

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2024

2007 SENATE APPROPRIATIONS

SB 2024

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2024

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 01/04/07

Recorder Job Number: 648

Committee Clerk Signature

Alice Dehner

Minutes:

Chairman Holmberg welcomed members of the Joint Committee to the hearing on SB 2024.

He indicated the bill will be turned over to the subcommittee to be looked at more closely,

Senators Fischer, Kilzer, Grindberg, Krauter and Mathern. Members of the Policy

Committee and anyone else who wishes to may testify today.

MaggieAnderson, Director of Medical Services discussed information regarding replacement of the current Medicaid Management Information System (MMIS). Written testimony (1) was provided. She discussed MMIS background information, why MMIS needs to be replaced, the Medicaid Systems Project Events during 2005-07 and it was stressed that if the state deviates from the CMS approval IAPD update funds will be suspended. In any event, the funds expire July 2009.

Jennifer Witham, Director, Information and Technology Services , covered the sectors on 2005-07 preliminary project work and the executive budget request. She indicated phase 1 is on time and on budget for ACS and ITD.

Representative Kempenich asked if the price is firm until the contract is established. The response was that the agreement is to keep the price firm. It is anticipated to recontract every eight years.

Other concerns involved the hard monies involved, whether the FTE's are permanent for the life of the MMIS project, whether this includes the main frame migration, and why the funds expended don't match up in some areas.

Sterling McCullough, Mtg Management Consultants, discussed the Report of Findings (2) including the executive summary, the assessment approach, the MMIS Market Assessment, the assessment of MMIS replacement alternatives and the recommendations.

Several questions were raised about the data from the states, MIDA compliancy, whether there is protection built in as far as costs, what is preventing getting other bids, and whether there needs to be concerns about Medicaid reimbursement as with Medicare reimbursement.

Representative Skarphol asked that the third party support be elaborated on, if the modules were going to be stand alone entities.

Representative Svedjen asked if the department had plans to reform how it operates in North Dakota and can MMIS be supported in the current system.

Arnold Thomas, President, ND Healthcare Association, testified in support of SB 2024 for the replacement of the MMIS system and in support of the MMIS business principles in making selection decisions. He also requested that authority be provided for the department to contract for private vendor services until the system is operational.

Senator Bowman asked if a private vendor could be used, why spend this money on the system.

Senator Fischer requested the Department respond to the concerns raised.

Representative Walz asked if the current system was capable of detecting fraud.

Senator Lee testified in support of SB 2024 indicating much research has gone into this and she urged the bill be looked at and to get it moving as quickly as possible.

Senator Holmberg indicated an emergency clause had been put on this bill.

Carol Olson, Director, Department of Human Services, indicated it was important to expedite SB 2024 as soon as possible. She indicated the sooner this gets going, the sooner it can be implemented.

The hearing on SB 2024 adjourned at 4:35 pm.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No 2024

Senate

☐ Check here for Conference Committee

Hearing Date: 01/08/07

Recorder Job Number 752

Committee Clerk Signature

Alice Rulzer

Minutes: Senator Fischer, Chairman of the subcommittee, opened the hearing on SB2024.

Jennifer Witham with Department of Human Services spoke regarding the Medicaid Management Information System (MMIS) and gave testimony and she stated written testimony had been distributed earlier at the first hearing on this bill.

Senator Mathern asked if we would pass this bill today does this money come out of this year's budget?

Jennifer Witham said the money won't be expended until July, 2007.

Senator Krauter would like a recap on the expenditures.

Senator Grenberg asked if Affiliated Computer Systems (ACS) has the contract with IT, what control do we have over their expenses and what are they delivering for our money.

Question were asked about the contingency and how other states handle such problems.

Jennifer Witham We did have a 3rd party attorney go through the contract and the AG's office went through two reviews and many states have updated their Hipaa changes.

Senator Krauter asked if there is any value in putting in language to amend this bill that would require reports in the budget section.

Jennifer Witham I do know there is oversight by the IT Legislative Committee.

Senator Mathern indicated he would not like to see a delay in the passing of this bill.

Senator Krauter requested more updates on the whole process and asked how often we get a report.

Jennifer Witham stated we do monthly reports to Medicare and Medicaid. We can do quarterly reports also.

Senator Grenberg made a motion to have reports submitted, and seconded by Senator Krauter.

Carol Olson, Director of the Department of Human Services (DHS) stated she is certainly in favor of submitting reports.

There was discussion regarding the impact of the federal government and how changes affect DHS and this bill.

Maggie Anderson, Medical Services stated changes are very difficult to work through. Discussion followed regarding the involvement of the federal government.

Carol Olson had questions about the authority of the budget section.

Deb Gienger, Legislative Council stated that the dollar amount is appropriated, however there is language attached to the bill requiring that those dollars can not be spent until the budget section approves the expenditure of those dollars. She assured this committee that ITD will be watching this bill very closely.

Discussion followed regarding the passing of this bill. The bill will not be passed today. The Legislative Council will work on an amendment and submit it to this subcommittee.

The meeting was closed by **Senator Fischer**.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No 2024

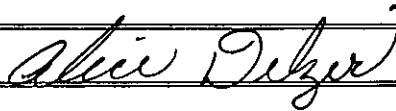
Senate Appropriations

☐ Check here for Conference Committee

Hearing Date: 01-11-07

Recorder Job Number 915

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2024, Medicaid Management Information System (MMIS).and asked Senator Fischer to pass out the amendments (0101) that was prepared by the Legislative Council.

Senator Fischer shared the reason for the Proposed Amendments.

Short discussion followed.

Senator Fischer made a motion to do pass the bill with the attached amendment. Seconded by **Senator Mathern**. 13 yeas, 0 no, 1 absent.

Chairman Holmberg announced the bill passed with amendment. Senator Fischer will carry SB 2024 to the Senate floor. Meeting adjourned.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2024

Page 1, line 2, after the semicolon insert "to provide an exemption; to provide for budget section reports and budget section approval;"

Page 1, after line 16, insert:

"SECTION 3. BUDGET SECTION REPORTS. The department of human services shall report at each budget section meeting during the 2007-08 interim on the status of the medicaid management information system computer project.

SECTION 4. CONTINGENCY FUNDS - BUDGET SECTION APPROVAL. Of the total amount appropriated in section 1 of this Act, \$5,680,000 is for project contingencies. The department of human services shall obtain budget section approval prior to obligation or expenditure of funds related to a project change or other occurrence that requires the use of \$500,000 or more of the contingency funds for the period beginning with the effective date of this Act and ending June 30, 2009."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2024 - Department of Human Service - Management - Senate Action

Adds sections requiring quarterly reports to the Budget Section, identifying \$5,680,000 of the appropriation for the Medicaid management information system replacement project as contingency funds, and requiring the Department of Human Services to receive Budget Section approval prior to the obligation or expenditure of funds related to a project change or other occurrence that requires the use of \$500,000 or more of the contingency funds.

Date: 1-11-07
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2024

Senate Appropriations

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number SB 2024 : 0101

Action Taken do pass Bill with as amended Amendment # 0101

Motion Made By Fischer Seconded By Matherin

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson		
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 No 0

Absent (1) Robinson

Floor Assignment Sen. Fischer

If the vote is on an amendment, briefly indicate intent:

as amended. Amendment # 0101

Carrier of Bill will be Fischer.

REPORT OF STANDING COMMITTEE

SB 2024: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2024 was placed on the Sixth order on the calendar.

Page 1, line 2, after the semicolon insert "to provide an exemption; to provide for budget section reports and budget section approval;"

Page 1, after line 16, insert:

"SECTION 3. BUDGET SECTION REPORTS. The department of human services shall report at each budget section meeting during the 2007-08 interim on the status of the medicaid management information system computer project.

