



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #455

Information Technology (Insurance)

[LFB 2003-05 Budget Summary: Page 279, #6 and #7]

CURRENT LAW

2001 Act 16 (the 2001-03 biennial budget act) provided the Office of the Commissioner of Insurance (OCI) \$724,600 PR (\$311,600 PR in 2001-02 and \$413,000 PR in 2002-03) in one-time funds to purchase programming services from the Department of Electronic Government (DEG) to improve OCI's information systems. This funding amount represented the estimated costs of: (a) supporting 3.0 state positions to perform these services (\$155,800 PR in 2001-02 and \$206,500 PR in 2002-03); and (b) increasing funding budgeted in the agency's general program operations appropriation by corresponding amounts to fund charges for these information technology (IT) services.

Funding for OCI's IT services, as well as other centralized administrative functions, is budgeted in two OCI appropriations -- a program revenue (PR) appropriation and a program revenue-service appropriation -- to reflect that these services are provided to OCI's programs on a charge-back basis. Consequently, funding for these services is "double-counted" in the agency's budget.

Although funding was budgeted to purchase programming services from DEG, DEG did not provide the programming services. DEG concentrated resources on enterprise projects that affected all of state government or, at least, several agencies. DEG did not provide programming services that were specific to a single agency. Therefore, OCI contracted with private vendors to address IT needs. OCI contracted with Mastech Emplifi Inc., Transtech LLC, and Universal Solutions to perform the following services: (a) programming for the premium tax system; (b) redesigning the financial database; (c) developing, maintaining, and enhancing imaging applications; (d) programming for on-going maintenance and enhancements to the complaints system for user interfaces and file update requirements; (e) designing the applications architecture for programming new systems or enhancements to existing systems; (f) coding to

enable file uploads and downloads between various systems; and (g) ensuring that OCI's programs can share information with other state and national systems.

This one-time funding is removed in the Governor's 2003-05 budget bill as a standard budget adjustment. Consequently, OCI has no ongoing base funding for contracted programming services.

GOVERNOR

COSMOS Enhancements. Provide \$400,000 PR in 2003-04 and 2004-05 in one-time funding to contract for approximately 1,380 hours of services annually to enhance COSMOS, the computer system OCI uses to license and regulate insurance companies, license agents, and process payments for both, and receive, track, and review insurance policy forms and rate filings. The bill includes \$200,000 annually for OCI's administrative and support services appropriation to reflect that these costs are assessed to OCI's PR general program operations budget on a charge-back basis and, therefore, "double-counted" in the agency's budget.

OCI estimates that the balance in its PR general program operations appropriation at the end of the 2003-05 will be -\$191,100.

Patients Compensation Fund. Provide \$296,500 SEG in 2003-04 and \$311,300 SEG in 2004-05 in one-time funding to develop and implement a new computer system for the patients compensation fund to maintain information on participating health care providers' primary insurance coverage, to bill and collect fees, to maintain information on claims, and to resolve noncompliance issues.

DISCUSSION POINTS

Current IT Staffing and Work Plan

1. OCI currently has 10.5 information services staff positions, including: (a) 2.0 technical support positions; (b) 1.0 technician support position; (c) 4.5 application development positions; (d) 1.0 telecommunications position; (e) 1.0 data base administrator position; and (f) 1.0 information technology manager. Of these positions, 7.5 positions are applications positions, which perform programming services on a variety of projects. The other 3.0 positions have specialized responsibilities, such as database administration, telecommunications support, and network support, which do not involve programming. In addition, in the 2001-03 biennium, OCI contracted for 3.0 programmer/analyst positions from Mastech Emplifi Inc., Transtech LLC, and Universal Solutions to work on applications development. Because the 3.0 contracted positions are funded with one-time funding, these positions are not included in OCI's base budget for 2003-05.

2. In each of the last four biennial budget acts, OCI has received one-time funding to contract for information technology services to supplement the work its permanent staff perform to maintain and improve OCI information systems.

3. The projects that were funded in the current biennium were based on OCI's annual IT strategic plan. The plan is dynamic, and changes based on emerging technologies, cost-benefit analysis of projects, on-going implementation and workload considerations, regulatory requirements, and funding. An OCI team meets monthly to monitor progress and direct IT work efforts.

4. Based on the agency's estimates of the number of hours required to work on current IT initiatives, OCI estimates that current state staff can continue to work on the following projects in the 2003-05 biennium: (a) maintaining and enhancing the complaint file and tracking system; (b) imaging state life insurance policy files; (c) matching producer data with Department of Revenue data; (d) imaging producer applications; (e) imaging back-files of rates and policy forms; (f) imaging new files of rates and policy forms; (g) maintaining and upgrading COSMOS; (h) producing COSMOS reports; (i) upgrading desktop and laptop applications; and (j) imaging incorporation papers, including back files.

