STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE'S PROCUREMENT OF HEALTH INSURANCE VENDORS FOR THE STATE'S GROUP HEALTH INSURANCE PROGRAM

MANAGEMENT AUDIT
Release Date: March 2012

SYNOPSIS

The Department of Healthcare and Family Services is responsible for procurement of health care contracts for State employees. Additionally, the Executive Ethics Commission has been given the responsibility of procurement oversight.

On April 6, 2011, the Department announced the Health Maintenance Organization award to BlueCross BlueShield (BCBS) for a total of **$6.6 billion**. On that same day, PersonalCare and HealthLink were awarded contracts totaling **$379 million** for the Open Access Plan administration services.

Our review of the procurement process found **the Department of Healthcare and Family Services**:

- **Failed to include** all relevant information, including scoring evaluation criteria, in the RFPs.
- Utilized a consulting firm to have a **major participation role** in the procurements even though the firm **had business relationships** with all the firms that proposed on the two State procurement opportunities.
- Failed to ensure that all members of the evaluation team **had all needed materials** to score the proposals.
- **Failed to comply** with policy by not having the evaluation teams meet during the evaluation process.
- Allowed 10 of 12 evaluators to violate the evaluation procedures by **not providing** appropriate comments.
- Failed to **address major differences in scoring** by evaluators, a violation of evaluation procedures.
- Within the period of one month, March 7, 2011 to April 6, 2011, had developed and the Director had signed **two different recommendations to award** the State healthcare contracts.
- The Department **awarded** BCBS 20 counties it **did not even bid on**. Also, network documentation showed that BCBS had **zero primary care physicians in 24 counties that it was awarded**.

Our review of the procurement process found **the Executive Ethics Commission**:

- Had staff review and approve the RFPs without ensuring all relevant information was included.
- Had staff that did not question lack of compliance with evaluation procedures.
- SPO did not approve the awards **until after the awards were publicly announced**.
- Utilized a protest review process where the protest officer basically rules on the procurement process that his staff guided and approved, a **process that lacks independence**.
- Failed to develop policies and procedures for the activities of its staff that oversee procurement functions.

Given the serious deficiencies in the procurement activities, including the disregard for following evaluation procedures and lack of documentation to support how the recommendation to award changed, **we are unable to conclude whether the State's best interests were achieved** by the Department for the awards for the State health insurance procurements. Additionally, oversight of these procurements by the Commission lacked adequate review prior to approving the award of the contracts. These are serious problems given that this involved **over 400,000 enrollees and eligible dependents** and **$7 billion** in taxpayer monies.

AUDIT CONCLUSIONS AND RECOMMENDATIONS

The Department was responsible for procuring health care contracts.

During the period covered by this audit, the Department of Healthcare and Family Services (Department) was the agency responsible for procurement of health care contracts. Additionally, the Executive Ethics Commission (Commission) has been given the responsibility, pursuant to Public Act 96-795, of procurement oversight, which includes the activities conducted on the procurement opportunities that form the basis of Legislative Audit Commission Resolution Number 142. (pages 8-10)

The Commission has procurement oversight responsibility.

According to Department figures, in FY11, 428,546 participants and their eligible dependents were part of the State's group insurance program. During FY12, total membership was projected to increase by 2 percent to 436,000 participants. State employees and dependents comprise 81 percent of the total participation in the group health insurance program. (pages 6-7)

Procurement Process Conclusions

On April 6, 2011, the Department awarded a total of $7 billion in health care contracts to three vendors.

Prior to July 1, 2011, the State Employees Group Health Program offered up to four options for coverage, based on geographic location: a self-insured plan preferred provider organization (PPO) option; an insured health maintenance organization (HMO) option; a self-insured HMO option; and, a self-insured open access plan (OAP) option. In September and October 2010, the Department publicly advertised in the Illinois Procurement Bulletin to procure administrators for the State's two **managed care** health insurance programs, the HMO and OAP plans. The plans were **last bid** by the State in 2000. (pages 12-13)

On April 6, 2011, the Department announced the HMO award to both BlueCross BlueShield (BCBS) plans. BCBS was awarded a five-year contract that, with renewals, totaled $6.6 billion for the HMO administration services. On that same day, PersonalCare was awarded a contract totaling $179.7 million for the OAP administration services. HealthLink was also awarded a contract totaling $199.4 million for OAP services. (page 21)

The Department failed to include scoring criteria in the RFP and allowed a consultant that had business relationships with all the bidders to participate in the evaluation process.