SECTION 4. CONTINGENCY FUNDS - BUDGET SECTION APPROVAL. Of the total amount appropriated in section 1 of this Act, \$5,680,000 is for project contingencies. The department of human services shall obtain budget section approval prior to obligation or expenditure of funds related to a project change or other occurrence that requires the use of \$500,000 or more of the contingency funds for the period beginning with the effective date of this Act and ending June 30, 2009."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2024 - Department of Human Service - Management - Senate Action

Adds sections requiring quarterly reports to the Budget Section, identifying \$5,680,000 of the appropriation for the Medicaid management information system replacement project as contingency funds, and requiring the Department of Human Services to receive Budget Section approval prior to the obligation or expenditure of funds related to a project change or other occurrence that requires the use of \$500,000 or more of the contingency funds.

2007 HOUSE HUMAN SERVICES

SB 2024

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2024

House Human Services Committee

☐ Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1582

Committee Clerk Signature

Judy Schock

Minutes:

Chairman Price: We will open the hearing on SB 2024.

Maggie Anderson, Director of medical Services for the Department of Human Services:
this is a copy of the testimony that we provided on January 4 on the MMIS. See attached testimony and tables.

Jennifer Witham: I will walk you through the budget and the recommendations on page 19.

Chairman Price: Would there ever be a point where we could do the billing for another state? I realize there would be additions and I know they were a year behind. I know our Department has had discussions with SD. Is there anything happening on that now?

Ms Witham: We did look at that them. When we met with them we talked about frame and when they would be completed. We did talk about the operational concept.

Representative Price: If we are just looking at things like the providers such as services. Where are we at as far as getting the claims turned around for services? Particularly supplies such as the vision and hearing and those types of things.

Ms Anderson: On page 13 of my testimony I indicated we have concerns about that.

John Mogren: Social Service Director for County of Social Services: I am here to ask for you support to go forward with this. This should speed up billing and cut down on fraud.

Representative Uglem: Do we have any idea on how much fraud there is now?

Ms Anderson: We do currently have a problem (could not hear her to understand what she said).

Chairman Price: Anyone else to testify in favor, or anyone in opposition? If not we will close SB 2024.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2024

House Human Services Committee

☐ Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1583

Committee Clerk Signature

Judy Dehock

Minutes:

Chairman Price: Take out SB 2024. What would the committee like to do?

Representative Porter moves a do pass RR/Appropriations, seconded by **Representative**

Potter. The vote was taken with 12 Yeas, 0 nays and 0 absent. **Representative Weisz** will

carry the bill to the floor.

Date: 7/2
Roll Call Vote #:

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. "Click here to type Bill/Resolution No."

House HUMAN SERVICES S. B 2024 Committee

☐ Check here for Conference Committee


Legislative Council Amendment Number

Action Taken

Motion Made By Rep Potter Seconded By Rep Potter

[illegible]

Total (Yes) 12 "Click here to type Yes Vote" No 0 "Click here to type No Vote"

Absent 

Floor Assignment Rep. Weiss

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2024, as engrossed: Human Services Committee (Rep. Price, Chairman)
recommends **DO PASS** (12 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2024 was rereferred to the **Appropriations Committee**.

2007 HOUSE APPROPRIATIONS

SB 2024

Date: January 29, 2007
Roll Call Vote #: _____

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2024

House Appropriations Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass ~~Roll Call~~

Motion Made By Skarphol Seconded By Kempenich

Call last

Representatives	Yes	No	Representatives	Yes	No
Chairman Sredjan					
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleeson	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew		✓	Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓		Chm. Sredjan	✓	

Total (Yes) 23 No 1

Absent 0

Floor Assignment R. Weiss

If the vote is on an amendment, briefly indicate intent:

Call
Senate
Approps
for joint
minutes

REPORT OF STANDING COMMITTEE

SB 2024, as engrossed: Appropriations Committee (Rep. Svedjan, Chairman)
recommends **DO PASS** (23 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING).
Engrossed SB 2024 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

SB 2024

Testimony
Senate Bill 2024 – Department of Human Services
Senate and House Appropriations Committees
Senator Holmberg and Representative Svedjan, Chairmen
January 4, 2007

Chairman Holmberg and Chairman Svedjan, members of the Senate and House Appropriations committees, I am Maggie Anderson, Director of Medical Services for the Department of Human Services. I appear before you to provide information regarding the replacement of the current Medicaid Management Information System (MMIS). Replacement of the MMIS is one component in the Medicaid Systems Project. In addition to my testimony, Sterling McCullough from MTG Management Consultants, L.L.C. will be presenting information on the Independent Analysis and Jennifer Witham, Director of Information Technology Services will be presenting information on the 2005-2007 Preliminary Project Work, and the 2007-2009 Executive Budget Request.

Medicaid Management Information System (MMIS) Background

The MMIS is a claims payment and reporting system that ensures payments for medical services are processed timely and accurately. It ensures the provider claiming reimbursement is enrolled and ensures the service for which reimbursement is requested is within program guidelines. It prices claims, accounts for payments, and maintains a history file of all claims. It is designed to detect problems such as duplicate claims and services beyond program limits.

If MMIS detects a problem, it will either automatically deny the claim, or suspend it for processing by a claims auditor. Even though each of these functions is common of a claims payment system, an MMIS is unique, just like each Medicaid program is unique. Some Medicaid programs cover all optional services, some none or very few. Each Medicaid program covers a variety of eligibility categories, at different income levels. MMIS, through it's interactions with the eligibility systems, MUST be able to determine who is eligible and for what level of benefit. An example of this type of uniqueness is the Medically Needy population. North Dakota is one of the states that cover this eligibility group, and we are unique in how their eligibility is established.

The MMIS also produces a variety of reports. Many of the reports are required by the Centers for Medicare and Medicaid Services (CMS) to report service and payment information. The ongoing receipt of Federal Funds is contingent upon the Department being able to supply accurate reports to CMS within the timeframes they prescribe. Other reports are used to manage the program and identify potential fraud and abuse issues.

Medicaid providers rely on MMIS for accurate and timely payment. These providers include Nursing Facilities, Hospitals, Physicians, Counties, Pharmacies and Clinics. In addition, the Qualified Service Providers (QSPs) rely on the MMIS for the equivalent of their paycheck.

What MMIS is not, is easy to envision. It is not a computer on a desk top, or a pre-packaged software product that can be purchased at a retail store; nor is it software that can be downloaded from the internet. It is literally millions of lines of computer programming code, which requires

the sophistication to interface with numerous other systems and programs to ensure all Federal Medicaid payment rules and State laws are followed. **It must be custom-modified for each state's unique Medicaid program rules.** This is no small undertaking. When complete, the new MMIS would reside on 48 servers and will be maintained by information technology experts. MMIS is a very complex technology, clearly exhibited by the limited number of vendors who have developed systems in this market. Having such a small pool of vendors also drives the cost up.

Why MMIS Needs to be Replaced

North Dakota implemented the current MMIS in the fall of 1978. At that time it was a state-of-the-art system. The system is now 29-years old and it has been modified and enhanced countless times. The current software architecture is not flexible and has made it difficult to meet the business needs of the Department and providers for quite some time. For example, recent Federal changes to the Medicare Crossover claims process has complicated payments to hospitals and physicians. Minor policy changes often involve prolonged and complicated "hard coding" that requires extensive resources, and often leads to additional problems because of all the patches that have previously been made to the system. The current system does not meet current business needs, let alone the ongoing needs of providers.

In addition the fraud and abuse detection tools in the current MMIS are not sophisticated and manual review is often required because of system limitations.

In short, a new MMIS will allow the Department to be more responsive to changes, and in fact, will allow more proactive program management. In addition, it will allow for more efficient, accurate and timely payments to providers.

Medicaid Systems Project Events during the 2005-2007 Interim

The 2005 Legislature authorized an appropriation of \$29.2 million to design, develop and implement the replacement Medicaid Systems. The Department released a Request for Proposal (RFP) on June 1, 2005, with proposals due September 1, 2005. The Department received one proposal for MMIS, three proposals for Pharmacy Point of Sale (POS), and two proposals for the Decision Support System (DSS), which are all components of the Medicaid Systems Project. After the proposals were reviewed and scored, the Department held oral presentations with all vendors to further refine the vendors proposals and to ensure the proposals met the business and technology requirements set forth in the RFP. The oral presentations were completed in mid-November 2005 and vendors were asked for best and final offers, which were due December 5, 2005. The Department then notified the Budget Section that the estimated cost of the Medicaid Systems Project had significantly increased.

