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**STATE OF ILLINOIS**

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**OFFICE OF THE AUDITOR GENERAL**

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**PERFORMANCE AUDIT  
OF THE  
PROCUREMENT AND ADMINISTRATION  
OF THE CONTRACT WITH  
MORNEAU SHEPELL**

**MARCH 2019**

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**FRANK J. MAUTINO**

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**AUDITOR GENERAL**

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

*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 Performance Audit of the procurement and administration of the contract with Morneau Shepell.

The audit was conducted pursuant to House of Representatives Resolution Number 522, which was adopted October 26, 2017. 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.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

Springfield, Illinois  
March 2019





# STATE OF ILLINOIS OFFICE OF THE AUDITOR GENERAL

Frank J. Mautino, Auditor General

## REPORT DIGEST

### PERFORMANCE AUDIT

**Release Date:  
March 2019**

Audit performed in  
accordance with  
**House Resolution  
Number 522**

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### EXECUTIVE SUMMARY

## Morneau Shepell Contract

In November 2015, the State conducted an aggressively timed procurement for a Custom Benefit Solution in hopes of achieving \$500 million in annual savings through increased health insurance premiums to members and retirees and the implementation of 21 additional health plan options. As of December 4, 2018, over 1,000 days since the Custom Benefit Solution was awarded to Morneau Shepell, the State has **yet to produce any additional health plans or achieve the anticipated savings**. The State has **incurred \$27.7 million in total costs** associated with the Custom Benefit Solution procurement, through September 30, 2018.

The previous Governor's Office developed the idea for what became the Custom Benefit Solution based on labor contract negotiations. The audit found that the Custom Benefit Solution:

- originally, in a document dated October 23, 2015, was to be a "private exchange;"
- was advertised on November 4, 2015, but received **only one bid**;
- was awarded January 28, 2016, to Morneau Shepell; and
- contract was executed on May 3, 2016 – 96 days after the award announcement, for an estimated \$94 million over a 10-year period.

CMS failed to provide all relative information to evaluators of the solicitation, did not obtain conflict of interest disclosures for all individuals involved in the project, and did not maintain meeting minutes for evaluator meetings.

The **aggressive timeline for the procurement and implementation** of the Custom Benefit Solution caused a number of problems:

- CMS did not conduct a cost-benefit analysis of the project due to the aggressive timeline. A DoIT official indicated that the Department could have developed the product that the State was paying Morneau Shepell to provide.
- CMS did not include a BEP goal in the solicitation due to a concern it would slow the procurement.
- The Go-Live of September 30, 2016, was 2-4 months prior to what Morneau Shepell proposed. This resulted in multiple performance issues for the Custom Benefit Solution and CMS' consideration to rebid the project a year after Go-Live.

The Morneau Shepell contract contained performance guarantees for which CMS allowed, by contract, **self-reporting** by Morneau Shepell to determine compliance. CMS capped the fee reductions on missing guarantees to four per month. Our analysis showed that for the **original data** submitted on the guarantees, as many as seven monthly and ten quarterly guarantees were missed. Morneau Shepell **did not submit all written corrective action plans**, in violation of the contract, for 17 of the first 24 months of the project. We also found 24 instances where CMS **could have considered a breach of contract**, as outlined in the RFP, for missing performance metrics. However, **CMS did not include** that breach of contract language in the executed contract.



**AUDIT SUMMARY AND RESULTS**

On October 26, 2017, the Illinois House of Representatives adopted House Resolution Number 522, which directs the Auditor General to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell.

The Department of Central Management Services (CMS) oversees the administration of group health benefits for four separate and distinct benefit programs, which collectively cover approximately 450,000 lives. Relative to the procurement:

- In November 2015, CMS published a Request for Proposals (RFP) on the Illinois Procurement Bulletin to procure an organization to administer a Custom Benefit Solution. While the Custom Benefit Solution was advertised, it was not what the State **originally** looked to procure. The State originally wanted to procure a “private exchange” using an experienced intermediary to handle the marketplace.
- CMS conducted an accelerated procurement and implementation for what became the Custom Benefit Solution. CMS **received only one response**, from Morneau Shepell, to the solicitation. Morneau Shepell had not previously conducted business with the State and this State contract population would far exceed any population for any other Morneau Shepell client.
- The contract award was announced on January 28, 2016. Digest Exhibit 1 provides a timeline of procurement activities.
- On May 3, 2016, 96 days after the Custom Benefit Solution was awarded to Morneau Shepell, the final contract was executed. The initial contract term was five years, through April 25, 2021. There is a five-year renewal period included in the contract. Total Morneau Shepell compensation, absent optional services, is **estimated at \$94 million** for the 10-year period. (pages 6, 8, 10, 12-13)

The idea for what became the Custom Benefit Solution procurement came out of **labor negotiations from the Governor’s Office** and focused on achieving \$500 million in annual savings. While the CMS Bureau of Benefits was unable to locate specific documentation from 2014-2015 relative to how the \$500 million in annual savings would result from this procurement, it did assert that the savings were to be generated from **changes to employee health insurance**. The proposed changes were to create a multi-tiered system of plans, called “metal bands,” for the existing health insurance program for employees and retirees. Four tiers were to be set up – platinum, gold, silver, and bronze. The new tiered plans would have different premiums, deductibles, and co-payments levels, which the employees could choose from for their health insurance needs. The end result would have been a **60/40 split in healthcare costs borne by the employer/employee**. **As of December 4, 2018, over 1,000 days since the Custom Benefit Solution was awarded to Morneau Shepell, CMS reported the State has not implemented the new health plan options. Without the new plans the State has not achieved any of the anticipated savings.** (page 9)

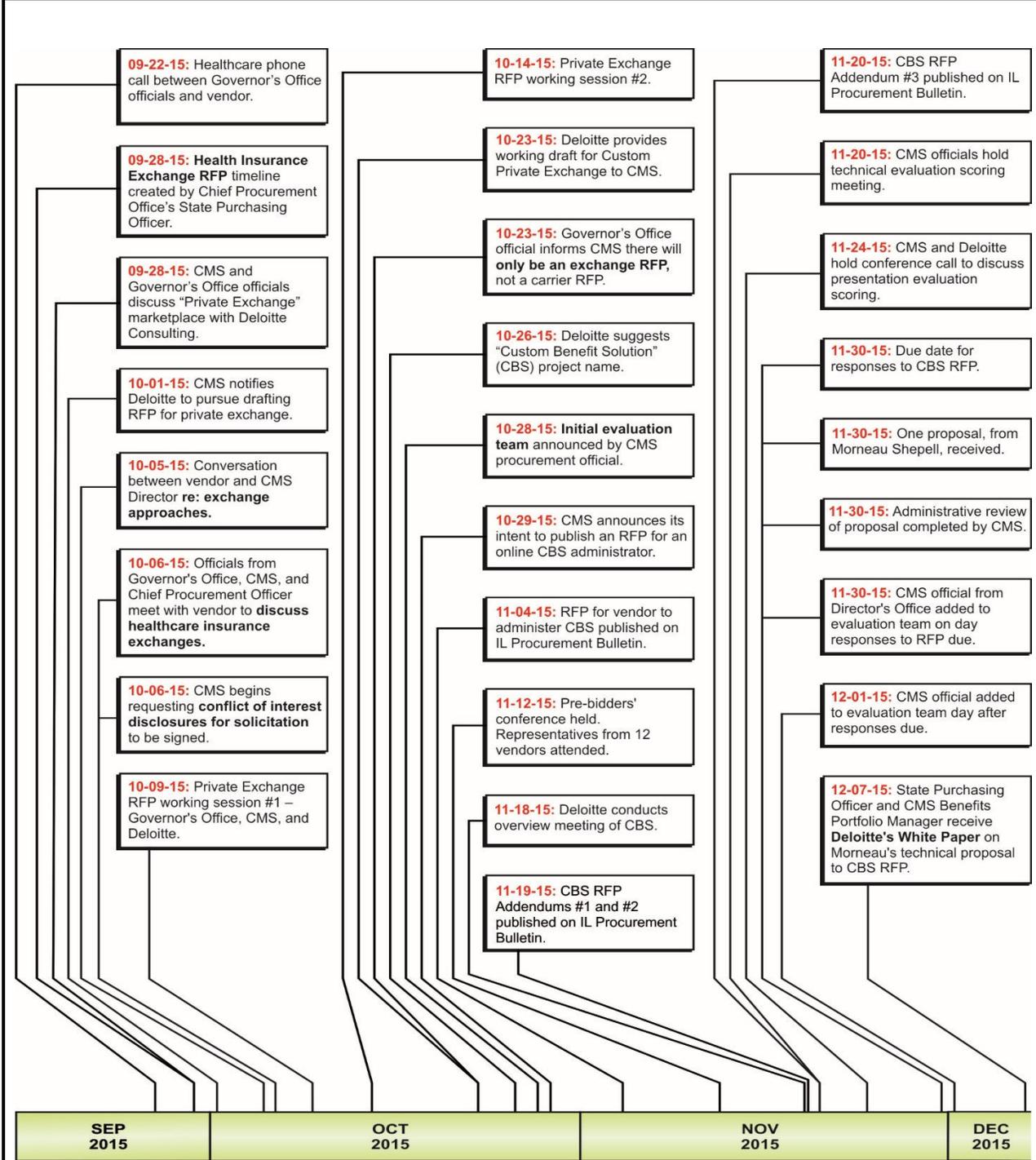
**CMS oversees health benefits for approximately 450,000 lives.**

**CMS originally wanted to procure a private exchange but instead changed focus and solicited a Custom Benefit Solution.**

**CMS received only one response and awarded a contract to Morneau Shepell estimated at \$94 million for ten years.**

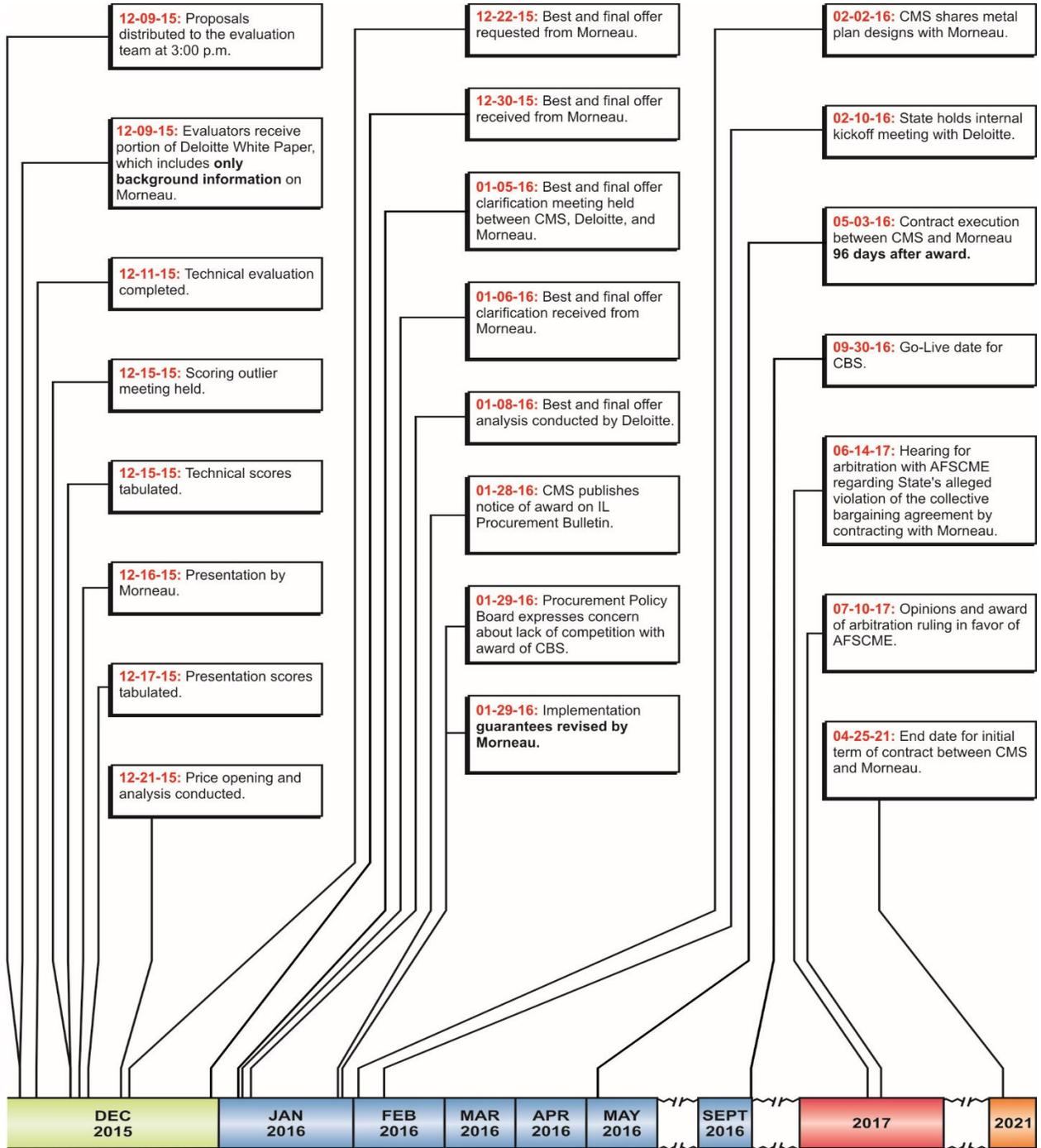
**The Governor’s Office developed the idea for what became the Custom Benefit Solution. They anticipated \$500 million a year in healthcare savings through changes to employee and retiree health plan options. No savings have been achieved to date.**

Digest Exhibit 1  
**TIMELINE OF EVENTS – CUSTOM BENEFIT SOLUTION PROCUREMENT**



Source: OAG developed from CMS documentation.

Digest Exhibit 1  
**TIMELINE OF EVENTS – CUSTOM BENEFIT SOLUTION PROCUREMENT**



Source: OAG developed from CMS documentation.

**Procurement process deficiencies included:**

**Evaluators did not receive all relative information to score the evaluation;**

**Not all Conflict of Interest disclosures were obtained by CMS; and**

**Evaluation meeting minutes were not maintained.**

During the audit, we found some issues with the **procurement process** for the Custom Benefit Solution. Those issues are:

- CMS failed to provide all relative information to evaluators prior to the evaluation process. This lack of information included the views on the Morneau Shepell proposal from the State’s subject matter expert, Deloitte Consulting. Considering the **State had not conducted a procurement** like the Custom Benefit Solution and **two-thirds of the technical evaluators we interviewed were new to the process**, this information may have lessened the wide range of scores and resulted in a more accurate evaluation process. (pages 14-18)
- CMS failed to require and obtain **Conflict of Interest disclosures for all individuals who were involved in the procurement process** for the Custom Benefit Solution that was awarded to Morneau Shepell. Through available documentation, we identified 24 individuals who were involved with procurement activities for which CMS **could not provide a disclosure**. These individuals were from the Governor’s Office, the Executive Ethics Commission, Deloitte Consulting, and CMS. (pages 18-23)
- CMS did not **develop and maintain evaluator meeting minutes** for either of the two evaluation committee meetings. This included a meeting to discuss scoring for evaluators that had drastically different scores for the Custom Benefit Solution procurement. In 66 percent (59 of 90) of evaluation criteria categories, the evaluation team had a **difference of at least 50 percent in the scoring of criteria** for the Morneau Shepell proposal. (pages 23-25)

**Adequacy of Scope to Meet State’s Needs and Allow Adequate Competition**

During the audit we attempted to find documentation to **support the need** for what became the Custom Benefit Solution. While the CMS Bureau of Benefits generally does some form of cost analysis for new programs, the **aggressive timeline to issue the RFP did not allow** for a formal cost analysis for the Custom Benefit Solution. CMS and the Department of Innovation and Technology (DoIT) could provide **no such cost-benefit analysis**. The Governor’s Office, CMS, and DoIT officials disagreed on the **State’s ability to develop and operate** an online system like the State receives from Morneau Shepell. Our examination found:

- A former Governor’s Office official told agency directors that *“The State does not have the expertise and resources to provide the services needed to develop this state of the art technology efficiently and effectively.”*
- The CMS Deputy Director of Benefits reported it was determined that DoIT **could not** handle the size and complexity of the portal.
- DoIT officials said they were not aware of any analyses conducted in determining whether DoIT could create and maintain an online health portal. Further, the officials said no CMS or Governor’s Office official even asked about DoIT’s capability. Finally, a DoIT official said the

**CMS did not conduct a cost-benefit analysis for the Custom Benefit Solution due to the aggressive timeline for the procurement.**

**Department of Innovation and Technology officials reported they could have internally developed the solution awarded to Morneau Shepell.**

portal could have been put together by the State, but the State could not necessarily staff the call center.

- On October 3, 2018, the DoIT official reported that the **Bureau of Communication and Computer Services had provided a demonstration of an online enrollment system in 2012** to the head of the Bureau of Benefits at the time. At that time, it was demonstrated not as an exchange, but as only online enrollment, just as Morneau Shepell is doing now. CMS officials told us they were unclear as to whether the system demonstrated could accommodate metal band plan designs. Additionally, relative to the call center aspect of Morneau Shepell’s current contract, the DoIT official said that function has always been done within the State through the use of the group insurance representatives. (pages 29-31)

**CMS had no documentation to show why there were last minute changes to the RFP. Additionally, CMS requested more services than needed which may have affected competition.**

CMS failed to **adequately plan** the procurement process for the Custom Benefit Solution, including the development of the need for all elements in the scope of the project. This failure led to **undocumented reasons** for late changes to the RFP prior to publication. Additionally, in its rush to complete the procurement and get a system implemented, CMS **requested more services** than it actually needed in an unreasonable timeframe and left some of the requested services out of the contract. Had the State not had such an aggressive timeline, the procurement process **may have resulted in increased competition** for the Custom Benefit Solution. (pages 31-36)

#### **Adequacy of Time Frame to Respond to RFP**

While the time frame to respond to the RFP complied with the minimum time frame established in the Illinois Procurement Code, the size and complexity of the Custom Benefit Solution likely warranted a longer time frame. Representatives from 11 vendors attended the pre-bidders conference but only one vendor submitted a bid. In addition, CMS **may have limited competition** on the Custom Benefit Solution by requesting an **aggressive timeline** for the implementation of the online health portal. The timeline was so aggressive that even the single bidder **could not meet** the May 2016 Benefits Choice Period as originally detailed in the RFP. Five vendors who did not bid on the Custom Benefit Solution reported some issue relative to the timeline as the reason for not proposing. (pages 36-40)

**The vendor was not able to meet the aggressive time frame to implement a system by May 2016.**

#### **Rationale for Not Including a Business Enterprise Goal**

**CMS did not document why** a business enterprise goal was not included in the Custom Benefit Solution procurement. While CMS was not required to include a Business Enterprise Program (BEP) goal in this procurement, it **appears that the decision to not include a goal was due to a concern that including a goal would slow the procurement process.**

**CMS did not include a BEP goal in the RFP for fear it would slow the procurement process.**

While CMS has designated contracts procured by the Bureau of Benefits Group Insurance Division as “exempt” from the BEP goal, CMS **did not consistently apply that exemption** to other benefit procurements during the audit period. Additionally, approximately a year after the Custom Benefit Solution went live, CMS was considering re-soliciting for a vendor to

**CMS was considering a BEP goal for a possible re-solicitation of the procurement a year after Go Live.**

administer the program. This procurement was to **include** a 10 percent BEP goal. (pages 40-44)

**Rationale for Awarding Rather Than Re-issuing the RFP**

Documentation we reviewed, and officials we spoke with, appear to indicate that CMS was not concerned over a lack of competition and the **tight timeline to implement a system** for the May 2016 Benefit Choice Period drove the decision not to re-issue the RFP. However, approximately a year after the Custom Benefit Solution was implemented, documentation showed that CMS was **exploring the option of re-issuing an RFP**. (pages 44-46)

**Cost of the Procurement**

For the period May 2016 through September 2018, the total cost of the Custom Benefit Solution project **exceeded \$27.7 million**. Digest Exhibit 2 breaks out the total cost of the Custom Benefit Solution for the period ended September 2018.

**CMS was not concerned with the lack of competition for the procurement. However, a year after Go-Live, CMS was taking steps to replace Morneau Shepell.**

Digest Exhibit 2 TOTAL COST OF CUSTOM BENEFIT SOLUTION May 2016 – September 2018		
Service Dates	Cost Element	Amount
<i>Morneau Shepell</i>		
05/31/16-06/30/18	Invoiced and Partially Paid by CMS	\$16,762,835.92
07/01/18-09/30/18	Invoiced Only – Not Paid by CMS	\$2,784,460.95
09/01/17-01/31/18	Prompt Pay Interest Paid by State	\$38,503.79
02/01/18-05/31/18	Prompt Pay Interest Owed by the State	\$50,070.37
<i>Total – Morneau Shepell</i>		\$19,635,871.03
<i>Deloitte Consulting</i>		
08/01/15-10/31/16	Invoiced and Paid by CMS	\$2,227,730.75
08/01/15-06/30/16	Prompt Pay Interest Paid by the State	\$32,064.98
11/01/16-09/30/18	Invoiced Only – Not Paid by CMS	\$4,276,774.00
11/01/16-04/30/18	Prompt Pay Interest Owed by the State	\$282,414.08
<i>Total – Deloitte Consulting</i>		\$6,818,983.81
<i>Additional Contractual Staff</i>		
07/01/15-02/20/19	CMS	\$641,193.75
05/12/16-03/31/19	Department of Innovation and Technology	\$679,110.00
<i>Total – Additional Contractual Staff</i>		\$1,320,303.75
<b>TOTAL COST</b>		<b>\$27,775,158.59</b>
Note: Some of the contractors for CMS and the Department of Innovation and Technology have terms into calendar year 2019. For reporting purposes, we included the full value of those contracts.		
Source: OAG developed from CMS documentation.		

**CMS requested two changes in March 2017 related to new health care options that will cost the State over \$1.6 million. The options were never implemented.**

Morneau Shepell documentation showed CMS requested two changes from Morneau Shepell, **which will eventually cost the State an additional \$1,652,000**. CMS officials indicated that these changes were part of the contract which called for a Special Enrollment Period in September 2016, an enrollment period that never occurred. However, both changes, per Morneau Shepell documentation, were requested by CMS in March 2017 and relate to new health care options that were to be included as part of the May 2017 Open Enrollment Period. Those **options were never implemented**.

While auditors **cannot place a dollar value on the activities that DoIT conducts** relative to the Custom Benefit Solution project, the activities utilize additional State resources and contribute to **increased overall cost** of the project. DoIT staff participates in State system modifications and report development as part of the management of the Custom Benefit Solution.

The contract with Morneau Shepell lists a number of optional services the State can elect to have Morneau Shepell perform for additional costs. CMS selected three of those optional services, **one (COBRA Administration and Billing) which already was being performed by CMS staff**. (pages 46-53)

#### **Compliance with Performance Standard Guarantees**

According to the former Governor’s Deputy Director of Government Transformation, prior to even awarding a contract to Morneau Shepell for the Custom Benefit Solution, a CMS official had *“some grave concerns about delays and unforeseen barriers related to [Morneau Shepell] that may jeopardize overall success.”* [Emphasis Added]

Prior to Go-Live, a number of groups had concerns with the Custom Benefit Solution. These groups included the Teachers’ Retirement System, the Custom Benefit Solution Steering Committee, and a health check conducted by DoIT for the Custom Benefit Solution project with results reported to CMS officials on September 29, 2016, **the day before the Go-Live** for the system. It is not clear that CMS brought all the groups to the table that would be affected by the Custom Benefit Solution. (pages 56-58)

CMS failed to ensure that **all components** of the Custom Benefit Solution **were properly tested prior to implementation** of the system. This resulted in instances where employees and retirees: were **charged incorrect amounts**; were **incorrectly cancelled** from benefits; and had **members listed as having coverage when they should have been terminated**.

While the procurement of the Custom Benefit Solution was **accelerated**, so too was the implementation of the Custom Benefit Solution. The “Go-Live” for the project was **two to four months prior** to what Morneau Shepell had proposed in its response to the solicitation. This aggressive implementation led to a **system that had multiple performance problems**, which affected employees and retirees prior to problem resolution.

Performance guarantees were written into the contract between CMS and Morneau Shepell. The contract provides guarantees to be met or penalties to be imposed if the guarantees are not met. Guarantees were broken into implementation guarantees and ongoing service guarantees.

**There were a number of concerns with the Custom Benefit Solution prior to the Go-Live date on September 30, 2016.**

**The accelerated implementation led to a system that had multiple performance problems which affected employees and retirees.**

**Relative to performance guarantee reporting:**

**Morneau Shepell did not report on every performance guarantee monthly pursuant to the contract.**

**CMS did not ensure that written plans of correction were submitted by Morneau Shepell.**

**We found 24 instances where a breach of contract, as defined in the RFP, would have occurred in the first two years of the system. However, CMS failed to include this language in the contract.**

**It took over 600 days after contract execution for CMS to define how to report monthly.**

**CMS has withheld the maximum fees applicable to not meeting performance guarantees. However, due to changes in reporting of guarantee compliance, Morneau Shepell may be receiving credit for these deductions.**

CMS’ contract with Morneau Shepell provided for self-reported performance guarantee statistics; however, the vendor **did not always report on every guarantee as required by the contract**. We found issues relative to CMS oversight of the performance guarantees including:

- CMS provided **little incentive** for Morneau Shepell to meet all of the performance guarantees outlined in the contract by **capping the fee reduction** on the administrative fee charged to four missed guarantees. Our analysis of Morneau Shepell **initial reporting figures** showed as many as seven monthly and ten quarterly guarantees missed, yet by contract CMS was only allowed to penalize for four missed guarantees. CMS eventually allowed Morneau Shepell to **revise its self-reported compliance guarantees as many as three times** when reporting monthly performance.
- CMS did not consistently enforce the contractual requirement for Morneau Shepell to **submit written plans of correction** for failure to meet a performance guarantee for two consecutive months. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was **no written corrective action plan submitted**, which was a violation of the contract.
- CMS **failed to include the breach of contract language from the RFP in the contract** for guarantees missed in three consecutive months. Our analysis of the **initial** self-reported Morneau Shepell monthly performance metrics found **24 instances** where it missed the metric for three consecutive months.

CMS failed to enforce the time reporting requirements from the contract with Morneau Shepell for reporting on performance guarantees. While the contract executed May 3, 2016, called for “monthly” reporting, it **took CMS over 600 days to define when Morneau Shepell had to submit those “monthly” reports**. (pages 58-69)

**Reductions in Administrative Fee**

Between May 2016 and September 2018, Morneau Shepell invoiced CMS 28 times for the implementation and ongoing support of the Custom Benefit Solution. Morneau Shepell has been paid in full for 19 of the 28 invoices, four of those being for implementation services. For the 15 invoices paid related to ongoing support, CMS deducted the 20 percent maximum performance fee penalty **in all 15 instances**. In total, CMS has withheld performance penalties from the administrative fees, per the contract, of over \$2.1 million. As of September 30, 2018, CMS had a total of \$6,770,003.56 worth of invoices to be paid to Morneau Shepell for the Custom Benefit Solution. (pages 69-70)

**RECOMMENDATIONS**

This audit report contains nine recommendations directed to the Department of Central Management Services. The Department agreed with all the recommendations. Appendix C to the audit report contains the agency responses.

