



# Dental Choice Plan PPO Insurance Audit #2021-03

From the Director:

Internal Audit has completed its Dental Choice Plan Preferred Provider Organization (PPO) Insurance Audit at the Employees Retirement System of Texas.

Based on the audit scope areas reviewed, the system of internal controls provides reasonable assurance that key goals and objectives will be achieved. Control gap corrections and improvement opportunities were identified.

- 1) Establish controls to assess whether in-network service discounts are realized. (Moderate)

Other matters deemed less significant were communicated with management directly. We thank management and staff of the Group Benefits division for their courtesy and cooperation extended to us during the review.

Sincerely,

*Anthony Chavez*

**Anthony Chavez, CIA, CGAP, CRMA**

Director, Internal Audit Division

## ERS Internal Audit Division

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# Objectives and Summary Results

**Audit Objective:** Does contract management over the Dental Choice Plan PPO insurance program ensure member benefits are properly delivered?

**Overall Results:** Contract management procedures ensure benefits are properly delivered. **(Satisfactory)**

SCOPE AREA	SUB-OBJECTIVES	RESULTS/RATING
<b>Member Benefits</b>	<ul style="list-style-type: none"> <li>Does provider network support delivery of dental services?</li> <li>Does customer service assist in delivery of benefits?</li> </ul>	<p style="text-align: center;"><b>Satisfactory</b></p> <p>Network accessibility and customer service activities are sufficiently monitored to ensure deliver of benefits.</p>
<b>Cost Management</b>	<ul style="list-style-type: none"> <li>Are dental claims processed in accordance with plan design?</li> <li>Are claims reimbursements and TPA fees remitted accurately?</li> <li>Are cost savings through the provider network realized?</li> <li>Are appropriate funding levels established to support program costs?</li> </ul>	<p style="text-align: center;"><b>Satisfactory</b></p> <p>Controls ensure claims are processed in accordance with plan design, TPA payments are accurate and appropriate funding levels are established. Improvements could be made to enhance the monitoring of the TPA's in-network service discounts from providers to ensure members receive the most cost efficient services available. <i>See Observation #1.</i></p>

## Audit Rating Legend:

**Exemplary** - Effective, sustainable process

**Satisfactory** - Internal controls effective and working as intended

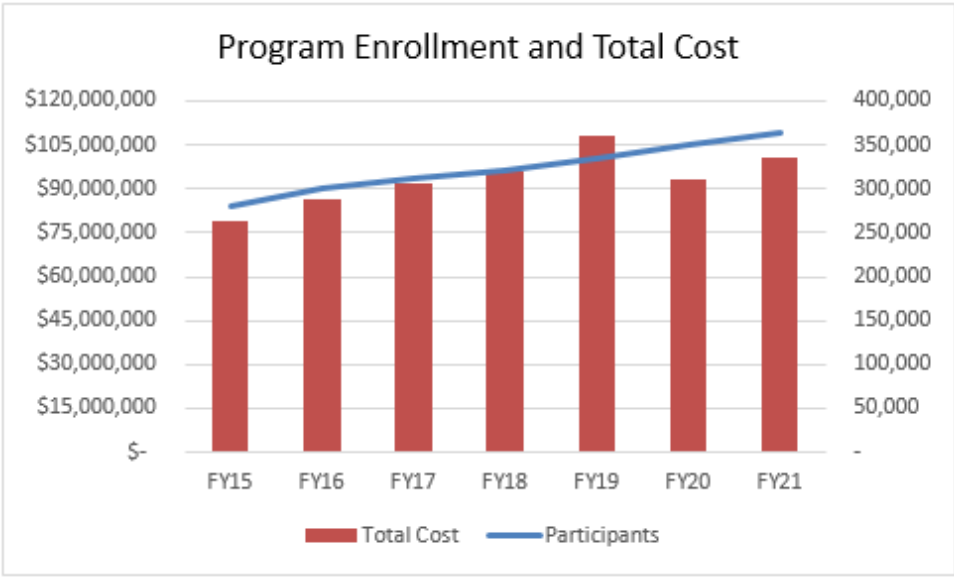
**Needs Improvement** - Internal controls partially effective