The increase is related to several factors. First, there have been changes in technology. Medicaid Information Technology Architecture (MITA) was a concept on the drawing board within the Centers for Medicare and Medicaid Services (CMS) when the Cost Benefit Analysis was prepared. Today, MITA is required and, as a result, cost proposals for all new Medicaid Systems are landing higher than two – three years ago. The

newer technology will enable Medicaid systems to be more effective and efficient and will help ensure seamless health care payments between payers. The new technology also results in a "plug and play" approach to maintaining the system, which allows components to be upgraded or replaced rather than an entire system, as a portion becomes obsolete. For example, if CMS requires a significant program change, this "plug and play" technology will allow North Dakota to be more responsive, in less time and at lesser expense than with the current technology. This is intended to reduce long-term replacement costs. Unfortunately, this has increased the initial development costs, as vendors are making system changes to ensure they can be competitive within the MITA requirements.

When the Cost Benefit Analysis was prepared in the 2003-2005 interim, it was based on estimates for North Dakota transferring a system in from another state. In the meantime, MITA became required, and a transfer was no longer appropriate. Therefore, we are experiencing a cost increase because of a shift in the technology currently under development. The costs for this new technology are not expected to decrease in future years; in fact, costs are likely to increase.

At the March 8, 2006 meeting of the Budget Section, a motion passed that encouraged the Department of Human Services to begin preliminary work on the Medicaid Systems Project. The preliminary work was to include deliverables that would be required, regardless of the option selected during the 2007 Legislative Session.

In addition, the motion encouraged the Department to contract for an independent analysis of the following options:

1. Acceptance of the current ACS Bid

2. Rebidding of the MMIS project
3. Joint development with another state
4. Use of a fiscal agent
5. Outsourcing the billing and payment components

In March 2006, the Department submitted the proposed MMIS contract to the Centers for Medicare and Medicaid Services (CMS) for approval, which is part of the oversight required by CMS. The contract was approved June 6, 2006 by CMS.

Currently, **CMS provides 90 percent federal funding** for the design, development and installation of a new MMIS. In order to receive the enhanced funding, we are required to submit for approval an Implementation Advance Planning Document (IAPD). The IAPD has been approved by CMS, based on acceptance of the current Affiliated Computer Systems (ACS) bid. If a decision is made to pursue a different alternative, an Update to the IAPD would need to be submitted and approved by CMS. In the March 30, 2006 IAPD approval received from CMS, they stated:

"CMS wants the State to be aware that should the project deviate from the CMS approved IAPD Update, FFP for the new MMIS project will be suspended and disallowed as provided for in federal regulations at 45 CFR 95.611(c)(3) and 95.612. In any event, authorization of federal funding for this project will expire on April 24, 2008 (i.e., the scheduled date for completion of the Operation Acceptance Test and full operation of the new MMIS, POS, and DW/DSS). Also, please be advised that should funding for the full project not be authorized or the system not become*

operational, that the FFP authorized for this project will be subject to disallowance by CMS (see 45 CFR 95.612)."

* This date has subsequently been approved by CMS at July 31, 2009.

Because the Federal Government, through CMS, provides 90 percent federal funding for this project, we requested CMS input for this testimony. Representatives from the CMS Denver Regional Office were unable to be here today; however, they have provided a letter regarding the North Dakota Medicaid Systems Project. Please see attached letter.

Jennifer Witham, Director, Information and Technology Services, will now cover the Sections on the 2005-2007 Preliminary Project Work, and the 2007-2009 Executive Budget Request.

2005-2007 Preliminary Project Work – Phase I

As Maggie stated, in September 2005 the Department received one proposal for MMIS, three proposals for Pharmacy Point of Sale (POS), and two proposals for the Decision Support System (DSS), which are all components of the Medicaid Systems Project. Based on best and final offers received in December 2005, the Department estimated the total cost of the project to be \$56.8 million.

The Budget Section found that it did not possess the authority to approve increased funding for the Medicaid System Project beyond the 2005 appropriation of \$29.2 million. However, on March 8, 2006 the Budget Section did support a plan for the Department to begin preliminary project work under its existing authority. This preliminary work, Phase I, will not exceed \$10 million in 2005-2007. Execution of Phase II of the

project will be dependent on the outcome of this bill based on the action of the 2007 legislative assembly.

ACS Government Healthcare Solutions, the successful MMIS and POS contractor, agreed to sign a fixed-price contract identifying both phases, with the second phase contingent on the outcome of this bill based on the action of the 2007 Legislative Assembly. The first phase will not exceed \$8 million, with the total contract price of \$37.6 million, for both phases. Approval for this contract was received from CMS on June 6, 2006, and executed with ACS on June 8, 2006. ACS is ready to begin Phase II project work under this contract.

This two phased approach protects the State's interest in retaining the original bid from ACS while focusing on reusable components during the first phase of the project. Specifically, Phase I primary deliverables from ACS include Requirement Analysis Documents for each of the Medicaid functional areas and an overall Medicaid Information Technology Architecture (MITA) assessment.

The Information Technology Department (ITD) staff is augmenting ACS in Phase I. Their software development costs in Phase I will not exceed \$1.6 million and represent research into data conversion issues, current edit and audit rules and documentation of current system interfaces. Their work product will also be reusable.

Thomson Medstat, the successful DSS contractor, agreed to keep their price of \$3.1 million firm until Phase II of the project could be executed. The Department published a notice of intent to award the DSS contract to

Thomson Medstat on March 31, 2006. No DSS implementation costs will be incurred in Phase I.

At this time, Phase I project work is on time and on budget in accordance with the detailed work plan for both ACS and ITD.

2007-2009 Executive Budget Request – Phase II

The following table represents the current budget request for 2007 – 2009, the anticipated carryover of unexpended 2005-2007 project funds, Phase I project costs, and the total project cost for both bienniums.

	2007-2009 Current Request	2005-2007 Carryover	2005-2007 Phase I Costs	Total Cost*
Total Project	31,072,641	21,456,730	10,000,000	62,529,371
General Funds	3,643,133	0	0	3,643,133
Federal Funds	27,429,508	18,941,021	8,847,889	55,218,418
Other Funds	0	2,515,709	1,152,111	3,667,820
*Total Cost includes a 10% contingency of \$5,680,000. Without contingency, the project cost is \$56,849,371.				

- The Executive Budget request in Senate Bill 2024 for Phase II of the project is \$31,072,641 of which 3,643,133 are general funds.
- This request, in addition to the unexpended funds from the 2005-2007 project appropriation of \$21,456,730 of which \$2,515,709 is other funds, brings the total project cost for 2007-2009 to \$52,529,371.
- With the \$10,000,000 that will be expended in 2005-2007, the total project cost including contingency for both bienniums will be \$62,529,371.

- Project costs less the 10% contingency is \$56,849,371.
- The 2007-2009 project costs of \$52,529,371 includes:
 - \$29,606,950 for the continuation of the current ACS contract for the replacement of the MMIS and the POS (with the \$8 million expended on Phase I; the total contract is \$37.6 million);
 - \$9,502,798 for the continuation of ITD labor, hardware and software costs;
 - \$3,100,000 for the Decision Support System replacement;
 - \$3,869,152 for Independent Validation and Verification services;
 - \$5,680,000 in contingency funds;
 - \$569,254 for DHS temporary staff; and
 - \$201,217 for rent, supplies and other miscellaneous project costs.

Next, Sterling McCullough from MTG Management Consultants, L.L.C. will be presenting information on the Independent Analysis that was requested by the Budget Section in March 2006. We are providing a separate handout for his testimony. After Sterling completes his presentation, Maggie Anderson will complete the Department's testimony.

Option 5 – Outsource the Billing and Payment Activities

Based on the motion from the March 2006 Budget Section meeting, the Department released a Request for Information (RFI) seeking responses from potential vendors on the possibility of outsourcing the billing and payment activities. The Department received three responses to the RFI: Electronic Data Systems (EDS), Noridian Administrative Services (NAS), and Affiliated Computer Systems (ACS).

