and credentialing.

Figure A: DentaQuest Key Functions



Source: OIG Audit Division

Objective and Scope

The audit objective was to evaluate the effectiveness of DentaQuest’s performance in complying with selected contract requirements, achieving related contract outcomes, and reporting financial and performance results to HHSC.

The audit scope included DentaQuest policies, practices, and activities related to (a) claims processing and (b) financial and performance reporting for the period of September 2016 through February 2018, and other relevant activities through May 2019. The OIG Audit Division focused on:

- Administrative expenses
- Subcontracts
- Claims processing and adjudication

Methodology

To accomplish its objective, the OIG Audit Division:

- Reviewed applicable federal and state rules, regulations, policies, and procedures.
- Selected and analyzed a judgmental sample⁴ of administrative expenses reported in the financial statistical report (FSR).
- Compared a judgmental sample of dental encounters submitted to HHSC to corresponding data in DentaQuest's claims processing system.
- Examined access controls for DentaQuest's financial system.
- Evaluated processing and resolution of selected provider complaints.

The OIG Audit Division presented audit results, issues, and recommendation to MCS and to DentaQuest in a draft report dated November 25, 2019. Each was provided with the opportunity to study and comment on the report.

In its management responses, MCS indicated it will (a) require DentaQuest to address and correct unsupported and overstated expenses, (b) ensure DentaQuest corporate allocations are effectively tracked, appropriately recorded, and accurately reported to HHSC, (c) require DentaQuest to immediately remove system access for individuals that have terminated employment or no longer have valid system access, and (d) require DentaQuest to implement a control process to automatically disable accounts that have been inactive for 90 days for all systems and applications that create, process, transfer, or store confidential HHS System information. The MCS management responses are included in the report following the recommendations.

DentaQuest indicated in a comment letter that it agreed with some of the audit issues but did not agree with others. The DentaQuest comment letter is included in Appendix D of the report. An Auditor Comment follows the DentaQuest comment letter.

⁴ "Judgmental sampling" is a non-probability sampling method where the auditor selects the sample based on certain characteristics, such as dollar amount, timeframe, or type of transaction.

Criteria

- The Health Insurance Portability and Accountability Act of 1996
- 45 C.F.R. Part 160 and Part 164, Subparts A and C (2013)
- HHSC Dental Contract, v. 1.12 (2016) through v. 1.15 (2017)
- Uniform Managed Care Manual, Chapter 2.0, v. 2.5 (2016), Chapter 5, v. 2.0 (2016), and Chapter 6 v. 2.5 (2016) through v. 2.6 (2018)

Auditing Standards

Generally Accepted Government Auditing Standards

The OIG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on our audit objectives. The OIG Audit Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

ISACA

The OIG Audit Division performs work in accordance with the IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals published by ISACA.

AUDIT RESULTS

The OIG Audit Division evaluated selected bonus, consulting, and other expenses DentaQuest reported in its 2017 Administrative Expenses FSR.

There were no reportable exceptions related to:

- Encounter data submitted to HHSC and the corresponding dental claims data in the DentaQuest claims processing system. Dental claims were processed and paid within prescribed timeframes and adjudications were consistent with state and federal requirements.
- Provider complaints processing and resolution. Provider complaints were reasonably processed and resolved within 30 days from the date the complaint was received.

There were exceptions related to:

- Administrative Expenses FSR
 - Other states' expenses
 - Amortization and depreciation
 - Sales and marketing
 - Salaries
 - Bid preparation and request for proposal (RFP) activities
 - Penalties, promotional advertising, postage for activities outside of Texas, sponsorship, "account not found," subscriptions and dues, and in-town meal expenses
- Access to DentaQuest's claims and financial system

ADMINISTRATIVE EXPENSES FINANCIAL STATISTICAL REPORT

DentaQuest is required to report administrative expenses related to the HHSC Dental Contract in its Administrative Expenses FSR. Allowable administrative expenses include direct and indirect expenses that support the Texas CHIP and CMDS dental programs operated by DentaQuest.⁵

DentaQuest's accounting records and supporting documentation associated with the HHSC Dental Contract must be maintained in accordance with contractual requirements along with Federal Acquisition Regulations (FAR), Generally

⁵ Uniform Managed Care Manual, § 5.3.1.66, Part 1, v. 2.0 (Nov. 15, 2016).