**Unsatisfactory** - Entire control framework in need of repair

# Background

The State of Texas Dental Choice Plan is ERS’ member-funded Preferred Provider Organization dental insurance plan. Dental Choice is available to State of Texas agency and higher education employees, retirees and eligible family members. The program is funded through participant paid premiums, co-payments and deductibles. **Dental Choice participants may see any dentist, but receive a higher benefit by using a network provider.**

*For more information about the key controls of this program see Appendix A*



## Dental Choice Cost Saving Benefits

The primary benefit of the dental insurance program is the cost savings realized through cost sharing and in-network service discounts negotiated by the third-party administrator (TPA) with providers.

**Cost Share Benefit** — Percent (portion) of dental care costs the Dental Choice Plan will pay. Participants receive cost-share benefit for any dentist but the Plan will cover a greater portion of dental costs when using an in-network dentist.

Covered Service	In-Network	Out-of-Network
Diagnostic & Preventive	100%	90%
Basic Services	90%	70%
Major Services	50%	40%
Orthodontics	50%	50%

**Network Service Discount** — In-network dentists have agreed to reduced fees and cannot charge more than set fees. Reduced fees are negotiated and contracted with providers by ERS’ TPA. See *Observation 1* for further details as it relates to in-network service discounts and cost savings.

Network Charges	In-Network	Out-of-Network
Dentist usually charges	\$1,000	\$1,000
Cost Savings (In-network service discount)	\$310	\$0
Service unit cost	\$690	\$1,000 (no discount)
ERS plan pays	\$345	\$400
Member pays	\$345	\$600

# Observation 1: Establish controls to assess whether in-network service discounts are realized. (Moderate)

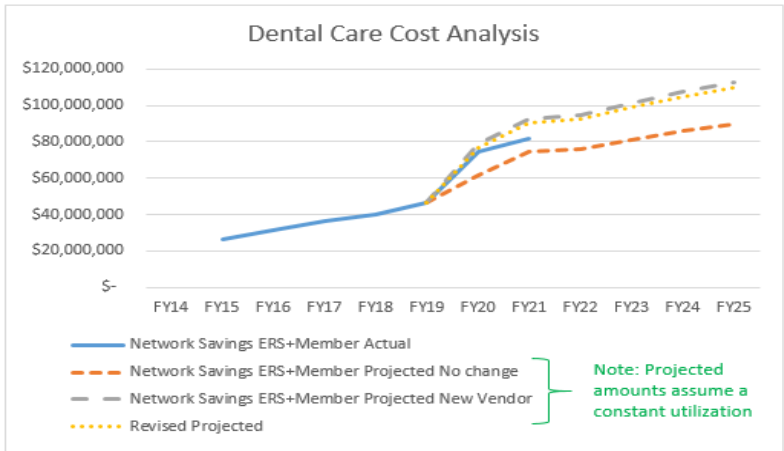
- Program Risk:**
  - Participants pay more for dental care.
  - Projected provider discount savings and associated reduced dental costs not realized by Plan participants.
- Inherent Risk:**
  - New Third-Party Administrator (TPA) with significant projected provider discounts
  - TPA negotiated discounts, ERS has no involvement
- Background:**
  - September 1, 2020 new Dental Choice TPA takes over Plan administration including claims processing, provider network administration and associated negotiated in-network service discounts with providers.
  - Additional 20% in-network provider service discounts projected with new TPA.
  - Total projected savings from transition to new TPA is \$120 million through additional costs savings from TPA negotiated in-network service discounts with providers.
  - Greater in-network provider discounts result in lower service unit cost for participants.**

**Total Dental Choice Cost** = Dental care costs + TPA administration fee  
**Total dental care costs** = Utilization x Service Unit Cost  
**Service unit cost** = amount dentist charges per procedure

- Control Observations:**
  - No cost attribution analysis performed over service unit cost to assess the level of projected provider in-network service discounts realized.
  - Cost analysis performed during annual premium rate setting focused on Total Dental Choice Plan cost. Additional cost analysis may be performed if total costs significantly exceeded forecasted amounts or significant increases from prior year actual costs. No additional cost analysis performed over last five fiscal years. **During audit engagement the Group Benefits Division initiated greater cost attribution analysis including service unit cost analysis.**
  - Annual TPA Report and meeting with ERS Executive Office and Program management had limited discussion/analysis of service unit costs. This was the first year of reported results with new TPA.
  - Previous Annual Dental Reports included detail summary statistics and trend analysis over several years of total service unit cost including unit cost analysis for each covered service category. Unit cost and utilization trend analysis was also charted to provide a data visualization for ease of understanding of cost attribution.