All three potential vendors provided information on the services they could provide under an outsourcing arrangement. Only NAS provided estimated cost information, as it is not the practice of EDS or ACS to provide cost information, unless there is a formal Request for Proposal.

After the RFI responses were received, the Medicaid Systems Project Management Team met with Noridian Administrative Services staff to discuss the proposal and request clarifications.

NAS provided the following quote in their response:

"Based on information in the DHS RFP for an MMIS in 2005, and information provided in this RFI (e.g., number of recipients, claim volumes, call center volumes), NAS estimates the cost to the DHS to outsource claims processing and related services to a fiscal agent would be in the range of \$3,500,000 to \$5,000,000 per fiscal year. This estimate is inclusive of personnel and facilities only. Hardware and software costs for the MMIS, POS and all other technologies are not included in this estimate. This estimate also excludes the development or

support of the MMIS system or equipment required to process the MMIS. The MMIS system to be utilized would either be the current or future MMIS supported by ITD. A more accurate estimate can be developed when additional details are developed in regards to the scope of work."

The six-year total for Department of Human Services Turnkey (In-house claims processing, claims imaging, electronic claims and provider relations) operations is estimated to be \$5,504,786, which is based on current salaries, plus a yearly inflation of 4 percent*. The six-year total for Outsourcing (using the minimum provided by NAS) operations is estimated to be \$ 23,215,414, which is based on a yearly inflation of 4 percent*.

*The annual inflation, whether at 4 percent or some other percent, is controlled by the Legislature for the in-house billing and payment activities (Turnkey). The annual inflation for an Outsourcing Contract would be under the control of the vendor.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Six Year Total
Turnkey	\$883,720	\$853,174	\$887,301	\$922,793	\$959,705	\$998,093	\$5,504,786
Outsourcing	\$3,500,000	\$3,640,000	\$3,785,600	\$3,937,024	\$4,094,505	\$4,258,285	\$23,215,414

If outsourced, the total funds needed to support this estimated increase for six years of operations would be \$17.7 million, of which \$4.4 million would be general funds. This is based on a 75/25, Federal/State match rate.

The Department understands that this option is likely the result of concerns about the timeliness of the current claims processing activities. Please be assured, the Department shares those concerns and works very hard to ensure timely claims payment. Federal Regulations require that 90 percent of claims be processed in 30 days. Frankly, the Medical Services Division was quite concerned about meeting this standard with

the implementation of Medicare Part D on January 1, 2006. With Part D implementation, we knew that over 40 percent of our prescription drug claims would now be processed by Medicare. Prescription Drug claims, because they are the most easily processed claims, have always assisted us in meeting the 90 percent standard. Because of the dedicated work effort of the staff who scan paper claims, process claims and work through system issues, for State Fiscal Year 2006 we were able to continue to exceed this 90 percent standard (92.24 percent). If given a new, fully functional and fully operational system, these dedicated claims processing staff would easily be able to exceed this standard.

Finally, Option 5 does not remove the need to replace the MMIS, as this option only addresses ongoing billing and payment activities. This is noted in the proposal from Noridian Administrative Services, *"The MMIS system to be utilized would either be the current or future MMIS supported by ITD."*

Next Steps

The Executive Budget was built based on Option 1, Acceptance of the current ACS Bid. North Dakota will incur the cost of developing a certified MMIS that meets our unique needs regardless of decisions about operations (Option 5, Outsource the Billing and Payment Activities).

The need to replace the existing system has only increased over the past two years. Our claims processing system is antiquated, difficult and expensive to maintain, and it is not efficient – for either state users or local providers. On a daily basis, our office is faced with providers who are frustrated, angry and fed up with our inability to make changes in the

current system to meet their needs. Coupled with the challenges providers have with reimbursement rates, when the providers reach a breaking point, they choose not to provide services, which results in limited access for our recipients.

Finally, there is no guarantee that the final cost of the system would decrease if the project were postponed or rebid. In fact, with inflation, potential Federal match changes, and changing technology, it is likely that the costs would continue to increase, or we may not receive any bids.

The Department is committed to this project and has invested considerable resources in this effort. We do recognize that the projected cost is significantly higher than the 2005-2007 appropriation; however, the Medicaid system processes over four million claims per Biennium, totaling expenditures over \$1 billion. It is CRITICAL to the Department and the Medical Services Division that we be able to fulfill our responsibilities to policy makers, providers, and recipients. To ensure the eventual system meets the needs of policy makers, providers and recipients, the Department established a group of stakeholders that has been asked for input and has been kept informed of project milestones. The stakeholder group includes provider associations, Information Technology Department (ITD) representatives, Legislators, the State Auditor's Office and other interested parties. It is the Department's intention to continue and expand this stakeholder group during the design, development and implementation phases of the project.

Medicaid is the fastest growing program in many state budgets, and as such, it is critical that the computerized system that supports nearly

every aspect of daily program administration be able to meet the current and future business needs. The current system does not meet these needs, and it is difficult to plan for the future, while relying on a system that is antiquated and not easily modified and adapted.

We respectfully request your support for Option 1, which will allow the Department to move forward with the momentum of Phase I (work completed in the 2005-2007 interim), and implement MMIS in the shortest period of time.

Sterling McCullough, Jennifer Witham, and I would be happy to answer any questions you may have.



Region VIII

January 3, 2007

File Code: ND-newMMIS/Ph2.BA/wh

Maggie Anderson, Director
Division of Medical Services
North Dakota Department of Human Services
600 East Boulevard Avenue, Department 325
Bismarck, ND 58505-0250

Dear Ms. Anderson:

This letter is with regard to the continuation of the Design, Develop and Implementation (DDI) activities for the new North Dakota Medicaid Management Information System (MMIS) project. This includes a new MMIS, Pharmacy Point of Sale (POS) system and Decision Support System/Data Warehouse (DSS/DW). As noted in the Centers for Medicare and Medicaid Services (CMS) March 30, 2006 letter approving the Implementation Advance Planning Document (IAPD) Update for the project, DHS made the decision to initiate Phase 1 activities for the project with available funding and complete the Phase 2 activities with funding approved during the 2007 legislative session. We are requesting that the Department notify the Regional Office that the MMIS replacement project Phase 2 activities will continue as planned when the necessary funding has been appropriated no later than April 15, 2007. As stated in the March 30, 2006 letter, CMS wants the State to be aware that should the project deviate from the CMS approved IAPD Update, federal financial participation (FFP) for the new MMIS project will be suspended and disallowed as provided for in federal regulations at 45 CFR 95.611(c)(3) and 95.612. Therefore, the State should be advised that if funding for the full project is not appropriated or the system does not become operational, the FFP authorized for this project will be subject to disallowance by CMS (see 45 CFR 95.612).

CMS recognizes the importance of replacing North Dakota's legacy MMIS with the advanced technology needed to support today's Medicaid program. As a measure of our commitment to this important project for the State, we continue to share the development cost of this new generation MMIS. Our review of the project status reports for the MMIS replacement project Phase 1 and Phase 2 to-date activities submitted by DHS indicate that the project is well managed and significant progress has been made. Therefore, CMS strongly encourages the State to move forward with this effort and looks forward to the successful implementation of North Dakota's new MMIS.

Please be aware that federal regulations at 42 CFR 433, Subpart C, and the State Medicaid Manual (SMM), Part 11 require that new MMIS systems be certified in a reasonable time frame, e.g. six months in full operational mode. Approval of operational funding at the 75 and/or 50 percent levels for North Dakota's new MMIS, POS and DSS/DW will be re-evaluated following full operation of the system and MMIS certification by CMS. Pending

CMS certification and approval of retroactive operational funding, FFP for the operation of a non-certified MMIS is at 50 percent (please refer to SMM, Section 11255).

