Is private equity behind dental abuse?

Dental management services firms come under fire for overtreating Medicaid patients for profit

By Sydney P. Freedberg / Bloomberg News

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Isaac Gagnon stepped off the school bus sobbing last October and opened his mouth to show his mother where it hurt.

She saw steel crowns on two of the 4-year-old’s back teeth. A dentist’s statement in his backpack showed he had received two pulpotomies, or baby root canals, along with the crowns and 10 X-rays — all while he was at school. Isaac, who suffers from seizures from a brain injury in infancy, didn’t need the work, according to his mother, Stacey Gagnon.

“I was absolutely horrified,” said Gagnon, of Camp Verde, Ariz. “I never gave them permission to drill into my son’s mouth. They did it for profit.”

Isaac’s case and others like it are under scrutiny by federal lawmakers and state regulators trying to determine whether a popular business model fueled by Wall Street money is soaking taxpayers and having a malign influence on dentistry.

Isaac’s dentist was dispatched to his school by ReachOut Healthcare America, a dental management services company that’s in the portfolio of Morgan Stanley Private Equity, operates in 22 states and has dealt with 1.5 million patients. Management companies are at the center of a Senate inquiry, and audits, investigations and civil actions in six states over allegations of unnecessary procedures, low-quality treatment and the unlicensed practice of dentistry.

Allegations like Gagnon’s “are not representative” of the more than 500 cases handled by ReachOut affiliates in Isaac’s school district, said Mickey Mandelbaum, a company spokesman.

ReachOut is one of at least 25 dental management- services companies bought or backed by private-equity firms in the last decade. Dentists contract with the companies for marketing, scheduling, staff recruitment, supplies and other services. The companies account for about 12,000, or 8 percent, of U.S. dentists, according to Thomas Climo, a Las Vegas dental consultant.

Some of them have been riding a boom in Medicaid outlays on dentistry, which rose 63 percent to $7.4 billion between 2007 and 2010, outstripping the 4.9 percent growth in other dental spending. ReachOut and several of its private equity-backed rivals seek patients such as Isaac, who are covered by Medicaid, the federal-state insurance program for the poor and disabled.
On May 2, All Smiles Dental Center, a management company owned by Chicago-based Valor Equity Partners, filed for bankruptcy protection. Its hand was forced in part by a Texas Medicaid action cutting off payment to some of its clinics because of allegedly “excessive” and “inappropriate” orthodontic care, according to an All Smiles executive’s affidavit included in the filing.

The All Smiles collapse followed another bankruptcy filing in February by Nashville-based Church Street Health Management, which cited the costs of defending itself against lawsuits and investigations. Church Street is owned by Arcapita, Carlyle Group and other private equity firms and affiliated with the Small Smiles network of dental clinics.

Senate investigators are examining whether ReachOut, Church Street and its affiliated clinics have overbilled Medicaid, according to Senate documents and people familiar with the matter. Another company under Senate scrutiny is NCDDR, which manages 130 Kool Smiles clinics, these people say. NCDDR is owned by Friedman Fleischer & Lowe, a San Francisco buyout concern.

Church Street may be abusing patients, “grossly overcharging the United States government in Medicaid reimbursement claims,” and focusing “more on achieving self-imposed quotas via assembly line service than proper patient care,” Sens. Charles Grassley and Max Baucus told the company in a November letter copied to Carlyle co-founder William Conway. Grassley, R-Iowa, is ranking member of the Senate Judiciary Committee. Baucus, D-Mont., chairs the Finance Committee.

One broad issue is whether the management companies merely provide services to dentists or are breaking the law by directing care, according to people familiar with the matter and letters the senators sent to state regulators. Most states’ laws require that only a dentist, not a business corporation, can be licensed to control and conduct a dental practice.

Management firms have “moved from being vendors of services,” such as patient billing, “into increasingly complex arrangements under which some — not all — have embedded themselves deeply into every aspect of the dental practice,” said Ken Burgess, a lawyer for the North Carolina dental board.

Church Street “respects the Senate’s important oversight role” and has provided information about improvements in the quality of care over the past five years, said Don Meyer, the company’s spokesman. He said the bankruptcy isn’t affecting patients. ReachOut’s Mandelbaum declined to comment on the Senate inquiry. NCDDR, whose Kool Smiles affiliates had 2 million patient visits last year, is “committed to an open dialogue with regulators and legislators,” said Geoffrey Freeman, a spokesman.

ReachOut, NCDDR and Church Street do not make care decisions or own dental practices, according to their spokesmen. Each company said it is dedicated to helping underserved children get dental care.

‘Flagrancy of the fraud’
After years of complaints that the poor were being deprived of such care under Medicaid, public pressure and class-action lawsuits opened the floodgates. Texas’s Medicaid dental outlays tripled to $1.24 billion between 2007 and 2010, as fees were boosted so more dentists would accept patients. Indiana, Connecticut, Maryland and Tennessee also boosted reimbursements.