Auditor cost attribution analysis of FY20 actual costs determined a significant percentage of additional projected cost savings through in-network service discounts are currently being realized.

Monitoring of service unit cost is useful to ensure members are receiving the maximum cost savings benefits of the Dental Choice Plan.



To help ensure maximum dental cost savings for participants are realized, the following actions should be taken:

**Recommendation:**

- Continue to incorporate additional dental cost attribution analysis to evaluate both unit cost and utilization impact on total dental care costs.
- Coordinate with TPA regarding additional cost trending analysis to include in Annual Reports.

*Management Response:*

Management agrees with the recommended actions.

*Management Action Plan:*

The Actuarial and Reporting Services team developed a report that analyzes the components of trend to determine the impact of utilization, unit cost increases, and plan design to plan costs.

**Management  
Action Plan**

Group Benefits will request the TPA provide additional cost trending analysis in its Annual Report.

Responsible Position: Actuarial & Reporting Services Manager

Implementation Date: September 2021—developed report to analyze cost trends; June 2022—next TPA Annual Report

## Scope and Methodology

We performed this audit in accordance with the FY21 annual audit plan. Internal control activities reviewed include those in place during FY19 up to the time of audit fieldwork testing which ended October 2021.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

A defined set of control objectives was utilized to focus on operational goals for the identified scope. The Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework was the basis for internal control assessment. Our Internal Audit opinion is an assessment of the condition of the overall control environment based on the effectiveness of internal control activities through the audit period and the degree to which defined control objectives are being met. Our Internal Audit opinion is not a guarantee of operational effectiveness or regulatory compliance, particularly in areas not included in the scope of this audit.

This audit included a review of internal controls considered relevant to audit objectives including review of statutes, policies and procedures, interviews with management and staff, data analysis and testing procedures.

# Appendix A—Key Controls - testing confirmed the design and effectiveness of the following key controls:



**Risk:** Insufficient funding to support program costs.

**Key Controls:** Premium rate development includes several years of historical dental costs, participation levels (enrollment) and associated trending analysis to allow for reasonable forecasts of future year dental costs. *See Appendix B for more information.*

ERS' Group Benefits actuary performs separate rate setting analysis for discussion and comparison with internal analysis.



**Risk:** Inaccurate dental costs (claims reimbursements).

**Key Controls:** TPA audits performed by independent third-party auditor procured by ERS to verify accuracy of dental claims in accordance with Plan design.



**Risk:** Inadequate provider network to allow accessibility to in-network service discounts.

**Key Controls:** Initial provider network assessment performed to ensure minimum thresholds met.

Performance requirement that any significant disruption in number of available dentists will be reported.

Provider network status updates including network utilization assessment (% of procedures performed by in-network dentist) during TPA annual update meeting with ERS Executive Office and Senior Management.



**Risk:** Customer service does not assist participants in accessing benefits.

**Key Controls:** Monthly operational meetings with TPA to discuss customer service interactions including call volume (both member and providers calls) and call drivers (reason contact initiated) to assess action plans

Annual Member Satisfaction Surveys in the following categories to assist in development of any action plans and priorities:

- Quality of care
- Clarity of dental benefits
- Value of Dental Plan
- TPA services
- Dentist services

# Appendix B: Program Fund Balance - Dental Choice Plan PPO

The graph below shows the member only premium rate (paid monthly) with the fund balance of the Dental Choice Plan over time.

This balance is considered in the rate setting process which is evident in the gradual use of excess contributions in FYs15-19 that accumulated during FYs10-14. The COVID-19 pandemic caused a significant increase in the fund balance in FY20.

