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Joint Committee on Finance

Paper #336

Medicaid Management Information System and Advanced Data Analytics (Health Services -- Medicaid Services Administration)

[LFB 2017-19 Budget Summary: Page 219, #2 and Page 220, #3]

CURRENT LAW

Medicaid Management Information System and Fiscal Agent. Wisconsin's medical assistance (MA) program provides healthcare coverage to nearly 1.2 million people in the state, who receive care from a group of approximately 75,000 enrolled providers. For many services, these providers must submit claims to the program in order to receive reimbursement. In order to process and pay these claims in a timely and accurate way, the Department of Health Services (DHS) relies upon the services of a contracted vendor to act as a fiscal agent and to operate its Medicaid management information system (MMIS), a digital claims processing and information retrieval system required under federal law. The MA fiscal agent provides a wide range of administrative services that support the state's MA program and several related programs. In addition to operating the MMIS, its functions include processing claims, certifying health care providers, reviewing prior authorization requests, and providing customer service for members and health care providers.

Currently, the state contracts with Hewlett-Packard Enterprises, Inc. (HPE) for these services. The contract with HPE first took effect in 2005, was renewed for a five-year period in 2013, and will expire on November 9, 2018. In 2016-17, DHS expects to pay HPE approximately \$67.6 million (all funds) annually for services.

Advanced Data Analytics. The Department's Office of the Inspector General (OIG) is tasked with investigating fraud and other questionable activities in benefit programs administered by the Department. To assist it in this task, 2015 Act 55 appropriated \$5,000,000 (\$500,000 GPR and \$4,500,000 FED) for the OIG to acquire a data analytics system. The Department expects the new system to be operational by the end of 2016-17.

GOVERNOR

MMIS. Provide \$37,751,800 (\$3,930,900 GPR and \$33,820,900 FED) in 2017-18 and \$49,153,300 (\$6,442,200 GPR and \$42,711,100 FED) in 2018-19, and 8.0 positions (1.0 GPR position and 7.0 FED positions), beginning in 2017-18, to support the procurement and implementation of a new MMIS and of fiscal agent services for the state's MA program.

Advanced Data Analytics. Provide \$2,000,000 (\$425,000 GPR and \$1,575,000 FED) in 2017-18 and \$2,000,000 (\$250,000 GPR, \$1,500,000 FED, and \$250,000 PR) in 2018-19 to operate the data analytics system in OIG in the 2017-19 biennium.

DISCUSSION POINTS

1. As with other aspects of the MA program, the state receives federal matching funds for expenditures associated with the MMIS. Costs related to the design, development, installation, or enhancement of the MMIS are subject to 90% federal matching funds, while costs related to the maintenance and operation of the system are eligible for a 75% federal match. Other costs related to non-automated services provided by the fiscal agent, such as the operation of a call center, receive 50% federal matching funds.

2. In accordance with CMS regulations, the Department must re-procure the MMIS and fiscal agent contract with an open bidding process. The state is not permitted to renew the current contract with HPE following its expiration, although HPE may be awarded a new contract following the competitive procurement process.

3. In addition to securing a new contract for the operation and improvement of the MMIS, the procurement process proposed by the Department involves several other related contracts and costs. These can be divided into the following categories: (a) planning costs; (b) costs related to the takeover and enhancement of the new MMIS; (c) costs for independent oversight contracts; (d) costs associated with the initial separate modules; (e) costs for maintenance and operations of the new system; (f) costs for hardware and software; and (g) costs for additional contract and state staff.

4. To develop an estimate of the costs of procuring a new system, as well as for technical assistance with other aspects of the procurement process, the Department entered into a contract with a private consultant (Cognosante). The cost estimates provided by the consultant were based on a review of other states' expenditures on similar systems. Drawing from a dataset of various states' past MMIS expenditures, the consultant identified a sample pool of 11 states whose total MMIS costs fell within two standard deviations of the mean. The consultant then identified the modules and enhancement functionality contained in each of these states' procurement contracts. A cost comparison could then be made using a correlation between state enrollment figures (factored with population totals), as well as the costs identified on CMS reports. Using these comparisons, the consultant made estimates for the costs associated with each component of the procurement of Wisconsin's proposed system.

These costs estimates, with a minor revision described in Discussion Point 5, are summarized in the following table, and are described further below.