Accepted Accounting Principles (GAAP), and the Uniform Managed Care Manual (UMCM). DentaQuest is required to maintain the following:⁶

- Accounting records for the dental program, separate and apart from other corporate accounting records.
- Records for all claims payments, refunds, payment adjustments, capitation payments, interest income, and payments for administrative services or functions.
- Separate records for dental and administrative fees, charges, and payments.
- An accounting system that provides an audit trail containing sufficient financial documentation to allow for the reconciliation of billings, reports, and financial statements with all general ledger accounts.

The 2017 Administrative Expenses FSR DentaQuest submitted to HHSC contained \$1.53 million in unallowable and overstated expenses. Amounts are listed by category in Table 1.

Table 1: 2017 Unallowable, Unsupported, and Overstated Expenses

Category	Subtotal	Total
Other States' Expenses		\$ 510,610
Amortization and Depreciation		307,926
Goodwill	147,304	
Impairment	63,834	
Depreciation	96,788	
Sales and Marketing		273,926
Salaries		104,000
Bid Preparation and RFP Activities		167,995
Other Unallowable Expenses		163,887
Total		\$1,528,344

Source: *OIG Audit Division*

By reporting \$1.53 million in unallowable, unsupported, and overstated expenses on its Administrative Expenses FSR, DentaQuest reduced the initial experience rebate amount paid to HHSC. The OIG Audit Division will consider performing an audit of the impact of unallowable, unsupported, and overstated expenses on capitation rates.

⁶ HHSC Dental Contract, Attachment B-1 § 8.1.11, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

MCS engages an independent external accounting firm to conduct annual Agreed Upon Procedures (AUP) audits of DentaQuest. As of December 2019, the AUP audit of DentaQuest's 2017 Administrative Expenses FSR had not been conducted. Completion of the annual AUP audit will establish the final experience rebate amount owed to HHSC.

Details of unallowable, unsupported, or overstated expenses DentaQuest reported for other states' expenses, amortization, depreciation, sales and marketing, salaries, bid preparation and RFP activities, and other administrative expenses are detailed in the following sections.

Issue 1.1: Administrative Expenses of Other States

The OIG Audit Division was not able to determine whether the member communication corporate postage and printing expense allocations reported on the 2017 Administrative Expenses FSR were valid. DentaQuest provided conflicting statements and supporting documentation that did not align with the methodology for determining the cost associated with the member communications cost center.

DentaQuest's member communications cost center total expenses were \$6,461,083, of which \$2,145,735 was allocated to the state of Texas. Based on documentation provided by DentaQuest, it appeared that \$510,610 of the member communication expenses reported on the Administrative Expenses FSR were for activities benefiting members in other states. The unallowable postage and printing corporate expense allocations were derived from (a) accounting system monthly general ledger accounts detail records, and (b) member communication cost center allocation percentages provided by DentaQuest.

DentaQuest provided additional documentation in spreadsheets prepared by its marketing department staff, which included postage and printing expenses sorted by (a) vendor and (b) general ledger expense account. According to DentaQuest management, the marketing department manually tracks invoiced postage and printing expenses based on contract specific direct costs on a spreadsheet which it provides to the finance department for determining the expense amount to report on the Administrative Expenses FSR.

The OIG Audit Division was not able to reconcile expenses reported on the spreadsheet to general ledger or journal entry support because, per DentaQuest, the general ledger description is not the primary identifier to determine which account to charge expenses and contract codes reported on journal entries were not always accurate or complete.

Issue 1.2: Amortization and Depreciation Expenses Totaling \$307,926 Were Unallowable

Amortization and depreciation expenses are a means of allocating cost of fixed assets and intangible assets to periods benefiting from asset use. Amortization for a particular class of intangible assets (e.g., patents, leasehold improvements) and depreciation for a particular class of tangible assets (e.g., buildings, office equipment, computer equipment) charged to the contract must be determined on the same basis used for the entity-wide financial statements. Reported amortization and depreciation must be supported by adequate property records, including the amount of amortization and depreciation taken each period.⁷

Amortization

DentaQuest reported \$211,138 in unallowable amortization expenses. Amortization of intangible assets is allowable only to the extent it represents direct costs for the acquisition of proprietary processes to be used exclusively in fulfilling the objectives of the contract. Charges for amortization of intangible assets not related directly to cost of proprietary processes to be used exclusively in fulfilling the objective of the contract, such as building goodwill through building customer relationships, are unallowable.⁸ Details of the unallowable amortization allocations follow:

- Goodwill expenses of \$147,304 of a total of \$1,220,004 was allocated to Texas.
- “Impairment PPE” expenses of \$63,834 of a total of \$504,322 was allocated to Texas. This account is used to decrease asset value based on various situations and was used in this situation to write off obsolete software.