This performance audit was conducted by staff of the Office of the Auditor General.

**SIGNED ORIGINAL ON FILE**

Joe Butcher  
Division Assistant Director

This report is transmitted in accordance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

FJM:MJM



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## ACRONYMS & GLOSSARY

BCCS	Bureau of Communication and Computer Services.
CIP	College Insurance Program. The health benefits program for retired employees of eligible community colleges in Illinois.
CMS	The State of Illinois Department of Central Management Services.
COBRA	Consolidated Omnibus Budget Reconciliation Act.
CSR	Customer Service Representative.
Custom Benefit Solution	A technology platform designed specifically for employees/retirees to access benefit options for insurance needs. This includes learning more about current insurance benefits, making enrollment decisions, changing current coverage and finding contact information for all plan administrators.
DoIT	Department of Innovation and Technology.
GIPF	Group Insurance Premium Fund.
HIRF	Health Insurance Reserve Fund.
LGHP	Local Government Health Plan. The health program that is offered to units of local government, municipalities and other units.
Member	An eligible employee, annuitant, retired employee, survivor or COBRA participant.
Metal Bands	Additional health plan design options, platinum, gold, silver and bronze, that were part of the Request for Proposals.
Participant	Members and dependents enrolled in SEGIP, TRIP, CIP, or LGHP for which State of Illinois has engaged Vendor to provide Services.
Performance Guarantee	The Administrative Service Organization's commitment to place Administrative Services Charge fees at risk contingent upon CMS's satisfaction with the work to be performed.
SEGIP	State Employees Group Insurance Program. The health benefits program administered by CMS for State of Illinois employees, annuitants, retired employees, or survivors, and their dependents.
SLA	Service Level Agreement.
TRIP	Teachers' Retirement Insurance Program. The health benefits program for retired teachers in Illinois.



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## Chapter One

# INTRODUCTION & BACKGROUND

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## REPORT CONCLUSIONS

On October 26, 2017, the Illinois House of Representatives adopted House Resolution Number 522, which directed the Auditor General to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell. The Department of Central Management Services (CMS) oversees the administration of group health benefits for four separate and distinct benefit programs, which collectively cover approximately 450,000 lives. Relative to the procurement:

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During the audit, we found some issues with the **procurement process** for the Custom Benefit Solution. Those issues are:

- CMS failed to provide all relative information to evaluators prior to the evaluation process. This lack of information included the views on the Morneau Shepell proposal from the State’s subject matter expert, Deloitte Consulting. Considering the **State had not conducted a procurement** like the Custom Benefit Solution and **two-thirds of the technical evaluators we interviewed were new to the process**, this information may have lessened the wide range of scores and resulted in a more accurate evaluation process.
- CMS failed to require and obtain **Conflict of Interest disclosures for all individuals who were involved in the procurement process** for the Custom Benefit Solution that was awarded to Morneau Shepell. Through available documentation, we identified 24 individuals who were involved with procurement activities for which **CMS could not provide a disclosure**. These individuals were from the Governor’s Office, the Executive Ethics Commission, Deloitte Consulting, and CMS.
- CMS did not **develop and maintain evaluator meeting minutes** for either of the two evaluation committee meetings. This included a meeting to discuss scoring for evaluators that had drastically different scores for the Custom Benefit Solution procurement. In 66 percent (59 of 90) of evaluation criteria categories, the evaluation team had a **difference of at least 50 percent in the scoring of criteria** for the Morneau Shepell proposal.

**Adequacy of Scope to Meet State’s Needs and Allow Adequate Competition**

During the audit we attempted to find documentation to **support the need** for what became the Custom Benefit Solution. While the CMS Bureau of Benefits generally does some form of cost analysis for new programs, the **aggressive timeline to issue the RFP did not allow** for a formal cost analysis for the Custom Benefit Solution. CMS and the Department of Innovation and Technology (DoIT) could provide **no such cost-benefit analysis**. The Governor’s Office, CMS, and DoIT officials disagreed on the **State’s ability to develop and operate** an online system like the State receives from Morneau Shepell. Our examination found:

- A former Governor’s Office official told agency directors that *“The State does not have the expertise and resources to provide the services needed to develop this state of the art technology efficiently and effectively.”*
- The CMS Deputy Director of Benefits reported it was determined that DoIT **could not** handle the size and complexity of the portal.
- DoIT officials said they were not aware of any analyses conducted in determining whether DoIT could create and maintain an online health portal. Further, the officials said no CMS or Governor’s Office official even asked about DoIT’s capability. Finally, a DoIT official said the portal could have been put together by the State, but the State could not necessarily staff the call center.

- On October 3, 2018, another DoIT official reported that the **Bureau of Communication and Computer Services had provided a demonstration of an online enrollment system in 2012** to the head of the Bureau of Benefits at the time. At that time, it was demonstrated not as an exchange, but as only online enrollment, just as Morneau Shepell is doing now. CMS officials told us they were unclear as to whether the system demonstrated could accommodate metal band plan designs. Additionally, relative to the call center aspect of Morneau Shepell’s current contract, the DoIT official said that function has always been done within the State through the use of the group insurance representatives.

CMS failed to **adequately plan** the procurement process for the Custom Benefit Solution, including the development of the need for all elements in the scope of the project. This failure led to **undocumented reasons** for late changes to the RFP prior to publication. Additionally, in its rush to complete the procurement and get a system implemented, CMS **requested more services** than it actually needed in an unreasonable timeframe and left some of the requested services out of the contract. Had the State not had such an aggressive timeline, the procurement process **may have resulted in increased competition** for the Custom Benefit Solution.

#### **Adequacy of Time Frame to Respond to RFP**

While the time frame to respond to the RFP complied with the minimum time frame established in the Illinois Procurement Code, the size and complexity of the Custom Benefit Solution likely warranted a longer time frame. Representatives from 11 vendors attended the pre-bidders conference but only one vendor submitted a bid. In addition, CMS **may have limited competition** on the Custom Benefit Solution by requesting an **aggressive timeline** for the implementation of the online health portal. The timeline was so aggressive that even the single bidder **could not meet** the May 2016 Benefits Choice Period as originally detailed in the RFP. Five vendors who did not bid on the Custom Benefit Solution reported some issue relative to the timeline as the reason for not proposing.

#### **Rationale for Not Including a Business Enterprise Goal**

CMS **did not document why** a business enterprise goal was not included in the Custom Benefit Solution procurement. While CMS was not required to include a Business Enterprise Program (BEP) goal in this procurement, it **appears that the decision to not include a goal was due to a concern that including a goal would slow the procurement process.**

While CMS has designated contracts procured by the Bureau of Benefits Group Insurance Division as “exempt” from the BEP goal, CMS **did not consistently apply that exemption** to other benefit procurements during the audit period. Additionally, approximately a year after the Custom Benefit Solution went live, CMS was considering re-soliciting for a vendor to administer the program. This procurement was to **include** a 10 percent BEP goal.

#### **Rationale for Awarding Rather Than Re-issuing the RFP**

Documentation we reviewed, and officials we spoke with, appear to indicate that CMS was not concerned over a lack of competition and the **tight timeline to implement a system** for

the May 2016 Benefit Choice Period drove the decision not to re-issue the RFP. However, approximately a year after the Custom Benefit Solution was implemented, documentation showed that CMS was **exploring the option of re-issuing an RFP**.

### **Cost of the Procurement**

For the period May 2016 through September 2018, the total cost of the Custom Benefit Solution project **exceeded \$27.7 million**. This figure is comprised of costs for:

- Morneau Shepell – \$19,635,871;
- Deloitte Consulting – \$6,818,984; and
- Additional contractual staff hired at CMS and DoIT – \$1,320,304.

Morneau Shepell documentation showed CMS requested two changes from Morneau Shepell **which will eventually cost the State an additional \$1,652,000**. CMS officials indicated that these changes were part of the contract which called for a Special Enrollment Period in September 2016, an enrollment period that never occurred. However, both changes, per Morneau Shepell documentation, were requested by CMS in March 2017 and relate to new health care options that were to be included as part of the May 2017 Open Enrollment Period. Those **options were never implemented**.

While auditors **cannot place a dollar value on the activities that DoIT conducts** relative to the Custom Benefit Solution project, the activities utilize additional State resources and contribute to **increased overall cost** of the project. DoIT staff participates in State system modifications and report development as part of the management of the Custom Benefit Solution.

The contract with Morneau Shepell lists a number of optional services the State can elect to have Morneau Shepell perform for additional costs. CMS selected three of those optional services, **one (COBRA Administration and Billing) which already was being performed by CMS staff**.

### **Compliance with Performance Standard Guarantees**

According to the former Governor's Deputy Director of Government Transformation, prior to even awarding a contract to Morneau Shepell for the Custom Benefit Solution, a CMS official had "*some grave concerns about delays and unforeseen barriers related to [Morneau Shepell] that may jeopardize overall success.*" [Emphasis added.]

Prior to Go-Live, a number of groups had concerns with the Custom Benefit Solution. These groups included the Teachers' Retirement System, the Custom Benefit Solution Steering Committee, and a health check conducted by DoIT for the Custom Benefit Solution project with results reported to CMS officials on September 29, 2016, **the day before the Go-Live** for the system. It is not clear that CMS brought all the groups to the table that would be affected by the Custom Benefit Solution.

CMS failed to ensure that **all components** of the Custom Benefit Solution **were properly tested prior to implementation** of the system. This resulted in instances where employees and

retirees: were **charged incorrect amounts**; were **incorrectly cancelled** from benefits; and had **members listed as having coverage when they should have been terminated**.

While the procurement of the Custom Benefit Solution was **accelerated**, so too was the implementation of the Custom Benefit Solution. The “Go-Live” for the project was **two to four months prior** to what Morneau Shepell had proposed in its response to the solicitation. This aggressive implementation led to a **system that had multiple performance problems** which affected employees and retirees prior to problem resolution.

Performance guarantees were written into the contract between CMS and Morneau Shepell. The contract provides guarantees to be met or penalties to be imposed if the guarantees are not met. Guarantees were broken into implementation guarantees and ongoing service guarantees.

CMS’ contract with Morneau Shepell provided for self-reported performance guarantee statistics; however the vendor **did not always report on every guarantee as required by the contract**. We found issues relative to CMS oversight of the performance guarantees including:

- CMS provided **little incentive** for Morneau Shepell to meet all of the performance guarantees outlined in the contract by **capping the fee reduction** on the administrative fee charged to four missed guarantees. Our analysis of Morneau Shepell **initial reporting figures** showed as many as seven monthly and ten quarterly guarantees missed, yet by contract CMS was only allowed to penalize for four missed guarantees. CMS eventually allowed Morneau Shepell to **revise its self-reported compliance guarantees as many as three times** when reporting monthly performance.
- CMS did not consistently enforce the contractual requirement for Morneau Shepell to **submit written plans of correction** for failure to meet a performance guarantee for two consecutive months. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was **no written corrective action plan submitted**, which was a violation of the contract.
- CMS **failed to include the breach of contract language from the RFP in the contract** for guarantees missed in three consecutive months. Our analysis of the **initial** self-reported Morneau Shepell monthly performance metrics found **24 instances** where it missed the metric for three consecutive months.

CMS failed to enforce the time reporting requirements from the contract with Morneau Shepell for reporting on performance guarantees. While the contract executed May 3, 2016, called for “monthly” reporting, it **took CMS over 600 days to define when Morneau Shepell had to submit those “monthly” reports**.

### **Reductions in Administrative Fee**

Between May 2016 and September 2018, Morneau Shepell invoiced CMS 28 times for the implementation and ongoing support of the Custom Benefit Solution. Morneau Shepell has been paid in full for 19 of the 28 invoices, four of those being for implementation services. For the 15 invoices paid related to ongoing support, CMS deducted the 20 percent maximum

performance fee penalty **in all 15 instances**. In total, CMS has withheld performance penalties from the administrative fees, per the contract, of over \$2.1 million. As of September 30, 2018, CMS had a total of \$6,770,003.56 worth of invoices to be paid to Morneau Shepell for the Custom Benefit Solution.

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## INTRODUCTION

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On October 26, 2017, the Illinois House of Representatives adopted House Resolution Number 522 (see Appendix A), which directed the Auditor General to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell. We were asked to determine:

- whether the scope of the RFP that was issued in November 2015 was adequate to meet the State’s needs and written in a manner to allow adequate competition on this multi-million dollar initiative;
- whether the time frame for response to the RFP was adequate to allow for participation by potential vendors;
- the rationale for not including a business enterprise goal in the solicitation;
- the rationale for awarding the contract to Morneau Shepell rather than re-issuing the RFP in an attempt to obtain adequate competition;
- the cost of the procurement, including amounts paid to the State’s procurement consultant;
- whether CMS has reviewed the vendor’s compliance with the Performance Standard Guarantees and, in particular, the standards applicable to the accuracy of participant transactions; and
- whether there have been any reductions in the vendor’s administrative fee as a result of any failure to meet Performance Standard Guarantees.

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## DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

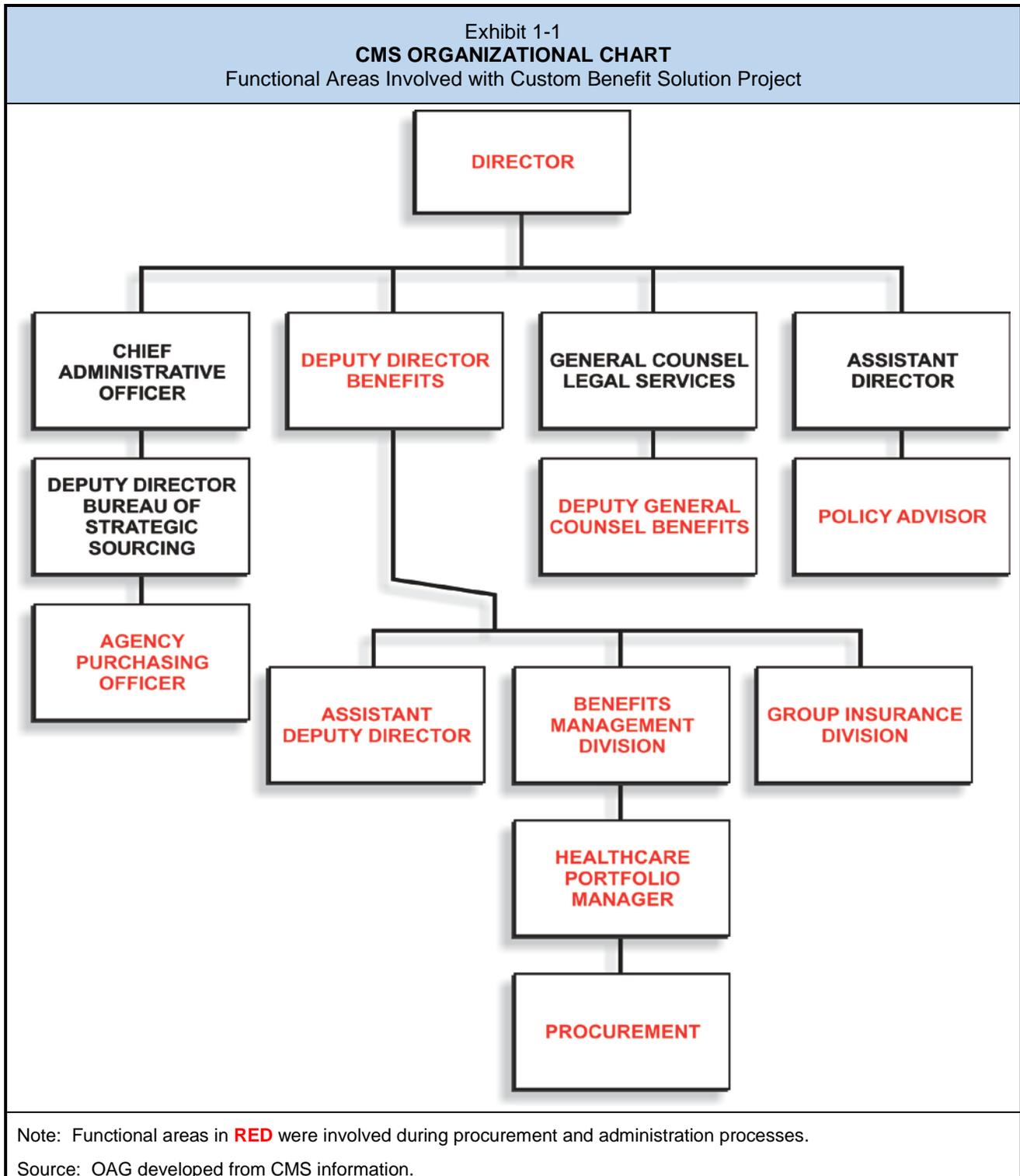
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The Department of Central Management Services (CMS), through its Bureau of Benefits, oversees the administration of group health benefits for four separate and distinct programs, which collectively cover approximately 450,000 lives. Those four programs are the:

- State Employees Group Insurance Program,
- Teachers’ Retirement Insurance Program,
- College Insurance Program, and
- Local Government Health Plan.

The statutory authority for the programs is the State Employees Group Insurance Act of 1971, as amended (5 ILCS 375/1 et seq.). In addition, the CMS Bureau of Benefits also administers a wide range of other programs including the State’s dependent and medical care assistance program, the State’s commuter savings program, and Illinois’ workers’ compensation program as well as the State employees deferred compensation program.

CMS has a number of different individuals and organizational units that have been part of the **procurement and administration** of the Morneau Shepell contract. Exhibit 1-1 presents the CMS organizational chart with the functional units highlighted that have been a part of this procurement.



## CUSTOM BENEFIT SOLUTION SOLICITATION

In November 2015, CMS published an RFP on the Illinois Procurement Bulletin to procure an organization to administer a Custom Benefit Solution for members eligible to participate in the State Employees Group Insurance Program, the Teachers’ Retirement Insurance Program, the College Insurance Program, and the Local Government Health Plan. While the Custom Benefit Solution was advertised, it was not what the State **originally** looked to procure.

According to documentation, and the former Governor’s Office Deputy Director of Government Transformation, *“The Custom Benefits Solution was originally intended to function as a private exchange. The idea for an exchange was, in part, an outgrowth of the State’s bargaining proposals on health insurance to various unions. The State’s proposal, even prior to any discussion of an “exchange,” was to expand the number and variety of plan choices to employees from the current 7 up to 21. The goal was to allow employees to choose the plan that best-suited their needs and budget; not every employee needs a “platinum-plus” plan such as those offered by the State.”*

That former official also told us *“This proliferation of plans already began to look like an “exchange.” [The Governor’s former Chief Legal Counsel] therefore felt we should use an experienced intermediary to handle such a marketplace, in part because of the greater administrative and technological complexity of having so many plans. However, it was discovered that there was an issue with the State being unable to pay carriers directly if our contract was with an intermediary, i.e. the exchange vendor... For a large employer like the State, being self-insured is typically preferable since we are capable of spreading risk. There had also been negative media coverage regarding some of the public “ObamaCare”*

*exchanges and there was some discussion that calling the solution an “exchange” might cause anxiety or confusion for employees. A decision was therefore made at some point in fall 2015 to use a benefits administrator with a technology platform to coordinate with existing carriers (vs traditional private exchanges that have a separate group of carriers) to offer the plans outlined in the State’s bargaining proposal.”* The evolution of the procurement is presented in Exhibit 1-2.

Exhibit 1-2 EVOLUTION OF THE CUSTOM BENEFIT SOLUTION PROCUREMENT
<p><b><u>Initial Intent of the Procurement</u></b></p> <p>The Custom Benefit Solution was originally intended to function as a <b>private exchange</b> and was intended to expand the number and variety of health plan choices.</p> <p>A <i>private exchange</i> is a marketplace of health insurance and other related products. Employers purchase health insurance through the private exchange, and then their employees can choose a health plan from those supplied by participating payors.</p>
<p><b><u>Final Result of the Procurement</u></b></p> <p>The Custom Benefit Solution evolved into an <b>online health portal</b> designed for employees/retirees to access benefit options for insurance needs. This includes learning more about current insurance benefits, making enrollment decisions, changing current coverage, and finding contact information for all plan administrators.</p>
<p>Source: OAG developed.</p>

The Custom Benefit Solution, which has become known as MyBenefits Marketplace, is a system that employees and retirees can utilize for benefit enrollment and benefit eligibility

questions. Any member questions relative to payroll, claims, specific coverage details, etc. are not processed by Morneau Shepell but directed to either CMS or an individual insurance carrier.

## SAVINGS FROM DEVELOPMENT OF CUSTOM BENEFIT SOLUTION

At a meeting in January 2018, the CMS Deputy Director of Benefits told us that the idea for what became the Custom Benefit Solution procurement came out of **labor negotiations from the Governor’s Office**. The official explained that the focus was on a \$500 million in savings figure and that this was all occurring during a time when the State was at an impasse with a union and negotiations were going nowhere. The official stated that this procurement was an attempt to reach a compromise.

The CMS Bureau of Benefits was **unable to locate specific documentation** from 2014/2015 relative to the \$500 million in annual savings that would result from this procurement. The Assistant Deputy Director of Benefits was able to provide a summary of how the savings were to be achieved.

The savings were to be generated from **changes to employee health insurance**. The proposed changes were to create a multi-tiered system of plans, called “metal bands,” for the existing health insurance program for employees. Four tiers were to be set up – platinum, gold, silver, and bronze. The new tiered plans would have different premiums, deductibles, and co-payments levels, which the employees could choose from for their health insurance needs. The end result would have been a **60/40 split in healthcare costs borne by the employer/employee**. **As of December 4, 2018, over 1,000 days since the Custom Benefit Solution was awarded to Morneau Shepell, CMS reported the State has not implemented the new health plan options. Without the new plans the State has not achieved any of the anticipated savings.**

Liability reductions for the State accounted for most of the \$500 million savings estimate due to employees moving to different plans than were currently offered. Additionally, increased contributions, or premiums, from employees to maintain their current plans were a major part of the projected savings. Savings were not to be achieved from securing a technology platform. Exhibit 1-3 provides a breakdown of these anticipated savings.

Exhibit 1-3 POTENTIAL ANNUAL SAVINGS FROM THE USE OF A CUSTOM BENEFIT SOLUTION			
Savings Item	Liability Reduction	Contribution Increase	Total Plan Savings
Metal Band Selections	\$298,126,100	\$74,010,500	\$372,136,600
Dental Contributions	\$0	\$35,774,700	\$35,774,700
Insurance Opt-Outs	\$44,513,600	(\$9,376,600)	\$35,137,000
Joint Labor Management Committee	\$76,713,200	\$0	\$76,713,200
<b>Totals</b>	<b>\$419,352,900</b>	<b>\$100,408,600</b>	<b>\$519,761,500</b>
Note: Joint Labor Management Committee savings were estimated for cost savings initiatives to be achieved through the Committee based on the State’s Best and Final Offer in contract negotiations.			
Source: CMS Bureau of Benefits.			

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## PROCUREMENT OF CUSTOM BENEFIT SOLUTION

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The earliest **document** we found relative to what became the Custom Benefit Solution was a September 22, 2015 email describing a healthcare phone call between officials from the Governor's Office and a private vendor. While the scope of the project, and the subsequent RFP, changed over the next six weeks, the result was the finalization of an RFP for a Custom Benefit Solution published by CMS on November 4, 2015. A **month prior to the RFP release**, on October 6, 2015, officials from the Governor's Office, CMS, and the Chief Procurement Officer for General Services met with another vendor that was a leading industry organization to discuss healthcare insurance exchanges.

CMS conducted an accelerated procurement and implementation for what became the Custom Benefit Solution. CMS **received only one response**, from Morneau Shepell, to the solicitation. Morneau Shepell had not previously conducted business with the State and this State contract population would far exceed any population for any other Morneau Shepell client. The contract award was announced on January 28, 2016.

On October 28, 2015, CMS announced an **initial evaluation team** for the scoring of proposals. Five individuals were to score the technical portions of any proposals and three officials from DoIT were to score a single section of the proposal relative to the Information Technology requirements. On November 30, 2015, the **day proposals were due**, the former CMS Director added an official from the Director's Office to the evaluation team. During the audit, this additional evaluator told us this was the **first time** serving on an evaluation team. The next day, an additional technical reviewer was added to make the team an odd number of reviewers. This official, also participating as an evaluator for the **first time**, was not sure what to expect because evaluation duties were not part of the official's normal job duties.

The RFP for the Custom Benefit Solution detailed the evaluation scoring matrix to be followed in determining the vendor awarded the contract. Evaluation consisted of two elements, responsiveness (2,735 possible points) and price (1,175 possible points). After vendor presentations, which was included in responsiveness points, a vendor with 1,915 points could have its price opened for further consideration. Exhibit 1-4 presents the scoring by the seven members of the technical evaluation team. As shown in the Exhibit, three of seven evaluators' scores did not result in the number of points needed for price opening. However, the average of the seven evaluators, 1,973 points, was sufficient for price consideration.

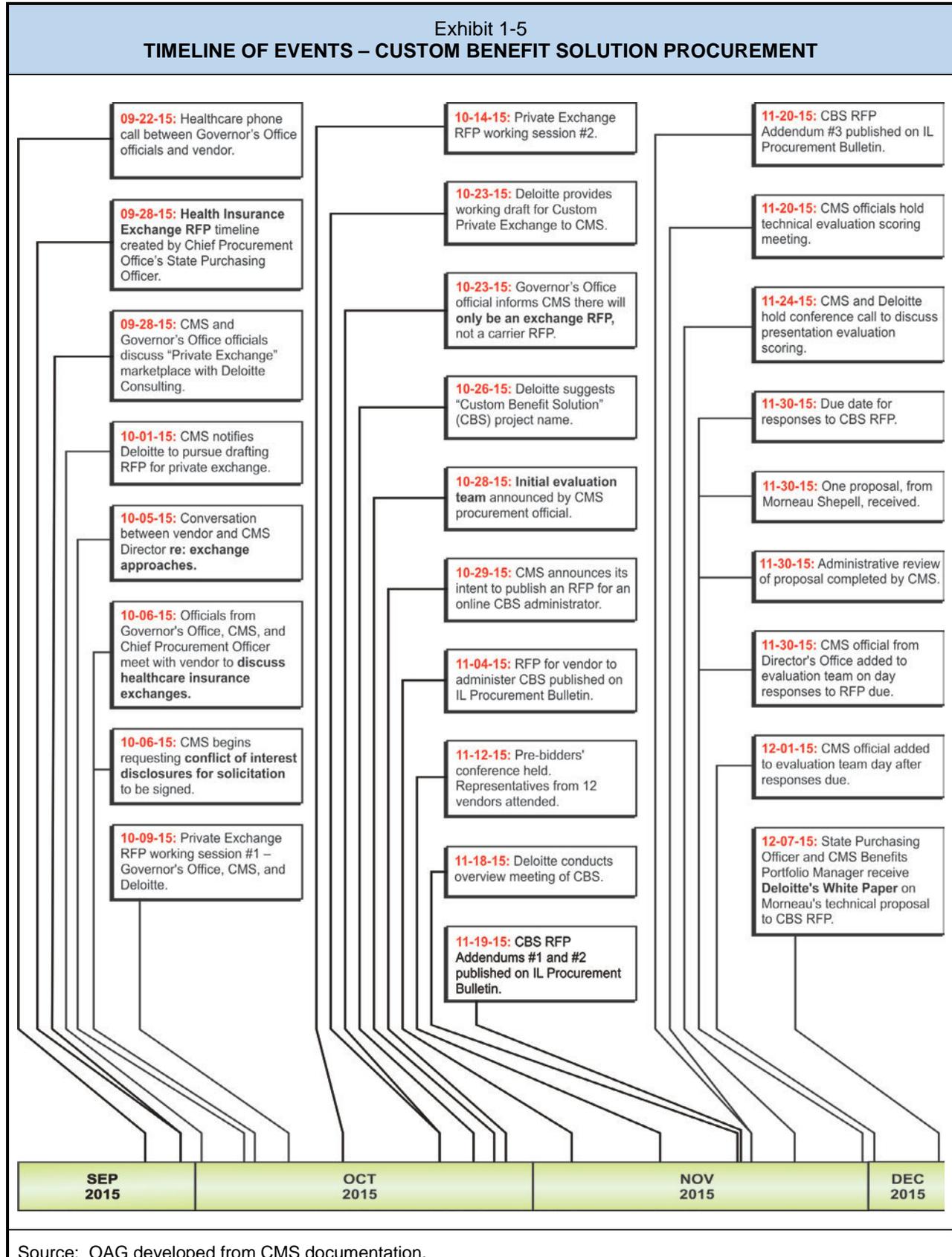
On May 3, 2016, 96 days after the Custom Benefit Solution was awarded to Morneau Shepell, the final contract was executed. The initial contract term was five years, through April 25, 2021. There is a five-year renewal period included in the contract. Total Morneau Shepell compensation, absent optional services, is estimated at \$94 million for the 10-year period. Exhibit 1-5 presents a timeline of activities for the Custom Benefit Solution procurement that we could determine through an examination of documentation.

