



**County of Santa Clara**

**Controller-Treasurer Department  
Internal Audit Division**

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David G. Elledge  
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April 7, 2006

Assignment 10072

To: Distribution List

Subject: Management Review - Delta Dental

Internal Audit has completed a management review of Delta Dental claims paid out for the four years ending December 31, 2004. We conducted the management review August 2004 through November 2005.

We thank the staffs of the Employee Services Agency and Delta Dental Services, Inc. for their cooperation. Their assistance contributed significantly to the successful completion of the management review.

Respectfully submitted,

Signatures on file.

David G. Elledge  
Controller-Treasurer

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Supervising Internal Auditor

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

**Management Review -  
Delta Dental  
Internal Audit Division**



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## **Executive Summary**

**Conclusion** It is our opinion that Delta Dental Inc. has properly managed the payment of dental claims. It is also our opinion that the increase in dollars paid out in FY2003 (July through December, 2002) appear to be due to personnel concerned with possible separation because of discussion of staffing reductions, an increase in the number of employees enrolled in Delta Dental, and an increase in dental benefits in FY2000.

There are opportunities to improve the process by Delta Dental communicating the impact of fee increases to the County, Delta Dental improving the audit trail of what the County is paying, and the Employee Services Agency (ESA) working with Delta Dental to make sure employee data is correct in Delta's system. Opportunities and recommendations are discussed in detail below.

**Background of Management Review** In the first half of FY2003, ESA observed a 19% increase in dental claims from the same period of the prior year which was approximately an 8.5% increase. ESA requested that Internal Audit conduct a data analysis of claims paid by Delta Dental Services, Inc. (Delta) to determine as to why dental costs were increasing at a faster than normal rate. Internal Audit started the analysis in July 2004. When the timeline of the analysis went past December 2004, Internal Audit added calendar year 2004 to keep the data current. Calendar year data was used to calculate and test patient maximums.

Fiscal year data was used to analyze trends and patterns because this is how the County budgets dental expenses. The amounts paid, based on the fiscal year, for the four years analyzed are as follows:

Fiscal Yr	County Payment for Paid Claims	Percentage Increase
2001	\$11,874,190.80	-
2002	\$13,711,693.04	15.47%
2003	\$15,639,695.12	14.06%
2004	\$16,564,921.70	5.92%
<b>Total</b>	<b>\$57,790,500.66</b>	

**Objective of Management Review** The project objective was to identify what factors contributed to the faster than normal rate of increase in dental costs starting in FY2003. The focus was on dental claim paid data provided by Delta Dental from January 2001 through December 2004.

**Scope of  
Management  
Review**

Internal Audit tested for the following:

- Total payments made by the County agree to the total payments, per procedure code, indicated on Delta Dental's system.
- Benefit payments did not exceed the amount maximum of \$2,000 per calendar year.
- Benefit payments did not exceed the lifetime maximum amount for all orthodontics of \$2,000 per eligible person.
- Payments were not made more than 12 months after the date the service was provided.
- Dental benefits were not paid to separated or retired individuals.
- Individuals were coded correctly in Delta Dental's system as employee, spouse or dependent.

We analyzed the following:

- Extract out payments made six months prior to an individual separating or retiring from the County to determine if spending by individuals anticipating leaving the County's employment caused the increase in dental costs.
- Compare the net effect in quantity versus cost (price) of payments being made.
- Analyze trends based on type of service.
- Determine if the "prevailing fee" for a single procedure falls within Delta's range for a region based on dentist and procedure code.

The Employee Services Agency is in agreement with this report. Internal Audit did not require a formal response from the department, as this was a management review, not a formal audit.

Details about our opportunities and recommendations are provided below.

Signatures on file.

David G. Elledge  
Controller-Treasurer

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## Opportunities and Recommendations

### Opportunity 1

#### **The impact of the “prevailing fee” increases is not being communicated to the County.**

Internal Audit used data analysis to calculate the average and standard deviation by procedure code and dentist to determine if the established “prevailing fee” was the “best price” per area.

Delta Dental pays a “prevailing fee” for each single procedure that a dentist may perform. The fee is established to satisfy the majority of dentists in California, as determined by Delta. In determining a fee for a Specialist, they are compared to all of the Specialists within California and it is based on: their current fee on file, how long since their last update and what fee they are requesting. The remaining providers are based on the region that they are located in. For all, Delta’s system is supposed to calculate an annual increase percentage based on how long it has been between fee filings.

Internal Audit was unable to verify the impact fee increases had on dental costs. Internal Audit was able to review the increase in dental fees on a sample of five procedure codes and dentists. All five dentists tested had annual or more increases in the “prevailing fee.” It is Internal Audit’s understanding that increases should only happen once a year for non-specialists. Of the four non-specialists “prevailing fees” tested, there were two incidences where there were more than one increase happening in a year, see Attachment A.