You posed the following question in your January 2, 2007 e-mail, "Is FFP available for the modification and operations of a system that will not be a certified MMIS?". Your e-mail stated that this question is based on an inquiry about whether it would be cheaper to modify a non-certified system that would be funded at the 50% FFP rate. Please note that, as stated above, MMIS certification is a requirement under federal regulation. CMS **will not** provide MMIS funding at any FFP rate for system development or enhancement activities for a non-certified State MMIS. Nor will CMS pay for any massive overhaul of a system given that it will not meet MMIS certification requirements.

CMS looks forward to working with DHS as it continues the Phase 2 activities for the MMIS replacement project. If you or members of your staff have any questions, please contact Dzung Hoang at 303-844-4727, or via email at dzung.hoang@cms.hhs.gov or Will Holmes at 303-844-7478, or via e-mail at william.holmes@cms.hhs.gov.

Sincerely,

/s/

Diane Livesay
Associate Regional Administrator
Division of Medicaid and Children's Health



Vision

The North Dakota Healthcare Association will take an active leadership role in major healthcare issues.

Mission

The North Dakota Healthcare Association exists to advance the health status of persons served by the membership.

Testimony: SB 2024

January 4, 2007

Chairman Holmberg, Chairman Svedjan, Appropriations Committee members. My name is Arnold Thomas. I am President of the North Dakota Healthcare Association.

The Association has supported, and continues to support, an MMIS replacement for the Department of Human Services. This support also extends to the use of business principles in making the MMIS selection decisions.

I understand the MMIS replacement is not expected to be operational until at least 2009. Over the last few years, hospitals have had difficulty in receiving payments for services because of the current systems fatigue. Unless a workable interim claims processing arrangement is adopted, we are concerned that these payment challenges will continue until the new system is operational.

We request this bill provide authority to the department to contract for claims processing services with a private vendor until the new system is operational. We believe this short term action will address our claims processing concerns until such time as the new system is operational.

Chairman Holmberg, Chairman Svedjan, I will be happy to respond to questions.

North Dakota Department of Human Services
Medicaid Management Information System
Independent Assessment Project

Independent Assessment Report

December 22, 2006



MTG Management Consultants, L.L.C.

1111 Third Avenue, Suite 3010

Seattle, Washington 98101-3292

206.442.5010 206.442.5011

www.mtgmc.com

Albany Austin Denver Seattle Topeka Washington D.C.



Document Purpose

This document presents MTG Management Consultants, LLC's independent assessment results and recommendations on how the North Dakota Department of Human Services (NDDHS) should proceed with the procurement and implementation of a Medicaid Management Information System (MMIS) solution.

Version	Date	Description/Changes
0.1	9/1/06	Working copy.
1.0	9/8/06	Pre-draft.
2.0	12/5/06	Working draft.
2.1	12/15/06	Working draft (with NDDHS comments).
2.2	12/21/06	Working draft (footnotes).
3.0	12/22/06	Final.



TABLE OF CONTENTS

	<u>Page</u>
I. Executive Summary.....	2
A. Background	2
B. MMIS Assessment Approach	3
C. MMIS Market Comparison	3
D. Evaluation Results for MMIS Replacement Alternatives	5
E. Recommendations.....	6
II. Introduction.....	8
A. Scope and Objectives	8
B. Document Organization.....	8
III. Assessment Approach	11
A. MTG Qualifications	11
B. Assessment Approach	11
IV. MMIS Market Assessment	16
A. MMIS Market Comparison	16
B. MMIS Detailed Market Comparison.....	17
V. Assessment of MMIS Replacement Alternatives ..	23
A. Alternative #1 – Acceptance of the Current ACS Bid	26
B. Alternative #2 – Rebidding of the MMIS Project	28
C. Alternative #3 – Joint Development With Another State(s) ..	31
D. Alternative #4 – Use of a Fiscal Agent	34
VI. Recommendations.....	38

I. Executive Summary



I. Executive Summary

A. Background

In June 2005, the State of North Dakota Department of Human Services (NDDHS), supported by the Information Technology Division (ITD), issued a Request for Proposal (RFP) for replacement of its existing Medicaid Management Information System (MMIS).

One response was received, which was from Affiliated Computer Services, Inc. (ACS). However, this bid proposed a significantly higher cost than that anticipated by NDDHS. To help cover the potential funding shortfall, NDDHS requested that the Budget Section provide additional funding for the project. In March 2006, after reviewing the request, the Budget Section expressed its support for the project by allowing NDDHS to proceed with preliminary MMIS work (with ACS), with a final decision on continuation of the project to be made by the Sixtieth Legislative Assembly.

In addition, NDDHS was encouraged to contract for an independent assessment of the potential MMIS replacement options, including a cost-benefit analysis, and to arrange for the information to be available to the Sixtieth Legislative Assembly by January 8, 2007.

In July 2006, NDDHS contracted with MTG Management Consultants, LLC, to perform this independent assessment. This report contains MTG's analysis, findings, and recommendations regarding NDDHS's potential MMIS replacement options.

The scope of this assessment is to perform a high-level evaluation of the five procurement alternatives identified by the Budget Section and provide recommendations regarding NDDHS' procurement approach for the MMIS replacement. The four alternatives for which we performed detailed assessments are:

- Alternative #1 – Acceptance of the Current ACS Bid.
- Alternative #2 – Rebidding of the MMIS Project.
- Alternative #3 – Joint MMIS Development With Another State.
- Alternative #4 – Use of a Fiscal Agent.

The fifth alternative proposed for review by the Budget Section was to assess outsourcing of billing and payment components. This alternative will be addressed separately within our assessment. We chose to treat this alternative differently because it represents an option that can be utilized in conjunction with any of the four primary alternatives that are being assessed. Therefore, we did not perform a detailed assessment for this approach as we did for the other four alternatives. However, we will address this approach in our final recommendations.

B. MMIS Assessment Approach

MTG used a proven, objective approach for performing our evaluation of the four primary procurement alternatives suggested by the Budget Section. Our approach was as follows:

- We initially worked with NDDHS to clearly define the MMIS replacement options provided by the Budget Section to ensure that we were proceeding with our analysis efforts based on a common understanding of project objectives and scope.
- We performed market research to provide NDDHS with recent procurement data to support an evaluation of potential market pricing for the MMIS replacement alternatives.
- We developed a set of evaluation criteria and an evaluation model for use in performing an objective analysis of the four primary MMIS replacement alternatives; this approach helped us to conduct the analysis consistently across the entire range of alternatives.
- We utilized the evaluation model to perform a high-level assessment of the MMIS replacement alternatives.
- We compared the pros and cons of the various alternatives under consideration.
- We developed a number of "go forward" recommendations that are based on the evaluation results for the various alternatives.

C. MMIS Market Comparison

The following table provides an overview of the market data that we collected for use in evaluating the cost associated with recent procurements utilizing newer system architectures as defined by the Centers for Medicare & Medicaid Services (CMS) Medicaid Information Technology Architecture (MITA). The approach currently being used by NDDHS is represented by Alternative #1 – Acceptance of the Current ACS Bid and consists of developing a turnkey MMIS application, with ongoing support and operation provided by in-house ITD resources.

State	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WA	\$71,653,142	\$17,363,933	6	\$104,183,598	\$175,836,740
WI	\$21,500,000	\$30,460,000	6	\$182,760,000	\$204,260,000
OR	\$53,306,217	\$4,400,000	6	\$26,400,000	\$79,706,217
NH	\$22,100,000	\$8,000,000	6	\$48,000,000	\$70,100,000
ND	\$56,849,371 ¹	\$5,691,402 ²	6	\$34,148,412	\$90,997,783
Avg.	\$45,081,746	\$13,183,067	6	\$79,098,402	\$124,180,148

Washington and Oregon are facility management states. Thus, their costs are actually comparable to NDDHS's projected facility management cost of \$3.48 million as described in subsection IV. B, under Cost Comparison: NDDHS Approach vs. Turnkey/Facility Management Approaches (reference page 18).

Wisconsin and New Hampshire are fiscal agent states. Hence, their costs are actually comparable to NDDHS's projected fiscal agent cost of \$5.29 million as described in subsection IV. B, under Cost Comparison: NDDHS Approach vs. Fiscal Agent Approaches (reference page 19).