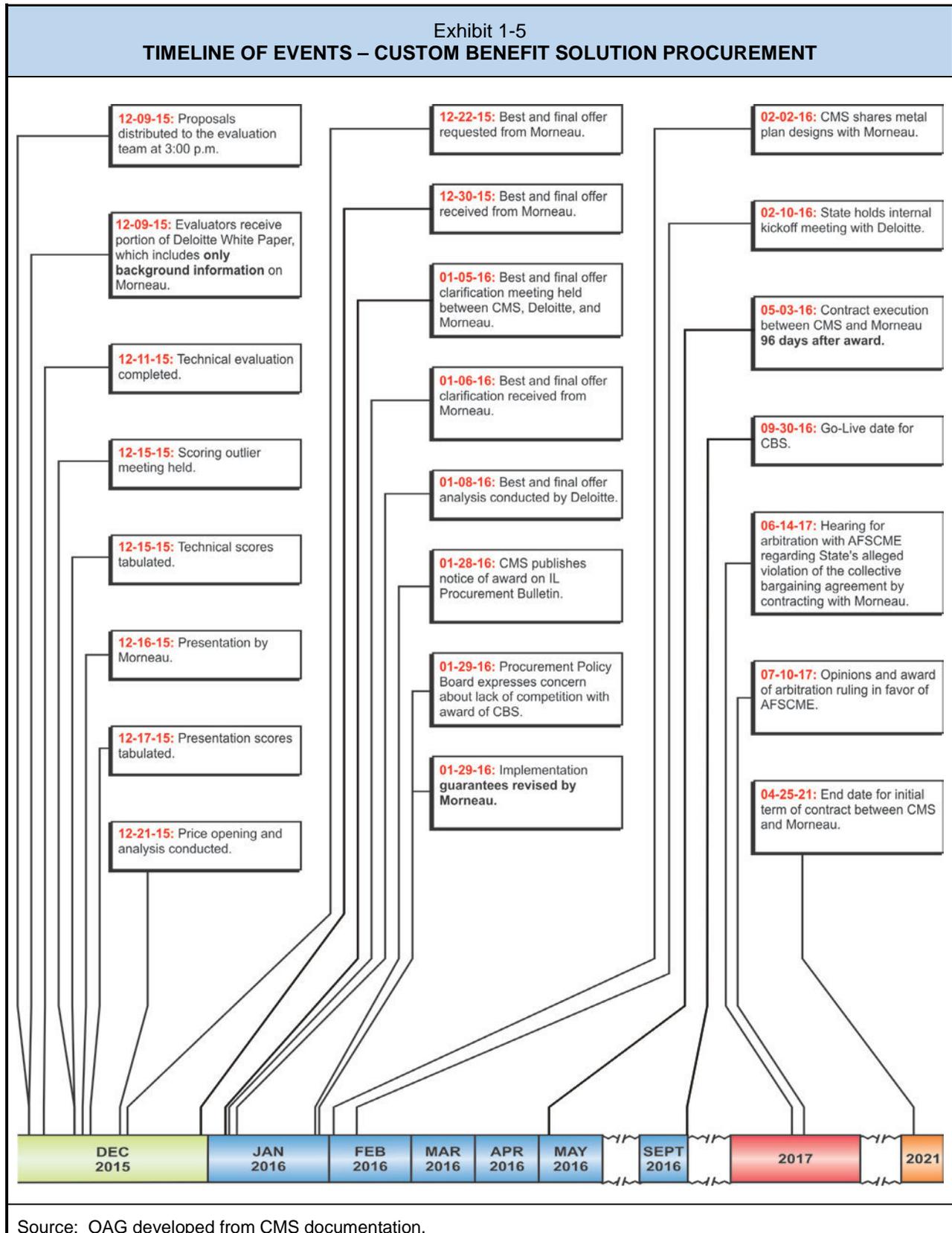
Exhibit 1-4 TECHNICAL EVALUATION SCORING SUMMARY Custom Benefit Solution Procurement								
Evaluation Category	Possible Points	Evaluator						
		#1	#2	#3	#4	#5	#6	#7
Experience and Management	500	267	339	202	231	175	254	425
Participant Services	485	350	400	285	245	184	392	436
Plan Sponsor Services	490	379	477	356	304	311	399	456
Capabilities	400	304	363	346	253	202	263	349
Technology Solution	230	204	199	189	161	154	154	230
IT Requirements	180	128	128	128	128	128	128	128
Presentation	450	369	421	373	317	392	403	404
<b>Total</b>	<b>2,735</b>	<b>2,001</b>	<b>2,327</b>	<b>1,879</b>	<b>1,639</b>	<b>1,546</b>	<b>1,993</b>	<b>2,428</b>
Note: IT Requirements were scored by three officials from the Department of Innovation and Technology and the average of those three scores applied to each of the seven technical evaluators.								
Source: OAG developed from CMS documentation.								

### AFSCME Appeal to Arbitrator

On June 14, 2017, based on a filing by the American Federation of State, County and Municipal Employees (AFSCME), an arbitrator conducted a hearing as to whether the Morneau Shepell contract violated the collective bargaining agreement between AFSCME and the State of Illinois. The arbitrator ruled in favor of AFSCME. Award documentation showed the State refused to appear and participate in the arbitration.

According to the CMS Assistant Deputy Director of Benefits, “*At that time [June 2017] the State was challenging [the arbitrator’s] jurisdiction over the matter. That challenge is ongoing in Cook County Circuit Court, oral arguments on the merits are scheduled for [October 31, 2018].*” The ruling in the case listed a remedy relative to canceling a portion of the contract with Morneau Shepell. We questioned how the State addressed that remedy. The CMS official stated “*[The arbitrator] held a hearing and allowed AFSCME to present evidence. He then issued a decision, holding that CMS was in violation of the collective bargaining agreement and recommended cancellation of the contract. CMS has not complied with that order.*” According to CMS, a status hearing was conducted in December 2018 where the State was informed the earliest a ruling would be issued is May 2019.





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## PROCUREMENT ISSUES

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During the audit we found some issues with the procurement process for the Custom Benefit Solution. Those issues are detailed below.

### **Vendor Information Not Shared with Evaluators**

CMS failed to provide all relative information to evaluators prior to the evaluation process. This lack of information included the views on the Morneau Shepell proposal from the State's subject matter expert, Deloitte Consulting. Considering the **State had not conducted a procurement** like the Custom Benefit Solution and **two-thirds of the technical evaluators we interviewed were new to the process**, this information may have lessened the wide range of scores and resulted in a more accurate evaluation process.

Ten total State officials were assigned to evaluate the responses for the Custom Benefit Solution. The Morneau Shepell **technical proposal** for the Custom Benefit Solution was scored by seven evaluators. We interviewed six of the seven evaluators (one had retired since evaluating the Custom Benefit Solution in December 2015). Sixty-seven percent (four of six) of the technical evaluators we interviewed were **scoring their first procurement**.

The State's subject matter expert, Deloitte Consulting, reviewed the Morneau Shepell technical proposal after the State had conducted a minimum requirements review. Deloitte developed a **White Paper** on December 7, 2015, relative to the Morneau Shepell proposal, which contained factual observations, a **listing of the proposal pros and cons**, and included a **number of clarifications that it determined Morneau Shepell needed to address**. The White Paper was provided to CMS on December 8, 2015. Those clarifications are presented in Exhibit 1-6. Despite these needed clarifications, the Morneau Shepell proposal was **provided by CMS to the evaluators on the scoring team just one day later**, on December 9, 2015.

The clarifications identified by Deloitte in December 2015 would eventually be problematic in oversight based on the performance guarantees. We discuss this in Chapter Three of this report.

Exhibit 1-6 <b>CLARIFICATIONS FOR MORNEAU SHEPELL PROPOSAL                      AS DETERMINED BY DELOITTE CONSULTING</b> December 7, 2015	
1.	Clarify what services could be available earlier than the proposed live date and the expected date that those services could be available.
2.	Provide <b>additional detail on participant satisfaction surveys</b> , specifically include: detailed steps on how feedback is collected; sample questions asked and recent results; whether surveys are optional or mandatory; walkthrough of the survey tool used to collect data from participants.
3.	Provide <b>additional call center statistics for metrics listed in the proposal</b> and in the Performance Guarantees.
4.	Provide <b>additional details on assumptions used to estimate call center staffing levels</b> and how the proposed team of 10 ongoing designated CSRs, increasing to 25 CSRs during Annual Enrollment periods, will be able to handle the expected volume.
5.	Provide <b>additional detail on client satisfaction surveys</b> , including: sample questions and recent results; frequency of surveys.
6.	Describe how the plan sponsor tools mentioned in the proposal will be used as part of the Custom Benefit Solution.
7.	Provide <b>additional information regarding the approach to rate determination and offsets</b> for voluntary products.
8.	<b>Clearly outline which “Optional” services and services not identified in the Statement of Work are included with the quoted administration fees and which would be billed separately.</b>
9.	Provide <b>additional detail on how different functions of the system architecture interact</b> with one another and typical process flows, including timelines.
10.	Clarify how the workflow tool is typically used in a full benefits administration model.
11.	Define the amount of advance notice given to clients for planned system outages and scheduling process that incorporates client feedback.
12.	Describe typical internal testing approach for system enhancements.
Note: CSR – Customer Service Representative.	
Source: OAG developed from CMS documentation.	

### **Evaluators Not Provided the Pros/Cons in Deloitte’s White Paper**

The Deloitte White Paper contained a list of “pros” and “cons” based on the Deloitte review of the Morneau Shepell proposal. Even though the State had never conducted a procurement for a Custom Benefit Solution and two-thirds of the technical evaluators of the proposals were new to the evaluation process, a **decision was made not to share the subject matter expert’s views on the proposal** with the evaluation team. The Deloitte document was **shared** with officials from the Governor’s Office. Exhibit 1-7 lists some of the “cons” to the Morneau Shepell proposal, **as reported by Deloitte** in the White Paper.

Exhibit 1-7 <b>CONS IN MORNEAU SHEPELL PROPOSAL AS DETERMINED BY DELOITTE CONSULTING</b> December 7, 2015	
1.	Implementation timeline does not reflect the requested live date (5/1/2016) and coverage effective date (7/1/2016).
2.	Did not demonstrate health and welfare benefits administration experience for a client the size of the State population size.
3.	Case studies were provided in the proposal, but did not include measurable results or address the State's specific requested scope and complexity of benefits administration services in a single case example.
4.	The project plan did not include specific tasks, owners, dependencies, or major milestones.
5.	Most team member resumes did not differentiate between health and welfare and other types of benefits administration experience.
6.	Did not provide specific details about client satisfaction surveys such as the types of questions asked, metrics tracked, frequency, target service levels, or historical results.
7.	Plan sponsor tools described do not specifically address how they fit as part of the State's requested services in that they do not delineate State-owned and vendor-owned activities.
8.	The level of customization available in the decision support tools was not clearly defined.
9.	The participant survey information provided was limited.
10.	Proposal response provided limited call center statistics.
11.	No clear demonstration of established system interfaces with the State's carriers.
12.	No information was provided on the internal testing process conducted during planned system upgrades.
Source: OAG developed from CMS documentation.	

The White Paper states it was "Prepared at the request of legal counsel." We asked a Deloitte official what legal counsel made the request. The official responded "*We do not recall who the legal counsel was that requested the white paper document nor when the request was made.*"

Our review of CMS and former Governor's Office officials' emails found documentation showing:

- On December 8, 2015, the former Benefits Portfolio Manager provided the former CMS Director a copy of the White Paper and stated "*[The Chief Procurement Officer for General Services] has determined that we will not be distributing the white paper to the evaluation team.*"
- Also on December 8, 2015, the State Purchasing Officer forwarded the White Paper to the former Governor's Deputy Director of Government Transformation. This Governor's Office official reported to the former Governor's Special Counsel & Policy Advisor that "*[CMS Director] has it but it will only be given to evaluators as a basis for answering their questions, in order to preserve the integrity of the procurement process.*"

The White Paper, under purpose, states, *"The intent of the white paper is not to provide an opinion of proposals received, but rather provide additional information, **which may be helpful to evaluators in assessing offerors' capabilities.**"* [Emphasis added.] We asked Deloitte if it was under the impression that its White Paper would be distributed to evaluation team members. A Deloitte official stated *"Deloitte was not aware whether it would be distributed to the evaluation team."*

### **Not All Evaluators Included in Deloitte Presentation**

On November 18, 2015, **14 days after** the RFP was advertised by CMS, Deloitte officials conducted an overview meeting for the Custom Benefit Solution. The meeting had three objectives:

1. Provide an overview of health and welfare benefits administration service delivery as it relates to the State's proposed Custom Benefit Solution.
2. Clarify key processes, services and requirements based on the State's needs and the Custom Benefit Solution RFP Statement of Work (Section D.2.3 of the RFP).
3. Identify areas that will require additional discussions and planning for vendor requirements and implementation.

The presentation identified key benefits administration activities aligned with the RFP Statement of Work sections. Included in the meeting were evaluators for the Custom Benefit Solution, **but not all evaluators**. Documentation showed the former CMS Deputy Director of Benefits sent five of the evaluators (which included three DoIT officials), along with nine other CMS officials, a correspondence that included the Deloitte presentation to bring to the meeting.

### **Wide Range of Evaluation Scores**

The seven technical score evaluators each scored a total of 90 criteria. In 66 percent of the criteria scored (59 of 90), there was a range in the scores 50 percent or greater. **Five of the seven technical evaluators were not invited to the Deloitte presentation** on November 18, 2015. While CMS conducted an outlier meeting for these variances, it had **no documentation** to show what criteria were discussed.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. These controls should include that **evaluators are provided with all relevant information that would allow them to complete an informed evaluation of a vendor seeking State business.**

Relative to the November 18, 2015 Deloitte presentation, the Assistant Deputy Director of Benefits reported, *"This meeting was not intended for the Evaluation Team. The meeting was for Bureau of Benefits and DOIT management and staff in preparation for the possible implementation of a Custom Benefit Solution. The meeting did not include all members of the evaluation team (although some key bureau staff were also on the evaluation team) as it was intended as educational information for management and staff. It is possible that it **could have been beneficial to the entire the evaluation team.**"* [Emphasis added.]

The Chief Procurement Officer for General Services told us, “*The white paper contained opinions about the company, which could have improperly influenced the evaluation team’s decision. Therefore, we agreed that the agency could use the information in the white paper judiciously to provide subject matter expert advice to the evaluation committee when appropriate.*”

Deloitte Consulting was the State's subject matter expert on this project so its knowledge of those positives and negatives in the proposal **could have been helpful to the evaluators**. When evaluators are not all provided with all relative information, and **scores are vastly different**, it raises questions about the efficacy of the evaluation process.

<b>VENDOR INFORMATION NOT SHARED WITH EVALUATORS</b>	
<b>RECOMMENDATION NUMBER</b> <b>1</b>	<i>CMS should provide all members of evaluation teams, especially when the procurement is something uniquely new to the State, with all relevant information to assist the evaluators in completing an informed evaluation.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will ensure that all relevant information subject to policy oversight of the Chief Procurement Office for General Services is provided to all members of evaluation teams to assist in completing an informed evaluation.

### **Conflict of Interest Disclosures**

CMS failed to require and obtain **Conflict of Interest disclosures for all individuals who were involved in the procurement process** for the Custom Benefit Solution that was awarded to Morneau Shepell. Through available documentation, we identified 24 individuals who were involved with procurement activities for which CMS **could not provide a disclosure**. These individuals were from the Governor’s Office, the Executive Ethics Commission, Deloitte Consulting, and CMS.

We identified a total of 54 individuals from the Governor’s Office, the Executive Ethics Commission, Deloitte Consulting, and CMS who were **involved in the procurement of the Custom Benefit Solution**. This determination was the result of document examination showing some who had completed conflict of interest disclosures or instances where documentation showed other individuals having involvement in decision-making and in the preparation of the RFP through the scoring of the Morneau Shepell proposal.

The Compliance, Conflict of Interest, and Confidentiality Statement is a disclosure where an individual certifies an understanding of the Procurement Code and the CMS Standard Procurement Rules, as well as the assertion to not disclose information gained as part of the team for the procurement. Exhibit 1-8 provides a copy of the disclosure statement.

Exhibit 1-8 COMPLIANCE, CONFLICT OF INTEREST, AND CONFIDENTIALITY STATEMENT
<p>Re: (Exchange RFP)</p> <p>I, the undersigned, as a member of the subject project team will perform the project activities in compliance with relevant law, rule, policy and directive, including but not limited to those identified in Attachment A; and for the benefit of the State.</p> <p>I understand that this applies to full and part-time employees, contractors, and volunteers, and interns.</p> <p>I hereby certify that neither I nor any members of my immediate family have a material, personal, financial or fiduciary interest that would affect my participation in this project.</p> <p>I am aware that my participation in this project will involve my knowledge of official information and possible vendor proprietary information not publicly known. I agree not to disclose any information gained during the course of my service on this project, except to other State employees who may in the normal course of State business have a need for such information, until such information becomes public record.</p> <p>If I should become aware of any situation that could conflict with any of the representations above, or that might indicate a conflict of interest or create the appearance of a conflict or other impropriety, I will notify management immediately.</p> <p>I have read and understand the provisions of State law in Attachment A, and acknowledge that I am bound by the requirements of the Illinois Procurement Code and the CMS Standard Procurement Rules when participating in the development, evaluation, and negotiation processes of any procurement governed by the Illinois Procurement Code or any other procurement, agreement or contract for which CMS is involved.</p> <p>Name (print) _____</p> <p>Title (print) _____</p> <p>Signature _____</p> <p>Date _____</p>
<p>Source: OAG developed from CMS document.</p>

Completion of the conflict of interest disclosure was apparently needed for participation in the project. On October 14, 2015, the former CMS Deputy Director of Benefits requested that two individuals complete a disclosure stating, “*This will enable us to include you in discussions regarding the potential healthcare exchange RFP.*” [Emphasis added.] Only one of the two individuals actually completed the disclosure. We would also note that the former CMS Deputy Director of Benefits who made the request **did not complete** a disclosure.

**Governor’s Office Involvement**

Officials from the former Governor’s Office were **key decision makers** in the procurement for the Custom Benefit Solution. CMS officials reported that the former

Governor’s Office General Counsel made the decision to put a portal out for bid and also developed the timeline for the procurement. Yet **this official did not sign** a conflict of interest disclosure.

CMS sought the approval from the former Governor’s Special Counsel & Policy Advisor to publish the RFP. This **official did not complete a disclosure** even though it had been requested by CMS procurement officials.

On December 8, 2015, the former Governor’s Deputy Director of Government Transformation requested that CMS Bureau of Benefits “*please forward to [Governor’s Special Counsel & Policy Advisor] and me all appointments related to the exchange RFP (tomorrow’s reviewer’s meeting, etc.) and keep the two of us looped in on these going forward.*” Neither of the former Governor’s Office officials completed a disclosure.

### **Deloitte Consulting Involvement**

CMS officials specifically requested that five Deloitte Consulting officials complete a disclosure. On October 13, 2015, a CMS official told Deloitte that “*it is imperative that we have the signed confidentiality agreements prior to the next meeting.*” None of the five Deloitte officials signed a disclosure.

A Deloitte official asked if one Deloitte official could sign for a list of Deloitte officials. The CMS official replied, “*When you were assisting with the Vision RFP, I thought individual signatures were required. That is **standard.***” [Emphasis added.]

Deloitte officials billed for a variety of tasks relative to the Custom Benefit Solution. Our review of Deloitte **hourly billing descriptions** found billing hours for:

- Custom Benefit Solution RFP;
- RFP – Best and Final Offer (BAFO) Support;
- Prepared and finalized the proposal White Paper;
- Scoring, review questions submitted by vendors and research unexpected vendors;
- Conference call with Benefits Portfolio Manager, others and Morneau Shepell re: contract exceptions;
- Development of metal plans designs; and
- Analysis and review of RFP response.

The State did not ask Deloitte about possible business relationships with Morneau Shepell **until after Deloitte had completed an analysis of the Morneau Shepell proposal**. On December 8, 2015, 26 days after Morneau Shepell participated in the vendor conference and the day after the “white paper” was delivered, the State Purchasing Officer stated he would need a brief description of any business relationships between Deloitte and Morneau Shepell. A Deloitte official responded on December 9, 2015, that “*To the best of our knowledge Morneau Shepell serves as a pension administration subcontractor for two clients of Deloitte Consulting. No member of [the] client service team working with the State of Illinois works with [Morneau Shepell] on any of those clients.*”

## CMS Officials

CMS officials integrally involved in the procurement also did not complete individual disclosures. On November 20, 2015, the former CMS Benefits Portfolio Manager told the State Purchasing Officer and an official from Deloitte that *“In reviewing the Technical Scoring Sheet with [former Deputy Director of the Bureau of Benefits], she changed some of the point distribution...in Sections D.3.3.6 and D.3.3.1.”* The former Deputy Director of Benefits made these changes prior to the RFP release and without signing a disclosure.

CMS appeared to pick and choose which officials were required to sign the disclosures: For instance:

- If CMS required a disclosure for an administrative assistant, we would think CMS should also require a disclosure for the Deputy Director from the Bureau of Benefits at the time.
- If CMS received disclosures from 2 Deloitte officials, we would think CMS should have required disclosures from the **other 12 Deloitte staff** who had a role in the procurement.
- If, since as CMS reported, four officials from the former Governor’s Office were the leads on this project, we would think that CMS should require those officials to sign a disclosure. Documentation showed **that a CMS procurement official even specifically requested disclosures** from two of those officials, yet those **requests were not honored by the former Governor’s Office officials.**
- If CMS required the Procurement Compliance Monitor from the Chief Procurement Office for General Services at the Executive Ethics Commission to sign a disclosure, which she did, we would think that CMS **would ensure that the other four officials** from the Chief Procurement Office for General Services **also complete a disclosure.**

Exhibit 1-9 provides a listing of the 54 positions and whether the disclosures were completed or not. For the 54 individuals we identified as part of the project team:

- 56 percent (30 of 54) completed a disclosure;
- 44 percent (24 of 54) did not complete a disclosure but were a part of the procurement effort;
- Documentation showed that **CMS specifically requested** 65 percent (35 of 54) of the individuals complete a disclosure; however, 37 percent (13 of 35) of those specific requests **went unfulfilled.**

Exhibit 1-9 <b>CONFLICT OF INTEREST DISCLOSURE ANALYSIS</b> Custom Benefit Solution Procurement			
Affiliation-Title	Disclosure Signature Date	Affiliation-Title	Disclosure Signature Date
Deloitte-Consultant	None	Deloitte-Consultant	None
Deloitte-Consultant	None	Deloitte-Consultant	None
Deloitte-Consultant	None	Deloitte-Consultant	None
Deloitte-Consultant	None	Deloitte-Consultant	None
Deloitte-Consultant	10/15/15	Deloitte-Consultant	None
Deloitte-Consultant	None	Deloitte-Consultant	None
Deloitte-Consultant	10/21/15	Deloitte-Consultant	None
CMS-Evaluator-PSA-BOB	10/29/15	CMS-SPSA-Claims Payments	10/15/15
CMS-Evaluator-PSA	10/29/15	CMS-BOB-Asst Deputy Director	10/19/15
CMS-Evaluator-Analyst III	10/28/15	CMS-Operations Manager	10/21/15
CMS-Evaluator-PSA-BOB	10/29/15	CMS-Administrative Assistant	10/13/15
CMS-Evaluator-Analyst III	12/08/15	CMS-Senior Benefits Analyst	10/29/15
CMS-Evaluator-PSA-BOB	10/26/15	CMS-Senior Benefits Analyst	10/28/15
CMS-Evaluator-COO	12/08/15	CMS-Healthcare Portfolio Manager	10/06/15
CMS-Evaluator-ASAM	10/13/15	CMS-Chief Info Security Officer	10/26/15
CMS-Evaluator-CTO	10/26/15	CMS-BOB-Manager	10/06/15
CMS-Evaluator-PSA	10/09/15	CMS-LGHP-Manager	10/22/15
CMS-IT Audit Manager	None	CMS-Group Insurance Manager	10/16/15
CMS-BOB-Deputy Director	None	CMS-Executive Secretary I	10/22/15
CMS-BOB-General Counsel	None	CMS-Director	10/06/15
CMS-Chief Financial Officer	None	CMS-Senior Procurement Analyst	10/06/15
CMS-PSA-Agency Services	10/06/15	CMS-PSA-Finance Manager	10/22/15
EEC-CPO	None	EEC-Senior PCM	None
EEC-Deputy CPO	None	EEC-PCM	10/13/15
EEC-State Purchasing Officer	None	Consultant-Actuary	10/22/15
Governor-Deputy Director of Government Transformation	None	Governor-Special Counsel & Policy Advisor	None
Governor-General Counsel	None	Governor-General Counsel	None

Notes:  
**RED** position titles received specific request from CMS procurement to complete disclosure. Gray shading indicates the individuals did not comply with the CMS request for form completion.  
 Acronyms:  
 BOB – Bureau of Benefits; PSA – Public Service Administrator; COO – Chief Operating Officer; ASAM – Assistant Statewide Application Manager; CTO – Chief Technology Officer; SPSA – Senior Public Service Administrator; LGHP – Local Government Health Plan; EEC – Executive Ethics Commission; CPO – Chief Procurement Officer for General Services; PCM – Procurement Compliance Monitor.

Source: OAG developed from CMS documentation.

