



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director  
AMY CARLSON

DATE: September 17, 2013

TO: Legislative Finance Committee

FROM: Marilyn Daumiller, Senior Fiscal Analyst  
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RE: Medicaid Management Information System Information

### SUMMARY

The purpose of this memo is to give Legislative Finance Committee (LFC) members a background on the Medicaid Management Information System (MMIS) in Montana and explain why the Department of Public Health and Human Services (DPHHS) has listed the development as having problems. The paper gives an overview of the development to date, outlines possible risks to the state, and presents options for future courses of actions by the LFC.

### MMIS BACKGROUND

An MMIS pays claims and collects data regarding Medicaid services. The United States Department of Health and Human Services has mandated that states use MMIS systems since the 1970s. Additionally, an operating MMIS represents a vital tool to support Medicaid programs. Without the system, care providers would not receive payments for services rendered. Montana currently operates an MMIS that pays claims and is certified by the federal government. However, it uses older technology that is hard to change and upgrade. Because of this, DPHHS, like the health services departments in others states, has been implementing an upgrade to this vital system.

Despite the importance, MMIS project development nationwide face multiple challenges:

- 1) Each state's MMIS is distinct and different – meaning that interoperability within and reuse between states is minimal. This is contrary to the medical information technology trend for greater standardization.
- 2) MMISs are some of the last large, custom-built systems. In an era of reuse, MMISs fall outside the norm.
- 3) MMIS projects are notorious for troubled implementations. A PK Consulting report notes that 21 out of the last 21 MMIS implementations in the last 10 years were late, over budget, or failed. As

- 4) an example, the Xerox development of the New Hampshire MMIS (\$90 million) went live on April 1, 2013 – six years late.<sup>1</sup>

## **MONTANA’S MMIS**

The proposed Montana MMIS system was first brought to the legislature during the 2009 session. DPHHS stated that the current MMIS was outdated and a new system would implement new features. The 2009 Legislature appropriated \$65 million (\$62 million federal special revenue) in HB10 for the MMIS project. This included a restriction regarding the nature of the contractor that the legislature felt would help minimize risks.<sup>2</sup>

### **TIMELINE TO DATE**

- **2009** – As required by HB10, DPHHS reported to the LFC that development would start November 2009, the system would be in operation November 2011, and would gain federal certification November 2012.
- **2010** – DPHHS released the Request for Proposal (RFP), 18 months later than initial plans.<sup>3</sup>
- **2011** – DPHHS awarded the contract to Xerox. At the time, concerns were raised by legislators that Xerox did not meet HB10 requirements that specified a contractor must have “experience, proven performance, corporate resources, and corporate qualification in large scale data processing system development” and “health care claims processing experience in system planning, design, development, implementation, and operation” Consequently, the contract with Xerox could heighten the risk to the state.<sup>4</sup> The issues were also raised by members of the LFC.
- **2012** – In April, Xerox began work on the MMIS, 28 months later than DPHHS planned. In the September IT portfolio report, DPHHS reported to the LFC that MMIS system development had no problems.
- **2013** – On June 1, Xerox halted work on Montana’s MMIS. On June 11, DPHHS reported the project having changes that negatively impacted the schedule or budget. Xerox started a “rebaselining effort” in order to re-estimate the time and resources needed for the project. Xerox conferred with the state, redoubled its commitment to Montana, and began talk of subcontractors work on the project.

### **COSTS**

The Montana MMIS appropriation is the largest single information technology project undertaken by the State of Montana.<sup>5</sup> In comparison, for the same cost of the MMIS, Montana could rebuild both Bobcat and Washington-Grizzly Stadiums, twice over.

DPHHS used a fixed-cost contract for the MMIS project. The contractor, Xerox, does not get paid until the system development has achieved specific milestones. This contract provision has allowed DPHHS a large degree of safety as money to the contractor does not need to be paid up

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<sup>1</sup> Soloman, Dave, March 25, 2013, <http://www.unionleader.com/article/20130325/NEWS06/130329402>, retrieved on September 9, 2013.

<sup>2</sup> Affidavit of John Brueggeman, December 4, 2011.

<sup>3</sup> The delay was due to DPHHS canceling the original RFP. Under the original RFP, only one contractor, Xerox, showed interest.

<sup>4</sup> Montana House Bill 10, 2009; Letter from Sen. John Brueggeman to Leo Ward, October 2, 2011; Letter from Sen. Llew Jones to Ron Baldwin, October 21, 2011.

<sup>5</sup> The interoperable communication radio project is the largest by funding. However, it is an assembly of multiple small projects rather than one big unified project.

front. However, DPHHS has internal costs and payments to associated contractors which must be paid. DPHHS has incurred over \$6.1 million as of June 2013 on system development. This represents 8% of appropriated funds dedicated to this project and 9% of the original HB10 appropriation.