Depreciation

DentaQuest did not comply with the UCMCM cost principles⁹ for expenses in reporting depreciation expenses on the 2017 Administrative Expenses FSR. DentaQuest inappropriately reported depreciation expenses of \$96,788 for property not listed on the corporate all-inclusive depreciation schedules. Depreciation must be computed based on the acquisition cost of the assets involved. The value of an asset donated to the unit by an unrelated third party must be its fair market value at the time of donation.

⁷ Uniform Managed Care Manual, Chapter 6.1, § VI(19)(d), v. 2.5 (Nov. 1, 2016).

⁸ Uniform Managed Care Manual, Chapter 6.1, § VI(19)(d), v. 2.5 (Nov. 1, 2016).

⁹ Uniform Managed Care Manual, Chapter 6.1, § VI(19)(c), v. 2.5 (Nov. 1, 2016).

Issue 1.3: Sales and Marketing Expenses of \$273,926 Were Unallowable

The UCMCM cost principles for expenses specify that sales and marketing expenses are unallowable when associated with materials used or efforts directed, in whole or in part, at anything unrelated to the applicable Texas HHSC program.¹⁰ Direct marketing expenses were appropriately reported on the 2017 Administrative Services FSR.

However, DentaQuest allocated \$273,926 in indirect sales and marketing expenses that were unallowable because the expenses were associated with activities outside Texas and unrelated to Texas Medicaid and CHIP. The UCMCM states that costs associated with activities outside the State of Texas and materials used or efforts directed, in whole or in part, at anything unrelated to the applicable HHSC program are unallowable.¹¹ The unallowable sales and marketing expenses charged to HHSC were determined using percent allocation provided by DentaQuest for its sales and marketing cost center. Table 2 illustrates the unallowable sales and marketing expenses allocated to HHSC.

Table 2: Unallowable Sales and Marketing Expenses

FY 2017	Total Expenses	Texas Allocation Rate	Cost Allocated to Texas Plan
Sept. 2016 – Dec. 2016	\$ 820,924.00	10.12%	\$ 83,077.51
Jan. 2017 – Aug. 2017	1,873,573.92	10.38%	194,476.97
Less: Backed-out Amount Per DentaQuest			(3,628.78)
FY 2017 Cost Center Totals	\$2,694,497.92		\$273,925.70

Source: DentaQuest General Ledger Cost Centers Transactions and Cost Allocations Percentages

Issue 1.4: Salaries Expenses Were Overstated by \$104,000

DentaQuest overstated salaries, wages, and benefits on its 2017 Administrative Expenses FSR by \$104,000. DentaQuest is required to keep documentation to support employees’ work on more than one activity. Distribution of employees’ salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the HHSC standards, unless a substitute system has been reviewed in advance by HHSC.¹²

¹⁰ Uniform Managed Care Manual, Chapter 6.1, § VI(32)(d)(3)(iii), v. 2.5 (Nov. 1, 2016).

¹¹ Uniform Managed Care Manual, Chapter 6.1, § VI(32)(d)(3)(iv), v. 2.5 (Nov. 1, 2016).

¹² Uniform Managed Care Manual, Chapter 6.1, § VI(4), v. 2.5 (Nov. 1, 2016).

Employees' activity reports or equivalent documentation must:

- Reflect an after-the-fact distribution of the actual activity of each employee
- Account for the total activity, for which each employee is compensated
- Be prepared at least monthly and must coincide with one or more pay periods
- Be signed by the employee¹³

The \$104,000 in salaries is considered overstated because the expenses were not supported by payroll source document records. DentaQuest did not provide specific records to support the allocation of \$104,000 in earnings for two employees.

In addition, the 2017 Administrative Expenses FSR included \$72,521 for salary expenses related to personnel in DentaQuest's quality improvement department. This salary should have been reported as an allowable expense on the 2017 Quality Improvement FSR.