The Compliance, Conflict of Interest, and Confidentiality Statement applies to all members of a procurement program team. This includes full and part-time employees, contractors, and volunteers and interns. In the *State and Local Government Procurement: A Practical Guide Second Edition (2015)*, the National Association of State Procurement Officials discusses recommended practices for competition. In guidance relative to solicitations and methods, the Guide states, “Where an evaluation committee or outside technical personnel are

*used to assist in the evaluation of proposals, require those persons to sign a conflict of interest/confidentiality statement before receipt of copies of proposals.”*

The Assistant Deputy Director of Benefits reported that *“In accordance with the Standard Procurement Rules, evaluation committee members must not have any conflicts of interest or apparent conflicts of interest; therefore, each member of the evaluation committee and any subject matter experts may be required to complete the disclosure statement.”*

When asked about the completion of confidentiality statements, the Assistant Deputy Director of Benefits said, *“Historically, as part of the procurement function, CMS utilized the confidentiality statement for members of the Evaluation Committee to meet the intent of the rule. The process has evolved over time to include other subject matter experts close to the procurement. In this specific instance, the expedited timeline prevented the Bureau of Benefits the opportunity to obtain signed statements from all subject matter experts outside of the evaluation committee.”* [Emphasis added.]

The Chief Procurement Officer for General Services told auditors *“The CPO and SPO do not typically sign disclosures as they are charged with practice of the ethical requirements of the Procurement Code regarding confidentiality as part of their daily responsibilities....Both the CPO and SPO owe a fiduciary duty to the State, so an acknowledgement of these obligations would be duplicative and unnecessary.”* We would note that the Procurement Compliance Monitor **did complete a disclosure** for this project.

Not requesting or completing the appropriate conflict of interest disclosures **does not align with the intent of disclosures**, the purpose of which is to acknowledge and adhere to the Procurement Code and related procurement rules. Additionally, inconsistently requesting the disclosures and allowing participation of individuals whose disclosures were requested but not received adds skepticism to the procurement process.

CONFLICT OF INTEREST DISCLOSURES	
<b>RECOMMENDATION NUMBER</b>  <b>2</b>	<i>CMS should ensure that all project team participants complete a Compliance, Conflict of Interest, and Confidentiality Statement when the individual is part of a procurement effort.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will ensure that all project team participants subject to policy oversight of the Chief Procurement Office for General Services, complete a Compliance, Conflict of Interest, and Confidentiality Statement when the individual is part of a procurement effort.

### Outlier Evaluation Assessment

CMS did not **develop and maintain evaluator meeting minutes** for either of the two evaluation committee meetings. This included a meeting to discuss scoring for evaluators who had drastically different scores for the Custom Benefit Solution procurement. In 66 percent (59 of 90) of evaluation criteria categories, the evaluation team had a **difference of at least 50 percent in the scoring of criteria** for the Morneau Shepell proposal.

On December 9, 2015, an initial evaluation meeting was held to distribute the one proposal received for the Custom Benefit Solution solicitation. A second evaluation team meeting was held December 15, 2015, to discuss outliers, instances where there was **more than a 50 percent difference** in individual scores submitted by question/criteria. Team members were asked to review certain questions again and, based on information gained during the outlier meeting, make any changes if so inclined.

The technical evaluation team had strikingly different experience levels with being part of an evaluation of proposals. In total, there were seven technical evaluators. We interviewed six of seven; one evaluator had retired from the State. Four of six technical evaluators reported to us that they were **working on an evaluation team for the very first time**. Additionally, the other two technical evaluators indicated that while evaluation activities were part of normal job duties, neither had been on a unique project like the Custom Benefit Solution.

Technical evaluators scored 90 different elements of the Morneau Shepell proposal. Using the definition of an outlier score, 50 percent difference, from a memo in the official procurement file, we summarized how many of the initial scores by the technical evaluators were at least 50 percent apart. Sixty-six percent (59 of 90) of the scores were **at least different by the 50 percent level**. While the majority of differences existed in the areas of 50-79 percent, there were three scoring elements where evaluator scores differed by **100 percent**. Exhibit 1-10 provides a breakdown of the analysis.

After the outlier meeting, according to CMS records, four evaluators changed scores for 16 scoring elements. One **technical evaluator told us** she remembered the outlier meeting because she had given Morneau Shepell the lowest technical evaluation score of all evaluation team members. She said she was the outlier. She said she was given enough time to reevaluate her scores before the revised evaluations were due, but she was confident in her scores and did not change them. The evaluator said the only downside for her was that she was not an expert in benefits.

One possible reason for the discrepancy in scoring was the criteria provided to the evaluation team for guidance. One evaluator questioned a lack of criteria provided to evaluators in conducting the Custom Benefit Solution evaluation in a question on December 10, 2015. The evaluator was questioning how to evaluate the section of the proposal on describing fee guarantees for future years (Section D.3.3.1). The evaluator stated *“How are we to evaluate this section? No criteria has been given to us (true for most of this RFP).”* The former Benefits Portfolio Manager responded that *“So, yes you are evaluating whether or not they provided any sort of guarantee – but you could also gauge your score on whether or not it*

Exhibit 1-10 SCORING DIFFERENTIAL FOR TECHNICAL EVALUATION CATEGORIES Custom Benefit Solution Procurement		
Percentage Difference in Scoring	Number of Instances	Percentage
0% - 49%	31	34.44%
50% - 59%	30	33.33%
60% - 69%	9	10.00%
70% - 79%	10	11.11%
80% - 89%	5	5.56%
90% - 99%	2	2.22%
100%	3	3.33%
<b>Total</b>	<b>90</b>	<b>100.00%</b>
Note: Percentage does not add due to rounding.		
Source: OAG developed from CMS documentation.		

*seems within reason.*” The scores for this proposed element ranged from 62 to 125 for the 125 point element.

Technical evaluators received the proposal to score at 3:00 p.m. on December 9, 2015. They had approximately two days to complete the scoring, which was completed on December 11, 2015. An outlier meeting, with discussion involving as much as 59 scoring categories, which lasted according to one evaluator about an hour, was conducted on December 15, 2015. Revised scores were due that same day because **Morneau Shepell was already scheduled to come to Springfield and make a presentation the next day**, on December 16, 2015.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001 (1) and (3)) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should include the **documentation of discussions** of scoring discrepancies by evaluation team members. Additionally, in the *State and Local Government Procurement: A Practical Guide Second Edition (2015)*, the National Association of State Procurement Officials discusses bid proposal evaluation and award. In guidance relative to evaluation techniques, the Guide states “*any minutes of evaluation committee meetings must become part of the procurement file.*”

The CMS Assistant Deputy Director of Benefits reported that he was not aware of any meeting minutes for the outlier meeting. The official added that these meetings are generally led by the Agency Purchasing Officer with Chief Procurement Office representation and meeting minutes are typically not produced.

When a procurement can **impact 450,000 employees and retirees** it would appear appropriate for the evaluation team to be experienced in the evaluation process. Additionally, when there are wide discrepancies in the scores for the Custom Benefit Solution procurement, and there is a **lack of documentation as to what was discussed** at the outlier meeting, it raises skepticism that a transparent, efficient procurement was conducted.

<b>OUTLIER EVALUATION ASSESSMENT</b>	
<b>RECOMMENDATION NUMBER</b>  <b>3</b>	<i>CMS should maintain documentation of discussion of scoring discrepancies when those discussions result in changes to evaluation scores.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS, subject to policy oversight of the Chief Procurement Office for General Services, will maintain documentation of discussions regarding scoring discrepancies by evaluation teams.



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## Chapter Two

# PROCUREMENT ACTIVITIES

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## CHAPTER CONCLUSIONS

During the audit we attempted to find documentation to **support the need** for what became the Custom Benefit Solution. While the CMS Bureau of Benefits (Benefits) generally does some form of cost analysis for new programs, the **aggressive timeline to issue the RFP did not allow** for a formal cost analysis for the Custom Benefit Solution. CMS and the Department of Innovation and Technology (DoIT) could provide **no such cost-benefit analysis**. The Governor's Office, CMS, and DoIT officials disagreed on the State's ability to develop and operate an online system like the State receives from Morneau Shepell. Our examination found:

- The former Governor's Office told agency directors that *"The State does not have the expertise and resources to provide the services needed to develop this state of the art technology efficiently and effectively."*
- The CMS Deputy Director of Benefits reported it was determined that DoIT **could not** handle the size and complexity of the portal.
- DoIT officials said they were not aware of any analyses conducted in determining whether DoIT could create and maintain an online health portal. Further, the officials said no CMS or Governor's Office official even asked about DoIT's capability. Finally, a DoIT official said the portal could have been put together by the State, but the State could not necessarily staff the call center.
- On October 3, 2018, a DoIT official reported that the **Bureau of Communication and Computer Services had provided a demonstration of an online enrollment system in 2012** to the head of the Bureau of Benefits at the time. At that time, it was demonstrated not as an exchange, but as only online enrollment, just as Morneau Shepell is doing now. CMS officials told us they were unclear as to whether the system demonstrated could accommodate metal band plan designs. Additionally, relative to the call center aspect of Morneau Shepell's current contract, the DoIT official said that function has always been done within the State through the use of the group insurance representatives.

CMS failed to **adequately plan** the procurement process for the Custom Benefit Solution, including the development of the need for all elements in the scope of the project. This failure led to **undocumented reasons** for late changes to the RFP prior to publication. Additionally, in its rush to complete the procurement and get a system implemented, CMS **requested more services** than it actually needed in an unreasonable timeframe and left some of the requested services out of the contract. Had the State not had such an aggressive timeline, the procurement process **may have resulted in increased competition** for the Custom Benefit Solution.

While the time frame to respond to the RFP complied with the minimum time frame established in the Illinois Procurement Code, the size and complexity of the Custom Benefit

Solution likely warranted a longer time frame. Representatives from 11 vendors attended the pre-bidders conference but only one vendor submitted a bid. In addition, CMS **may have limited competition** on the Custom Benefit Solution by requesting an **aggressive timeline** for the implementation of the online health portal. The timeline was so aggressive that even the single bidder **could not meet** the May 2016 Benefits Choice Period as originally detailed in the RFP. Five vendors who did not bid on the Custom Benefit Solution reported some issue relative to the timeline as the reason for not proposing.

**CMS did not document why** a business enterprise program (BEP) goal was not included in the Custom Benefit Solution procurement. While CMS was not required to include a BEP goal in this procurement, it **appears that the decision to not include a goal was due to a concern that including a goal would slow the procurement process.**

While CMS has designated contracts procured by the Bureau of Benefits Group Insurance Division as “exempt” from the BEP goal, CMS **did not consistently apply that exemption** to other benefit procurements during the audit period. Additionally, approximately a year after the Custom Benefit Solution went live, CMS was considering re-soliciting for a vendor to administer the program. This procurement was to **include** a 10 percent BEP goal.

Documentation we reviewed, and officials we spoke with, appear to indicate that CMS was not concerned over a lack of competition and the tight timeline to implement a system for the May 2016 Benefit Choice Period drove the decision not to re-issue the RFP. However, approximately a year after the Custom Benefit Solution was implemented, documentation showed that CMS was **exploring the option of re-issuing an RFP.**

For the period May 2016 through September 2018, the total cost of the Custom Benefit Solution project **exceeded \$27.7 million.** This figure is comprised of costs for:

- Morneau Shepell – \$19,635,871;
- Deloitte Consulting – \$6,818,984; and
- Additional contractual staff hired at CMS and DoIT – \$1,320,304.

Morneau Shepell documentation showed CMS requested two changes from Morneau Shepell **which will eventually cost the State an additional \$1,652,000.** CMS officials indicated that these changes were part of the contract which called for a Special Enrollment Period in September 2016, an enrollment period that never occurred. However, both changes, per Morneau Shepell documentation, were requested by CMS in March 2017 and relate to new health care options that were to be included as part of the May 2017 Open Enrollment Period. Those **options were never implemented.**

While auditors **cannot place a dollar value on the activities that DoIT conducts** relative to the Custom Benefit Solution project, the activities utilize additional State resources and contribute to **increased overall cost** of the project. DoIT staff participates in State system modifications and report development as part of the management of the Custom Benefit Solution.

The contract with Morneau Shepell lists a number of optional services the State can elect to have Morneau Shepell perform for additional costs. CMS selected three of those optional

services, **one (COBRA Administration and Billing) which already was being performed by CMS staff.**

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## INTRODUCTION

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House Resolution Number 522 directed the Auditor General to review the procurement activities associated with the contract that was eventually awarded to Morneau Shepell. Specifically, we were to determine: whether the scope of the RFP that was issued in November 2015 was adequate to meet the State’s needs and written in a manner to **allow adequate competition** on this multi-million dollar initiative; whether the time frame for response to the RFP was adequate to **allow for participation by potential vendors**; the rationale **for not including** a business enterprise goal in the solicitation; the rationale for awarding the contract to Morneau Shepell **rather than re-issuing the RFP** in an attempt to obtain adequate competition; and, the **cost of the procurement**, including amounts paid to the State’s procurement consultant.

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## NEED FOR THE CUSTOM BENEFIT SOLUTION

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CMS failed to conduct a **cost-benefit analysis** for the need for a Custom Benefit Solution prior to publishing the solicitation. While the CMS Bureau of Benefits generally does some form of cost analysis for new programs, the **aggressive timeline to issue the RFP did not allow** for such a formal cost analysis for the Custom Benefit Solution. The Governor’s Office, CMS, and DoIT officials disagreed on the State’s ability to develop and operate an online system like the State receives from Morneau Shepell.

In December 2017, we asked if Morneau Shepell is providing what CMS staff previously performed manually. The Assistant Deputy Director of Benefits said, *“Enrollment had previously been a **manual process** prior to Morneau. It was a paper based enrollment process administered by CMS with the assistance of agency field Group Insurance Representatives (GIRs) utilizing internal systems maintained by BCCS/DOIT. Even though this process is now an on-line enrollment process **staff is still engaged** in providing customer services and resolving member issues as they had previously prior to Morneau.”* [Emphasis added.] We also asked what CMS staff with prior responsibility under the paper based process are currently doing since Morneau Shepell is now performing that work. The official said, *“The employees we identify are conducting similar type of work today...The changes made impacted the manual entry of the transactions that are now conducted by the on-line enrollment system.”*

CMS reported that yearly costs of the Bureau of Benefits from FY14 through FY16 were approximately \$15.9 million, and since outsourcing, the overall costs for support and personnel for the Bureau of Benefits have remained relatively constant. CMS also **conducted no cost-benefit analysis** for procuring the Custom Benefit Solution. During a May 24, 2018 meeting with DoIT officials, the officials were not aware of any cost-benefit analysis for the Custom Benefit Solution.

We asked a former Governor’s Office official and former Acting Director of CMS whether CMS or any other State agency was directed to conduct a cost-benefit analysis comparing the paper-based system with a call center solution and whether there was any discussion whether DoIT could build a system. In response, the official stated *“The key*

*determination in the decision was whether a technology improvement...was necessary to facilitate the State's proposal [metal bands]. While it may have been possible to implement the greater number of plans under a paper-based system, it was certainly undesirable and would have caused significant additional confusion for State employees...although the State was legally barred from achieving its savings goal, the online tool provides a much-improved enrollment experience for our members."*

### **State's Ability to Develop System**

The Governor's Office, CMS and DoIT officials disagreed on the State's ability to develop and operate an online system like the State receives from Morneau Shepell. The Governor's Office defended the need for an online health portal in a correspondence on November 4, 2015, the day the RFP for the Custom Benefit Solution was released. The Governor's Office developed information to send to agency directors about the new procurement. In response to the question of whether the Custom Benefit Solution was simply a way to outsource the State's health insurance program the Governor's Office wrote, "*The State does not have the expertise and resources to provide the services needed to develop this state of the art technology efficiently and effectively.*"

According to the Deputy Director of Benefits, it was determined that DoIT **could not** handle the size and complexity of the portal. The official said that the idea of the Custom Benefit Solution came about at a time when CMS and the Bureau of Communication and Computer Services (BCCS) were splitting into DoIT and BCCS had no capacity to manage the portal. The official added that there were only 17 programmers at DoIT, of which the majority were eligible for retirement.

DoIT officials said they were not aware of any analyses conducted in determining whether DoIT could create and maintain an online health portal. Further, the officials said no CMS or Governor's Office official even asked about DoIT's capability. A DoIT official said the portal could have been put together by the State, but the State could not necessarily staff the call center.

On October 3, 2018, a DoIT official reported that BCCS had provided a demonstration of an online enrollment system in 2012 to the head of the Bureau of Benefits at the time. At that time, it was demonstrated not as an exchange, but as only online enrollment, just as Morneau Shepell is doing now. CMS officials told us they were unclear as to whether the system demonstrated could accommodate metal band plan designs. The DoIT official added that the online system in the demonstration was more of a proof of concept prototype to show BCCS had the capability of capturing benefit choice elections via the web. The official was not aware of any cost estimate developed by BCCS for the demonstrated system. Additionally, relative to the call center aspect of Morneau Shepell's current contract, the DoIT official said that function has always been done within the State through the use of the group insurance representatives.

The DoIT official also explained that DoIT was prepared to implement the metal bands for the Benefit Choice period in May 2016. The official provided email correspondence from early 2016 between BCCS and the Comptroller which showed that BCCS had already worked with the Comptroller to get the carrier codes needed for the different metal bands. The official

stated that **had the State been without a contract** with Morneau Shepell but wanted to offer the metal bands, DoIT was prepared to do so, it just would have been offered through the existing paper process.

In the *State and Local Government Procurement: A Practical Guide Second Edition (2015)*, the National Association of State Procurement Officials discusses the procurement of information technology. In guidance relative to business cases, the Guide states, “*A well researched and thorough cost-benefit analysis for each alternative will help support the statement of work and the procurement process.*”

The CMS Assistant Deputy Director of Benefits told us that “*Because of the aggressive timeline, there was not sufficient time to conduct a cost benefit analysis.*” The official added that “*Generally, for any new initiatives or proposed changes to the program of benefits, some form of cost analysis is performed by the Bureau.*”

The State claimed to lack expertise and resources to develop the Custom Benefit Solution. That claim may have been true had the State procured a full health insurance exchange. However, that is not what the State received, which was only a technology solution to administer benefits, a technology solution which was at least considered and even demonstrated previously within the State.

NEED FOR THE CUSTOM BENEFIT SOLUTION	
<b>RECOMMENDATION NUMBER</b>  <b>4</b>	<i>CMS should conduct a cost-benefit analysis before procuring any new major system. This analysis should include an examination of whether the State currently has resources that could provide the services in a cost effective manner.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. In this instance, CMS did not have time to conduct a documented cost benefit analysis, given the aggressive procurement timeline. CMS will strive to conduct a documented cost-benefit analysis before procuring any new major system, including an examination of State resources that may already be available to provide services in a cost-effective manner.

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## SCOPE OF THE REQUEST FOR PROPOSALS

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CMS failed to **adequately plan** the procurement process for the Custom Benefit Solution, including the development of the need for all elements in the scope of the project. This failure led to **undocumented reasons** for late changes to the RFP prior to publication. Additionally, in its rush to complete the procurement and get a system implemented, CMS **requested more services** than it actually needed in an unreasonable timeframe and left some of the requested services out of the contract. Had the State not been so hasty, the procurement process **may have resulted in increased competition** for the Custom Benefit Solution.

The **scope** of the RFP for what eventually became the Custom Benefit Solution **was changed** and CMS **lacked documentation to support the decision making** on why the changes made were necessary. The former CMS Director requested another CMS official review the

RFP on November 11, 2015, **7 days after it was released**. The official asked the former Director:

- if he had the original task assignment that resulted in the writing of the RFP;
- specifically what the stated objective or goal was when the RFP was requested; and
- who the driver of the initiative was.

The former Director responded, *“It was all verbal---built the plane while flying it.”* The CMS subject matter expert on the procurement, Deloitte Consulting, described the scope in an October 6, 2017 presentation on stabilization as *“The Morneau Shepell contract scope is a full administration model but the State has retained some administration processes, resulting in a unique arrangement.”*

### **Late Change from Private Exchange to Custom Benefit Solution Scope**

Due to the aggressive timeline, CMS changed the scope of the RFP from a private exchange to a Custom Benefit Solution **just days prior** to publication on the Illinois Procurement Bulletin. Some of these decisions were being driven by officials in the former Governor’s Office. It appears that CMS included items in the scope of the RFP that may not have been necessary for the State’s needs. The addition of these items in the scope **could have restricted competition** for the Custom Benefit Solution solicitation. During the audit we reviewed correspondence relative to RFP scope. Some of those correspondences are detailed below:

- On October 15, 2015, the former Deputy Director of Benefits reported some issues in developing an exchange to the former CMS Director. The official stated, *“It goes without saying that **the compressed timeline for this type of undertaking has never been done, successfully or unsuccessfully.**”* [Emphasis added.] This concern was forwarded 20 days prior to the publication of the RFP for the Custom Benefit Solution.
- On October 23, 2015, **twelve days prior** to publishing the project on the Illinois Procurement Bulletin, the scope of the project changed. The former Governor’s Deputy Director of Government Transformation reported to the former CMS Deputy Director of Benefits that *“I’ve already informed Deloitte and [CMS Director], but in case you hadn’t heard – we’ll just be moving forward with the exchange RFP – no need for a carrier RFP.”*
- Former Governor’s Office officials, on October 28, 2015, **seven days prior** to publication of the RFP, discussed the scope of the RFP through the development of “Talking Points.” One official asked about the \$20 million annual cost to which a response from the former Governor’s Deputy Director of Government Transformation came that *“We could have gone with just a portal, but in the RFP you need to say everything that you might need, even if some of it ends up being things you don’t need.”*
- On the same day (October 28, 2015), **seven days prior** to publishing the project on the Illinois Procurement Bulletin, the former Governor’s Deputy Director of

Government Transformation reported to another former Governor’s Office official and multiple CMS officials that *“Guys – to be clear, coming out of our 4:00 call – decision was to keep on the current path regarding scope of the RFP. We can of course still be conservative in terms of not requiring additional services that we don’t need or do not think would be helpful, but we are not crafting the RFP to just ask for a technology solution. We are still on the combined Technology solution + benefits administration solution path.”*

- On November 9, 2015, in response to a question whether the Bureau of Benefits was being outsourced based on language in the Custom Benefit Solution RFP, the former CMS Deputy Director of Benefits stated, *“No, it is not. I realize it sounds like that, but we were advised that we needed to put all available options into the RFP so it can all be priced separately.”*
- Also on November 9, 2015, the former CMS Deputy Director of Benefits was informed by the former Benefits Portfolio Manager that after speaking with a potential bidder, its *“leadership determined that they would have difficulty in making a business case for a ‘jumbo sized’ plan such as this.”*
- The late change in scope may have influenced all necessary information being included in the RFP. One member of the technical evaluation team asked a series of questions of the State Purchasing Officer and the former CMS Benefits Portfolio Manager on December 10, 2015. The evaluator asked, *“Are we asking the vendor to administer 1) a group private healthcare exchange, and 2) an individual private healthcare exchange. (Unless I’m missing something, I do not see that in the RFP and could not find a definition for custom benefit solution.)”*

### **RFP Items Left Out of the Morneau Shepell Contract**

CMS, during the contract negotiation process for the Custom Benefit Solution contract with Morneau Shepell, failed to include some items which were elements of the RFP. These elements in the RFP were requirements which potential bidders had to weigh when deciding whether or not to bid on the solicitation. Our examination of the RFP, the Morneau Shepell proposal, and the contract categorized these contract omissions into two areas: Implementation and Solution; and Performance Guarantees. Those two areas are briefly described below and Exhibit 2-1 summarizes our examination.

Exhibit 2-1 <b>DIFFERENCES BETWEEN THE CUSTOM BENEFIT SOLUTION REQUEST FOR PROPOSALS AND THE CONTRACT WITH MORNEAU SHEPELL</b>		
RFP November 4, 2015	Proposal November 30, 2015	Contract May 3, 2016
<i>Implementation &amp; Solution</i>		
Request to administer a custom benefit solution for eligible members with an effective date for the annual Benefit Choice period May 1-31, 2016.	“We confirm that Morneau can meet all of the State’s requirements as described in the State of Work section of the RFP.”	Morneau shall administer a <b>full-service</b> custom benefit solution...all services shall begin <b>no later than September 1, 2016</b> .
Provide an implementation timeline showing milestones and key dates based on the State’s planned enrollment periods [beginning May 2016] and effective date.	“We believe this project will require seven to nine months to implement...The plan assumes a start date of February 1, 2016...We typically perform a full implementation of all required services for the client’s go-live date.”	Implementation services (to be performed <b>prior to September 1, 2016</b> ).
<i>Performance Guarantees</i>		
“State of Illinois will require ‘day one’ operational excellence with fees at risk calculated and payable monthly and with no grace period. The objective is immediate and persistent service excellence.”	“We confirm that we understand and accept these performance standard requirements.”	<b>Not included.</b>
Failure to meet a performance metric for 3 consecutive reporting periods may be considered by CMS to be a material breach of contract.	“We confirm that we understand and accept these performance standard requirements.”	<b>Not included.</b>
Root cause analysis and reporting – In the event of a systems or manual processing error that adversely impacts coverage or administrative accuracy for multiple participants, vendor will submit a written root cause analysis report to the State of Illinois - standard 100%; fees at risk - 5%.	“We confirm that we can meet all of the State’s performance levels.”	Root cause analysis and reporting – In the event of a systems or manual processing error that adversely impacts coverage or administrative accuracy for multiple participants, Morneau will submit a written root cause analysis report to the State of Illinois - standard 100%; fees at risk – <b>Reported/No fee at risk.</b>
Source: OAG developed from CMS information.		

A Morneau Shepell official told us that “A series of meetings occurred starting on February 11<sup>th</sup> [2016]. The purposes of these meetings were to refine components of the Statement of Work (SOW), other project deliverables, and provisions for contract finalization.

*During these meetings we also discussed project methodology, confirmed joint understanding of project scope and deliverables, as well as key activities and expectations from the teams.”*

### **Implementation and Solution**

The need for a compressed timeline for the Custom Benefit Solution was apparently the desire to have a Go-Live system for the May 2016 Benefit Choice Period. This was **detailed in the RFP**.

While the RFP requested the May 2016 timeframe, section 1.1.2 of **the contract** states “[Morneau Shepell] shall administer a full-service custom benefit solution for the Programs throughout the term of this contract. All services required under this Section shall begin no later than September 1, 2016.” The Custom Benefit Solution went Live on September 30, 2016. Even the actual Go-Live date was a deviation from the contract.

We requested, but **CMS did not have documentation** to show that it approved, the deviation from the contract. The CMS Assistant Deputy Director of Benefits stated, “*The Department cannot locate any documentation. CMS and Morneau Shepell worked cooperatively towards a go-live date prior to the fall open enrollment period beginning October 15<sup>th</sup>. Bureau Management was not confident that the system would be ready to “go-live” on 9/1/16 and wanted more testing conducted during the month of September to minimize any risk. The go-live date of 9/30/16 met the requirement to have the on-line enrollment system implemented prior to the beginning of the open enrollment period.*”

### **Performance Guarantees**

The **RFP** for the Custom Benefit Solution contained a performance guarantee related to the proposer’s ability to meet performance metrics. If a metric was missed for three consecutive reporting periods, CMS could hold the vendor in breach of the contract. Morneau Shepell, in its proposal, stated, “*We confirm that we understand and accept these performance standard requirements.*” CMS did **not include this requirement in the contract**.