Cost Category	2017-18			2018-19		
	GPR	FED	Total	GPR	FED	Total
Planning	\$154,400	\$1,389,400	\$1,543,800	\$0	\$0	\$0
Initial Takeover and Enhancement of MMIS	2,341,100	20,532,600	22,873,700	1,809,700	15,894,700	17,704,400
Maintenance and Operation Initial Modules	20,600	43,700	64,300	1,726,200	1,831,900	3,558,100
Independent Oversight	0	0	0	1,200,000	10,800,000	12,000,000
Hardware and Software	244,900	1,880,500	2,125,400	548,200	4,501,300	5,049,500
Staff	561,700	5,055,200	5,616,900	272,100	2,449,000	2,721,100
	<u>598,200</u>	<u>4,829,500</u>	<u>5,427,700</u>	<u>886,000</u>	<u>7,234,200</u>	<u>8,120,200</u>
Total	\$3,920,900	\$33,730,900	\$37,651,800	\$6,442,200	\$42,711,100	\$49,153,300

Planning Costs

5. Planning costs, which are eligible for 90% federal matching funds, include the cost of the consultant contract, as well as the cost of an external evaluator chosen from an existing state agency or partner. The Governor's proposal also included funding for a contract with an independent observer for the procurement process. The Department has since determined that an independent observer was not required. Because of this, funding in the bill can be reduced by \$100,000 (\$10,000 GPR and \$90,000 FED) in 2017-18. After accounting for this change, planning costs are estimated to total \$1,543,800 (\$164,400 GPR and \$1,479,400 FED) in 2017-18.

Takeover and Enhancement Costs

6. For the takeover and enhancement of the current MMIS and fiscal agent services, DHS released a request for proposal (RFP) soliciting bids on January 13, 2017. Proposals are due by May 9, 2017. The Department indicates that it plans to issue its intent to award in August of 2017, and conclude contract negotiations between September and November of 2017.

Following this timeline, the new vendor would begin its design, development, and implementation work for the new system in December of 2017, and would take over operation of the core MMIS in November of 2018, when the contract with HPE expires and HPE ceases its maintenance and operation of the system. Costs associated with the takeover of the MMIS would receive a 90% federal match. These costs are estimated at \$26,766,600 (\$2,676,700 GPR and \$24,089,900 FED) in 2017-19. In addition, the Department anticipates the need for contractor workspace, the cost of which is eligible for 75% federal matching funds. These costs are estimated at \$619,500 (\$154,900 GPR and \$464,600 FED) over the 2017-19 biennium.

7. Along with taking over operation of the MMIS, the Department intends for the new MMIS vendor to add 13 enhancements to the system. Each enhancement entails a collection of changes to services, functionality, or capabilities within the current MMIS. According to the RFP, the primary goal of these enhancements is to support greater program integration, with a special focus on inclusion of the long term care programs, which have historically been managed in separate systems. The 13 system enhancements outlined in the RFP include: (a) Long Term Care

Program Integration; (b) Enhanced Claims & Encounters; (c) Eligibility & Enrollment; (d) Grievances & Appeals; (e) Integrated Workflow & Document Management; (f) Service Authorization Processing Improvements; (g) Provider Management Improvements; (h) Integrated Portal; (i) Benefit Plan Administration; (j) Enhanced Financial System; (k) Data Maturity Governance & Management; (l) Pharmacy Benefit Management Improvements; (m) Integrity Case Tracking.

The estimated cost of these enhancements is \$13,192,000 (\$1,319,200 GPR and \$11,872,800 FED) over the 2017-19 biennium, with an additional \$8,085,500 (\$808,600 GPR and \$7,276,900 FED) in costs expected in the 2019-21 biennium.

Maintenance and Operation

8. Following the takeover of operations of the MMIS by the new vendor in November 2018, the core system will enter into the maintenance and operations (M&O) phase in December of 2018, at which point the state will receive a 75% federal matching rate for most expenses associated with it, although some expenditures related to non-automated services, will receive a 50% matching rate. Based on the level of automation in the new system, the Department assumes a net federal matching rate of 68% for M&O expenditures.

9. The Department's cost estimate assumes that M&O expenditures for the new system will be analogous to expenditures for HPE's operation of the current system, approximately 67% of the costs of which are supported with federal funds.

10. Another item in the bill, which adjusts funding for the Division of Medicaid Services administrative contracts, is discussed in LFB Budget Paper #335. The funding that would be provided under that item would fund the current costs of the HPE contract through the end of 2018-19. However, under the bill, HPE would cease its operation of the current MMIS in November of 2018, when the new vendor will assume operation of the system. Consequently, the Department's estimate of the M&O costs for the new system include a corresponding offset equal to half of HPE's annual contract cost. Including this offset, the Department estimates that net M&O costs for the new system would equal \$3,622,400 (\$1,746,800 GPR and \$1,875,600 FED) over the biennium.