Issue 1.5: Bid Preparation and RFP Expenses Totaling \$167,995 Were Unallowable

Corporate allocations of administrative expenses for bid preparation and RFP submission services were reported on the 2017 Administrative Expenses FSR. Administrative expenses for services delivered prior to notification of contract award, which incurred in anticipation of the award of a contract, or in connection with contract negotiations, bid preparation, or RFP submission are unallowable.¹⁴ Costs of preparing proposals for potential contracts are unallowable.¹⁵ Five of nine tested legal and professional services invoices included \$167,995 professional fees and related travel expenses for bid preparation activities and RFP submission services.

Of the \$167,995, professional services fees were for \$156,825 and related travel expenses were for \$11,170, which pertain to unallowable bid preparation activities and RFP submission services.

¹³ Uniform Managed Care Manual, Chapter 6.1, § VI(14)(h), v. 2.5 (Nov. 1, 2016).

¹⁴ Uniform Managed Care Manual, Chapter 6.1, § VI(36), v. 2.5 (Nov. 1, 2016).

¹⁵ Uniform Managed Care Manual, Chapter 6.1, § VI(38), v. 2.5 (Nov. 1, 2016).

Issue 1.6: Other Expenses Totaling \$163,887 Were Unallowable

DentaQuest reported \$163,887 in unallowable corporate expenses on the 2017 Administrative Expenses FSR. The types and amounts of unallowable expenses included:

- \$83,824 for penalties, promotional advertising, and sponsorship expenses
- \$51,470 postage for activities outside of Texas
- \$26,658 for subscriptions and dues
- \$1,338 labeled “account not found” in the “Network Development” cost center
- \$597 for non-travel meal expenses

Per the UCMCM, unallowable expenses include charitable donations of any kind, including cash contributions to non-profit organizations, paid sponsorships, advertising costs, public relations costs, marketing costs, fines, penalties, damages, and other settlements resulting from violations or failure to comply with federal, state, or local laws and regulations.¹⁶

Recommendation 1.a

MCS, through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should require DentaQuest to address and correct unallowable and overstated expenses reported on the 2017 Administrative Expenses FSR.

Management Response

MCS agrees that DentaQuest’s reporting of unsupported and overstated expenses should be addressed and corrected and that tailored contractual remedies should be applied.

Financial Reporting and Audit Coordination (FRAC) will utilize its existing contract oversight process to address and correct DentaQuest’s reporting of unsupported and overstated expenses.

Each fiscal year, Financial Reporting and Audit Coordination (FRAC) utilizes a three-step review to enforce the MCO/DMO responsibility of reporting accurate, allowable, and supported costs in its Financial Statistical Reports (FSRs). First, an MCO/DMO submits an FSR to FRAC. FRAC performs an initial validation and reconciliation of the FSR to known financial data. Second, FRAC hires external

¹⁶ Uniform Managed Care Manual, Chapter 6.1, §§ VI(22), VI(32)(d)(3)(vii), and VI(32)(d)(3)(xii), v. 2.5 (Nov. 1, 2016).

audit firms to perform Agreed Upon Procedure (AUP) engagements to ensure the MCO/DMO FSR is accurate, allowable and retains sufficient supporting documentation. Third, following the AUP engagements, all dollar finding adjustments identified in the AUP are utilized to recalculate the Experience Rebate and to determine if the MCO owes a rebate.

The overall financial oversight process takes at least 24 months following the end of a fiscal year to complete.

It is important to note that for this audit, the OIG reviewed the 2017 Administrative Expenses FSR submitted to HHSC by DentaQuest. The MCS financial contract oversight review cycle for the FY 2017 is not complete and this FSR has not yet gone through the AUP process. Final determinations regarding the accuracy of claimed expenses on the FSRs cannot be determined by MCS until the review cycle is completed. At that point Experience Rebates will be recalculated, if necessary, to address any overstated/unallowable expenses claimed by an MCO/DMO.

As of the date of this report, FRAC has finalized its initial validation and reconciliation of the SFY 2017 334-Day FSR. FRAC is in the process of engaging an audit firm to perform the AUP. After the final report is issued, FRAC will determine any appropriate contractual remedies and will make appropriate dollar value adjustments identified in the AUP to the Experience Rebate calculation.