The **RFP** also contained a performance guarantee relative to root cause analyses where the proposer must submit written reports outlining how systems or manual processing errors that adversely impact coverage or administrative accuracy for multiple participants are addressed. Five percent penalties were detailed in the RFP for failure to submit 100 percent of the required reports. The Morneau Shepell proposal stated, “*We confirm that we can meet all of the State’s performance levels.*” The five percent penalty **did not make it into the final contract**. We discuss performance guarantee compliance in Chapter Three of the audit report.

Illinois administrative rules (44 Ill. Adm. Code 1.2050) detail the procedures for the development of specifications. Section 1.2050 (b) (1) states “*All procurements shall be based on specifications that accurately reflect the State’s needs. Specifications shall **clearly and precisely** describe the salient technical or performance requirements and shall be written in such a manner as to describe the requirements to be met, without being unduly restrictive or having the effect of exclusively requiring a proprietary supply or service, or procurement from a sole source, unless no other manner of description will suffice.*” [Emphasis added.]

In the *State and Local Government Procurement: A Practical Guide Second Edition (2015)*, the National Association of State Procurement Officials discusses the importance of competition. In guidance relative to post-bid specification changes, the Guide states, “*If specifications must be changed materially and promptly after contract award, it is often because of a failure of market research. The changed specifications are a new competitive opportunity, and all qualified vendors should be allowed to participate. To do otherwise is tantamount to a sole source award to the initial successful vendor. This unquestionably eliminates competition.*”

The CMS Assistant Deputy Director of Benefits explained the differences from the Request for Proposals to the contract. Relative to implementation, he reported “*A full-service solution was always contemplated and Morneau’s offer was for a full-service solution. The May 1-31 date was not feasible to fully implement the new system. Additional testing was required to minimize any risk. CMS and Morneau Shepell negotiated a go-live date prior to the fall open enrollment period beginning October 15<sup>th</sup>.*”

Additionally, relative to the differences in performance guarantees from the RFP to the eventual contract, he stated “*The RFP language was not a requirement but an information statement for Vendors to consider when making their offer specific to Performance Guarantees. It was not included in the resulting contract....The fees at risk for this performance guarantee were negotiated from 5% to a reporting requirement at the time of contract.*”

Documenting the procurement process as it relates to the scope of services appears to be important considering this program would **affect 450,000** employees and retirees. Additionally, stating certain requirements in a RFP **may have an influence** on whether vendors propose on the project. Not carrying through on those requirements to a contract does not support a transparent procurement process.

<b>SCOPE OF THE REQUEST FOR PROPOSALS</b>	
<b>RECOMMENDATION NUMBER</b>  <b>5</b>	<i>CMS should adequately plan and document all procurements. In its planning, CMS should clearly understand the State’s need, request only services for which the State is interested, and be able to document and support any changes made during the process.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS did not have time to adequately plan and document the procurement, given the aggressive procurement timeline. CMS will strive to adequately plan and document all procurements, including an understanding of the State’s needs and interests. Additionally, CMS will identify and request services for desired outcomes, and will provide documentation for any changes made during the procurement process.

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## **REQUEST FOR PROPOSALS TIMELINE AND LACK OF COMPETITION**

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While the time frame to respond to the RFP complied with the minimum requirements stated in the Illinois Procurement Code, the size and complexity of the Custom Benefit Solution likely warranted a longer time frame. Representatives from 11 vendors attended the pre-bidders

conference but only one vendor submitted a bid. In addition, CMS **may have limited competition** on the Custom Benefit Solution by requesting an **aggressive timeline** for the implementation of the online health portal. The timeline was so aggressive that even the single bidder **could not meet** the May 2016 Benefits Choice Period as originally detailed in the RFP. Five vendors who did not bid on the Custom Benefit Solution reported some issue relative to the timeline as the reason for not proposing.

The **State understood that the timeline** for what became the Custom Benefit Solution was **aggressive** from the beginning. While State officials wanted the Custom Benefit Solution in place for the May 2016 Benefit Choice Period, that decision may have resulted in a lack of competition.

The current CMS Deputy Director of Benefits told us that the former Governor’s Office General Counsel developed the time frame for the procurement. She said that the timeline was pushed by the upcoming Benefits Choice Period. The official added that during a meeting with CMS officials and the former General Counsel, the Governor’s Office official told them he wanted the RFP done in two days. It was done in two weeks. The CMS official reported that more time was needed for the development of the RFP.

On September 28, 2015, the Chief Procurement Officer for General Services reported to the Deputy Director of Government Transformation in the Governor’s Office that *“As you requested, below is an aggressive time line for the proposed health insurance exchange procurement.”* The timeline was developed by two staff under the Chief Procurement Officer for General Services.

CMS originally requested information from Deloitte Consulting for a “private exchange” on October 1, 2015. A CMS contractor reported to Deloitte that *“We would like to pursue drafting an RFP for a private exchange. We need a basic set of questions, foundational policies, etc. that need to be considered before we can begin this process....Keep the folks on this email as our core team....”* The email included five Deloitte officials, two from the Governor’s Office and three from CMS.

On October 15, 2015, the former Deputy Director of Benefits reported some issues in developing an exchange to the former CMS Director. The official stated, *“It goes without saying that **the compressed timeline for this type of undertaking has never been done, successfully or unsuccessfully.**”* [Emphasis added.] This concern was forwarded 20 days prior to the publication of the RFP for the Custom Benefit Solution.

The Illinois Procurement Code (30 ILCS 500/20-15 (c)) requires competitive sealed proposal solicitations to be published in the Illinois Procurement Bulletin at least 14 calendar days before the date set in the invitation for the opening of proposals. While CMS complied with that requirement, as the solicitation was published on November 4, 2015, and responses were due November 30, 2015, the size and complexity of this procurement likely warranted a longer period. Within that 26-day time frame:

- CMS held a potential bidders conference on November 12, 2015; and

- CMS published three addenda to the RFP on November 19-20, 2015. Two of those were to answer 44 questions posed by potential vendors and the other was to remove language in a section of the RFP.

**Potential Bidder Reason for Not Proposing on Custom Benefit Solution**

During the audit we reached out to a number of vendors that either participated in the bidder’s conference, submitted questions in response to the RFP, or instances where we saw documentation that CMS had provided a copy of the RFP to the vendor via email to determine why they opted not to bid on the Custom Benefit Solution. Additionally, CMS and the Chief Procurement Office for General Services **reached out to vendors** in June 2017 to determine why they did not bid.

The Deputy Chief Procurement Officer for General Services told us that *“This outreach was done at the request of CMS. At that time they told us they were considering a re-solicitation of the benefits portal solution, and sought the reasons that vendors chose not to offer the first time around. There was a meeting May 25, 2017, attended by CMS Bureau of Benefits personnel as well as [officials from Chief Procurement Office for General Services], in which the procedure for conducting this outreach was discussed.”* The actual contacts were on June 20-21, 2017, which was **568 days after proposals were initially due** on the Custom Benefit Solution. It was also approximately a week before the Acting CMS Director at the time was to testify at a subject matter hearing on the Custom Benefit Solution for the House State Government Administration Committee.

Exhibit 2-2 provides the rationale for not bidding on the Custom Benefit Solution that we were able to obtain from vendors and CMS email information. Five of the eight vendors listed in the Exhibit reported some **issue relative to the timeline** as the reason for not proposing. An official from an industry leading vendor emailed a former CMS Senior Procurement Analyst on November 10, 2015, and asked if there was *“any possibility that the live date could be moved given the fast turnaround for a group this size.”*

Exhibit 2-2 VENDOR REASONS FOR NOT BIDDING ON THE CUSTOM BENEFIT SOLUTION
Cannot meet the timeline in the RFP.
Unable to meet all of the requirements and provide a full solution within the required timeframe for implementation.
Financial considerations specific to the State’s contract provisions related to payment terms.
Did not have an internal Medicare (TRAIL) enrollment solution at the time and would have to outsource a solution for that population. Due to the turnaround time, not comfortable providing a response that would include that population.
Portion of the State’s need was not in platform at time of the solicitation. Needed to build out the platform but would not be ready for a vendor presentation where the State wanted to see a full system.
Implementation timeline and the inability of the State to pay during the budget impasse.
Lack of timely payment by the State.
Does not deal specifically in Custom Benefit Solutions.
Source: OAG developed from CMS documentation and contacts with vendors.

On January 12, 2016, **16 days prior to award announcement, CMS had decided to move forward with Morneau Shepell with a Go-Live for October 2016.** This October 2016 date was **five months later than the published date for Go-Live from the Request for Proposals.**

### Questions Concerning Lack of Competition

We saw a number of emails related to the question of the lack of competition during our work on the audit. Some of those are provided below:

- On January 7, 2016, the former CMS Benefits Portfolio Manager questioned the State Purchasing Officer on this procurement regarding protests. The CMS official stated *“We have talked in the past on whether or not a vendor who did not respond... would have reason to protest a delayed go-live date from May 1, 2016 to October 1, 2016.”* The State Purchasing Officer correctly points out that the answer provided to a potential bidder’s question was that *“The desired timeline is as described in the RFP. Any suggestions regarding alternative or phased live dates should be described in response to RFP question D.3.1.3.2.”* While that response may cover the State from a protest, it may not provide enough information to possibly foster an increased number of bidders and a competitive procurement.
- On January 11, 2016, the former CMS Benefits Portfolio Manager brought up the idea of a rebid for the Custom Benefit Solution in a correspondence to CMS and Deloitte officials. The Manager questioned, *“Do we rebid given we have one respondent and there is some concern that the pricing may be too low and the focus should be on service having milestones in place?”* The Manager added, *“As things have progressed since the RFP was let, are we moving toward more of a co-sourcing arrangement as opposed to having the vendor act as a Third Party Administrator? This would again be reason for a rebid to be beneficial for the State.”*
- On January 29, 2016, the Procurement Policy Board questioned if there was a problem with a lack of competition for the Custom Benefit Solution procurement. That same day the former CMS Benefits Portfolio Manager told other CMS officials that *“I’m not sure who made the final decision to move forward rather than rebid.”* Later that day, officials from CMS and the Governor’s Office drafted a response that stated *“There is no concern over the lack of competition. While additional bids would have been optimal, the State’s timeframe and lack of prompt payment likely deterred some bidders that would have otherwise participated.”*

The National Association of State Procurement Officials published a fact sheet with the Strategic Role of State Procurement from the *State and Local Government Procurement: A Practical Guide (2014)*. One strategy’s step is that *“Procurement officials should communicate that ample lead time for procurement is essential for all major projects.”* The Illinois Procurement Code (30 ILCS 500/1-5) states that the policy of the State is that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts by or for any State agency.

We asked the CMS Deputy Director of Benefits if there was any discussion to re-issue the RFP given that CMS only received one response. The official told us no because of the tight timeline. The official added that CMS was surprised at the price of the Morneau Shepell proposal but that the former Governor’s Office General Counsel told them this had to be done by the next enrollment period. Had CMS allowed vendors more time to implement the Custom Benefit Solution, the State may have received more bids, could have compared responses and ensured the State was getting the best solution and price for what it requested.

<b>REQUEST FOR PROPOSALS TIMELINE AND LACK OF COMPETITION</b>	
<b>RECOMMENDATION NUMBER</b>  <b>6</b>	<i>CMS should document its consideration of timelines for procurement activities to ensure ample time is allocated to developing an RFP and to implementing the activities in the solicitation, especially in the case of a new unique system.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS did not have time to adequately plan and document the procurement, given the aggressive procurement and implementation timeline. CMS will strive to adequately plan and document all procurements, including an outlined understanding of the State’s needs along with proposed implementation timelines.

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### **BUSINESS ENTERPRISE GOAL**

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House Resolution 522 asked us to determine the rationale **for not including** a Business Enterprise Program (BEP) goal in the solicitation for the Custom Benefit Solution. Our examination of audit evidence found that **CMS did not document why** a business enterprise goal was not included in the Custom Benefit Solution procurement. While CMS was not required to include a BEP goal in this procurement, it **appears that the decision to not include a goal was due to a concern that including a goal would slow the procurement process.**

While CMS has designated contracts procured by the Bureau of Benefits Group Insurance Division as “exempt” from the BEP goal, CMS **did not consistently apply that exemption** to other benefit procurements during the audit period. Additionally, approximately a year after the Custom Benefit Solution went live, CMS was considering re-soliciting for a vendor to administer the program. This procurement was to **include** a 10 percent BEP goal.

#### **Business Enterprise for Minorities, Women, and Persons with Disabilities Act**

The Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575) was enacted as a **public policy** of the State to promote and encourage the continuing economic development of minority-owned and women-owned and operated businesses and that minority-owned and women-owned and operated businesses participate in the State’s procurement process as both prime and subcontractors. The State of Illinois further declared that it is the public policy of this State to promote and encourage the continuous economic development of businesses owned by persons with disabilities and a two percent contracting goal is a narrowly tailored means of promoting open access and thus the further growth and development of those businesses. Except as provided in subsections (b) and (c) (of 30 ILCS 575), not less than 20 percent of the total dollar amount of State contracts, as defined by the

Secretary of the Business Enterprise Program (BEP) Council and approved by the Council, shall be established as an aspirational goal to be awarded to businesses owned by minorities, women, and persons with disabilities.

The BEP Council is a body outside of CMS that is made up of volunteers and oversees the Business Enterprise Program. The CMS Director serves as the Chair of the BEP Council and runs the meetings.

### **BEP Goal Exemptions**

The Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575) allows for class exemptions to the goals set in the BEP program. Additionally, the Act outlines the goals for BEP participation in State procurement. Section 7(2)(a) of the Act provides for the creation of the class exemptions. On July 25, 2013, CMS, through a memo from the former Deputy Director of Benefits to an official with the BEP Council, was seeking confirmation from the former BEP Deputy Director that the contracts procured by Benefits fell within an already-established category of contracts and expenditures that are exempt from BEP goals. Benefits has not located any documentation regarding a response from the BEP Deputy Director to the memo. The Deputy Director of the Business Enterprise Program reported she *“was not able to find any documentation....Approval from the BEP Council for the CMS request does not appear in the minutes of the BEP Council meetings around that date (July 12, 2013; July 22, 2013; and August 26, 2013).”*

### **BEP Goal and the Custom Benefit Solution**

Prior to issuing the RFP for the Custom Benefit Solution, CMS was aware of a **focus on the use of BEP goals**. On August 18, 2015, the former Benefits Portfolio Manager reported to the Deputy Director of Benefits that, *“We met with [vendor] this morning for their Annual Business Review. Given the focus on BEP...I asked about the probability of [vendor] being able to incorporate a BEP component during an RFP process. The response...was that [vendor] can incorporate a BEP component. They usually utilize BEP vendors for print, marketing and enrollment and do so in Cook County. The current contract was awarded on 7/1/15. The RFP did not contain a BEP goal due to the statutory exception.”* This “focus on BEP” communication was 78 days prior to the publication of the RFP for the Custom Benefit Solution, a RFP which did not contain a BEP goal.

On October 15, 2015, the Deputy Director of Benefits reported some issues in developing an exchange to the CMS Director, including an issue relative to BEP. The official stated, *“The procurement code may have hurdles still unknown until we understand the Exchange process better. Additionally, a procurement of this magnitude on this fast track would be in jeopardy if a BEP goal was included; however, excluding the goal may bring criticism, even though healthcare is excluded in rule from the BEP mandate.”* [Emphasis added.] This concern was forwarded 20 days prior to the publication of the RFP for the Custom Benefit Solution. CMS was attempting to get a vendor in place for the Custom Benefit Solution by the May 2016 Benefit Choice Period so it could implement additional insurance plans for members and retirees. As of December 2018, these additional plans have not been implemented.

On October 22, 2015, a Deloitte official sent the former CMS Benefits Portfolio Manager a request to clarify some information for the RFP. Relative to the BEP goal, the CMS official responded “[CMS Director] is confirming the requirement for BEP. Even though Healthcare contracts are exempt from including a BEP goal, **the exchange isn’t really a healthcare contract, but rather an administrative tool.**” [Emphasis added.]

On November 3, 2015, the Procurement Business Case was set up for this solicitation. The solicitation contact person stated, “While the default is for this procurement to include a BEP goal due to the dollar amount assigned to this project, the Bureau of Benefits has been directed to move forward without the inclusion of a BEP goal.” The narrative does not give a reason why the BEP goal was not included.

We asked CMS who specifically made the decision to not include a BEP goal in the Custom Benefit Solution solicitation. The CMS Assistant Deputy Director for Benefits reported that the former CMS Director made the decision on or about October 23, 2015. We asked whether there was any documentation to support that decision. The official stated, “Benefits has searched various individuals’ emails and **have [sic] not located specific written direction.** Benefits believes the direction may have been communicated verbally. Individual(s) who may have received the direction are no longer employed by the State.” [Emphasis added.] A BEP Council official told us that the BEP compliance team has **no record** that CMS submitted anything related to the Custom Benefit Solution solicitation.

### **Inconsistent Application of BEP Exemption by CMS**

While the CMS Bureau of Benefits has reported that benefit procurements are exempt from BEP goals, the practices of the Bureau of Benefits provide another picture. We examined information from CMS prior to the solicitation of the Custom Benefit Solution and found eight instances where Bureau of Benefits procurements had BEP goals, either voluntarily or mandatory, for vendors participating in a benefits type of procurement.

As of May 2015, CMS had placed **voluntary provisions** for 10 percent BEP goals in the Managed Care Plans, PPO/BHS, and Dental Plan RFPs. Four vendors complied with the BEP goal provisions. CMS also had **mandatory BEP goals** in the Pharmacy Benefits Manager RFP and in Consultant RFPs. Four vendors complied with these mandatory BEP provisions. Exhibit 2-3 lists the vendors and BEP provisions for benefit procurements as of May 27, 2015. A CMS official reported that four of the contracts in Exhibit 2-3 were procurement by the Department of Healthcare and Family Services (HFS) when that agency was procuring health benefit services. The CMS official added that the exemption for “benefit” procurements would have been applicable to the HFS procurements also.

Exhibit 2-3 BUSINESS ENTERPRISE GOALS IN BENEFIT CONTRACTS BUREAU OF BENEFITS As of May 27, 2015		
Vendor	Benefit Type	BEP Goal Amount
HMO Illinois	Managed Care	\$3,137,268
Blue Advantage	Managed Care	\$3,137,268
Magellan	PPO/BHS	2.26%
Delta Dental	Dental	8.00%
CVS (effective July 1, 2015)	Pharmacy	20.00%
ESI (terminated June 30, 2015)	Pharmacy	20.00%
Segal Consulting	Consultants	5.00%
Deloitte Consulting	Consultants	5.00%

Source: OAG developed from CMS documentation.

We asked CMS why it inconsistently applied the BEP exemption to Bureau of Benefit procurements. The Assistant Deputy Director of Benefits told us on June 4, 2018 that *“There is a current exemption for employee benefits however, [sic] the Bureau of Benefits reviews each solicitation/contract on an individual basis to determine whether the particular services lend itself [sic] to the availability of certified vendors to perform the anticipated direct subcontracting opportunities of the contract. Health insurance contracts by their nature do not present an opportunity for subcontracting as many of the large insurance companies are vertically integrated, performing a majority of the services in house. Requiring a goal in these contracts would result in the State paying more for the services.”*

However, a Morneau Shepell Senior Vice President for U.S. Client Development said that Morneau Shepell, the only bidder on the Custom Benefit Solution solicitation, conducts many projects that include something like a BEP goal but not necessarily called BEP. He said Morneau Shepell has included BEP-like contractors with the State of Illinois and the City of Chicago. He said regardless of whether or not the RFP includes a BEP goal, Morneau recognizes the importance of the program. He said that although it was not contractually part of the bid, Morneau is doing it now with its vendors. The official said he does not know why a BEP goal was not included in the RFP for the portal.

In October 2017, when CMS was considering a re-solicitation of the Custom Benefit Solution project, Deloitte provided a next steps presentation. One of the key decisions for the Request for Proposals was to *“Confirm BEP requirement and 10% level.”* It appears that CMS was comfortable with a BEP goal for the anticipated benefit solicitation during this iteration when it did not include a BEP goal in the initial Custom Benefit Solution solicitation.

### **Business Enterprise Council Concerns**

During the audit we examined BEP Council meeting minutes to determine whether the Custom Benefit Solution was addressed. Additionally, we reviewed those minutes to determine if BEP exemptions were addressed.

Prior to the solicitation of the Custom Benefit Solution, during an April 2015 Council meeting, members briefly discussed BEP exemptions including the process of requesting, reviewing, and questioning exemptions. One of the Council members specifically stated, *“In the past it was noted that agencies were exempted simply because they had been exempt in the past with no other explanations.”* We did not see any action or discussion by the Council on the exemption issue until 2017.

At the Council meeting on June 26, 2017, there was discussion relative to exemption categories. The Council chair, a former CMS Acting Director, explained that *“Under a previous administration the vast majority of benefits procurements were exempted from the BEP goal.”* As explained above, the administration in office during the Morneau Shepell solicitation also relied on that exemption.

Another Council member stated that exemptions should not pass one year. Additionally, the member stated *“there were subcommittees that reviewed the exemptions and addressed them on an annual basis in the past.”* The member wanted to know what happened to those subcommittees. The member also stated she *“does not understand why Benefits was exempted in the past because there are several parts to it that could have had goals.”*

Those concerns from the Council appear to be ongoing. The following concerns were noted by members since the June 2017 meeting:

- Council not being informed about a procurement that has no BEP goals in it.
- When agencies asked about qualifying for such exemptions, the Council’s response being that the agency was getting them and the Council had approved them.

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### **AWARD VERSUS RE-ISSUE**

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The Resolution asked us to determine the rationale for awarding the contract to Morneau Shepell **rather than re-issuing the RFP** in an attempt to obtain adequate competition. Documentation we reviewed, and officials we spoke with, appear to show that CMS was not concerned over a lack of competition and the tight timeline to implement a system for the May 2016 Benefit Choice period drove the decision not to re-issue the RFP. However, approximately a year after the Custom Benefit Solution was implemented, documentation showed that CMS was **exploring the option of re-issuing an RFP**.

On January 29, 2016, one day after CMS published the award announcement, the Procurement Policy Board asked CMS whether there was a problem with a lack of competition on the Custom Benefit Solution procurement. The former CMS Benefits Portfolio Manager indicated that she was not sure who made the final decision to move forward rather than rebid. Additionally, the official reported there was **no concern over the lack of competition**.

During the audit we asked why CMS did not reissue the RFP based on the lack of response from the industry leaders. The Assistant Deputy Director for Benefits told us “A number of contributing factors, including the State’s lengthy payment delays – which often deters interested bidders – and the urgency to achieve the \$500+M proposed cost savings through the new plan designs for the May benefit choice period, precluded the State from re-issuing the RFP. Although legal barriers subsequently prevented implementation of the new plan designs, those barriers were not yet present at the time of the issuance of the RFP and award of the contract.”

We also asked whether there was any conversation at CMS or the Governor’s Office as to **re-issuing the RFP** given that there was only one respondent. The CMS Deputy Director of Benefits said no because of the tight timeline. The official added that CMS was surprised at the price of the Morneau Shepell proposal. The official also added that the Governor’s Office General Counsel at the time told them this had to be done by the next enrollment period.

The CMS Bureau of Benefits noted a number of areas where Morneau Shepell needed to show improvement in order to “regain CMS Bureau of Benefits’ confidence.” The memo, which went to the CMS Acting Director on October 12, 2017, was 377 days after the Go-Live date of September 30, 2016. Exhibit 2-4 details the areas in the correspondence.

Exhibit 2-4 <b>CMS NOTED AREAS FOR MORNEAU SHEPELL IMPROVEMENT</b> October 12, 2017	
Governance, Quality and Control	<ul style="list-style-type: none"> <li>• Provide documented governance structure, processes and contingencies.</li> <li>• Follow documented policies and procedures consistently.</li> <li>• Improve Quality Assurance processes, including system testing.</li> <li>• Demonstrate compliance with Service Organization Controls 1.</li> </ul>
Morneau Shepell’s Project Management Team	<ul style="list-style-type: none"> <li>• Demonstrate knowledge and understanding of Morneau Shepell’s systems, processes and organizational structure.</li> <li>• Develop knowledge, understanding and consideration of CMS’ business rules, organizational structure, and various stakeholder needs.</li> <li>• Plan for upcoming projects and issue resolution with a global view of Morneau Shepell and CMS, proactively making suggestions and calling out areas of concern.</li> </ul>
Identification, Tracking and Resolution of Issues	<ul style="list-style-type: none"> <li>• Demonstrate a true understanding of the issue identified and/or reported.</li> <li>• Identify and plan for necessary steps to resolve the issue(s), including cleanup.</li> <li>• Commit to reasonable timeline for issue resolution.</li> <li>• Meet agreed-upon deadlines.</li> </ul>
Transparency of System Defects	<ul style="list-style-type: none"> <li>• Identify system issues accurately, including impacted population and root cause analysis.</li> <li>• Provide short-term direction and/or resolution.</li> <li>• Plan and execute steps for long-term solution.</li> </ul>
Source: CMS documentation dated October 12, 2017.	

### 2017 Re-Issue Attempt

In our review of the emails provided by CMS, it appears that in September 2017 through at least November 2017, CMS, with the assistance of Deloitte Consulting, was developing an RFP to "administer a custom benefit solution" for the State. On September 11, 2017, 346 days after the Go-Live of the Custom Benefit Solution, the CMS Assistant Deputy Director of Benefits submitted a CMS Project Approval Request for CMS to request proposals to re-solicit the current contract held by Morneau Shepell. The Request stated *"The current solution has experienced numerous operational and administrative issues and may need to be re-solicited to ensure the success of the MyBenefits platform and promote an overall positive experience for participants."*

We asked the CMS Deputy Director of Benefits a number of questions relative to the re-issue. The responses are provided below:

- We asked if the RFP was intended to find a vendor to replace Morneau Shepell for providing a custom benefits solution. The official responded it was.
- We asked why CMS was considering this action. The official responded, *"Poor performance by vendor on the administrative side i.e. missing the service level agreement standards, lack of quality and governance."*
- We asked who specifically came up with the idea to develop an RFP but the official indicated she did *"not recall."*
- Since CMS did not move forward with the RFP, we asked who made the decision not to move forward - and why. The official reported, *"To my knowledge, the Director made that decision but we collectively discussed it and thought it was too much of a lift for the Benefits staff and all impacted stakeholders. Additionally, we were concerned about the impact to our covered members (450,000 covered lives). I do not know if he received direction from above. As we discussed on the phone last week, because DoIT did not maintain back-up systems of our data, we would have had to rely solely on Morneau Shepell to transition to a new vendor. This alone gave us great pause."*
- We asked if there was any documentation to support the decisions surrounding this issue. The official responded, *"No, not that I am aware of."*

Correspondence from Deloitte Consulting on October 5, 2017, included the latest version of an RFP to administer MyBenefits solution. A month later, on November 5, 2017, the Assistant Deputy Director of Benefits asked her legal counsel *"[C]an you please tell me how quickly this week you can have the MyBenefits RFP ready? The Director needs it ASAP."*

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### COST OF THE PROCUREMENT

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For the period May 2016 through September 2018, the total cost of the Custom Benefit Solution project **exceeded \$27.7 million**. This figure is comprised of costs for Morneau Shepell, the CMS subject matter expert Deloitte Consulting, and additional contractual staff hired at CMS

and the Department of Innovation and Technology. Exhibit 2-5 details the total costs we calculated from available documentation and the costs are explained below.