Initial Modules

11. Under CMS rules, states are required use a modular approach in developing their new systems. The objective of a modular approach is to break down large, complex systems into component parts that are more easily altered and maintained, allowing for individual modules to be updated or replaced without necessitating a re-procurement of the entire MMIS. In order to comply with this modularity standard, the Department proposes creating eight separate modules carved out from the system's current functionality. The eight modules would be separable from, but integrated with, the core MMIS system, and would be individually procured in separate bidding processes. These eight modules are: (a) enterprise data warehouse; (b) data analytics; (c) program integrity; (d) pharmacy pricing consultation; (e) pharmacy medication therapy management; (f) enrollment services; (g) member services; and (h) care management.

12. The Department intends to issue RFPs for the Enterprise Data Warehouse, Data Analytics, and Program Integrity modules in May, 2017, and anticipates that these contracts will take effect in March of 2018. The cost for these modules is estimated at \$12,000,000 (\$1,200,000 GPR and \$10,800,000 FED) in the 2017-19 biennium.

The Department expects that these three modules will be in the design, development, and implementation (DDI) phase until 2023, when the agency would switch to the maintenance and operations phase of the contracts. The Department does not anticipate the contracts for the remaining five modules to be finalized until the 2021-23 biennial budget.

Independent Verification and Other Ancillary Contracts

13. In addition to the contracts for the modules, the Department intends to issue three additional RFPs for contracts related to the MMIS project. The first of these would be for Independent Verification and Validation Services (IV&V). Required under federal rules, the IV&V contract would be issued to an outside entity to evaluate the correctness and quality of services procured for the state's MMIS in order to ensure they meet CMS requirements.

14. The Department also intends to issue RFPs for an Enterprise Architecture and Project Management Office Services (EA PMO) as well as for System Integration Services (SI). Following CMS recommendations, the EA PMO would be responsible for project management and planning activities during the planning and implementation phase of the procurement process. According to CMS recommendations, an SI vendor is intended to coordinate the merger of technical solutions, modules, and testing schedules.

15. Most of the costs associated with these contracts are expected to receive 90% federal matching funds. The estimated combined cost of these contracts is \$7,174,900 (\$793,100 GPR and \$6,381,800 FED).

Hardware and Software

16. As part of the procurement of the MMIS and accompanying modules the Department expects to purchase additional hardware and software. The costs for hardware and software are estimated at \$8,338,000 (\$833,800 GPR and \$7,504,200 FED) over the biennium.

17. The Department anticipates that significant upgrades to current hardware and software systems will be necessary in order to effectively implement the proposed enhancements and modules. Together, these new systems will allow for substantial improvements in functionality over current capabilities, allowing for the integration of all of DHS's benefit programs into a single system, leading to more timely and accurate claims processing, as well as more reliable reporting to comply with federal requirements.

18. The Department also notes that failure to fund aspects of the MMIS would result in DHS staff resorting to manual "workarounds" without the aid of an updated automated system. Such workarounds would be more time consuming, and their associated expenses would not be eligible for the enhanced federal funding provided for the MMIS.

Cost Estimates Summary

19. Base funding for the state's medical assistance benefits is approximately \$9.6 billion (all funds), including \$2.9 billion GPR. The MMIS system is an important aspect of the MA program and necessary to comply with federal requirements. As indicated, most of the costs relating to the procurement and implementation of a new MMIS is funded on a 90% FED/10% state basis. The cost estimates discussed above appear reasonable and necessary to ensure that the new system meets federal requirements and meets the Department's data management needs. As such, the Committee could approve the Governor's recommendation.

Staff Costs

20. Based on the consultant's recommendations, the Department estimates that the MMIS project will require an additional 45.40 positions to complete. These positions are comprised of: (a) administrative staff, including project managers, quality assurance specialists, and security and compliance managers; (b) technical staff, including database administrators, technical researchers, and system architects; (c) takeover and integration managers; and (d) operations staff, responsible for managing activities related to functional areas such as claims and encounters, provider enrollment, eligibility, and data analysis, among others.

21. In estimating the total cost of these staff, the Department assumes that these positions will begin work on October 1, 2017, and that some of the positions will remain unfilled until 2018-19. The estimate further assumes an average rate of \$88 per hour would be paid for contract positions. Under the Governor's proposal, 8.0 of these positions would be filled with state employees, while the remaining 37.40 would be filled with contract staff.

22. The Department cites the high number of different contracts associated with the project, the overall complexity of the new system and associated modules, and the high rate of turnover historically observed with IT contractors as reasons for creating eight permanent state positions, which the agency argues would be better suited to manage the project over the long run. DHS also expects that the cost of state staff, including salary and fringe benefits, would be 30% less than that of comparable contract positions. DHS estimates the total cost of additional staff to be \$13,547,900 (\$1,484,200 GPR and \$12,063,700 FED) over the biennium. Of this total, \$1,584,900 (\$158,400 GPR and \$1,426,500 FED) would fund the 8.0 state positions.