Many of the same types of issues identified by the OIG this audit report were identified in the SFY 2016 AUP engagement performed by Myers and Stauffer, LC and issued on May 3, 2019. FRAC, in coordination with MCS Managed Care Compliance and Operations (MCCO), has implemented a contractual remedy process in response to the SFY 2016 AUP. These findings will be used to update and improve the process for the SFY 2017 AUP final reports.

Action Plan

FRAC will utilize existing processes to meet the recommendation. No additional action plan is necessary.

Responsible Manager

Deputy Director, Financial Reporting and Audit Coordination

Target Implementation Date

Based on the existing Financial Contract Review Oversight Process, FRAC will:

April 2021: Determine the appropriate contractual remedies for SFY 2017, in coordination with MCCO

Recommendation 1.b

MCS, through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should ensure DentaQuest corporate allocations are effectively tracked, appropriately recorded in its financial system, and accurately reported to HHSC.

Management Response**Action Plan**

MCS agrees that tailored contractual remedies should be utilized to address Recommendation 1.b.

FRAC will work with MCCO to issue a Corrective Action Plan (CAP) to DentaQuest to ensure DentaQuest corporate allocations are effectively tracked, appropriately recorded, and accurately reported to HHSC.

Responsible Managers

*Deputy Director, Financial Reporting and Audit Coordination
Director, Managed Care Compliance and Operations*

Target Implementation Date

April 2020

INFORMATION SECURITY

The HHSC Dental Contract requires DentaQuest to comply with all applicable state and federal security and privacy requirements, governing the creation, collection, access, use, storage, maintenance, disclosure, safeguarding, and destruction of Texas HHS data including agency sensitive information and confidential information.¹⁷

DentaQuest must establish an information security and privacy program and maintain information security and privacy policies and standards that are updated at least annually with respect to the management or handling of Texas HHS information resources or data. DentaQuest must routinely review, monitor, and remove unnecessary accounts that have access to Texas HHS agency sensitive information or confidential information.

Issue 2: Access to DentaQuest’s Financial and Claims System Was Not Promptly Disabled for Four Terminated Users

DentaQuest did not maintain appropriate user access to DentaQuest’s financial and claims system for four users. Application owners must ensure that all accounts of terminated users have been removed, and active accounts shall be consistent with users’ roles and responsibilities; also, application owners must confirm that all accounts of terminated users have been disabled.¹⁸

Table 3 details access status to the Active Directory (AD) and to the financial and claims system for the four users. The user accounts were appropriately disabled in the AD, but the financial and claims system accounts of the four users were not disabled at the time the AD accounts were disabled. Two user accounts retained access to the financial system for a period of up to three months after the users’ termination date. At the time of audit fieldwork, the other two user accounts were still active in the financial system.

Table 3: Access to Financial and Claims System

Name	Disabled/Active/Not Found in AD	Last Logon Date into AD	Financial and Claims System Deactivation Date
User 1	Disabled	11/26/2018	No Deactivation Date
User 2	Disabled	6/19/2018	No Deactivation Date
User 3	Disabled	7/20/2016	10/4/2016
User 4	Disabled	2/18/2017	5/15/2017

Source: DentaQuest Active Directory

¹⁷ HHSC Dental Contract, Attachment A, § 11.08, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

¹⁸ HHSC Dental Contract, Attachment A, § 11.08, v. 1.12 (Sept. 1, 2016) through v. 1.15 (Sept. 1, 2017).

By not timely removing access to the financial and claims system, the four accounts retained the ability to access, modify, or delete claims data containing confidential Texas HHS System information and financial information relied upon by HHSC to monitor and oversee DentaQuest performance.

Recommendation 2

HHSC MCS, through its contract oversight responsibility, including the use of tailored contractual remedies as appropriate, should ensure DentaQuest timely disables individuals' access to its financial and claims system upon termination of employment.

Management Response

Action Plan

MCS agrees that tailored contractual remedies should be utilized to address Recommendation 2.

MCS will require DentaQuest to take corrective action under a Corrective Action Plan (CAP) to immediately disable/inactivate system access for individuals that have terminated employment or for any other reasons in which an individual's system access is no longer valid.

In addition, MCS, through its contract oversight responsibility, will coordinate with HHSC IT to require DentaQuest to implement a control process to automatically disable accounts that have been inactive for more than 90 days for all systems and applications that create, process, transfer, or store confidential HHS System information.