Exhibit 2-5 <b>TOTAL COST OF CUSTOM BENEFIT SOLUTION</b> May 2016 – September 2018		
Service Dates	Cost Element	Amount
<i>Morneau Shepell</i>		
05/31/16-06/30/18	Invoiced and Partially Paid by CMS	\$16,762,835.92
07/01/18-09/30/18	Invoiced Only – Not Paid by CMS	\$2,784,460.95
09/01/17-01/31/18	Prompt Pay Interest Paid by State	\$38,503.79
02/01/18-05/31/18	Prompt Pay Interest Owed by the State	\$50,070.37
<i>Total – Morneau Shepell</i>		<i>\$19,635,871.03</i>
<i>Deloitte Consulting</i>		
08/01/15-10/31/16	Invoiced and Paid by CMS	\$2,227,730.75
08/01/15-06/30/16	Prompt Pay Interest Paid by the State	\$32,064.98
11/01/16-09/30/18	Invoiced Only – Not Paid by CMS	\$4,276,774.00
11/01/16-04/30/18	Prompt Pay Interest Owed by the State	\$282,414.08
<i>Total – Deloitte Consulting</i>		<i>\$6,818,983.81</i>
<i>Additional Contractual Staff</i>		
07/01/15-02/20/19	CMS	\$641,193.75
05/12/16-03/31/19	Department of Innovation and Technology	\$679,110.00
<i>Total – Additional Contractual Staff</i>		<i>\$1,320,303.75</i>
<b>TOTAL COST</b>		<b>\$27,775,158.59</b>
Note: Some of the contractors for CMS and the Department of Innovation and Technology have terms into calendar year 2019. For reporting purposes, we included the full value of those contracts.		
Source: OAG developed from CMS documentation.		

### Morneau Shepell

Morneau Shepell invoices CMS monthly for the Custom Benefit Solution. Generally, these invoices consist of three elements: administrative fees for the Custom Benefit Solution which are charged as a per member per month rate; pass through expense costs which are estimated as \$5 per member per year; and costs for any optional services CMS requests which are billed based on rates contained in the contract. Additionally, Morneau Shepell is eligible for, and has received and is entitled to, additional funds through prompt pay penalties.

Four funds are utilized to make payment to Morneau Shepell for the Custom Benefit Solution. The vast majority (74 percent) of the payments, through September 30, 2018, came from the Health Insurance Reserve Fund. An additional 23 percent of the payments were charged to the Teacher Health Insurance Security Fund. Exhibit 2-6 presents the amounts paid from the four funds.

Exhibit 2-6 FUNDS AND PAYMENTS TO MORNEAU SHEPELL Through September 30, 2018	
Fund	Payments
Health Insurance Reserve	\$12,429,928.39
Teacher Health Insurance Security	\$3,792,826.91
Community College Health Insurance Security	\$367,431.81
Local Government Health Insurance Reserve	\$172,648.81
<b>Total</b>	<b>\$16,762,835.92</b>
Source: OAG developed from CMS information.	

CMS reported that payments to Morneau Shepell for work under the Custom Benefit Solution were delayed. A Morneau Shepell Senior Vice President for U.S. Client Development reported that, *“Once the contract was finalized then Morneau Shepell began project execution including system development. There was no member data exchange or State specific system set up prior to contract Execution.”* At the entrance conference for this audit, the CMS Acting Director at the time told us there are two issues as to why CMS has not paid the bills from Morneau: (1) a backlog of bills which had been alleviated by the recent sale of bonds, and (2) the reports submitted by Morneau have been flawed and CMS is going back and forth with Morneau to get them rectified.

The July 2016 work period was invoiced by Morneau Shepell on August 4, 2016. The CMS Bureau of Benefits eventually approved the invoice for payment on June 23, 2017, **323 days later**. The State made payment to Morneau Shepell for the July 2016 work on July 7, 2017. We examined the payment and approval dates for payments to Morneau Shepell. **The average number of days for Benefits to approve invoices for payment was 92, with a range from 3 to 323 days.**

While the first two State payments to Morneau Shepell were relatively timely (2-3 months), **subsequent payments sometimes took over a year to process**. The CMS Deputy Director of Benefits discussed outstanding invoices with the Acting Director of CMS in a correspondence on October 5, 2017. The Deputy Director provided a total owed to Morneau Shepell with the caveat, *“These are estimates only, [because] of their inability to produce correct carrier reports.”*

### Line Items Billed by Morneau Shepell

Morneau Shepell billed CMS for \$22.5 million worth of services for the period May 2016 through September 2018. Invoices we reviewed contained line items for implementation fees, monthly administrative fees for ongoing operations, expenses, and optional services which the State requested. The rates for these individual line items were detailed in the contract. Exhibit 2-7 lists the amounts billed by line item.

Exhibit 2-5 reports a different amount for what Morneau Shepell was “paid” during the course of the contract. Exhibit 2-7 only presents the **billed amounts**. During the contract term CMS has deducted penalties from Morneau Shepell for failure to achieve performance guarantee levels. Performance guarantees and penalties are discussed in Chapter Three of this report.

**Deloitte Consulting**

Based on an examination of billings provided by CMS, we found that Deloitte Consulting has been involved with what became the Custom Benefit Solution since August 2015.

For the period August 2015 through September 2018, Deloitte has **invoiced CMS over \$6.5 million for work on the Custom Benefit Solution**. However, due to a “hold” placed on Deloitte payments by the Illinois Comptroller, 66 percent of the invoiced billings have not been paid.

Deloitte has been paid over \$32,000 in prompt pay interest by CMS for Custom Benefit Solution work. Additionally, as of September 30, 2018, CMS owes Deloitte an additional \$282,414 in prompt pay interest.

Exhibit 2-7 <b>MORNEAU SHEPELL LINE ITEM BILLINGS</b> May 2016 – September 2018	
Line Item	Amount
Implementation Fee	\$749,985.00
Administrative Fee	\$17,118,913.64
Postage/Shipping	\$245,951.76
Printing	\$264,256.00
COBRA QE Notice	\$159,356.97
COBRA Billing	\$10,368.26
ACA Implementation Fee	\$30,000.00
ACA Annual Support	\$13,556.00
ACA Monthly Reporting Fee	\$3,314,207.28
ACA Adjustment	\$141,529.50
ACA Prefunded Postage	\$66,518.87
ACA Fulfillment Postage	\$295,851.10
Language Line	\$3,175.50
Phone	\$98,684.40
On-site Seminar Support	\$20,000.00
<b>Total</b>	<b>\$22,532,354.28</b>
Note: COBRA – Consolidated Omnibus Budget Reconciliation Act; ACA – Affordable Care Act.	
Source: OAG developed from CMS and Morneau Shepell documentation.	

Deloitte has been involved in all aspects of the Custom Benefit Solution. Documentation examined during the audit showed Deloitte involvement during the **procurement** with:

- Development, on October 27, 2015, of expected fees for the Custom Benefit Solution to be included in the Procurement Business Case for the Custom Benefit Solution.
- Development of White Paper evaluation of response.
- Discussion on findings/outliers for the technical portion of the evaluation.
- Participation in the finalist presentation.
- Discussion of initial pricing submitted by Morneau Shepell.
- Development of questions for Best and Final Offer negotiations.
- Participation in pre-award conversation with Morneau Shepell.
- Price Review for Morneau Shepell Proposal
- Review of the Morneau Shepell Best and Final Offer.

Deloitte documentation also showed involvement by the subject matter expert in two other areas: program management and implementation support activities. Exhibit 2-8 presents activities conducted by Deloitte for program management. Exhibit 2-9 details Deloitte activities to support implementation of the Custom Benefit Solution.

Exhibit 2-8 <b>DELOITTE CONSULTING LEADERSHIP OVERSIGHT AND PROGRAM MANAGEMENT</b> Custom Benefit Solution	
1.	Provide engagement leadership and oversight of program management, including participation in the Steering Committee.
2.	Prepare and review Steering Committee and Executive updates.
3.	Establish and maintain the Program Management Office.
4.	Establish program structure and project management approach.
5.	Develop and maintain program management tools and templates.
6.	Develop and manage integrated project work plan, including internal and external stakeholder activities, for the Benefits Plan Design and Rating and Custom Benefit Solution implementation activities.
7.	Assist in planning integrated work plan activities and milestones.
8.	Prepare for and facilitate internal meetings with State of Illinois project resources and stakeholders.
9.	Participate in vendor requirements meetings.
10.	Serve as liaison, point of contact and coordination for program related activities to support consistent program and project communication.
11.	Escalate issues, decisions and approvals to State of Illinois Project Sponsors as appropriate and necessary.
12.	Evaluate project progress and milestones.
13.	Review and monitor vendor progress reporting.
14.	Monitor execution of project activities and milestones.
15.	Manage program activities, issues, risks and decisions using project management tools.
16.	Provide program oversight and prepare status updates and reporting.
17.	Identify decision owners and facilitate State of Illinois decision making as necessary.
18.	Support planning for transition of knowledge and roles to State of Illinois resources.
Source: OAG developed from Deloitte Consulting Implementation Planning document.	

Exhibit 2-9 <b>DELOITTE CONSULTING IMPLEMENTATION SUPPORT ACTIVITIES</b> Custom Benefit Solution
1. Assist in planning integrated work plan activities and milestones.
2. Identify changes and provide updates to integrated project work plan.
3. Support Project Leads in identifying and managing project issues, risks and decisions.
4. Support status updates and reporting to the Project Management Office to support consistent program and project communication.
5. Assist in identifying decision owners and facilitating State of Illinois decision making and approvals as necessary.
6. Support the Project Leads and vendors' development of vendor requirements.
7. Assist in the review of vendor requirements.
8. Support the Project Leads and vendors' development of the vendor interface requirements.
9. Assist in the review of systems and vendor interface requirements.
Source: OAG developed from Deloitte Consulting Implementation Planning document.

### Independent Contractors

During the audit we identified **ten individuals who were hired on contract by either CMS or DoIT** to conduct activities for the Custom Benefit Solution. Some of these individuals were retirees from the Bureau of Communication and Computer Services or had been contractual employees for DoIT. Total costs for the life of these contracts was **over \$1.3 million**. Exhibit 2-10 details the start and end dates for the contractual staff along with the cost we determined from the individual contracts.

The contracts detailed what type of work was to be performed. These tasks included:

- Transition system processing components from the State to Morneau Shepell for Custom Benefit Solution;
- Integrate existing group insurance membership system into new MyBenefits system;
- Provide key support for the MyBenefits project; and
- Provide technical support for the interface and mapping and integration phase of the MyBenefits projects.

Exhibit 2-10 <b>CONTRACTUAL EMPLOYEE COSTS</b> Custom Benefit Solution			
Title	Date Started	Date Ended	Cost
CMS Contractual	8/21/17	2/20/19	\$102,990.00
CMS Contractual	8/21/17	2/20/19	\$96,043.75
CMS Contractual	7/1/15	1/31/17	\$235,200.00
CMS Contractual	4/4/16	12/31/17	\$100,733.75
CMS Contractual	4/4/16	12/31/17	\$106,226.25
DoIT Contractual	3/16/18	3/31/19	\$107,250.00
DoIT Contractual	1/31/18	1/31/19	\$107,250.00
DoIT Contractual	1/31/18	1/31/19	\$107,250.00
DoIT Contractual (2 individuals)	5/12/16	5/11/18	\$357,360.00
<b>Total</b>			<b>\$1,320,303.75</b>
Source: OAG developed from CMS and DoIT information.			

### **Additional Contract Costs**

Morneau Shepell documentation showed CMS requested two changes from Morneau Shepell **which will eventually cost the State an additional \$1,652,000**. CMS officials indicated that these changes were part of the contract which called for a Special Enrollment Period in September 2016, an enrollment period that never occurred. However, both changes, per Morneau Shepell documentation, were requested by CMS in March 2017 and relate to new health care options that were to be included as part of the May 2017 Open Enrollment Period. Those **options were never implemented**. The change orders are summarized below:

- Creation of a **decision support tool** for the possible introduction of a tiered benefit program (bronze, silver, gold and platinum) to members. The different levels are referred to as “metal bands.” Cost of the change order was \$325,000.
- Implementation of the metal bands for members with an effective date of July 1, 2017. The new metal bands would operate on the Morneau Shepell system behind the scenes as a contingency plan. The cost of the change order was \$1,327,000.

While CMS requested this work be completed, the actual implementation of the metal bands did not occur during the May 2017 enrollment period. In fact, the metal band implementation also did not occur in the May 2018 enrollment period. As of October 2, 2018, **Morneau Shepell has not invoiced the State** for the two change orders.

### **Department of Innovation and Technology**

While auditors **cannot place a dollar value on the activities that DoIT conducts** relative to the Custom Benefit Solution project, the activities utilize additional State resources and contribute to **increased overall cost** of the project. DoIT staff participates in State system modifications and report development as part of the management of the Custom Benefit Solution.

According to DoIT officials, **DoIT does not have a mechanism to provide a dollar amount** for the work effort spent for fixing problems versus maintaining and/or enhancing interfaces and system processes to stabilize the MyBenefits Marketplace project.

DoIT responsibilities have expanded since the implementation of the Custom Benefit Solution. Pre-conversion tasks of maintaining/enhancing the Group Insurance Membership systems now include the following:

- **Capping** – numerous modifications have been made at the Bureau of Benefit’s direction to **adjust deduction information** going to payroll processors. This started in December 2016 and has continued to be modified through today with some capping still in place. Capping activities include: adjustments greater than \$100, Medical Care Assistance Plan (MCAP)/Dental Care Assistance Plan (DCAP) adjustments, and refunds.

- **Reports** – A large number of reports have been and continue to be created by DoIT since, **as reported by DoIT, Morneau Shepell cannot deliver them to the appropriate recipients.** The reports are listed in Exhibit 2-11.
- **Other Processes** – A DoIT official reported a few examples of other activities related to maintaining payroll due to issues with Morneau Shepell and, as reported by DoIT, its **inability to perform certain functions correctly.** The examples were:
  - DoIT created a daily process to deliver a file of current deductions in place state-wide for synchronization with Morneau Shepell databases.
  - DoIT processed numerous requests for information needed in determining validity of member deductions and schedules. Additionally, DoIT conducted various queries such as those listing individuals on multiple schedules, verification of “stop” records, members with no life deductions, coverage category information, social security number change information/verification, adjustment and refund queries.

Exhibit 2-11 REPORTS DEVELOPED BY DoIT FOR CUSTOM BENEFIT SOLUTION
Payroll Adjustment Reports
Daily Change Reports
Benefit Choice Elections
Total Retiree Advantage Illinois Program Reports
Flex Spending Reports
Payroll Discrepancy Reports
Payroll Discrepancy Reports (MCAP/DCAP)
Termination Reports
Imputed Income Reports
Affordable Care Act – Reporting & Files
Various ad hoc Reports, Spreadsheets & Files
Source: OAG developed from DoIT information.

### Optional Service Costs in Contract

Section 2 of the contract with Morneau Shepell lists a number of optional services the State can elect to have Morneau Shepell perform for additional costs. CMS selected three of those optional services, **one which already was being performed by CMS staff:**

- Annual Enrollment Educational Workshops
- Full Employer Mandate Services for the Affordable Care Act
- COBRA Administration Services.

During our review of audit documentation, we found a communication dated December 21, 2015, from the former CMS Benefits Portfolio Manager to the State Purchasing Officer and several Deloitte officials regarding the Custom Benefit Solution Best and Final Offer. In that communication, the CMS official references two services, COBRA Administration and COBRA Billing, as services that **CMS does not need from Morneau Shepell because CMS already has a unit conducting these services.** We asked why CMS was paying for this optional service when it was already conducting the activities. The Assistant Deputy Director of Benefits told us that *“A decision was made by management at the time of contract to utilize Morneau for the optional services to administer COBRA.”* The official stated the CMS staff no longer are

involved with COBRA but still work for CMS as *“part of the Premium Collection Unit that perform other premium collection administration duties.”*

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## Chapter Three

# CONTRACT ADMINISTRATION

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## CHAPTER CONCLUSIONS

According to the former Governor’s Deputy Director of Government Transformation, prior to even awarding a contract to Morneau Shepell for the Custom Benefit Solution, a CMS official had “*some grave concerns about delays and unforeseen barriers related to [Morneau Shepell] that may jeopardize overall success.*” [Emphasis added.]

Prior to Go-Live, a number of groups had concerns with the Custom Benefit Solution. These groups included the Teachers’ Retirement System, the Custom Benefit Solution Steering Committee, and a health check conducted by the Department of Innovation and Technology (DoIT) for the Custom Benefit Solution project with results reported to CMS officials on September 29, 2016, **the day before the Go-Live** for the system. It is not clear that CMS brought all the groups to the table that would be affected by the Custom Benefit Solution.

Performance guarantees were written into the contract between CMS and Morneau Shepell. The contract provides guarantees to be met or penalties to be imposed if the guarantees are not met. Guarantees were broken into implementation guarantees and ongoing service guarantees.

CMS’ contract with Morneau Shepell provided for self-reported performance guarantee statistics; however the vendor did not always report on every guarantee as required by the contract. We found issues relative to CMS oversight of the performance guarantees including:

- CMS provided little incentive for Morneau Shepell to meet all of the performance guarantees outlined in the contract by capping the fee reduction on the administrative fee charged to four missed guarantees. Our analysis of Morneau Shepell initial reporting figures showed as many as seven monthly and ten quarterly guarantees missed, yet by contract CMS was only allowed to penalize for four missed guarantees. CMS eventually allowed Morneau Shepell to revise its self-reported compliance guarantees as many as three times when reporting monthly performance.
- CMS did not consistently enforce the contractual requirement for Morneau Shepell to submit written plans of correction for failure to meet a performance guarantee for two consecutive months. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was no written corrective action plan submitted, which was a violation of the contract.
- CMS failed to include the breach of contract language from the RFP in the contract for guarantees missed in three consecutive months. Our analysis of the self-reported Morneau Shepell monthly performance metrics found 24 instances where it missed the metric for three consecutive months.

CMS failed to enforce the time reporting requirements from the contract with Morneau Shepell for reporting on performance guarantees. While the contract executed May 3, 2016, called for “monthly” reporting, it **took CMS over 600 days to define when Morneau Shepell had to submit those “monthly” reports.**

Between May 2016 and September 2018, Morneau Shepell invoiced CMS 28 times for the implementation and ongoing support of the Custom Benefit Solution. Morneau Shepell has been paid in full for 19 of the 28 invoices, four of those being for implementation services. For the 15 invoices paid related to ongoing support, CMS deducted the 20 percent maximum performance fee penalty in all 15 instances. In total, CMS has withheld performance penalties from the administrative fees, per the contract, of over \$2.1 million. As of September 30, 2018, CMS had a total of \$6,770,003.56 worth of invoices to be paid to Morneau Shepell for the Custom Benefit Solution.

CMS failed to ensure that **all components** of the Custom Benefit Solution **were properly tested prior to implementation** of the system. This resulted in instances where employees and retirees: were **charged incorrect amounts**; were **incorrectly cancelled** from benefits; and had **members listed as having coverage when they should have been terminated**.

While the procurement of the Custom Benefit Solution was **accelerated**, so too was the implementation of the Custom Benefit Solution. The “Go-Live” for the project was **two to four months prior** to what Morneau Shepell had proposed in its response to the solicitation. This aggressive implementation led to a **system that had multiple performance problems** which affected employees and retirees prior to problem resolution.

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## INTRODUCTION

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House Resolution Number 522 directed the Auditor General to review the administration of the Morneau Shepell contract by CMS. Specifically, we were to determine: whether CMS has **reviewed the vendor’s compliance** with the Performance Standard Guarantees and, in particular, the **standards applicable to the accuracy of participant transactions**; and, whether there have been any **reductions in the vendor’s administrative fee** as a result of any failure to meet Performance Standard Guarantees.

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## CUSTOM BENEFIT SOLUTION ADMINISTRATION BY CMS

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According to the former Governor’s Deputy Director of Government Transformation, prior to even awarding a contract to Morneau Shepell for the Custom Benefit Solution, a CMS official had “*some grave concerns about delays and unforeseen barriers related to [Morneau Shepell] that may jeopardize overall success.*” [Emphasis added.] The Governor’s Office official indicated that Deloitte had similar concerns. These concerns were noted to other officials in the Governor’s Office, the CMS Acting Director and an official from DoIT on March 1, 2016, **33 days after the award** was announced and **63 days prior to executing a contract** with Morneau Shepell.

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## CUSTOM BENEFIT SOLUTION ISSUES PRIOR TO GO-LIVE DATE

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Prior to Go-Live, a number of groups had concerns with the Custom Benefit Solution. It is not clear that CMS brought all the groups to the table that would be affected by the Custom Benefit Solution. From documentation we reviewed during the audit those concerns are provided below.

### Teachers’ Retirement System Concerns

**Sixteen days prior the Go-Live date**, September 30, 2016, for the Custom Benefit Solution, the Teachers’ Retirement System (TRS) reported to CMS a number of concerns about

the project. The Executive Director of TRS reported “*the risks for a less than optimal roll out are significant...the number of unanswered questions and the general lack of any sense of certainty about how processes will actually work was shocking.*”

The Executive Director continued to report “*As I have stated previously, changes like this are more typically well-advertised with adequate time to run in parallel. That is not the case here.*” The official then went on to point out specific concerns:

- If September 30 is indeed the Go-Live date, it will come without testing being complete. We have yet to receive a test file from Morneau Shepell for our Teachers’ Retirement Insurance Program (TRIP) members that is complete and suitable for testing with the Comptroller’s Office.
- We have serious concerns that payrolls utilizing the untested data provided by Morneau may fail.
- The report we are being asked to use does not have the information necessary to determine what the correct deductions are.
- Training has been grossly inadequate.
- Despite repeated attempts to get this corrected, content in the employee and guest portals continues to incorrectly link TRIP information into the State Employees Group Insurance Program (SEGIP) information.
- CMS and Morneau have not yet addressed how recipients of survivor or disability annuities will be handled. Specifically, the determination of effective dates for coverage versus premium collection has not been addressed. Discussions about suspended claims have also not occurred.

It is important to note that the RFP for the Custom Benefit Solution originally requested a vendor be ready for a program of services that would have been effective for the annual Benefit Choice period in May 2016, for the traditional plans. The contract with Morneau Shepell detailed that unless otherwise directed by CMS, Morneau Shepell **shall administer a full-service custom benefit solution** for the programs throughout the term of this contract. All services required under this Section **shall begin no later than September 1, 2016**. That Go-Live date was again moved to September 30, 2016. Yet, TRS was pointing out **problems** with the Morneau product solution on September 14, 2016, **134 days after the contract was executed with Morneau Shepell and 16 days prior to the twice revised Go-Live date.**

#### **Steering Committee Concerns**

The Custom Benefit Solution Steering Committee, which was formed in late spring/early summer of 2016 and consisted of officials from CMS, the Governor’s Office, other State agencies, Deloitte, and later Morneau Shepell, met on September 14, 2016, **16 days prior to Go-Live** and also **had concerns and issues** surrounding the project. The Steering Committee meeting was attended by officials from CMS, the Governor’s Office, Deloitte Consulting, and Morneau Shepell. Among the **issues at that meeting** were:

- The project is behind schedule overall based on the status of five key project milestones.
- The soft roll out on September 30 provides the opportunity for the project team to correct any outstanding issues, manage stakeholders’ communications, and test with a

relatively smaller population through the Total Retiree Advantage Illinois (TRAIL) enrollment.

- Some State healthcare vendors had expressed concerns with a Go-Live for September 30.
- The EPay file was sent to Morneau a few weeks late; consequently, EPay is at risk for Go-Live.
- The Comptroller had expressed concerns that it did not have the information necessary to do checks after Go-Live.
- There are two defects in issues resolution, nine that require retesting, and 39 defects that will be resolved post Go-Live.

### **Health Check for Custom Benefit Solution**

DoIT conducted a health check for the Custom Benefit Solution project and reported its results to CMS officials on September 29, 2016, **the day before the Go-Live** for the system. The intent of the health check is to ensure that all key stakeholders are aware of the risks prior to the deployment of a system so they are better prepared to meet any anticipated risks or issues, along with some lessons learned.

The report states that there are significant differences of opinion about the health of the project. Those associated directly with the project had an optimistic view of progress, while two of the larger stakeholders observed that the requirements gathering process, quality assurance, and training are deficient.

DoIT concluded that the implementation partner, Morneau Shepell, was performing well and that documentation from Morneau Shepell that was used to manage the project was complete and easy to understand. However, the DoIT report does show that project documentation was requested from the project team but due to short turn around **was not reviewed in detail**.

The DoIT report also examined stakeholder concerns. However, **because of the short timeline for completing the review, there was little detail checking**. Stakeholder concerns included:

- System design was behind schedule and the testing process was pushed back on more than one occasion.
- Accuracy of the data in production files that interface with external systems.
- The payroll change file had not been adequately tested but that would be completed in October.
- The system had not been properly developed and tested but Morneau Shepell was correcting mistakes identified in testing.
- The State Employees Retirement System (SERS) and the University of Illinois (U of I) had not confirmed that calculations and coding are correct and would not be able to until after Go-Live date.
- Both SERS and U of I requested a single sign-on to maintain the existing quality of the customer experience, and it had not been delivered.

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### **PERFORMANCE STANDARD GUARANTEES**

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Performance guarantees were written into the contract between CMS and Morneau Shepell. The guarantees, detailed in Exhibit D of the contract, provide guarantees to be met or

penalties to be imposed if the guarantees are not met. Guarantees were broken into implementation guarantees and ongoing service guarantees.

CMS understood the importance of the implementation guarantee but appears to have changed the guarantee that was advertised to all potential bidders in the RFP. A CMS Senior Benefits Analyst provided, on November 24, 2015, Deloitte Consulting and others at CMS with the point distributions for the vendor presentation. The Analyst stated “*We are giving more weight to **Experience and Management** (100 points instead of 50 points) due to the importance of meeting the implementation deadline.*” The implementation deadline in the RFP was May 2016. Morneau Shepell did not meet that implementation deadline even though it appears CMS considered that deadline instrumental in the procurement. However, Morneau Shepell was paid in full for implementation activities.

Our work during the audit concluded that there were some deficiencies in the oversight and application of the performance guarantees. Those deficiencies are discussed below.

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## **CONTRACT AND PERFORMANCE GUARANTEE OVERSIGHT**

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CMS’ contract with Morneau Shepell provided for self-reported performance guarantee statistics; however the vendor did not always report on every guarantee as required by the contract. Our examination of documentation found a number of issues relative to CMS oversight of the performance guarantees including:

- CMS provided little incentive for Morneau Shepell to meet all of the performance guarantees outlined in the contract by capping the fee reduction on the administrative fee charged to four missed guarantees. Our analysis of Morneau Shepell initial reporting figures showed as many as seven monthly and ten quarterly guarantees missed, yet by contract CMS was only allowed to penalize for four missed guarantees. CMS eventually allowed Morneau Shepell to revise its self-reported compliance guarantees as many as three times when reporting monthly performance.
- CMS did not consistently enforce the contractual requirement for Morneau Shepell to submit written plans of correction for failure to meet a performance guarantee for two consecutive months. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was no written corrective action plan submitted, which was a violation of the contract.
- CMS failed to include the breach of contract language from the RFP in the contract for guarantees missed in three consecutive months. Our analysis of the self-reported Morneau Shepell monthly performance metrics found 24 instances where it missed the metric for three consecutive months.