5. The attachment lists the projects included in the IT plan for the 2003-05 biennium. Some of the projects in the plan focus on continuing efforts to enhance the administration of the agency and regulation of the insurance industry, such as continuing to image various files and forms, creating an improved complaint file and tracking system, allowing OCI to match information electronically with the Departments of Workforce Development and Revenue, and maintaining and upgrading current systems. OCI's plan also includes projects that it will complete after the 2003-05 biennium. A number of these projects would allow OCI to conduct more business over the Web, including filing complaints, ordering brochures, scheduling, applying for, and tracking examinations, displaying company and legal information for the public, and keeping online budget information.

6. It is estimated that 8,334 hours of programming time can be completed in the 2003-05 biennium with existing staff, including 1,111 hours of programming time that can be provided by each of the 7.0 applications staff positions and 557 hours of programming that can be provided by the 0.5 applications staff position. It is estimated that an additional 28,355 hours of programming time would be required to complete all of the projects on the current list. Based on this estimate, OCI estimates that it would require the equivalent of 4.0 programmers, beginning in 2003-04, as well as contracting for 9,000 hours, to complete the entire list of projects. The Governor's bill provides funding for OCI to contract for 9,000 hours to complete two projects, but did not provide funding for 4.0 positions to complete the remaining 19,355 hours of programming time.

COSMOS Enhancements

7. The Governor's bill provides funding for two specific projects that would be completed in the 2003-05 biennium. First, one-time funding is provided to contract for COSMOS enhancements. The cost of the original COSMOS system totaled approximately \$838,000. The following enhancements were included in the original purchase and customization of COSMOS: (a) custom letters; (b) invoke third party imaging; (c) create additional COSMOS inquiries; (d) internal/external notification of company changes; (e) change of licensee's resident state; (f) verify producer's legal status; (g) design a continuing education interface; (h) custom license renewal

document; (i) generate second notices for license renewals; (j) company notifications of producer noncompliance; (k) generate disapproval letters; (l) required items checklist; (m) conversion of rate and form filing data; (n) assessment billing; (o) upload of document imaging data to COSMOS; and (p) upload of producer address data from the lockbox file. OCI indicates that the insurance industry is a dynamic industry that is continually evolving. Maintaining and enhancing IT needs would allow OCI to evolve with the industry. Therefore, OCI indicates an ongoing need for maintenance and enhancements for COSMOS that would cost approximately 25% of the original cost each year (\$200,000 annually).

8. OCI would contract with Innovative IT Solutions, Inc. (IITS) for 1,380 hours at \$145 per hour annually to complete the enhancements. IITS developed COSMOS, which is a proprietary system, so OCI cannot unilaterally change certain features of the system's software. In other words, IITS owns the COSMOS system, so OCI cannot legally modify the system without consulting IITS.

9. The funding would allow OCI to contract for enhancements, including: (a) the capability to accept and process insurance rate and policy form filings electronically; (b) the capability to fix data entry errors by the users rather than by the vendor; (c) maintaining and being able to search for insurance companies in the system with current National Association of Insurance Commissioners group and company codes; (d) further automating the insurance agent renewal and continuing education function; (e) improving the system's revenue management module to simplify its receipting and payment processing function; (f) migrating the office's complaints and legal systems to COSMOS; and (g) the transfer of rate and form information from COSMOS to a system for electronic rate and form filing. OCI believed the enhancements with the original purchase of COSMOS to be the minimal required for a functional system. The additional enhancements would allow OCI to maximize the system. The additional enhancements would assist a national movement to bring about more uniform regulation among the 50 states and would allow OCI to accommodate an increased volume of work without adding additional staff.

10. OCI uses COSMOS to license and regulate insurance companies, license agents, process payments, and to receive, track, and review insurance policy form and rate filings. The funding would improve the ability of the insurance industry to get new products to market through the electronic filing of insurance policy forms and rates and would allow OCI to stay abreast of changes in exchanging data with its licensees, customers, and other states. This improvement would facilitate a consistent regulatory approach among states. OCI indicates that both consumers and the industry would benefit from COSMOS enhancements.

11. In light of projected minimal balances in the agency's general program operations appropriation at the end of the 2003-05 biennium (-\$191,100) and other demands on OCI revenues, the Committee could deny the one-time funding for COSMOS enhancements.

Patients Compensation Fund System

12. The bill would provide one-time funding to purchase and implement a new computer system for the patients compensation fund (PCF). PCF pays that portion of meritorious medical malpractice claims which exceeds the provider liability limits of \$1 million per claim and \$3 million per policy year in the aggregate. Health care providers must obtain primary medical malpractice insurance up to the liability limits. Providers then also pay for the protection of the excess professional liability insurance that the fund offers through an annual assessment. PCF must track participants' primary insurance carriers, bill participants, track participants' compliance with medical malpractice laws, and maintain a claims database.