Our review of the procurement process found **the Department**:

- **Failed to include** all relevant information, including scoring evaluation criteria, in the Request for Proposals (RFPs) for the State health insurance procurements.
- Utilized a consulting firm (Mercer) to have a **major participation role** in the development of the RFP through the evaluation of proposers to the State health insurance procurements. The consulting firm **had business relationships** with all the firms that proposed on the two State procurement opportunities, relationships that the Department failed to have identified.

The Department's evaluators did not meet during the process and failed to provide comments on scoring sheets, both violations of policy/procedure.

- Failed to ensure that all members of the evaluation team had all needed materials to score the proposals submitted for the State health insurance procurements. While the evaluators clearly acknowledged the lack of needed materials, the **Department failed to correct the problem** and let the evaluation process continue. Additionally, the procurement team leader conducted reference checks on the proposers to the two procurements but **did not share** any of that information with the other evaluators.
- **Failed to comply** with its own evaluation policy/procedures by not having the evaluation teams for the State health insurance procurements meet during the evaluation process.
- Allowed 10 of 12 evaluators that scored the proposals for the State health insurance procurements to violate the evaluation procedures by not providing thorough and appropriate comments to support all scores given.
- Failed to have evaluation team members for the HMO Plan Administrator and OAP Plan Administrator procurements certify their evaluation scores. Additionally, some of the evaluation scoring sheets were undated making it impossible to know when they were completed. In another instance, it appears that a technical scoring clarification **was provided after** the Department's consultant **had already scored** a proposal.

The Department failed to address major scoring differences by evaluators, a violation of policy.

- Failed to **address major differences in scoring** by evaluators of the procurement for the State health insurance contracts, a violation of the Department's own evaluation procedures. Additionally, the Department allowed evaluators to score proposals against each other, again a **violation of the Department's own evaluation procedures**.
- Failed to monitor the evaluation team for the procurement of vendors to administer the State health insurance contracts. As a result, one of the evaluators, the consultant hired to assist in the development of the RFP and scoring of proposals, had communications with vendors which violated Departmental evaluation procedures. Additionally, the consultant had an inappropriate communication with one of the vendors that proposed on the managed care procurements. **A Department official directed this communication**.

The Department developed a recommendation to award which was changed after a meeting with officials from the Governors Office.

- Within the period of one month, March 7, 2011 to April 6, 2011, had developed and the Director had signed **two different recommendations to award** the State healthcare contracts. The Department took the first recommendation to a meeting with officials from the Governor's Office and the Governor's Office of Management and Budget in late March 2011. Sometime after that meeting and the date the awards were announced on April 6, 2011, the recommendation was changed. While the Department indicated that the Chief Procurement Officer (CPO) could not support the initial

recommendation, documentation did not support that position.

- Failed to timely file with the Comptroller completed copies of emergency health insurance contracts as well as the HMO insurance contracts awarded four months earlier. Additionally, the HMO contract contained pricing for monthly **premiums that was greater than what the winning vendor bid on the procurement**. Further, the Department did not require one vendor to provide information on debarment/legal proceeding disclosures in the final contract with the State. Finally, 31 days after the start of the emergency contract period, the State Purchasing Officer (SPO) was unaware that contracts had not been filed with the Comptroller for the emergency notices he posted in mid-June 2011. (pages 23-62)

The Department did not timely file contracts with the Comptroller.

Our review of the procurement process found **the Commission**:

Commission staff approved the RFP without ensuring all scoring information was included.

- Had staff review and approve the RFPs without ensuring all relevant information, including scoring evaluation criteria was included.
- Had staff with oversight responsibility that did not question the lack of compliance with evaluation procedures regarding the failure of the evaluation teams meeting during the process.
- Had staff responsible for the oversight of the procurements that did not question the violation of procedures regarding not providing thorough and appropriate comments to support all scores given.

Commission staff did not ensure that evaluation procedures were complied with.

- Had staff responsible for oversight of these procurements that did not ensure compliance with evaluation procedures prior to approving the award of the contracts regarding addressing major differences in scoring on the procurements.
- SPO for the Department did not approve the awards for the HMO plan administrator and OAP plan administrator procurements **until after the awards were publicly announced**.
- Utilized a protest review process where the protest officer basically rules on the procurement process that his staff guided and approved, a **process that lacks independence** when the protest officer is involved in guidance for the procurement oversight by his staff. The Commission **has not created rules** to guide its oversight responsibility, including rules on protest review. The Commission, during the procurement process for the State health insurance procurements, was in the process of developing an independent protest office. However, the employee assigned these duties was only to be responsible for gathering the required documents. The CPO for the applicable area (i.e., executive agencies, Illinois Department of Transportation, universities, Capital Development Board) was still responsible for the protest

ruling.

The Commission has failed to develop policies for its oversight staff.