The contract between CMS and Morneau Shepell for the Custom Benefit Solution project contained **20 total performance guarantees**. Two of those guarantees related to the implementation process for the project and the other 18 were for ongoing operations of the project. Each guarantee had an applicable performance standard percentage applied to the guarantee. Additionally, failure to hit the performance standard resulted, generally, in a five percent penalty to the monthly Morneau Shepell administrative fees under the contract. See Exhibit 3-1 for a listing of the performance guarantees.

Exhibit 3-1 CUSTOM BENEFIT SOLUTION PERFORMANCE GUARANTEES			
Category	Measure	Performance Standard	Administration fees at Risk
Implementation: Interim Solution for Special Enrollment Period	Percentage of implementation services completed and assessment of Vendor's readiness to perform the services set forth in the contract.	100%	\$125,000
Implementation Services for Ongoing Administration of CBS	Percentage of implementation services completed and assessment of Vendor's readiness to perform the services set forth in the contract.	100%	\$100,000
Service Availability	Availability of system 24 hours a day, 7 days a week.	99.5%	5%
Participant Website Availability	Availability of participant website 24 hours a day, 7 days a week.	99.5%	5%
Plan Sponsor Website Availability	Availability of plan sponsor website 24 hours a day, 7 days a week.	99.5%	5%
Average Speed of Call	Average for CSR to answer calls within 30 seconds.	80%	5%
First Call Resolution	Percentage of customer inquiries resolved at point of initial call to service center.	90%	5%
Case Management Threshold	Time to resolve customer inquiries requiring investigation:		
	resolved in 2 days	90%	5%
	resolved in 5 days	95%	5%
	resolved in 10 days	99%	5%
	resolved in 30 days	100%	5%
Case Management Communications	Periodic updates to participants with unresolved cases in support of customer service and communication.	100%	5%
Transaction Processing–Accuracy	Participant transactions shall be processed without reporting errors.	99%	5%
Transaction Processing–Timeliness	Transaction files processed per agreed to schedule.	99%	5%
Communication Fulfillment-Timeliness	Fulfillment of personalized communications according to the agreed upon communications channel and schedule.	99%	5%
Communication Fulfillment-Online Updates	Fulfillment of client requests to post materials or change content online on vendor website/portal.	99%	5%

Exhibit 3-1 CUSTOM BENEFIT SOLUTION PERFORMANCE GUARANTEES			
Category	Measure	Performance Standard	Administration fees at Risk
COBRA Packet Production	Packages shall be mailed within 14 calendar days of receipt of qualifying COBRA event.	100%	5%
Service Center Call Quality	Service center representative achieves a satisfactory rating on call quality with respect to customer service, professionalism, technical accuracy, handle time, and mutually agreed upon metrics and scoring methods.	80%	5%
Plan Sponsor Escalation Management	In the event of a service issue or urgent participant matter is identified by the Vendor or through notification from the State of Illinois, the Vendor shall provide written notification to all appropriate State of Illinois contacts. This notification shall include a description of the issue and the channel of identification. All accompanying information shall be included in the root cause analysis report, if applicable.	100%	5%
Management Reporting Timeliness	Adherence to Guidelines for delivering prescribed management reporting.	99%	5%
Participant Satisfaction	Employee satisfaction rating.	80%	5%
Plan Sponsor Satisfaction	Annual plan sponsor satisfaction survey.	80%	5%
Root Cause Analysis	In the event of a systems or manual processing error that adversely impacts coverage or administrative accuracy for multiple participants, the Vendor shall submit a written root cause analysis report to the State of Illinois. This report shall include a description of the issue, actions taken to correct the issue for affected participants, and controls established to ensure the issue shall not recur.	100%	0%
Note: CBS – Custom Benefit Solution; CSR – Customer Service Representative; COBRA – Consolidated Omnibus Budget Reconciliation Act.			
Source: OAG developed from Custom Benefit Solution contract.			

In a Service Management Report **submitted by Morneau Shepell on February 8, 2018**, 646 days after the contract was executed, it states *“Morneau Shepell and CMS recognize the need to use this report as an opportunity to reassess, validate and modify the service level agreements (SLA) defined in the initial contract...Despite the challenges encountered and unexpected factors that were not initially considered, the overwhelming majority of the service*

levels have been consistently met... We look forward to a positive discussion and refining our SLAs to better provide CMS and your members with excellent service and satisfying experiences.” While it appears Morneau Shepell wanted to make changes to the performance guarantee requirements, we have not seen any changes to the contractual requirements for performance guarantees memorialized in the contract.

We requested **documentation from CMS to support the compliance levels** with the performance guarantees for the period October 2016 (the Go-Live date) through September 2018. Our review of this **Morneau Shepell self-reported documentation** found a number of issues that reflect on the CMS oversight of the Morneau Shepell contract. These issues are detailed below.

### Performance Guarantee Compliance

Our analysis of the **original monthly self-reported performance guarantee metrics** by Morneau Shepell found that the vendor for the Custom Benefit Solution missed more guarantee levels than it was penalized for by CMS. The RFP capped penalties at 20 percent of monthly administrative fees for the vendor awarded the Custom Benefit Solution. That same requirement was included in the contract between CMS and Morneau Shepell. Exhibit 3-2 provides a monthly breakdown of the performance guarantees, reported by Morneau Shepell, which missed compliance levels.

While the contract allows for a penalty for missing performance guarantees, **once the 20 percent threshold for penalty is reached there is no incentive** for the vendor to meet the other performance guarantee levels. Our analysis of the Morneau Shepell self-reported figures showed that during the two-year period:

- Morneau Shepell missed anywhere from one to seven performance guarantees for the monthly reporting; and
- Morneau Shepell missed anywhere from two to ten performance guarantees for the quarterly reporting.

The CMS Assistant Deputy Director for Benefits reported “*This is a*

Exhibit 3-2 MONTHLY MISSED PERFORMANCE GUARANTEE ANALYSIS – CUSTOM BENEFIT SOLUTION Original Metrics October 2016 – September 2018			
Reporting Month or Quarter	Guarantees Missed	Reporting Month or Quarter	Guarantees Missed
10/16	5	10/17	7
11/16	5	11/17	7
12/16	5	12/17	5
FY17-Q2	5	FY18-Q2	6
1/17	3	1/18	4
2/17	5	2/18	5
3/17	4	3/18	3
FY17-Q3	4	FY18-Q3	5
4/17	4	4/18	3
5/17	4	5/18	1
6/17	3	6/18	2
FY17-Q4	3	FY18-Q4	2
7/17	7	7/18	1
8/17	7	8/18	1
9/17	6	9/18	2
FY18-Q1	10	FY19-Q1	2
Note: Performance guarantees are measured and reported monthly. Performance guarantee fees at risk are based upon the quarterly average for the three months in the quarter.			
Source: OAG developed from Morneau Shepell documentation.			

*contract unlike any we have implemented before, with a wide variety of business rules, changes in processes, new technology, transition to an external call center, and other adjustments. Due to the lack of “buy in” from stakeholders and quick implementation timeline, we did not implement surveys at implementation and determined not to focus our time and effort on them right after go-live. We have not provided a “grace period,” but we did not prioritize these items. We have withheld the maximum penalty allowed in the contract of 20% from each invoice, and are not considering the guarantee as met.”*

We shared the analysis of the **original** monthly submitted metrics with Morneau Shepell. A Morneau Shepell official responded that he *“respectfully disputes the finding of this audit. The information presented in these findings was not complete information as CMS and Morneau Shepell were in continuing discussions on the reporting process. The parties mutually agreed to work together to ensure that the reporting was aligned to CMS and Morneau Shepell expectations. It is common during the first years of a relationship to refine areas of an agreement.”* Refining performance guarantee reporting after the contract execution can effect oversight by CMS. The refining of monthly reporting metrics is discussed in paragraphs below.

### **Issue with Guarantee Counting**

There was one instance where CMS allowed performance guarantee metrics to indicate “met” when a system shutdown was the result of actions by Morneau Shepell. During the audit we found:

- An email from the Acting CMS Director to the Governor's Office on December 2, 2016, stated that the Acting Director had decided to shut down the Morneau Shepell system because of a condition where participant **social security numbers were in danger** of being compromised.
- Two days later, on December 4, 2016, a CMS contractual official reported to the Acting Director and the Governor's Office that the problem had been fixed, tested and the system would be up later in the evening.
- We calculated that a system shutdown for approximately 54 hours would impact the “Availability” by about seven percent and the monthly figure for December 2016 would have been around 93 percent which is below the metric.
- Both CMS and Morneau Shepell assessed the December 2016 “Availability” rate at 99.97 percent.
- The CMS Assistant Deputy Director of Benefits told us *“This specific instance was not included in the calculation of the guarantee as per the contract provision in Exhibit D. The parties will mutually agree to exclude instances and discuss any instances where the website is shut down for the protection of client data. **Because the site was shut down in an effort to protect member/client data it was not included in the calculation.**”* [Emphasis added.]

### **Changes in Self-Reported Metrics**

The CMS Assistant Deputy Director of Benefits told auditors that *“CMS has received a monthly report from Morneau starting in October 2016 through September 2018; however there are instances where **Morneau did not fully report their compliance with each and every***

*performance guarantee – e.g., some initial reports listed TBD, N/A, or Not Assessed instead of a true report of compliance for a small number of guarantees.” [Emphasis added.]*

Our review of the Morneau Shepell performance guarantee reports supplied by CMS showed a number of changes to the compliance percentages. We asked CMS why the self-reported figures would have changed. CMS responded that it had “*requested clarification and backup from Morneau Shepell since the first quarterly meeting held in June 2017. While Morneau provided some backup data in November 2017, CMS has only recently (August 2018) received enough backup documentation for performance guarantees since go-live to do a comprehensive review and question, accept, or dispute Morneau’s self-reported percentages as a whole.*” [Emphasis added.] Relative to the CMS review we would note that:

- It took 244 days from Go-Live and monthly reporting before CMS requested clarification and backup;
- It took 153 days for Morneau Shepell to provide that requested clarification and backup; and,
- It took 609 days for CMS to receive and determine whether the October 2016 self-reported figures from Morneau Shepell were valid.

The changes in metric reporting sometimes reflected a change in whether Morneau Shepell met the performance guarantee or did not meet the performance guarantee. For example, for the **month of January 2018** for the Transaction Processing Accuracy guarantee, the initial Morneau Shepell reported metric was **94.88 percent** and was submitted on February 28, 2018. This self-reported figure **did not meet** the performance guarantee. Five months later, on July 25, 2018, the metric reported by Morneau Shepell, **for January 2018, changed to 100 percent** compliance with the guarantee and Morneau Shepell **met the guarantee**. On October 26, 2018, CMS provided auditors with what it called the final reporting numbers. The **January 2018** reported figure for the same guarantee now was listed as **less than 99 percent**, which indicated that Morneau Shepell **did not meet the guarantee**. While we commend CMS on reviewing and getting Morneau Shepell to make changes to the metrics, we would believe that a review process **should have been implemented well before January 2018, which was two years after the contract was awarded** to Morneau Shepell.

Relative to changes in the self-reported figures, a Morneau Shepell official told us on January 9, 2019, “*During the implementation and initial phases of launching the services, both parties attempted to operationalize the performance measurement process. Jointly the parties came to mutual agreements that some critical reporting provisions remained somewhat ambiguous and could result in different interpretations. Morneau Shepell and CMS agreed to work toward refining the language and to add clarity to the SLA reporting process and definitions. At this juncture, the parties are working to finalize the areas where there is not mutual agreement. As a result of the outstanding differences between the parties, CMS has been withholding the maximum performance penalty (20% of fees) for all periods. Morneau Shepell has provided detailed backup data to support the reported measurements. Several iterations of supporting detail were requested of Morneau Shepell over time, as we continued to clarify expectations of the required level of detail in the data requirements. A detailed review of supporting data files and calculation methodology was completed collaboratively between the parties and spanned over several months. After this complete evaluation, both parties were able to reach a final agreement.*” While we credit CMS and Morneau Shepell for working out the issues with the reporting process, effective oversight by CMS would have included ensuring

adequate reporting parameters for performance guarantees **during the 96 days between contract award and execution of the final contract.**

### **Formal Plans of Correction**

During the audit we summarized those **initial monthly self-reported Morneau Shepell figures** to determine how many instances would have necessitated a **written plan of correction** based on the contractual requirement that a guarantee missed for two consecutive periods required a written plan. Our examination found:

- There were 14 performance guarantees where Morneau Shepell reported it had not achieved a level sufficient to meet the guarantee for **two consecutive months**. The total number of written plans of correction needed to comply with the contract **totaled 39**.
- For the performance guarantee on **Transaction Processing Accuracy**, our analysis showed that Morneau Shepell reported figures would need to have developed **five** written plans of correction.
- For the performance guarantee on **Participant Satisfaction**, our analysis showed that Morneau Shepell reported figures would need to have developed **nine** written plans of correction.
- For the performance guarantee on **Root Cause Analysis**, our analysis showed that Morneau Shepell reported figures would need to have developed **nine** written plans of correction.
- While we saw nothing titled “Plan of Correction,” we did see **some** mention of correction efforts in the monthly management reporting. However, those mentions were **inconsistently submitted by Morneau Shepell and accepted by CMS**. For 71 percent (17 of 24 months) of the two years since the Custom Benefit Solution went “Live,” there was **no corrective action plan submitted**, which was a violation of the contract.

### **Performance – Breach of Contract**

Section D.4.2.4 of the RFP for the Custom Benefit Solution provided the State a tool to use in the case where vendor performance is unacceptable and that performance is not improved. The section states “*Failure to meet a performance metric for 3 consecutive reporting periods may be considered by [CMS] to be a material breach of contract.*” In its proposal, **Morneau Shepell responded** to this section with “*We confirm that we understand and accept these performance standard requirements.*” While this section would work to protect State funds, employees and retirees, and Morneau Shepell confirmed its acceptance, **CMS did not include the “breach” language in the final contract** with Morneau Shepell.

Our analysis of the self-reported Morneau Shepell monthly performance metrics found **24 instances** where the “breach” provisions from the RFP (missing the metric for three consecutive months) could be triggered. The guarantees affected were the same as reported above: Transaction Processing Accuracy – four times where Morneau Shepell reported missing the metric for three consecutive months; Participant Satisfaction – six times; and Root Cause Analysis – six times.

On December 10, 2018, we shared our testing analysis relative to the number of instances where plans of correction were needed and potential breaches based on how the RFP was written. On January 9, 2019, a Morneau Shepell official told us *“As part of the contracting process, Morneau Shepell offered a standard Master Services Agreement and Statement of Work to the CMS team. It was determined that Morneau Shepell would use the CMS agreements and statement of work documents. The current Master Services Agreement and Statement of Work that is in place is the State of Illinois standard, as provided to Morneau Shepell. Morneau Shepell remains committed to working with the State to discuss additional contract terms that may be required to add clarity to the complexities of the agreement.”*

*“In relation to services that could be improved, both parties jointly worked on many occasions to resolve issues and improve processes. We had a joint governance structure which included Executive Committee meetings, on-going issues/initiatives prioritization meetings and joint project planning. Morneau Shepell implemented a number of improvements even beyond the standard requirements and agreements. Details of these improvements can be found in the Program Stabilization Plan managed by Deloitte and in the Morneau Shepell ongoing release plans attached.”*

Exhibit D in the Morneau Shepell contract lists the measurements to be utilized in evaluating the performance guarantees. The contract states *“All Performance Guarantees, unless stated otherwise below, shall be measured and reported to [CMS] monthly.”* [Emphasis added.] Additionally, section 1.2.1.2.1 of the contract states that Morneau Shepell *“shall self-report on **all** identified performance standards.”* [Emphasis added.]

Section 1.2.1.2.4 of the contract states *“If [Morneau Shepell] fails to meet any performance standard identified in [Performance Standard Guarantees] for two (2) consecutive months, [Morneau Shepell] shall submit a written corrective action plan to [CMS] detailing its proposed plan for meeting the applicable performance standard on a going-forward basis. [Morneau Shepell’s] corrective action plan shall be included with its monthly management reporting package.”*

The contract for the Custom Benefit Solution does include the standard State boilerplate language for “termination for cause.” This allows the State to terminate the contract if it determines that actions by the vendor have caused jeopardy to health, safety or property. Further, if the State determines that the vendor has failed to perform to the State’s satisfaction for a material requirement of the contract, it can notify the vendor in writing to cure the problem. This section does not define what a “material” requirement is.

The National Association for State Purchasing Officers publishes a Contract Administration Best Practices Guide. The guide provides useful tips including that a purchasing officer should *“Be diligent in managing your contracts and hold contractors accountable to the contract terms and conditions.”*

On August 2, 2018, the CMS Assistant Deputy Director of Benefits told us that Morneau Shepell has had **some repeated issues** and that Morneau Shepell **has not** submitted a formal corrective action plan. The official added that CMS and Morneau Shepell have ongoing weekly and monthly meetings, but no formal plan in writing from Morneau Shepell titled “Corrective Action Plan.” The CMS official added on August 30, 2018, *“Morneau Shepell’s quarterly service reports have included a written summary and brief corrective action for performance guarantees missed.”* We would note that, as explained above, this was not always the case.

CMS reported that “no [performance guarantees] were allowed to change from Missed to Made without sufficient documentation.”

The CMS Assistant Deputy Director of Benefits reported that while Morneau Shepell had instances where it failed to meet performance guarantees for three consecutive periods, CMS had not taken any steps to enforce the **breach** contract provisions. The official explained that “While the vendor has failed to meet certain performance guarantee provisions for consecutive reporting periods, core contract requirements are being met and overall service is at acceptable levels with minimal access to care issues. Invoking breach provisions has not been contemplated.”

Performance guarantees are written into a contract in order to **hold a vendor accountable** for the work product it is required to provide and to protect State funds. This is especially true for the Custom Benefit Solution which collectively covers approximately 450,000 employees and retirees and can impact the health insurance for those individuals.

CONTRACT AND PERFORMANCE GUARANTEE OVERSIGHT	
<b>RECOMMENDATION NUMBER</b>  <b>7</b>	<i>CMS should hold vendors accountable to contractually agreed upon requirements. Additionally, when developing performance guarantee requirements for a contract, CMS should utilize what criteria had been reported to all potential bidders in the solicitation document.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS continues to work with the vendor to refine contractual reporting requirements to ensure adequate vendor performance. CMS will strive to include all required criteria from solicitation documents in all resulting contracts.

### Performance Guarantee Reporting

CMS failed to enforce the time reporting requirements from the contract with Morneau Shepell for reporting on performance guarantees. While the contract executed May 3, 2016, called for “monthly” reporting, it **took CMS over 600 days to define when Morneau Shepell had to submit those “monthly” reports.**

Morneau Shepell is allowed to **self-report statistics** relative to the performance guarantees included in the contract for the Custom Benefit Solution. These statistics relate to compliance percentages towards the **21 total performance guarantees for ongoing operations** of the Custom Benefit Solution (the Case Management Threshold guarantee has four guarantee levels).

Morneau Shepell was awarded the procurement for the Custom Benefit Solution on January 28, 2016. The contract between CMS and Morneau Shepell was executed on May 3, 2016. During that 96-day period, it appears that no one involved in contract negotiations thought to define how the “monthly” reports for performance guarantees was to be interpreted. CMS amended the contract on January 23, 2018, and included a section to **address when monthly reporting needed to be submitted.** This **amendment** was **630 days after the initial requirement** for monthly reporting became effective.

During the course of the audit period during which Morneau Shepell was operating the Custom Benefit Solution after the Go-Live date, we found:

- CMS reported that it “*received a monthly report from Morneau starting in October 2016 through September 2018; however **there are instances where Morneau did not fully report their compliance with each and every performance guarantee** – e.g., some initial reports listed TBD, N/A, or Not Assessed instead of a true report of compliance for a small number of guarantees.*” [Emphasis added.]
- Additionally, CMS reported that “*In some cases, Morneau provided the quarterly report first and the monthly reports included in that quarter were **delivered at a later date.***” [Emphasis added.]
- Finally, CMS reported, on October 31, 2018, that it “*requested clarification and backup from Morneau Shepell since the first quarterly meeting held in June 2017. While Morneau provided some backup data in November 2017, CMS has only recently (August 2018) received enough backup documentation for performance guarantees since go-live to do a comprehensive review and question, accept, or dispute Morneau’s self-reported percentages as a whole.*”

Exhibit D in the Morneau Shepell contract lists the measurements to be utilized in evaluating the performance guarantees. The contract states “*All Performance Guarantees, unless stated otherwise below, shall be measured and reported to [CMS] monthly.*”

The CMS Assistant Deputy Director of Benefits reported “*While the contract requires Monthly and Quarterly reporting, the required timing of these reports was not clarified in the contract until the contract amendment executed 1/23/18. Beginning with February 2018, CMS began enforcing the timing requirement of the performance guarantee reporting.*”

The official also told us “*Upon Implementation on 9/30/16, CMS and Morneau Shepell were very focused on resolving any issues that may have a negative impact on members, carriers, agencies, retirement systems and universities and their employees. While monthly reporting was provided to the contract administrator in those early months, questioning the data seemed less critical at that time than working through and correcting those issues. The first quarterly meeting was held in June 2017...Additionally, typically Performance Guarantees included in CMS Benefits contracts are industry standard and do not require CMS to be actively involved in the tracking and calculation. As CMS questioned some of the reported measures, it became clear that some guarantees included in the Custom Benefit Solution contract were not standard to Morneau Shepell and additional oversight may be necessary to ensure the guarantees were properly tracked and measured.*”

Failure to require Morneau Shepell to timely comply with the performance guarantee contractual reporting requirements **limits CMS’ ability** to fully determine whether Morneau Shepell is performing at an adequate level and that State assets are adequately safeguarded. Additionally, not receiving enough **backup documentation** to do a comprehensive review for 670 days after Go-Live of the Custom Benefit Solution would **appear to limit CMS’** ability to provide effective oversight of the vendor.

PERFORMANCE GUARANTEE REPORTING	
<p><b>RECOMMENDATION NUMBER</b></p> <p><b>8</b></p>	<p><i>CMS should ensure that Morneau Shepell complies with performance guarantee reporting provisions in the contract for the Custom Benefit Solution. Additionally, CMS should take steps to ensure that Morneau Shepell is timely in producing backup documentation to support the self-reported statistics relative to performance guarantees.</i></p>
<p><b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b></p>	<p>The Department agrees with the recommendation. CMS has clarified the reporting requirements via contract amendment and will continue to monitor vendor performance monthly. A monthly process has been established to ensure the vendor is providing backup documentation to support its self-reported statistics each month.</p>

### REDUCTION IN ADMINISTRATIVE FEES

Between May 2016 and September 2018, Morneau Shepell invoiced CMS 28 times for the implementation and ongoing support of the Custom Benefit Solution. Morneau Shepell has been paid in full for 19 of the 28 invoices, four of those being for implementation services. For the 15 invoices paid related to ongoing support, CMS deducted the 20 percent maximum performance fee penalty in all 15 instances. In total, CMS has withheld performance penalties from the administrative fees, per the contract, of over \$2.1 million.

As of September 30, 2018, CMS had a total of \$6,770,003.56 worth of invoices to be paid to Morneau Shepell for the Custom Benefit Solution. For the time period January through June 2018, the State has not paid Morneau Shepell **for all of the funds invoiced for payment**. For July through September 2018, the State has **not paid Morneau for any services** invoiced although they have been vouchered. Therefore, the total amounts of the performance guarantee penalties for January through September 2018 cannot be calculated.

We asked CMS when the monthly reporting numbers were "finalized" in October 2018, if CMS would be refunding performance guarantee penalties to Morneau that were previously withheld. The CMS Assistant Deputy Director of Benefits reported *"CMS assessed the 20% penalty due to either reported misses of the PGs [performance guarantees] or concerns that PGs may have been missed, even if not initially reported missed. CMS and Morneau have been working to finalize the measurements from October 2016 through June 2018 to determine what penalties will ultimately be assessed based on missed PGs. CMS leadership determined the most responsible way to proceed was to assess the maximum penalty under the contract (20%) until comfortable with the measurements. As the figures are finalized, CMS may release money due to Morneau once sufficient backup is provided and it is determined that Morneau missed less than four PGs for a given quarter."* [Emphasis added.]

Auditors are unclear why this would be necessary given that Morneau Shepell: agrees to guarantees in the contract and submits self-reported data to CMS which shows they missed the compliance required for the guarantee; and CMS invokes the penalties. Later, the numbers, which were self-reported by Morneau Shepell, can change back to Morneau Shepell's favor 16 months after they were first reported.

### Stabilization Plan

According to CMS, a stabilization plan was developed for the Custom Benefit Solution as the result of an early December 2016 meeting between CMS leadership and Morneau Shepell expressing dissatisfaction with the lack of significant progress Morneau Shepell was making to proactively identify and resolve issues that continued to develop since Go-Live on September 30, 2016. The purpose of the Plan was to identify and resolve issues and work toward a “Stable” state of operations. The process to “stabilize” was proposed by Morneau Shepell with feedback from the State of Illinois and Deloitte. The activities were to begin in January 2017. There was no additional cost for the stabilization plan. The end result was supposed to be fewer issues, more reports necessary for State of Illinois to conduct operations, and a functional process to identify and resolve issues as they arose.

The CMS Assistant Deputy Director of Benefits reported that at a meeting held on October 4, 2017, the Deloitte report on MyBenefits Stabilization and Service Improvement Measurement and Next Steps reflected *“that Morneau had made some improvement in identification, tracking and resolution of issues, but did not show improvement in service quality and responsiveness or governance, quality and controls. A significant number of issues/processes CMS had identified as “critical” were either resolved or significant progress was made, but the overall status of “Stabilization” was still not met.”*

The official added that *“During this period, CMS was not making payment to Morneau Shepell for services. This was the action CMS could take against the vendor, while ensuring the members’ health, dental and life benefits, nor payroll/pension deductions were negatively impacted. Once Morneau was able to fulfill the fiscal reporting requirements, payment to the vendor was approved in late March 2018 and CMS continues to assess the maximum penalty allowed under the contract by withholding 20% of administration fees on each monthly invoice until CMS and Morneau Shepell agree on the status of the performance measures contained in the contract.”*

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### CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES

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CMS failed to ensure that **all components** of the Custom Benefit Solution **were properly tested prior to implementation** of the system. This resulted in instances where employees and retirees: were **charged incorrect amounts**; were **incorrectly cancelled** from benefits; and had **members listed as having coverage when they should have been terminated**.

While the procurement of the Custom Benefit Solution was **accelerated**, so too was the implementation of the Custom Benefit Solution. The “Go-Live” for the project was **two to four months prior** to what Morneau Shepell had proposed in its response to the solicitation. This aggressive implementation led to a **system that had multiple performance problems** which affected employees and retirees prior to problem resolution.