Responsible Manager

*Director, Managed Care Compliance and Operations
Director, IT Applications, Medicaid and CHIP Systems*

Target Implementation Date

July 2020

CONCLUSION

The OIG Audit Division concluded that:

- DentaQuest's 2017 Administrative Expenses FSR included:
 - Unallowable expenses for other states
 - Unallowable amortization and unsupported depreciation
 - Unallowable sales and marketing expenses
 - Overstated salaries
 - Unallowable bid preparation and RFP activities expenses
 - Unallowable expenses for penalties, promotional advertising, postage for activities outside of Texas, sponsorship, account not found, subscriptions and dues, and in-town meals
- DentaQuest did not promptly remove four accounts from its financial and claims system, which had access to confidential Texas HHS System information and financial information relied upon by HHSC to monitor and oversee DentaQuest performance.
- DentaQuest adjudicated paid dental claims selected for review in accordance with requirements.
- DentaQuest timely and appropriately processed and resolved selected provider complaints.

The OIG Audit Division offered recommendation to MCS, which, if implemented, will:

- Address unallowable, unsupported, or overstated expenses reported on DentaQuest's Administrative Expenses FSR for 2017 and other years.
- Strengthen access controls to the financial system used to process claims and report financial information to HHSC.

The OIG Audit Division thanks management and staff at HHSC and DentaQuest for their cooperation and assistance during this audit.

Appendix A: Sampling Methodology

The OIG Audit Division examined administrative expenses and tested claims processing and adjudication from September 2016 through February 2018.

Claims Processing and Adjudication

The OIG Audit Division obtained claims population adjudicated during the period of September 2016 through February 2018, from which a judgmental sample of 60 adjudicated claims was selected and analyzed. The sample of 60 adjudicated claims was based on procedure codes determined in consultation with HHSC and OIG dental professionals to have a higher risk of billing or payment errors.

Administrative Expenses

The OIG Audit Division judgmentally selected categories from the Administrative Expenses FSR for testing. A judgmental sample of 40 administrative transactions tested were selected from the following Administrative Expenses FSR expense categories: subcontracts, related parties, and other administrative expenses, these expense categories were selected based on two factors:

- Materiality of the dollar amount of each category compared to the total amount of all administrative expenses reported on the Administrative Expenses FSR
- Expense category risk of fraud, waste, and abuse

The OIG Audit Division traced the 40 selected administrative expenses back to source documentation.

Appendix B: DentaQuest HHSC Dental Contracts Costs for 2017

The 2017 DentaQuest HHSC Dental Contract cost per Medicaid age group is illustrated in Table B.1.

Table B.1: 2017 DentaQuest Medicaid Children Dental Contract Costs

Medicaid Children Age Group	Dental Premiums (HHSC Capitation)	Dental Premium Dollars Per Member Per Month
Age Group: Less Than 1	\$ 14,671,967	\$11.69
Age Group: 1–5	206,827,527	34.83
Age Group: 6–14	367,330,360	38.66
Age Group: 15–18	116,645,451	38.20
Age Group: 19–20	8,342,012	28.23
Total	\$713,817,317	\$35.61

Source: Financial Statistical Report, Medicaid Dental Premium

The 2017 DentaQuest HHSC Dental Contract cost per CHIP age group is illustrated in Table B.2.

Table B.2: 2017 DentaQuest CHIP Dental Contract Costs

CHIP Age Group	Dental Premiums (HHSC Capitation)	Dental Premium Dollars Per Member Per Month
Age Group: Less Than 1	\$ 4,875	\$ 3.17
Age Group: 1–5	13,038,084	19.18
Age Group: 6–14	46,510,072	28.02
Age Group: 15–18	14,901,749	25.68
Total	\$74,454,780	\$25.49

Source: Financial Statistical Report, CHIP Dental Premium

Appendix C: Acronyms

CHIP	Children Health Insurance Program
CMDS	Children's Medicaid Dental Services
DMO	Dental Maintenance Organizations
FAR	Federal Acquisition Regulations
FSR	Financial Statistical Report
GAAP	Generally Accepted Accounting Principles
HHSC	Health and Human Services Commission
IT	Information Technology
MCS	Medicaid and CHIP Services
OIG	Office of Inspector General
UMCM	Uniform Managed Care Manual

Appendix D: DentaQuest Comment Letter



December 2, 2019

Steve Sizemore, CIA, CISA, CGAP
Audit Director
Texas Health and Human Services Commission
Office of Inspector General
P.O. Box 85200
Austin, Texas 78708-5200

Re: DentaQuest Response to OIG Audit Report dated November 25, 2019

The management of DentaQuest USA Insurance Company, Inc. (DentaQuest) would like to thank the OIG Audit Division for their thorough review and consideration of DentaQuest's information and other input during this extensive audit around claims processing and financial reporting performance. We are pleased that the audit results show that our treatment of claims, encounters and provider complaints are compliant according to state and federal guidelines and that no major unallowable costs were identified.