- Failed to develop policies and procedures for the activities of its staff that oversee State procurement functions. During our review of the procurement process followed in the solicitation and award of the State health insurance opportunities, we examined the role of the Commission and its staff in the oversight and review of the process. (pages 23-67)

Given the serious deficiencies in the procurement activities, including the disregard for following evaluation procedures and lack of documentation to support how the recommendation to award changed, we are unable to conclude whether the State's best interests were achieved by the Department for the awards for the State health insurance procurements. Additionally, oversight of these procurements by the Commission lacked adequate review prior to approving the award of the contracts. These are serious problems given that this involved **over 400,000 enrollees and eligible dependents** and **$7 billion** in taxpayer monies. (pages 63)

Networks, State Costs, and Savings Conclusions

The Department scored bidders that did not comply with RFP requirements for a minimum number of primary care physicians.

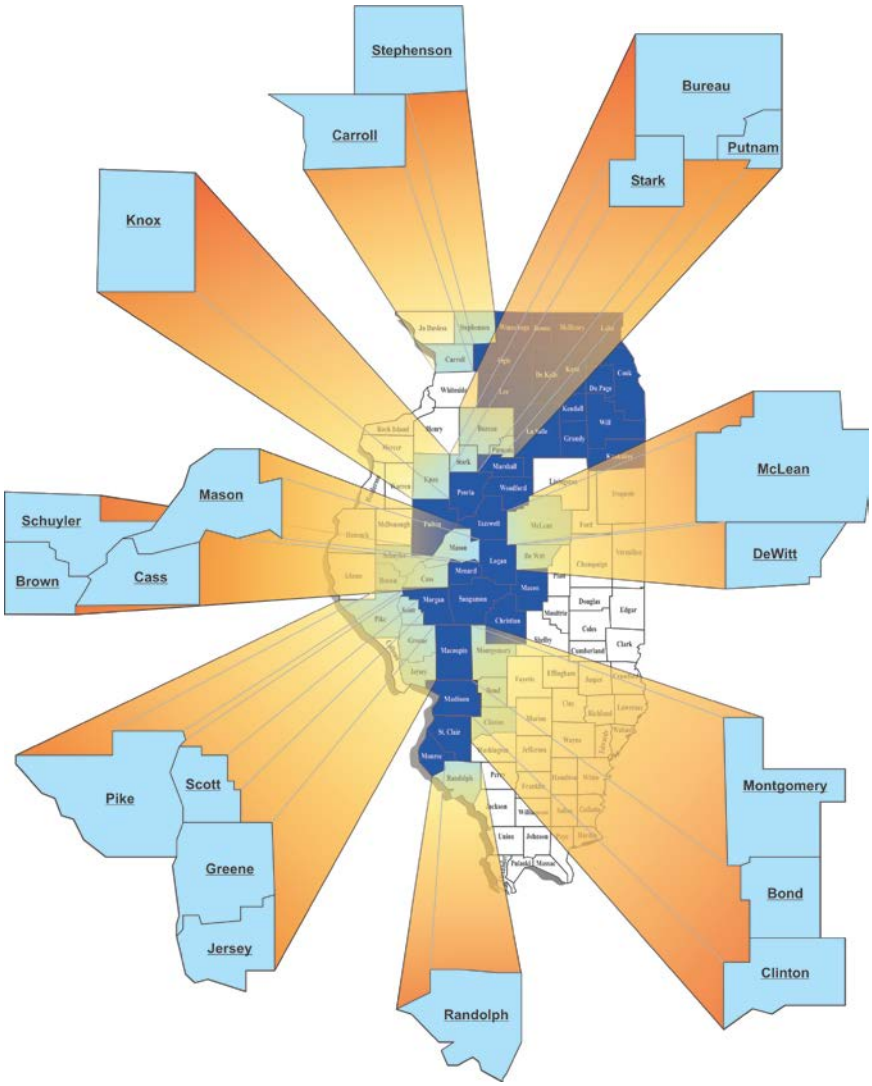
The Department allowed proposers to the State health insurance procurements to bid on counties where the number of primary care physicians (PCPs) was **not sufficient to meet requirements** laid out in the RFPs. Further, the Department awarded significantly more counties in the HMO procurement opportunity to the winner than they actually bid on. Finally, a Commission official **was aware of the lack of compliance** regarding the number of providers in counties yet still signed off on the procurement award. Our review of provider network submissions showed:

- For the HMO Procurement:
  - The Department **awarded** BCBS 20 counties that BCBS **did not even bid on**.
  - BCBS network documentation showed that it had **zero PCPs in 24 counties that it was awarded**.
  - In five counties in which it bid, BCBS had **zero** PCPs on the network physician listing, yet the Department allowed the proposer to bid the counties.
  - In nine counties in which it bid, Health Alliance had **zero** PCPs on the network physician listing, yet the Department allowed the proposer to bid the counties.
  - In two counties in which it bid, PersonalCare had **zero** PCPs on the network physician listing, yet the Department allowed the proposer to bid the counties.
  - In two counties in which it bid, Humana had **zero** PCPs on the network physician listing, yet the Department allowed the proposer to bid the counties.