In the RFP, CMS wanted a vendor to develop the Custom Benefit Solution in time for the May 2016 benefit choice period. That did not happen. Morneau Shepell responded that *“Our standard implementation timeframe is approximately five to nine months depending upon complexity. We believe that this project will require seven to nine months to implement. The scale of the project requires a conservative approach with extensive testing. The large population calls for implementation of extensive Business Process Management workflow automation; processes must be meticulously documented; billing balances and history require*

*conversion and reconciliation; the member experience must be configured to individualize content for each group. While no component of this project is unique or exceptionally complicated, any issues would be highly visible and potentially high impact.” [Emphasis added.]* Additionally, the Morneau Shepell Senior Vice President for U.S. Client Development told us on December 18, 2018, that a nine to ten month implementation would have been more ideal.

The contract between CMS and Morneau Shepell was executed May 3, 2016. Based on Morneau Shepell expertise, the Go-Live date should have then been anywhere from December 2016 through February 2017. Instead, the Custom Benefit Solution went Live two months earlier, on September 30, 2016.

The Morneau Shepell official told us there were problems with designing the portal from the beginning because not all of the stakeholders were at the table. The official said with a project like this, critical stakeholders are typically required early in implementation discussions to ensure current state operations are understood and mapped into future state requirements based on both business rules, operational needs, process optimization, and change management. He said in this case, there were a number of critical stakeholders who were not present at the initial implementation requirements discussion and this combined with trying to complete the implementation in an accelerated timeframe was not an ideal approach.

The official said he remembers representatives from the State’s retirement system not being in attendance. When Morneau went “Live,” representatives from the retirement systems and other agencies identified some process gaps and opportunities for improvement which were quickly remedied. He said it is best practice during projects like this to streamline and optimize processes where possible, but in some cases that is not possible or practical. CMS tried to streamline that process for the State, but that was not necessarily the best practice. He said Morneau had to build a whole new system for the retirement system not because it was a fundamental problem with Morneau, but because Morneau was not aware.

The aggressive implementation **did create a number of performance issues** with the Custom Benefit Solution which Morneau Shepell and CMS had to correct while the system was operational and employees and retirees were affected. Exhibit 3-3 provides a number of the performance issues, the agency reporting the performance issue, and the Morneau Shepell perspective on the issue.

Exhibit 3-3 CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES			
Issue Report Date	Reporting Entity	Performance Issue	Morneau Shepell Perspective
10/3/16	CMS	MCAP and DCAP monthly amounts are incorrect in Morneau Shepell software. No payroll files have been received at CYC from Morneau Shepell. Morneau Shepell is missing about half of the qualifying events for flexible spending program according to Morneau Shepell Business Rules set-up. They are also missing the documentation needed to verify qualifying events. Flexible spending dates and eligibility dates are incorrect.	Morneau Shepell and CMS agreed to an accelerated implementation period, understanding that not all interfaces and system process would be fully implemented. At the time in question, the CYC file was not completed at go-live as carrier sign-off was pending. Business rules were documented at implementation per the guidance of the CMS team but were later found to be incomplete. Workarounds were in place to mitigate impact to members as much as possible. Negative impact was minimal and control procedures were always in place to manage the data exchange until the automated processes were fully implemented.
10/6/16	WIU	Flexible spending amounts on our file are off for all of our employees who have deductions. It appears that Morneau Shepell may be using the wrong number of pay periods remaining for these calculations.	The amounts provided to Morneau Shepell on the FSA conversion file did not provide the full post pay amounts received which resulted in the ongoing contribution amounts changing. This issue was not the result of Morneau Shepell's inability to calculate the number of pay periods but, rather, the conversion data provided.
10/24/16	CMS	Medicare retiree letters sent out to TRS members but treated as State of Illinois retirees. Individuals already had Medicare information in file.	Requirements for Age 65 letters were not outlined specifically for each group. A single letter was implemented per the agreed-to requirements. This gap in requirements, identified by TRS, was subsequently corrected as part of the implementation period once the specifics were provided.
11/30/16	CMS	Carrier Premium Reports not delivered timely, most reports contain rate errors, enrollment inconsistencies, incorrect premium calculations, and missing information.	The request for custom premium reports was agreed to take place after the go-live date by both Morneau Shepell and CMS. At that time, the issues identified with reporting were a result of continued corrections, improvements to the reporting process and requirement changes.
12/2/16	SRS	Morneau Shepell is loading the members' full social security number in the source code of its application that is visible on the member's computer.	This issue was limited to an individual's ability to view his or her own personal information within the source code of the application. As precaution, Morneau Shepell shut down the MyBenefits website immediately and corrected the issue. The website was relaunched within 24 hours of the problem being identified.

Exhibit 3-3 CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES			
Issue Report Date	Reporting Entity	Performance Issue	Morneau Shepell Perspective
12/20/16	EIU	Former employee received COBRA notification 13 days after the letter said the enrollment was due.	The obligation of Morneau Shepell is to ensure that all COBRA documents are mailed timely. There are a number of dependencies that are outside of Morneau Shepell's control which could result in delays of mail.
12/23/16	TRS	Some members who enrolled through the Morneau Shepell call center in November, which were noted in logs, now show coverage as waived.	As standard practice, Morneau Shepell completed a quality review process within our service centers. For instances where manual errors were made by administrative staff an outlined improvement plan is shared with CMS and put in place. There is no evidence to support a high volume of manual errors.
3/10/17	CMS	Morneau Shepell information resulted in an increase of taxable income for employer paid life insurance over \$50,000. Impacted population of 16,000.	An incorrect calculation was identified for imputed income affecting an estimate of 8,000 members. To correct this, Morneau Shepell created a file of all members and the corresponding attributable income amount based on the corrected calculation and final state of the data. This impact analysis was sent to the Department of Revenue to prevent employees from submitting this information for tax purposes, and was also sent to the Retirement Systems for corrections to W-2s. A communication was sent via mail by Morneau Shepell to the impacted and potentially impacted employees. Morneau Shepell also provided details of the impacted populations to the MyBenefits Service Center in order to properly inform employees of the issue.
8/25/17	CMS	Duplicate deposits and overpayment of DCAP and MCAP accounts. Impacted population of 5,079.	Duplication of MCAP and DCAP amounts at CYC was the result of a manual processing error. This issue, occurring on 8/22/2017, was resolved on 8/28/2017. A root cause analysis was completed and provided to the CMS team within 2 days of issue resolution.
9/19/17	Governor	Received a number of calls that Morneau Shepell is incorrectly calculating deductions from retirees' benefits. SERS reports that the volume of mistakes is the same as when Morneau Shepell first took over.	Morneau Shepell provides payroll files to all State agencies and retirement systems. At implementation, not all agencies and retirement systems were ready to accept the new files provided from Morneau Shepell. To mitigate errors, Morneau Shepell implemented daily change reports that would support the State agencies and retirement systems through the implementation period.

Exhibit 3-3 CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES			
Issue Report Date	Reporting Entity	Performance Issue	Morneau Shepell Perspective
9/27/17	Deloitte	Morneau Shepell sent out Age 65 letters to actively working State of Illinois members.	This issue was the result of an administrative error, affecting 45 dependents. After identification, Morneau Shepell took immediate action mailing a correction letter to all 45 dependents who received the initial letter in error. There is no violation to the Medicare Secondary Payer rules and this issue was corrected by documentation to all impacted.
9/28/17	TRS	Cannot add survivors in Morneau Shepell system.	The Morneau Shepell system is designed to display pending activity differently from completed activity. To display this information, the coverage screen is only used to reflect coverage information that is in force or was historically in force for that member. All pending activity will display only in the enrollment screen until the enrollment is completed. This was not an error or system limitation. In this situation the solution was designed and delivered to specification.
9/29/17	CMS	Recently received a report from a health insurance carrier where a member should have had coverage terminated in October 2016. However, this did not happen and the member subsequently received services and the carrier paid the claims. The carrier then received a corrected file on 7/5/17 from Morneau Shepell of over 100 records that should have been previously terminated.	Coverage discrepancies at the time of initial conversion, October 2016, could have resulted from multiple sources. Conversion data was cut from CMS several days prior to the live date and conditional sign-off on carrier interfaces posed additional risks. Morneau Shepell and CMS worked to reconcile data with all carriers to retroactively correct the issue upon identification.
Notes: MCAP – Medical Care Assistance Program; DCAP – Dependent Care Assistance Program; CYC – Connect Your Care; WIU – Western Illinois University; TRS – Teachers’ Retirement System; SERS – State Employees Retirement System; SRS – State Retirement Systems; EIU – Eastern Illinois University;			
Source: OAG developed from CMS and Governor’s Office documentation.			

The performance issues led CMS to consider replacing Morneau Shepell as the partner operating the Custom Benefit Solution. On September 11, 2017, 346 days after the Go-Live of the Custom Benefit Solution, the CMS Assistant Deputy Director of Benefits processed a CMS Project Approval Request for CMS to request proposals to re-solicit the current contract held by Morneau Shepell. The Request form stated *“The current solution has experienced numerous operational and administrative issues and may need to be re-solicited to ensure the success of the MyBenefits platform and promote an overall positive experience for participants.”* Eventually, after developing a draft RFP, CMS decided to not advertise the new RFP. The CMS Deputy Director of Benefits told us she was **not aware of any documentation to support the decisions around this re-bid.**

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. These controls should include that **new benefit systems are not implemented prior to being adequately tested.**

Communication with stakeholders, both agency personnel and vendors, and problem solving skills are at the heart of good contract management according to the *State and Local Government Procurement: A Practical Guide Second Edition (2015)*.

The CMS Assistant Deputy Director for Benefits told us “*The May 1-31 date was not feasible to fully implement the new system. Additional implementation tasks and testing were required to minimize risk to members.*” The official added, “*CMS and Morneau Shepell worked cooperatively towards a go-live date prior to the fall open enrollment period beginning October 15<sup>th</sup> [2016]. Bureau Management was not confident that the system would be ready to “go-live” on 9/1/16 and wanted more testing conducted during the month of September to minimize any risk. The go-live date of 9/30/16 met the requirement to have the on-line enrollment system implemented prior to the beginning of the open enrollment period.*”

Implementing a new system prior to when the winning vendor, who was the only bidder, recommended, increases the possibility that some controls may not be in place and the success of the new system can be compromised. Taking adequate care in implementation is especially important when it affects the lives of 450,000 employees and retirees.

<b>CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES</b>	
<b>RECOMMENDATION NUMBER  9</b>	<i>CMS should develop a tool to be used in the procurement process to help identify the parties affected by the implementation of new procurements and document what role those parties played in the procurement to ensure all relevant parties are included in the process. CMS should also ensure all controls are tested prior to implementation of any major new system.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will strive to identify all stakeholders affected by implementation of any new programs or systems and to ensure that all affected stakeholders receive appropriate communication.



# **APPENDICES**



**APPENDIX A**

**HOUSE RESOLUTION NUMBER 522**



**STATE OF ILLINOIS**  
**HOUSE OF REPRESENTATIVES**  
**100TH GENERAL ASSEMBLY**

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**HOUSE RESOLUTION NO. 522**

OFFERED BY REPRESENTATIVES **AL RILEY-DAVID MCSWEENEY-CHRISTIAN L. MITCHELL-**  
**CAMILLE Y. LILLY**

**WHEREAS**, The Department of Central Management Services (CMS) published a request for proposals (RFP) on November 4, 2015 to procure a "custom benefit solution" or online health portal for eligible members in the State's Employees Group Insurance Program, the Teachers' Retirement Insurance Program, the College Insurance Program, and the Local Government Health Plan; and

**WHEREAS**, The RFP did not include a business enterprise goal; and

**WHEREAS**, A vendor conference held on November 12, 2015 was attended by multiple potential bidders and the State's procurement consultant, Deloitte Consulting; and

**WHEREAS**, Only one company submitted a proposal in response to the RFP by the due date of November 30, 2015; and

**WHEREAS**, On January 28, 2016, CMS published a notice identifying the winning vendor as Morneau Shepell Limited and estimating the total contract value, over a 10-year term, at \$94 million; and

**WHEREAS**, The contract was approved by the CMS Director on May 3, 2016, with an effective date of May 3, 2016; and

**WHEREAS**, The contract contains Performance Standard Guarantees that set forth performance measures that the vendor must comply with or risk reductions in administrative fees; therefore, be it

**RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE ONE HUNDREDTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS**, that the Auditor General is directed to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell; and be it further

**RESOLVED**, That this performance audit include, but not be limited to, the following determinations:

- (1) Whether the scope of the Request for Proposals that was issued in November 2015 was adequate to meet the State's needs and written in a manner to allow adequate competition on this multi-million dollar initiative;
- (2) Whether the time frame for response to the RFP was adequate to allow for participation by potential vendors;
- (3) The rationale for not including a business enterprise goal in the solicitation;
- (4) The rationale for awarding the contract to Morneau Shepell rather than re-issuing the RFP in an attempt to obtain adequate competition;

(5) The cost of the procurement, including amounts paid to the State's procurement consultant;

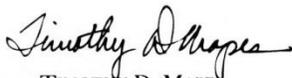
(6) Whether CMS has reviewed the vendor's compliance with the Performance Standard Guarantees and, in particular, the standards applicable to the accuracy of participant transactions; and

(7) Whether there have been any reductions in the vendor's administrative fee as a result of any failure to meet Performance Standard Guarantees; and be it further

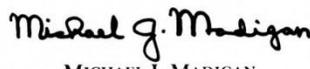
**RESOLVED**, That the Department of Central Management Services, the vendor, its subcontractor(s), and any other entity having information relevant to this audit cooperate fully and promptly with the Auditor General's Office in the conduct of this audit; and be it further

**RESOLVED**, That the Auditor General commence this audit as soon as possible and report its findings and recommendations upon completion in accordance with the provisions of Section 3-14 of the Illinois State Auditing Act.

Adopted by the House of Representatives on October 26, 2017.

  
TIMOTHY D. MAPES  
CLERK OF THE HOUSE



  
MICHAEL J. MADIGAN  
SPEAKER OF THE HOUSE

## **APPENDIX B**

# **AUDIT SCOPE AND METHODOLOGY**



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## Appendix B

# AUDIT SCOPE AND METHODOLOGY

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This performance 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. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit objectives for this audit were those as delineated in House Resolution Number 522 (see Appendix A) which directed the Auditor General to conduct a performance audit of the procurement and administration of the contract with Morneau Shepell. The audit timeframe was not defined in the Resolution. Department of Central Management Services (CMS) officials stated the idea of the Custom Benefit Solution came about in the spring of 2015 with labor negotiations. We chose spring of 2015 as the start of the audit timeframe. As for the administration, the Custom Benefit Solution is ongoing. The Solution went “live” on September 30, 2016, and administrative fees for failure to meet the guarantees outlined in the contract are assessed based on the quarterly average. We chose September 2018 as the end of the audit timeframe. This timeframe captures two full years of performance and reports current information through the first quarter of FY19. The majority of fieldwork for the audit was completed between April 2018 and November 2018.

In conducting the audit, we reviewed applicable State statutes and rules. We reviewed compliance with those laws and rules to the extent necessary to meet the audit’s objectives. We reviewed policies and procedures relevant to the audit areas. We also reviewed management controls and assessed risk related to the audit’s objectives. A risk assessment was conducted to identify areas that needed closer examination. Any significant weaknesses or non-compliance in those controls are included in this report.

We interviewed all the members of the evaluation team for the Custom Benefit Solution who were still employed by the State of Illinois. We reached out to the former and acting CMS Directors about their involvement during the procurement of the Custom Benefit Solution. We also reached out to other State officials for related information: CMS Bureau of Benefits, Business Enterprise Program Office, CMS Internal Audit, Chief Procurement Office-General Services, Department of Innovation and Technology (DoIT), and the Comptroller. We contacted the State’s subject matter expert, Deloitte Consulting, and the awarded vendor, Morneau Shepell, for information about the procurement and administration of the Custom Benefit Solution. We also contacted vendors that attended the bidder’s conference but did not bid on the solicitation to determine why they chose not to bid.

We requested and reviewed the email vaults of Governor’s Office and CMS officials having knowledge of the procurement and administration of the Custom Benefit Solution. The

count of emails reviewed for the vaults of four officials from the Governor's Office totaled 5,000. The count of emails reviewed for the vaults of ten officials from CMS totaled 45,512. Combined, we reviewed 50,512 emails. The emails were used to provide context and support to the solicitation and the decisions made regarding the solicitation. References to such emails can be found throughout the report.

### **Procurement**

For the procurement of the Custom Benefit Solution, we requested and reviewed the entire procurement file for the solicitation. The procurement file included but was not limited to: the Request for Proposals (RFP), Morneau Shepell's technical and pricing proposals, the Custom Benefit Solution contract, conflict of interest disclosures, and evaluations.

We requested and reviewed all CMS Bureau of Benefits procurements during calendar years 2015 through 2017 to determine whether the procurements had a Business Enterprise Program (BEP) goal and if not, the rationale used to exclude the BEP goal. We compared the RFP, Morneau Shepell's technical and pricing proposals, and the contract to ensure that Morneau Shepell bid on the services requested in the RFP and the contract reflected those services. We reviewed and summarized all conflict of interest disclosures to ensure all evaluators and anyone having involvement in the procurement of the Custom Benefit Solution signed such a disclosure. We analyzed all evaluations. We compared evaluator scores for the technical proposal and presentation. We summarized the scoring for each of the evaluation categories and overall totals and reported the variances.

### **Administration**

For the administration of the Custom Benefit Solution, we analyzed invoices and payment data for Morneau and Deloitte, calculated any additional costs to the State for contractor work, and reviewed Morneau Shepell's monthly service level reports to determine compliance with the contract.

We requested and summarized Morneau Shepell's invoices from May 2016 through September 2018 by line item. Our review included a determination of whether the reported costs were allowable under the contract. We requested and reviewed payment information by CMS to Morneau Shepell and verified the invoice and payment amounts. We also reviewed the approval dates included in the payment data and summarized the amount of time taken to process the invoices. Additionally, we totaled the amount of prompt pay interest paid to Morneau Shepell and calculated the amount owed to Morneau as of the end of the audit time period, September 30, 2018.

We requested and summarized Deloitte Consulting invoices for work on the Custom Benefit Solution from August 2015 through September 2018. We requested and reviewed payment information by CMS to Deloitte and verified the invoice and payment amounts. We also reviewed the Deloitte approval dates included in the payment data and summarized the amount of time taken to process the invoices. Additionally, we totaled the amount of prompt pay interest paid to Deloitte and calculated the amount owed to Deloitte as of the end of the audit time period, September 30, 2018.

We requested and summarized the monthly service level reports submitted to CMS by Morneau Shepell per the contract. We reviewed Morneau Shepell’s self-reported compliance percentages with the performance standards outlined in the contract. We determined how many guarantees Morneau Shepell failed to meet each month and whether CMS correctly assessed the administrative fees for failure to meet such guarantees.

We requested the contracts of any additional contractors needed to administer the Custom Benefit Solution. In addition to Deloitte, ten additional contractors were identified by CMS/DoIT as having contracts with the State to administer the Custom Benefit Solution. We reported on the scope of work and total cost of these contractors.

A draft report was sent to CMS. Portions of the draft report affecting Morneau Shepell, Deloitte Consulting, DoIT, and the Teachers’ Retirement System were sent to the organizations for review and comment. An exit conference was held with officials from Morneau Shepell and CMS. Those in attendance were:

Date: February 28, 2019

<u>Agency</u>	<u>Name/Title</u>
Morneau Shepell	Carey McKenzie, Senior Vice President, U.S. Client Development
Office of the Auditor General	Mike Maziarz, Senior Audit Manager Jill Paller, Audit Supervisor Jessica Bruner, Audit Staff

Date: March 1, 2019

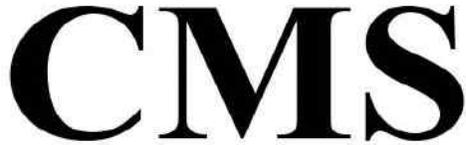
<u>Agency</u>	<u>Name/Title</u>
Department of Central Management Services	Teresa Flesch, Deputy Director Benefits Tom Sestak, Assistant Deputy Director Benefits Tyson Rothermich, Deputy General Counsel Benefits Jack Rakers, Chief Internal Auditor Sarah Rynders, Audit Liaison
Office of the Auditor General	Mike Maziarz – Senior Audit Manager Jill Paller – Audit Supervisor



**APPENDIX C**

**AGENCY RESPONSES**





ILLINOIS

JB Pritzker, Governor

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Janel L. Forde, Acting Director

Bureau of Internal Audit  
Jack Rakers, Chief Internal Auditor  
320 W. Washington, 1<sup>st</sup> Floor ♦ Springfield, IL 62701

March 7, 2019

Mike Maziarz, Performance Audit Manager  
Office of the Auditor General  
Iles Park Plaza  
740 East Ash  
Springfield, Illinois 62703

Dear Mr. Maziarz;

Attached are the responses to the confidential recommendations pertaining to the Department of Central Management Services resulting from the performance audit of the Procurement and Administration of the Contract with Morneau Shepell conducted by your office pursuant to House Resolution Number 522.

Please do not hesitate to contact me at (217) 524-0828 or email me at [Jack.Rakers@illinois.gov](mailto:Jack.Rakers@illinois.gov) if you have any questions or concerns.

Yours truly,

**SIGNED ORIGINAL ON FILE**

Jack Rakers  
Chief Internal Auditor

Attachment

## HOUSE RESOLUTION 522 RESPONSES

<b>VENDOR INFORMATION NOT SHARED WITH EVALUATORS</b>	
<b>RECOMMENDATION NUMBER  1</b>	<i>CMS should provide all members of evaluation teams, especially when the procurement is something uniquely new to the State, with all relevant information to assist the evaluators in completing an informed evaluation.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will ensure that all relevant information subject to policy oversight of the Chief Procurement Office for General Services is provided to all members of evaluation teams to assist in completing an informed evaluation.

<b>CONFLICT OF INTEREST DISCLOSURES</b>	
<b>RECOMMENDATION NUMBER  2</b>	<i>CMS should ensure that all project team participants complete a Compliance, Conflict of Interest, and Confidentiality Statement when the individual is part of a procurement effort.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will ensure that all project team participants subject to policy oversight of the Chief Procurement Office for General Services, complete a Compliance, Conflict of Interest, and Confidentiality Statement when the individual is part of a procurement effort.

<b>OUTLIER EVALUATION ASSESSMENT</b>	
<b>RECOMMENDATION NUMBER  3</b>	<i>CMS should maintain documentation of discussion of scoring discrepancies when those discussions result in changes to evaluation scores.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS, subject to policy oversight of the Chief Procurement Office for General Services, will maintain documentation of discussions regarding scoring discrepancies by evaluation teams.

<b>NEED FOR THE CUSTOM BENEFIT SOLUTION</b>	
<b>RECOMMENDATION NUMBER 4</b>	<i>CMS should conduct a cost-benefit analysis before procuring any new major system. This analysis should include an examination of whether the State currently has resources that could provide the services in a cost effective manner.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. In this instance, CMS did not have time to conduct a documented cost benefit analysis, given the aggressive procurement timeline. CMS will strive to conduct a documented cost-benefit analysis before procuring any new major system, including an examination of State resources that may already be available to provide services in a cost-effective manner.

<b>SCOPE OF THE REQUEST FOR PROPOSALS</b>	
<b>RECOMMENDATION NUMBER 5</b>	<i>CMS should adequately plan and document all procurements. In its planning, CMS should clearly understand the State’s need, request only services for which the State is interested, and be able to document and support any changes made during the process.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS did not have time to adequately plan and document the procurement, given the aggressive procurement timeline. CMS will strive to adequately plan and document all procurements, including an understanding of the State’s needs and interests. Additionally, CMS will identify and request services for desired outcomes, and will provide documentation for any changes made during the procurement process.

<b>REQUEST FOR PROPOSALS TIMELINE AND LACK OF COMPETITION</b>	
<b>RECOMMENDATION NUMBER 6</b>	<i>CMS should document its consideration of timelines for procurement activities to ensure ample time is allocated to developing an RFP and to implementing the activities in the solicitation, especially in the case of a new unique system.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS did not have time to adequately plan and document the procurement, given the aggressive procurement and implementation timeline. CMS will strive to adequately plan and document all procurements, including an outlined understanding of the State’s needs along with proposed implementation timelines.

<b>CONTRACT AND PERFORMANCE GUARANTEE OVERSIGHT</b>	
<b>RECOMMENDATION NUMBER 7</b>	<i>CMS should hold vendors accountable to contractually agreed upon requirements. Additionally, when developing performance guarantee requirements for a contract, CMS should utilize what criteria had been reported to all potential bidders in the solicitation document.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS continues to work with the vendor to refine contractual reporting requirements to ensure adequate vendor performance. CMS will strive to include all required criteria from solicitation documents in all resulting contracts.

<b>PERFORMANCE GUARANTEE REPORTING</b>	
<b>RECOMMENDATION NUMBER 8</b>	<i>CMS should ensure that Morneau Shepell complies with performance guarantee reporting provisions in the contract for the Custom Benefit Solution. Additionally, CMS should take steps to ensure that Morneau Shepell is timely in producing backup documentation to support the self-reported statistics relative to performance guarantees.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS has clarified the reporting requirements via contract amendment and will continue to monitor vendor performance monthly. A monthly process has been established to ensure the vendor is providing backup documentation to support its self-reported statistics each month.

<b>CUSTOM BENEFIT SOLUTION PERFORMANCE ISSUES</b>	
<b>RECOMMENDATION NUMBER 9</b>	<i>CMS should develop a tool to be used in the procurement process to help identify the parties affected by the implementation of new procurements and document what role those parties played in the procurement to ensure all relevant parties are included in the process. CMS should also ensure all controls are tested prior to implementation of any major new system.</i>
<b>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</b>	The Department agrees with the recommendation. CMS will strive to identify all stakeholders affected by implementation of any new programs or systems and to ensure that all affected stakeholders receive appropriate communication.



115 Perimeter Center Place, NE Suite 1050  
Atlanta, Georgia 30346

March 6, 2019

Mike Maziarz - Senior Audit Manager  
Office of the Auditor General  
740 East Ash Street  
Springfield, IL 62703-3154

Dear Mike:

We would like to thank the Office of the Auditor General and you for your professionalism during this audit. We appreciate the opportunity to respond to the performance audit report of the procurement and administration of the contract with Morneau Shepell. We have reviewed the confidential draft report and while there are minor clarifications and difference of opinion, we acknowledge the report and its contents as final.

We will continue to make ourselves available to answer questions and look forward to working with the State of Illinois and their agencies.

Yours respectfully,

**SIGNED ORIGINAL ON FILE**

Carey McKenzie

Senior Vice President, U.S. Client Development

**Improving business. Improving lives.**



JB Pritzker, Governor  
Jennifer Ricker, Acting Secretary

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Douglas B. Tinch  
Chief Internal Auditor  
120 West Jefferson #108  
Springfield, IL 62702  
217-558-6888

February 17, 2019

Mr. Mike Maziarz  
Senior Audit Manager  
Office of the Auditor General  
Iles Park Plaza  
740 East Ash  
Springfield, IL 62703

Dear Mike:

We have reviewed the confidential draft report regarding the Illinois House of Representatives Resolution Number 522 dated February 14, 2019 prepared by your Office. Based on that review, we have determined that a formal exit conference is **not** required by us, and we do not find it necessary to formally respond and choose not to do so.

We appreciate the professionalism and courtesies extended to us by you and your staff during the course of your engagement. Should you have other questions or concerns, please advise me directly at my contact information above.

Respectfully,

**SIGNED ORIGINAL ON FILE**

Douglas B. Tinch  
Chief Internal Auditor