The market data shows that NDDHS's current approach would result in the third-lowest total cost for the states from which data was collected. NDDHS's total cost is also significantly less than the average total cost for these states. The total cost includes the combined cost of the Design, Development, and Implementation (DDI) effort and 6 years of estimated operational costs.

It should be noted that NDDHS's planned cost for the DDI effort is the second-highest cost for the states from which data was collected. However, it should also be noted that NDDHS's operating cost over 6 years is significantly less than the average cost for the states from which data was collected and is, in fact, the second-lowest cost among these states.

A more detailed presentation of our market data is provided in Section IV – MMIS Market Assessment.

¹ The \$56,849,371 of DDI cost for NDDHS includes all NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

² The \$5,691,402 of yearly operating cost for NDDHS includes all predicted operating expenses. We believe that the other states have provided primarily contracted costs without including their associated internal costs.

D. Evaluation Results for MMIS Replacement Alternatives

The table below provides a summary-level comparison of the results of our evaluation of the four MMIS replacement alternatives.

NDDHS MMIS Procurement Alternatives Evaluation Summary						
Procurement Alternatives	Evaluation Categories				Total Score	Percentage of Total
	Cost/Financial	Schedule	Management	Technology		
Weight	40.00%	20.00%	30.00%	10.00%	100.00%	
Points	400	200	300	100	1,000	
Alternatives						
Acceptance of the Current ACS Bid	280	200	240	91	811	81%
Rebidding of the MMIS Project	216	120	201	80	617	62%
Joint Development With Another State	312	80	201	79	672	67%
Use of a Fiscal Agent	184	120	228	69	601	60%

Overall, Alternative #1 – Acceptance of the Current ACS Bid received the highest rating of the four alternatives under consideration. The primary reasons for this rating are:

- Alternative #1 offers the second-lowest total cost (combination of DDI costs and 6 years of operating costs) of any alternative, primarily due to the low operating costs incurred by using ITD.
- Alternative #1 requires no reprourement costs.
- Alternative #1 provides the shortest MMIS implementation time frame of any alternative because there is no additional schedule delay due to reprourement.
- Alternative #1 provides the most compatibility with CMS's MITA. The ACS solution aligns well with ITD's service-oriented architecture (SOA) -based technology.

A more detailed presentation of our evaluation results is provided in Section V – Assessment of MMIS Replacement Alternatives.



E. Recommendations

Given the results of our independent assessment, which was based on the evaluation criteria selected for use in performing the analysis, Alternative #1 – Acceptance of the Current ACS Bid appears to provide the most benefits for NDDHS. It has the second-lowest total cost of the considered alternatives, incurs no reprourement costs, provides an MMIS implementation schedule that finishes 24 to 30 months earlier than the other alternatives, and offers the most compatibility with CMS's MITA and ITD's SOA-based technology.

We recommend that NDDHS continue working with ACS to complete its current MMIS development effort.

We also recommend that NDDHS consider the fifth alternative proposed by the Budget Section – outsourcing the billing and payment components. NDDHS should thoroughly review the potential benefits and problems associated with this approach before making a decision. It should be noted that this alternative can be implemented anytime in the future, based on the results of NDDHS's decision process. It should also be noted, however, that we consider the replacement of the MMIS to be much more critical to NDDHS and the state than the decision to outsource the billing and payment components. We strongly recommend that NDDHS remain focused on replacement of the MMIS until the project has been completed and delay the outsourcing decision until after successful MMIS deployment.

II. Introduction



II. Introduction

In June 2005, NDDHS, supported by ITD, issued an RFP for replacement of its existing MMIS. One response was received, which was from ACS. However, this bid proposed a significantly higher cost than that anticipated by NDDHS. To help cover the potential funding shortfall, NDDHS requested that the Budget Section provide additional funding for the project. In March 2006, after reviewing the request, the Budget Section expressed its support for the project by allowing NDDHS to proceed with preliminary MMIS work (with ACS), with a final decision on continuation of the project to be made by the Sixtieth Legislative Assembly.

In addition, NDDHS was encouraged to contract for an independent assessment of the potential MMIS replacement options, including a cost-benefit analysis, and to arrange for the information to be available to the Sixtieth Legislative Assembly by January 8, 2007.

In July 2006, NDDHS contracted with MTG to perform this independent assessment. This report contains our analysis, findings, and recommendations regarding NDDHS's potential MMIS replacement options.

A. Scope and Objectives

The scope of this assessment is to perform a high-level evaluation of the five procurement alternatives identified by the Budget Section and provide recommendations regarding NDDHS's procurement approach for the MMIS replacement. The four alternatives for which we performed detailed assessments are:

- Alternative #1 – Acceptance of the Current ACS Bid.
- Alternative #2 – Rebidding of the MMIS Project.
- Alternative #3 – Joint MMIS Development With Another State.
- Alternative #4 – Use of a Fiscal Agent.

The fifth alternative proposed for review by the Budget Section was to assess outsourcing of billing and payment components. This alternative will be addressed separately within our assessment. We chose to treat this alternative differently because it represents an option that can be utilized in conjunction with any of the four primary alternatives that are being assessed. Therefore, we did not perform a detailed assessment for this approach as we did for the other four alternatives. However, we will address this approach in our final recommendations.

B. Document Organization

The remainder of this document is organized into the following sections:



- *Section III – Assessment Approach.* Describes MTG's qualifications and our approach for performing the independent assessment of NDDHS's potential MMIS replacement options.
- *Section IV – MMIS Market Assessment.* Contains our analysis of procurement data obtained from the current MMIS marketplace, focusing on recent procurement efforts and their associated MMIS vendors.
- *Section V – Assessment of MMIS Replacement Alternatives.* Summarizes the assessment results for the four primary procurement alternatives identified by the Budget Section.
- *Section VI – Recommendations.* Outlines MTG's independent recommendations on how NDDHS should proceed with the procurement and implementation of an MMIS solution.

III. Assessment Approach



III. Assessment Approach

A. MTG Qualifications

MTG is a management consulting firm that has been providing independent assessment, procurement planning, and quality assurance services to public sector clients since 1996. In particular, we have steadfastly maintained our independence from the systems integrators and other vendors in the marketplace to ensure that we will never face a "conflict of interest" situation with any vendor.

Over the years, MTG has established a well-earned reputation for quality, thoroughness, and integrity while performing a variety of human services projects. The team that we selected to conduct the assessment for NDDHS consists of senior staff members that have extensive experience in performing independent assessments and utilizing a combination of qualitative and quantitative methods in doing so.

This ensures that NDDHS will receive an independent, objective assessment that reflects the best interests of both NDDHS and the state.

B. Assessment Approach

MTG used a proven, objective approach for conducting our evaluation of the four primary procurement alternatives suggested by the Budget Section. Our approach was as follows:

- We initially worked with NDDHS to clearly define the MMIS replacement options provided by the Budget Section to ensure that we were proceeding with our analysis efforts based on a common understanding of project objectives and scope.
- We performed market research to provide NDDHS with recent procurement data to support an evaluation of potential market pricing for the MMIS replacement alternatives.
- We developed a set of evaluation criteria and an evaluation model for use in performing an objective analysis of the four primary MMIS replacement alternatives; this approach helped us to conduct the analysis consistently across the entire range of alternatives.
- We utilized the evaluation model to perform a high-level assessment of the MMIS replacement alternatives.
- We compared the pros and cons of the various alternatives under consideration.
- We developed a number of "go forward" recommendations that are based on the evaluation results for the various alternatives.

1. Evaluation Model for MMIS Replacement Alternatives

MTG developed an evaluation model for use in assessing the relative merits of each of the four primary alternatives suggested by the Budget Section. Our first step in building the evaluation model was to define the evaluation criteria that would form the core of the model. These criteria were divided into four categories – cost/financial, schedule, management, and technology. The criteria that comprise each category are described below.