At the same time, young dentists with education debt sometimes topping $300,000 “can’t get the loans they need to start their own practices,” said Bryan Shanahan, past president of the Arizona Dental Association. “So they look for work in a corporate setting where they get immediate cash flow.”

Dental management firms can deliver patients and a six-figure income by sending teams to schools where they can treat Medicaid-eligible students in volume — as many as 30 children in one visit. A ReachOut recruiting ad last year promised “15+ patients/day” and “$120K/year (+ bonus opportunity)” by working “school hours 1-5 days per week.” The ad appeared on the website of the University of Detroit’s dental school.

Texas is investigating dozens of cases where dentists, including affiliates of management companies, may have done unneeded work or billed Medicaid for undelivered services, according to spokesmen for the attorney general and other state agencies.

Investigators are looking at allegations that dentists placed crowns on children needing only less-expensive fillings, or put needless braces on 12-year-olds with baby teeth — at taxpayer expense, said Joy Sparks, general counsel for the Texas State Board of Dental Examiners.

The investigation includes cases involving Kool Smiles and All Smiles, according to Stephanie Goodman, a spokeswoman for the state Health and Human Services Commission, which oversees Medicaid.

Dallas orthodontist Christine Ellis testified in Congress last month that the “flagrancy of the fraud” she found in audits she performed for Texas Medicaid “is truly unbelievable,” with only 10 percent of the paid claims she reviewed actually qualifying for Medicaid coverage.

Texas “has gained a lot of fraudulent orthodontic providers, including many private equity owned dental clinics engaged in the illegal practice of dentistry,” Ellis told the House Committee on Oversight and Government Reform.

Ellis audited All Smiles claims for the state from 2007 through 2011, and found “overutilization” of Medicaid benefits before and after Valor bought control of the firm in 2010, she said in an interview.

Texas’s Medicaid program has put Dallas-based All Smiles on “payment hold for credible evidence of fraud” and referred the case to the attorney general, Goodman said.

Texas inspectors have taken “exception” to 63 of 86 All Smiles orthodontic cases reviewed from 2007-11, according to Michael Lozich, its chief compliance officer. “We’re going to defend ourselves and contest against these claims,” he said.
All Smiles and its founder, Richard Malouf, previously agreed to pay the U.S. and Texas $1.2 million to settle Medicaid fraud allegations between 2004 and 2007, without admitting wrongdoing.

In California and Arizona, state investigators are examining complaints that ReachOut-dispatched teams billed Medicaid for unnecessary work on children, according to people familiar with the inquiries.

**ReachOut overreaches?**

ReachOut’s owners have called the company a “unique” model. In 1997, founders Michael Howell and Daniel Goldsmith started a company to coordinate care to nursing-home residents in Michigan. They expanded to children in schools and by late 2003, were delivering dentistry to homeless shelters, foster programs, group homes and mental health facilities.

In November 2007, ReachOut received private equity funding from Sentinel Capital Partners of New York. Under Sentinel, it acquired two rivals and increased its patient size fivefold. Last year, as a holding of Morgan Stanley Private Equities, its dentists saw 488,000 children in 8,700 schools.

“Many of these children would otherwise go without even the most basic care,” said Mandelbaum, the company spokesman. ReachOut affiliates mainly clean and perform preventive work, with baby root canals and crowns accounting for less than half of 1 percent of patients, he said.

ReachOut’s model is built on the premise that low-income parents often don’t have time or transportation to take children to the dentist. So mobile teams pack equipment in large cases, load up a minivan, head to schools and set up in gyms, libraries or classrooms.

One of ReachOut’s most-ubiquitous affiliated dentists is Elliot Schlang, who has registered dental practices and licenses in at least 16 states. Schlang said he practices in all of them and travels the country training staff and treating children.

“I work day and night,” he said.

In Arizona, a state investigator subpoenaed the names of children seen by the ReachOut-dispatched dental team on Oct. 4 last year, the day Isaac Gagnon was treated, said Dan Brown, then Camp Verde school superintendent.

When ReachOut called Stacey Gagnon to tell her the mobile dentist was coming to Isaac’s school, she said, she explained that he had seizures and other serious medical conditions and could have a cleaning and oral hygiene education, nothing else.

Five weeks later, a ReachOut team in the art room at Camp Verde Elementary took X-rays of Isaac, according to preschool instructor Becky Fordham. When Isaac was moved to a corner of the room, he began to gag, Fordham said.
He kicked and screamed while several adults held him on the dental table, according to another teacher’s aide, Stephanie Shultz. “The dentist man got me,” Gagnon remembers her son saying.

The Gagnons said the school identified Isaac’s dentist as Alvin Coon Jr., who works with a ReachOut-affiliated practice. Coon and Green’s lawyer declined to comment.

The root canals were unnecessary and the number of X-rays was “excessive,” according to Bobby Lee Raber, a dentist in Prescott who reviewed the records for the Gagnons. Professional guidelines call for only four X-rays for a child Isaac’s age, Raber said.

Robert Linder, a ReachOut regional vice president, visited about a month after the treatment, said Isaac’s father, Darren. Linder apologized for Isaac’s treatment without consent and said that was “not common practice.”