## **RISKS TO MONTANA**

Montana’s current MMIS, while old, can process payments into the foreseeable future. Xerox, as the fiscal agent, continues to run the old MMIS system while the new system is being developed. This arrangement mirrors a similar situation to New Hampshire where the old MMIS was used while the new system was developed. However, there are other risks in a delayed or failed Montana MMIS implementation.

### **NEED FOR FURTHER FUNDS**

Further funding will be needed if the pace of development demanded by DPHHS is to be kept. While the contract with Xerox does not require payments until development milestones are reached, costs of supporting the project inside the DPHHS are incurred. These costs include use of DPHHS staff, equipment, facilities, and contracted services associated with development. The growth of these costs is reflected in the project history (see Figure 1).

Figure 1 Estimates, Appropriations, and Expended Funds for MMIS		
Estimate, Appropriation, and Expended	Original Appropriation	June 2013 LFC Report
Estimate	\$65,500,000	\$78,426,777
General Fund	0	8,279,625
Long Range	3,500,000	(none listed)
Federal Special Revenue	<u>62,000,000</u>	<u>66,367,062</u>
Total Appropriated	<u>65,500,000</u>	<u>74,646,687</u>
Expended	<u>\$0</u>	<u>\$6,184,516</u>
Note: MMIS development is normally developed on a 90% federal/10% state split. However, the state must fund CHIP and Mental Health Services at a different rate. The effective state percentage is 12.82%		

Some of this growth stems from DPHHS capturing all development costs in order to maximize federal matching funds. However, the cost growth also comes from DPHHS using additional resources to develop the system. These resources include both program and technical staff time, IT resources, and additional contractor costs.<sup>6</sup> The longer the project goes on, the more internal and associated contractor costs increase. Thus, an extension to the project will necessarily increase total expenditures. Furthermore, money is needed for other contractors that maintain associated systems. For example, MMIS is heavily dependent on the eligibility determination

<sup>6</sup> Jeff Buska (Project Director) and Tim Peterson (Project Manager) in discussion with LFD, September 6, 2013.

system (CHIMES-EA). In order to make sure that the systems work together, Deloitte – the CHIMES EA contractor – will need to make modifications to the eligibility determination system. As changes are made to MMIS, Deloitte will incur additional expenses.

It is unclear how the additional costs will be funded. In the past, DPHHS has transferred appropriations internally in order to complete information technology projects. This process has allowed DPHHS to deploy information technology without specific appropriations for the purpose. For example, during FY 2013, DPHHS transferred Medicaid benefit appropriations into the Technology Services Division in order to fund system changes required by the Affordable Care Act. Another example is the document management system, which was deployed in 2011.

A similar tactic could be used to backfill any needs for MMIS. However, using this method raises several issues. First, because appropriations are transferred, the approach reduces reversions and takes money away from areas originally intended by the legislature. Additionally, if a worse-case scenario occurs and development is abandoned, it is unclear how much completed work could be reused in another system development.

## **FEDERAL ACTIONS**

Several possible risks result from an MMIS system that is not able to support DPHHS operations to fulfill federal directives. Both the Health Insurance Portability and Accountability Act and the Affordable Care Act have numerous mandates for interoperability among health organizations. As a vital part of the health infrastructure, MMIS must comply with these laws. Montana made plans to have a new MMIS system able to meet these standards.

Without a new system in place, the old system will need to be retrofitted or the state could become non-compliant with the industry-wide regulations. Because so many health systems are interlinked, non-compliance could cause a variety of effects. At best, the failure of system interoperability would mean a lack of proper reporting. At worst, providers may receive delayed or incorrect payments for services. In all cases, non-compliance puts the state at risk for federal sanctions. To meet these needs, DPHHS is already planning to upgrade the old MMIS; however, this work will incur additional costs.

## **PROVIDER SERVICES**

Another possible risk lies in how the MMIS system interfaces with providers. The providers depend on the MMIS system to receive payment for services provided. As stated above, the inability of the MMIS to communicate with provider systems could lead to late or incorrect payment.

## **LEGAL ACTION**

As the MMIS project is so large, it involves numerous legal issues all of which pose possible risks. First, DPHHS has reported that the contract with Xerox has penalty clauses for missed or non-performance. It is unclear who would decide which penalties would be pursued or how they would be enforced. Additionally, if DPHHS were to decide that Xerox had not performed correctly, the decisions regarding contract cancelation could be fraught with questions such as

how much work could be reused in another system development. Furthermore, the losing bidder – Molina – is closely following the MMIS system development.

## **POSSIBLE COURSES FOR LFC ACTION**

The LFC has a variety of options for future work regarding MMIS.

- 1) The LFC can decide to continue to receive reports as part of the Statewide Project Portfolio report.
- 2) The LFC could ask for further detailed information regarding costs, project timeframes, or development quality to keep informed and provide feedback as deemed appropriate. This includes use of current funds as well as potential budget impacts in the 2015 legislature.
- 3) The LFC could form a subcommittee for deeper investigation of the MMIS project.