DentaQuest strongly believes that the expenses derived from the review of the marketing and outreach cost center (\$784,536 of \$1.53M total) were in fact allowable under OMB rules, and that the issue identified is related to the process for accumulating costs rather than allowability of the type of costs questioned. In addition, \$244,092 of the \$307,926 in amortization and depreciation findings also fall under this scenario. DentaQuest acknowledges that documentation of control processes can be tightened and streamlined to more effectively justify allowable expenses.

Issue 1.1: Administrative Expenses of Other States & Issue 1.3: Sales and Marketing Expenses of \$273,926 Were Unallowable

DentaQuest's allocation methodology was discussed at length over the course of the audit engagement. Although we acknowledge that the model could be improved, we do not feel that the findings portray our good faith efforts to allocate allowable costs accurately.

Within the DentaQuest allocation model there are three types of costs:

1. Contract Specific – specifically identified as incurred for the benefit of a contract and charged to that contract
2. Direct Allocated – costs associated with direct support departments that are directly allocated to a contract based on a driver
3. Overhead – costs associated with functional areas that support all contracts and products but do not have a driver for allocating these costs – this includes Finance, HR, Legal, etc.

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The amounts in the audited Member Communications and Outreach cost center are assigned directly to a contract by our Marketing Department. For these costs, the description in the general ledger is not the primary identifier of where to charge the costs.

For example, one of our largest member communications vendors charges us for both postage and printing. The postage is prepaid for multiple contracts in one single invoice. The postage usage is tracked by the vendor and then charged to the specific contracts, including Texas. The printing invoices are coded to specific contracts and tracked by the Marketing team on a spreadsheet with the postage. This spreadsheet is used to determine the amount that goes onto the FSR. None of the amounts for other states were allocated to Texas as there is not general allocation of this cost center.

We recognize that ultimately, OIG must reach a determination as to the accuracy and completeness of costs reported and this finding reflects that determination. DentaQuest has strengthened our internal controls to avoid any disallowances of this nature on future reports.

Issue 1.2: Amortization and Depreciation Expenses Totaling \$307,926 Were Unallowable

DentaQuest respectfully disagrees with the disallowance of the item of \$147,304 that the OIG has termed "Goodwill". DentaQuest does not expense or amortize Goodwill for GAAP purposes and so none of our expenses in the P&L include this category.

Issue 1.4: Salaries Expenses Were Overstated by \$104,000

For the audited FSR time period (9/2016-8/2017), we employed temporary staff that supported Texas claim processes. The total allocated amount of \$104,000 was derived from a calculation of pooled temporary employee costs, which included work allowable under and performed for the HHSC contract, in accordance with the HHSC Cost Principles. DentaQuest nevertheless, acknowledges the need for more precise documentation protocols to support reported salary costs for all work performed under the contract and will ensure this is the case moving forward.

Issue 1.5: Bid Preparation and RFP Expenses Totaling \$167,995 Were Unallowable & Issue 1.6: Other Expenses Totaling \$163,887 Were Unallowable

DentaQuest accepts the findings of the OIG identified under issues 1.5 and 1.6 and has modified internal processes in light of the feedback.



Issue 2: Access to DentaQuest's Financial System Was Not Promptly Disabled for Four Terminated Users

DentaQuest respectfully disagrees with the OIG's interpretation of our appropriate controls around financial system access. Access to Oracle Financials requires Network Authentication and Active Directory security group membership, therefore, all terminated users have no way of reaching financial records. Each of the four user accounts in question were timely disabled in Active Directory thereby deactivating the access point to the network.