13. OCI would contract for 3,120 hours annually to implement the new PCF system, which is the equivalent of a database architect performing 1,560 hours at \$105 per hour in 2003-04 and \$110 per hour in 2004-05 and a programmer performing 1,560 hours at \$85 per hour in 2003-04 and \$89 per hour in 2004-05. OCI estimates that it would take the two positions nine months each, or one and one-half years total, to complete the project. OCI indicates that current staff do not have the expertise to complete this project.

14. OCI staff indicate that contracting for this project would be a better option than hiring project employees for several reasons. First, the use of contract vendors provides flexibility to adjust the number of workers based on the phase of the project. For example, the need for a programmer may be intermittent while the database architect designs the database. OCI could adjust the hours for a programmer through the vendor rather than have the programmer on staff.

Second, the vendor would guarantee workers. If staff leave employment, OCI would have to recruit new staff. If the vendor's employee leaves employment, the vendor would immediately have a replacement with the same set of skills.

Third, it could be more difficult to recruit project employees. Many potential employees with the appropriate skill set would already be working full-time for a vendor. These employees most likely would not leave a full-time position for a temporary position.

Finally, the project position status could make it difficult to retain staff until the project is completed. Project employees may leave in the middle of the project for a full-time position. A vendor guarantees continuous work on the project until the project is completed.

15. PCF is a unique fund, so standard shelf software is not available to address all of the different facets of fund operations. The new computer system would be used to collect accurate and thorough information relating to participant primary insurance coverage, billing and collection of fees, claims information, and noncompliance monitoring. As of December 31, 2002, PCF had 12,750 participants. PCF processes approximately 37,000 filings from participants' primary insurance carrier, 44,000 bills, and 9,200 noncompliance letters annually. PCF also maintains a claims database.

16. The current computer system for PCF was developed in the early 1990s and has required many programming fixes to correct problems. OCI indicates that the current system no

longer functions efficiently. OCI staff spend approximately 15 to 20 hours per week on correcting accounts that were a direct result of something within the current system not operating properly. PCF has encountered instances where provider accounts were not updated correctly or bills were not properly calculated or adjusted based on the primary coverage information. For example, every time there is a change in a participant's primary insurance coverage, the information is sent to PCF to update the provider's records. Each filing submitted by the primary insurer on behalf of the provider potentially affects the amount the provider owes for PCF coverage. In addition, PCF must notify participants if and when they are not in compliance either because PCF does not have the primary insurance coverage information or because payment was not received. If a provider does not resolve a noncompliance issue, then notice is provided to the Department of Regulation and Licensing, who can put a hold on a provider's license. Therefore, inaccurate data regarding primary insurance coverage could result in inaccurate billing or even a hold on a provider's license.

17. If the Committee denied the one-time funding for the new computer system, OCI staff would be required to continue to use the current system for at least two more years.

ALTERNATIVES

A. COSMOS Enhancements

1. Approve the Governor's recommendation to provide one-time funding of \$400,000 PR in 2003-04 and \$400,000 PR in 2004-05 to contract for programming services.
2. Delete funding for this purpose.

<u>Alternative A2</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$800,000

B. Patients Compensation Fund

1. Approve the Governor's recommendation to provide \$296,500 SEG in 2003-04 and \$311,300 SEG in 2004-05 in one-time funding to fund a new computer system for the patients compensation fund.
2. Delete funding for this purpose.

<u>Alternative B2</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	- \$607,800

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Attachment

ATTACHMENT

OCI Information Technology Project Summary 2003-05 Biennium

- Create an improved complaint file and tracking system
- Image state life insurance fund policy files
- Match producer data with Department of Revenue data
- Image producer applications, including back-files
- Image rates and policy forms, including back-files

- Maintain and upgrade COSMOS
- Enhance COSMOS
- Image incorporation papers, including back-files
- Match producer data with Department of Workforce Development data
- Enhance and upgrade image data capture

- Automate and enhance premium tax
- Automate commissioner's report
- Purchase and implement a new computer system for the patients compensation fund
- Maintain internet/intranet
- Automate and enhance legal system

- Develop a system for electronic rate and form filing interface with COSMOS
- Interface fax/electronic with complaints system
- Prepare for agency move to a new building
- Enhance financial analysis applications
- Re-engineer the inventory and add to the internet

- Create a dBase service of process
- Create an online budget system
- Create online budget information with encumbrances
- Create a personnel/position database
- Create a training system

- Create production statistics for performance data
- Create a financial bureau management reporting system
- Design web architecture
- Create a process to look up agent information on the web

- Display public company information on the web