Cost/Financial

The cost/financial criteria included in the evaluation model are:

- *Total Contract Value (TCV)* – Pertains to the total amount of the contract signed by NDDHS with a vendor to provide an MMIS application and to provide Maintenance and Operations (M&O) support for an additional 6 years.
- *MMIS Reprocurement Savings* – Represent the savings that could potentially be realized by reprocurement of the MMIS. These savings could be realized by establishing a contract with a vendor that can provide an MMIS for a lower TCV than the current contract with ACS.
- *MMIS Reprocurement Costs* – Pertain to the costs required by NDDHS to reprocure the services of a vendor to provide an MMIS application and to provide M&O support for an additional 6 years. These costs include the cost of preparing new procurement documentation such as the Implementation Advanced Planning Document (IAPD) and RFP, obtaining procurement approval from CMS, releasing the new RFP, evaluating submitted proposals, selecting a vendor for award, negotiating a contract with the selected vendor, and performing project kickoff activities.
- *Return on Investment (ROI) for Phase 1 Work* – Reflects the ability of an MMIS vendor selected via reprocurement to reuse the project materials and related assets that are being produced by the current MMIS vendor, ACS, during Phase 1 of the current MMIS project.

Schedule

The schedule criterion included in the evaluation model is:

- *Time Frame for Realizing MMIS Benefits* – Represents the time frame required before the citizens of North Dakota can begin realizing the benefits of the MMIS application, based primarily on completion of the MMIS implementation effort.

Management

The management criteria included in the evaluation model are:

- *Service Delivery Improvements* – Represents the potential improvements in service delivery that will be provided by NDDHS to its citizens through the use of the MMIS.
- *Support for Required Changes and Enhancements* – Represents the ability of NDDHS to support implementation of required legislative, policy, and program changes by modifying and enhancing the MMIS application. NDDHS must be able to implement these changes in an efficient and timely manner.
- *Low-Risk Implementation* – Represents the amount of risk associated with management and performance of the MMIS implementation effort and ongoing maintenance and operations activities.
- *Resource/Organizational Requirements* – Represents the potential need for additional skilled resources within the organization to support and manage the MMIS solution.

Technology

The technical criteria included in the evaluation model are:

- *Cost-Effective Technology Approach* – Addresses the ability of NDDHS to select an MMIS solution that provides high program and performance benefits while minimizing the cost of the technology platform, thereby maximizing the return on the state's technology infrastructure investment.
- *Compatibility With NDDHS Technical Approach* – Represents the compatibility of the selected MMIS solution with the overall technical approach and architecture planned for use by ITD.
- *Ability to Update Technology as Required* – Reflects the ability of NDDHS to select an MMIS solution that allows the underlying technology infrastructure to be updated to take advantage of technology improvements and more favorable market pricing.

Once the evaluation criteria were determined, we ranked and weighted the four major evaluation categories, using percentages, to reflect their relative importance to NDDHS. Within each category, we then ranked and weighted each of the detailed evaluation criteria, also using percentages, to reflect its relative importance to NDDHS within the category.

As a result of this process, each detailed criterion was assigned a percentage that reflects its absolute value to the evaluation process. Once we determined the total number of points to be distributed among the evaluation criteria (1,000 in this case), the percentages were used to allocate a maximum number of points to each detailed criterion. The point values for the detailed criteria were then rolled up to produce summarized point values in each of the four major categories.

For each of the evaluation criteria, we then assigned ratings that were used to determine the performance of the alternative with respect to the criteria. Each possible rating translated into a specified number of the maximum available points representing scores for the detailed criteria. The scores for each of the detailed criteria were then rolled up into a total score for the major category and the scores for the major category were then rolled up to produce an overall score for each alternative.

The ratings were defined to range from "5" (best) to "0" (worst). The awarding of points for the evaluation criteria, based on the ratings, is structured as follows:

- "5" – 100 percent of available points.
- "4" – 80 percent of available points.
- "3" – 60 percent of available points.
- "2" – 40 percent of available points.
- "1" – 20 percent of available points.
- "0" – 0 percent of available points.

IV. MMIS Market Assessment

IV. MMIS Market Assessment

This section outlines the results of research on pricing in the current MMIS marketplace, focusing on recent MMIS procurements for systems modernization and replacement efforts.

A. MMIS Market Comparison

The following table provides an overview of the market data that we collected for use in evaluating the cost associated with recent procurements utilizing newer system architectures as defined by CMS's MITA. The approach currently being used by NDDHS is represented by Alternative #1 – Acceptance of the Current ACS Bid, and consists of developing a turnkey MMIS application, with ongoing support and operation provided by in-house ITD resources.

State	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WA	\$71,653,142	\$17,363,933	6	\$104,183,598	\$175,836,740
WI	\$21,500,000	\$30,460,000	6	\$182,760,000	\$204,260,000
OR	\$53,306,217	\$4,400,000	6	\$26,400,000	\$79,706,217
NH	\$22,100,000	\$8,000,000	6	\$48,000,000	\$70,100,000
ND	\$56,849,371 ³	\$5,691,402 ⁴	6	\$34,148,412	\$90,997,783
Avg.	\$45,081,746	\$13,183,067	6	\$79,098,402	\$124,180,148

Washington and Oregon are facility management states. Thus, their costs are actually comparable to NDDHS's projected facility management cost of \$3.48 million as described in subsection IV.B, under Cost Comparison: NDDHS Approach vs. Turnkey/Facility Management Approaches (reference page 18).

Wisconsin and New Hampshire are fiscal agent states. Thus, their costs are actually comparable to NDDHS's projected fiscal agent cost of \$5.29 million as described in subsection IV. B, under Cost Comparison: NDDHS Approach vs. Fiscal Agent Approaches (reference page 19).

³ The \$56,849,371 of DDI cost for NDDHS includes all NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

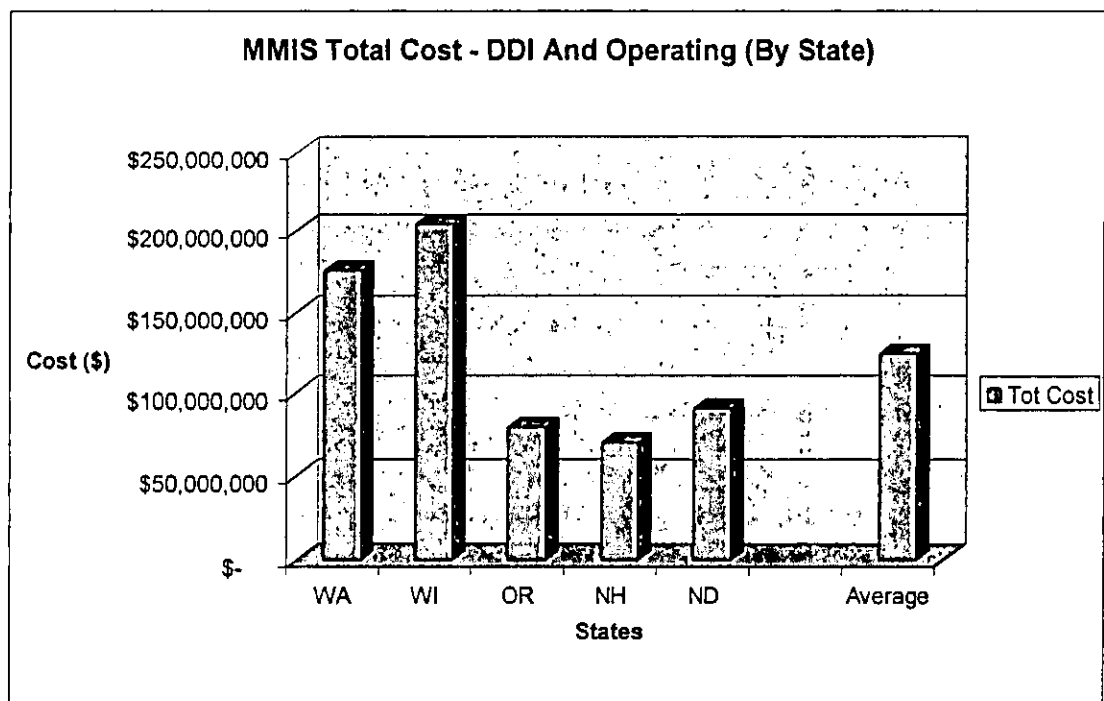
⁴ The \$5,691,402 of yearly operating cost for NDDHS includes all predicted operating expenses. We believe that the other states have provided primarily contracted costs without including their associated internal costs.