Digest Exhibit 1 presents an analysis of BCBS awarded counties where the submitted network showed **no network presence.** (pages 73-76)

Digest Exhibit 1

COUNTIES AWARDED TO BCBS WITH NO BCBS NETWORK PRESENCE



Note: Network providers include primary care physicians, hospitals, OB/GYN, pediatricians and other specialists.

Source: OAG developed from vendor proposal.

- For the OAP Procurement: The Department **awarded** HealthLink the entire State when it did not bid on the entire State. While HealthLink did not bid on Pulaski and Putnam counties, the Department still awarded those counties to HealthLink even though network information showed that HealthLink only had four PCPs in Putnam County and none in Pulaski County. (page 77)

The Department required proposers to have a network of fully credentialed providers in place by January 1, 2011, but the

Department failed to evaluate the proposed networks on that date. Further, the Department received information on proposer networks in mid-October and early November 2011, without verification to know how the networks had evolved by the required date in the RFP and when the awards were to go into effect on July 1, 2011.

There were discrepancies in network documentation submitted by bidders.

Our review of the proposals and network information indicated that there were discrepancies on the network CDs submitted by the proposers. The major problem was that many physicians were listed multiple times for the same location. In September 2011 we researched on the proposer physician directory a sample of physicians that had been included in the proposals submitted by the vendors that were awarded State health insurance procurements. We found:

- **15 percent** of the BCBS Blue Advantage physicians in our sample (16 of 108) were **no longer** identified in the network.
- **12 percent** of the BCBS HMO-IL physicians in our sample (12 of 102) were **no longer** identified as a provider in the county listed in the network submission.
- **19 percent** of the HealthLink physicians in our sample (20 of 105) were **no longer** identified in the network.
- **14 percent** of the PersonalCare physicians in our sample (14 of 103) were **no longer** identified as a provider in the county listed in the network submission. (pages 80-82)

The Department publicized savings figures the day awards were announced.

The awards announced April 6, 2011 for State health insurance were estimated to cost nearly $7 billion over the first five years of the contract period. The Department reported that cost savings **was not a factor** in the selection and award of the health insurance contracts. While it was not a factor in the scoring criteria and point calculations, the Department did utilize savings figures generated by Mercer to request Best and Final Offer (BAFO) information from vendors for the HMO procurement. The day the HMO and OAP awards were announced, the Department issued a press release stating that *"the award of these four contracts will result in a savings of approximately $102 million in FY12, and a savings in excess of $1 billion over the life of the contracts."*

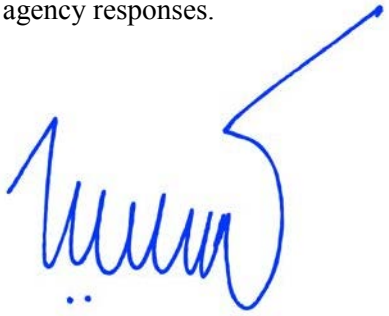
Based on the results and award of contracts, the Department significantly expanded the self-insured OAP program from what was previously utilized. This expansion was apparently considered as early as July 2010, but was not delineated in the RFP for the OAP procurement.

Department documentation showed that the average cost of a participant in the health plans was higher for OAP programs than HMO programs by over $1,200 per year. A Department official reported that an analysis of OAP costs versus **some** HMO plans (for example, Health Alliance Illinois) showed lower costs for the OAP plan. The official admitted that this was not true for all HMO plans. The analysis was never

provided to auditors for review. The State picks up approximately 90 percent of the annual cost for the participant. It is difficult to know how Mercer calculations show the State saves money when the awards, as announced, migrate more HMO participants to OAP plans. No one from the Department validated the figures Mercer provided. Officials also reported that they did not even have the methodology that Mercer utilized when compiling the various scenarios. (pages 83-87)

RECOMMENDATIONS

This audit report contains 15 recommendations directed towards the Department and/or the Commission. The Department generally agreed with the recommendations. While the Chief Procurement Officer agreed with the recommendations directed towards the Commission, the Commission does not feel it has the authority to direct the oversight of procurement activities. Appendix E to the report contains the full agency responses.



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AUDITORS ASSIGNED: This Management Audit was performed by the Office of the Auditor General's staff.