Furthermore, DentaQuest provided documentation to the OIG of additional processes and controls in place that prevent improbable scenarios of unauthorized access:

1. DentaQuest monitors Oracle access in its Security Incident and Event Monitoring platform, LogRhythm, in real-time 24/7,
2. DentaQuest tests its Active Directory environment on a periodic basis to ensure that all individuals with access to our network adhere to the principle of least privilege and that access is terminated in a prompt manner once an individual leaves DentaQuest and;
3. DentaQuest uses LogicManager, a Governance, Risk, and Compliance platform, to ensure that all terminated employee access has been revoked according to policy.

DentaQuest is committed to serving the Texas Health and Human Services Medicaid and CHIP programs at the highest level of excellence possible. To that end, we will take advantage of opportunities identified herein to further advance our processes.

We appreciate this opportunity to provide formal comments to the OIG Audit Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey C. Brown".

Jeffrey C. Brown
Senior Vice President, Corporate Controller

Auditor Comments

The OIG Audit Division appreciates the feedback provided by DentaQuest in its comment letter and respects the DentaQuest position on reported issues. The OIG Audit Division offers the following comments in response to the DentaQuest comment letter:

Issue 1.2: The \$147,304 was recorded as “Customer Relationships” in monthly amortization schedules submitted by DentaQuest. Amortization of the indirect cost of customer relationships expenses are not allowable when the expense does not benefit the objectives of the contract.

Issue 2: The IS Controls require that access to DentaQuest’s financial and claims system be disabled upon termination of employment when access is no longer needed. The four accounts reported in Issue 2 remained active after termination of the user’s employment and authorization to access the financial and claims system ended.

As potential issues were identified during this audit, the OIG Audit Division shared detailed evidence supporting the issues with DentaQuest, providing an opportunity to research the issues and provide additional or replacement evidence. When received from DentaQuest, the OIG Audit Division considered the additional or replacement evidence and, when appropriate, adjusted audit results and conclusions accordingly. These collaborative efforts continued through November 2019.

The OIG Audit Division stands by its methodology for conducting this audit, its approach for obtaining sufficient and appropriate evidence to achieve the audit objectives, and the issues, conclusions, and recommendations presented in this report.

Appendix E: Report Team and Distribution

Report Team

OIG staff members who contributed to this audit report include:

- Audrey O’Neill, CIA, CFE, CGAP, Deputy IG for Audit
- Kacy VerColen, CPA, Interim Assistant Deputy IG for Audit
- Steve Sizemore, CIA, CISA, CGAP, Performance Audit Director
- Anton Dutchover, CPA, Audit Manager
- Nejiba Kheribi, CPA, CISA, CGAP, Audit Project Manager
- Carolyn Cadena, Staff Auditor
- Brian Baker, Staff Auditor
- Crystal Crosson, Associate Auditor
- Mo Brantley, Senior Audit Operations Analyst

Report Distribution

Health and Human Services

- Dr. Courtney N. Phillips, Executive Commissioner
- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Ruth Johnson, Chief Operations Officer
- Victoria Ford, Chief Policy and Regulatory Officer
- Karen Ray, Chief Counsel
- Hailey Kemp, Interim Chief Program and Services Officer
- Nicole Guerrero, Director of Internal Audit
- Stephanie Muth, State Medicaid Director, Medicaid and CHIP Services
- Shannon Kelley, Interim Director, Managed Care Compliance and Operations, Medicaid and CHIP Services
- Jason Mendl, Deputy Director, Financial Reporting and Audit Coordination
- Leatha Marr, Director, IT Application Services

DentaQuest

- Steven Pollock, President, Chief Executive Officer
- Joe Vesowate, Regional Vice President, Client and Provider Engagement West
- Norma Ornelas-Roberts, Regional Director, Client Engagement Texas
- Kaitlyn Marino, Executive Director, Contract Manager

Appendix F: OIG Mission, Leadership, and Contact Information

The mission of OIG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of OIG's mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Inspector General
- Susan Biles, Chief of Staff
- Dirk Johnson, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Quinton Arnold, Chief of Inspections and Investigations
- Steve Johnson, Chief of Medicaid Program Integrity

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- Online: <https://oig.hhsc.texas.gov/report-fraud>
- Phone: 1-800-436-6184

To Contact OIG

- Email: OIGCommunications@hhsc.state.tx.us
- Mail: Texas Health and Human Services Commission
Office of Inspector General
P.O. Box 85200
Austin, Texas 78708-5200
- Phone: 512-491-2000