23. If the Committee determines that providing state staff for the project is desirable, it could either approve the Governor's recommendations [Alternative A1] or modify the bill to provide 8.0 four-year project positions, terminating June 30, 2021. The ongoing need for these positions could then be considered as part of the 2021-23 biennial budget deliberations [Alternative A2].

24. Moreover, the Committee could opt to provide additional state staff in place of several of the contract staff for which funding would be provided in the bill. Using additional state employees rather than contract staff could allow for additional savings, based on the Department's cost estimates. Adding an additional 20.0 state staff in lieu of contracted positions would allow for a reduction to funding in the bill by \$509,500 (\$50,900 GPR and \$458,500 FED) in 2017-18 and by

\$679,300 (\$67,900 GPR and \$611,400 FED) in 2018-19 [Alternative A3].

Data Analytics System

25. 2015 Wisconsin Act 55 (the 2015-17 biennial budget act) provided \$5,000,000 (\$500,000 GPR and \$4,500,000 FED) in one-time funding for DHS to procure and implement an advanced analytics system for the purpose of minimizing provider and beneficiary fraud in the state's MA program, and for verifying the identification of MA and Medicare beneficiaries prior to their receiving covered services. In 2016, following a request for proposal process, DHS selected LexisNexis to develop and implement the system, which is expected to be operational by the end of 2016-17. Under the proposal, the Department pays the vendor up to \$2.0 million per year, an amount that includes incentive payments that are dependent upon fraudulent payment recoveries. After an initial two-year period, the contract can be renewed, at the discretion of DHS and contingent on available funding, for up to three, one-year periods.

26. The funding provided in the bill is intended to cover the estimated cost of the contract over the biennium. Beginning in 2018-19, 20% of the GPR savings resulting from the program, up to \$250,000, would be credited to a PR appropriation to partially support the costs of the contract. (This funding would otherwise be credited to a current PR appropriation that offsets MA benefit costs). This funding mechanism, which is intended to provide a financial incentive to the vendor and assist in measuring the program's cost effectiveness, would reduce the GPR share of the project's total costs from \$425,000 in 2017-18 to \$250,000 in 2018-19.

27. According to the Department, this new system is needed to replace the older system currently used by the OIG, which is more limited in its analytical capabilities and in its ability to combine multiple data sources. The Department argues that the system will allow the OIG to more effectively detect and prevent fraud in the MA program.

28. Following the conclusion of the contract with LexisNexis, the Department intends to rely on the data analytics module in the new MMIS system, which it anticipates becoming operational by 2023.

ALTERNATIVES

A. Medicaid Management Information System

1. Adopt the Governor's recommendation, incorporating the change described in Discussion Point 5, which reduces funding in the bill by \$100,000 (-\$10,000 GPR and -\$90,000 FED) in 2017-18.

ALT A1	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	\$10,363,100	1.00	- \$10,000	0.00
FED	<u>76,442,000</u>	<u>7.00</u>	<u>- 90,000</u>	<u>0.00</u>
Total	\$86,805,100	8.00	- \$100,000	0.00

2. Modify the Governor's recommendation to provide 8.0 four-year project positions, expiring June 30, 2021, rather than 8.0 permanent positions. Incorporate the change described in Discussion Point 5.

ALT A2	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	\$10,363,100	1.00	- \$10,000	0.00
FED	<u>76,442,000</u>	<u>7.00</u>	<u>- 90,000</u>	<u>0.00</u>
Total	\$86,805,100	8.00	- \$100,000	0.00

3. Adopt the Governor's recommendation, but increase the number of state positions for the project under the bill, while reducing funding in the bill to reflect anticipated savings from using state staff in place of contract positions. Reduce funding in the bill by \$509,500 (\$50,900 GPR and \$458,500 FED) in 2017-18 and by \$679,300 (\$67,900 GPR and \$611,400 FED) in 2018-19 and provide an additional 20.0 positions (2.0 GPR positions and 18.0 FED positions), beginning in 2017-18. Incorporate the change described in Discussion Point 5 (-\$10,000 GPR and -\$90,000 FED in 2017-18).

ALT A3	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	\$10,244,300	3.00	- \$128,900	2.00
FED	<u>75,372,100</u>	<u>25.00</u>	<u>- 1,159,900</u>	<u>18.00</u>
Total	\$85,616,400	28.00	- \$1,288,800	20.00

B. Advanced Data Analytics

1. Adopt the Governor's recommendation.

ALT B1	Change to	
	Base	Bill
GPR	\$675,000	\$0
FED	3,075,000	0
PR	<u>250,000</u>	<u>0</u>
Total	\$4,000,000	\$0

2. Delete provision.

ALT B2	Change to	
	Base	Bill
GPR	\$0	- \$675,000
FED	0	- 3,075,000
PR	<u>0</u>	<u>- 250,000</u>
Total	\$0	- \$4,000,000

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