The fee increases range typically from a low percentage of zero to a high percentage change of 13%, see Attachment A. When multiplied by the large number of transactions, this has a significant impact on the County’s dental cost.

### **Recommendation 1.1**

The Employee Services Agency should work with Delta Dental to develop a methodology to factor in the rate increases to the County’s future dental costs.

### **Recommendation 1.2**

Delta Dental should abide by their policy of increases being no more than once a year.

**Opportunity 2**

**Delta Dental needs to provide an audit trail on the “amount paid per procedure code” to the actual amount paid by the County.**

During the analysis, a comparison was made of the detail data received from Delta Dental, in a file called, “Amount Paid Per Procedure Code” (APPC), to the amounts paid by the County. As the chart below shows, there are significant differences in FY2001 and FY2002. These differences made it difficult to perform an efficient and effective analysis.

Fiscal Yr	Delta Dental Net Claim Amount per Procedure Code (APPC)	Actual Amount Paid by County to Delta Dental
2001	\$13,207,649.60	\$11,874,190.80
2002	\$15,090,708.26	\$13,711,693.04
2003	\$15,844,293.15	\$15,639,695.12
2004	\$16,761,721.58	\$16,564,921.70
<b>Totals</b>	<b>\$60,904,372.59</b>	<b>\$57,790,500.66</b>

As an example of the inability to test the amount paid to Delta Dental, one of Internal Audit tests was testing for payments exceeding the \$2,000 per eligible individual per year based on the APPC. The APPC amount paid is the net amount paid or the dentist’s prevailing fee less 25%. It appeared 1,575 individuals exceeded the dental benefit ceiling over a period of four years based on the amount in the data supporting the APPC. Delta Dental explained the data they had provided us did not include an audit trail from the APPC to the actual amount paid. Internal Audit selected a sample of five individuals exceeding the ceiling and reviewed the audit trail amounts to the amount that the County paid and all five samples supported what Delta had said.

**Recommendation 2**

Delta Dental needs to provide the audit trail data or information to ESA that justifies the difference such as the number of enrollees who exceeded the maximum benefit and the amount Delta saved the County.

**Opportunity 3**

**The Employee Services Agency (ESA) should work with Delta Dental to make sure employee data is correct in Delta’s system.**

During the project, Internal Audit attempted to test the correlation between the types of procedures and the age of the individual. We expected certain procedures to be more common by the age of the

patient. This test involved using the date of birth.

In determining what benefits were being paid to the aging population, Internal Audit selected for testing any individual born prior to 1940. There were 19,291 transactions for 1,375 eligible persons born prior to 1940. Of the 1,375 individuals, 219 of them were indicated as born in 1901, 215 of which were coded as dependents. Internal Audit met with both Delta Dental and ESA and was informed by Delta Dental that the birthdates may not be accurate in their system. ESA's system, PeopleSoft, provides the birthdate information to Delta Dental. Delta Dental converted systems in 2001 and a lot of the data, including birthdates, was not transferred to the new system correctly. Because the birthdate data provided by Delta Dental was not accurate, Internal Audit passed on further tests.

**Management Action 3** ESA has worked with Delta Dental to update the data in Delta's system to match PeopleSoft's data. ESA will periodically check the data that is shared between the two systems.

## ATTACHMENT A

### “Prevailing Fee” Table

Zip Code	Procedure Code	Provider Fee Date Change	Less Than One Year Between Changes	Provider Fee	% Growth
95065-Santa Cruz	3330	09/28/00	N/A	735.00	-
95065-Santa Cruz	3330	12/26/01	No	820.00	11.56%
95065-Santa Cruz	3330	01/03/03	No	925.00	12.80%
95065-Santa Cruz	3330	01/26/04	No	995.00	7.57%
95065-Santa Cruz	3330	03/16/04	Yes	1,060.00	6.53%
95065-Santa Cruz	3330	05/20/05	No	1,070.00	0.94%
95035-Milpitas	2750	10/01/00	N/A	725.00	-
95035-Milpitas	2750	04/01/01	Yes	810.00	11.72%
95035-Milpitas	2750	11/07/02	No	851.00	5.06%
95035-Milpitas	2750	03/04/04	No	855.00	0.47%
95014-Cupertino	2740	06/13/01	N/A	865.00	-
95014-Cupertino	2740	01/29/04	No	950.00	9.83%
95125-San Jose	4260	B4 7/24/2000	N/A	1,457.00	-
95125-San Jose	4260	07/24/00	No	1,500.00	2.95%
95125-San Jose	4260	08/27/01	No	1,550.00	3.33%
95125-San Jose	4260	11/22/02	No	1,650.00	6.45%
95125-San Jose	4260	12/16/03	No	1,732.00	4.97%