The market data shows that NDDHS's current approach would result in the third-lowest total cost for the states from which data was collected. NDDHS's total cost is also significantly less than the average total cost for these states. The total cost includes the combined cost of the DDI effort and 6 years of estimated operational costs.

It should be noted that NDDHS's planned cost for the DDI effort is the second-highest cost for the states from which data was collected. However, it should also be noted that NDDHS's operating cost over 6 years is significantly less than the average cost for the states from which data was collected and is, in fact, the second-lowest cost among these states.

A more detailed presentation of the MMIS market data is provided in Section IV.

The diagram below provides a graphical depiction of the total cost for NDDHS, reflecting its current approach working with ACS to develop a turnkey MMIS, compared to the total cost for the other states from which data was collected.



The next subsection presents a more detailed comparison between NDDHS's planned approach and the approach used by the other states included in our assessment.

B. MMIS Detailed Market Comparison

In an attempt to better compare the cost of NDDHS's planned approach to that for other approaches in the MMIS marketplace, we collected and compiled data that was used to



assess the cost of the current approach against the cost for a more specific, more comparable group of related MMIS procurements.

The cost of the current NDDHS approach was compared against the cost for the following more comparable groups for which recent MMIS procurement data was available:

- States that procured turnkey/facility management approaches.
- States that procured fiscal agent approaches.
- States that have similarly sized Medicaid enrollment populations.

Cost Comparison: NDDHS Approach vs. Turnkey/Facility Management Approaches

We compared the cost of NDDHS's approach against the costs for the states in our market data group that procured turnkey/facility management solutions to meet their MMIS needs. The table below provides a comparison of NDDHS's costs against those for the other states from which we collected data.

State	Type	Vendor	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WA	Turnkey/ Facility Management	CNSI	\$71.65 M	\$17.36M	6	\$104.18 M	\$175.83 M
OR	Turnkey/ Facility Management	EDS	\$53.31 M	\$4.40 M	6	\$26.40 M	\$79.71 M
ND	Turnkey/ In-House	ACS	\$56.85 M ⁵	\$3.48 M ⁶	6	\$20.90 M	\$77.75 M
Avg.			\$60.60 M	\$8.41 M	6	\$50.49 M	\$111.09 M

The State of North Dakota currently provides services similar to those provided by a facility management vendor at a projected yearly operating cost of \$3,483,596.

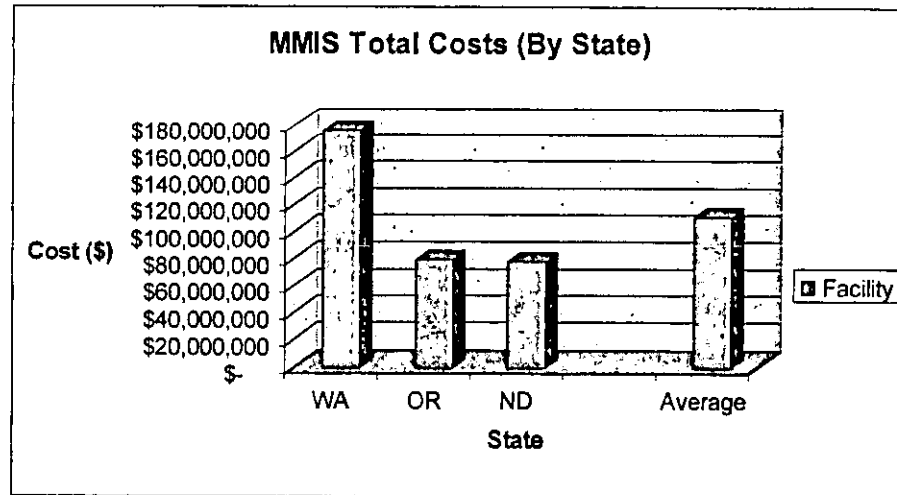
When compared against other recent turnkey/facility management procurements, NDDHS's DDI cost was the second lowest of the states from which data was collected and was lower

⁵ The \$56,849,371 of DDI cost for NDDHS includes all of the NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

⁶ The \$3,483,596 of yearly operating cost for NDDHS represents what NDDHS pays to ITD for support and services that are comparable to the facility management services provided by vendors in the other states.

than the average for these states. In addition, NDDHS's operating cost, and total cost were both lower than the corresponding costs for the other states.

The following diagram provides a graphical depiction of the total cost for NDDHS, reflecting the cost of its current approach working with ACS to develop a turnkey MMIS and its projected facility management operating cost, compared to the corresponding costs for the states in our market data group that procured turnkey/facility management MMIS solutions.



Cost Comparison: NDDHS Approach vs. Fiscal Agent Approaches

We compared the cost of NDDHS's approach against the costs for the states in our market data group that procured fiscal agent solutions to meet their MMIS needs. The table below presents the results of the comparison.

State	Type	Vendor	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WI	Fiscal Agent	EDS	\$21.50 M	\$30.46 M	6	\$182.76 M	\$204.26 M
NH	Fiscal Agent	ACS	\$22.10 M	\$8.00 M	6	\$48.00 M	\$70.10 M
ND	Turnkey/ In-House	ACS	\$56.85 M ⁷	\$5.29 M ⁸	6	\$31.76 M	\$88.61 M
Avg.			\$33.48 M	\$14.58 M	6	\$87.50 M	\$120.98 M

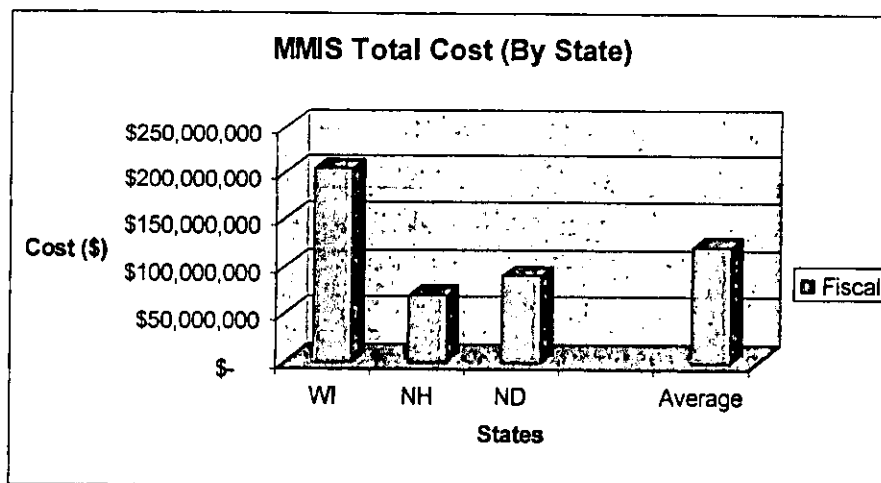
⁷ The \$56,849,371 of DDI cost for NDDHS includes all NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

⁸ The \$5,293,005 of yearly operating cost for NDDHS represents what NDDHS would pay to a fiscal agent to obtain the support and services that are comparable to those currently provided by ITD and NDDHS staff.

North Dakota currently provides services similar to those provided by a fiscal agent at a projected yearly operating cost of \$5,293,005.

When compared against other recent fiscal agent procurements, NDDHS's DDI cost was the highest of the states from which data was collected. However, it should be noted that NDDHS's operating cost was significantly lower than the corresponding costs for the other states. It should also be noted that NDDHS's total cost was significantly lower than the average for the other states.

The following diagram provides a graphical depiction of total cost for NDDHS, reflecting the cost of its current approach working with ACS to develop a turnkey MMIS and its projected fiscal agent operating cost, compared to the corresponding costs for the states in our market data group that procured fiscal agent MMIS solutions.



Cost Comparison: North Dakota MMIS vs. States With Comparable Medicaid Enrollments

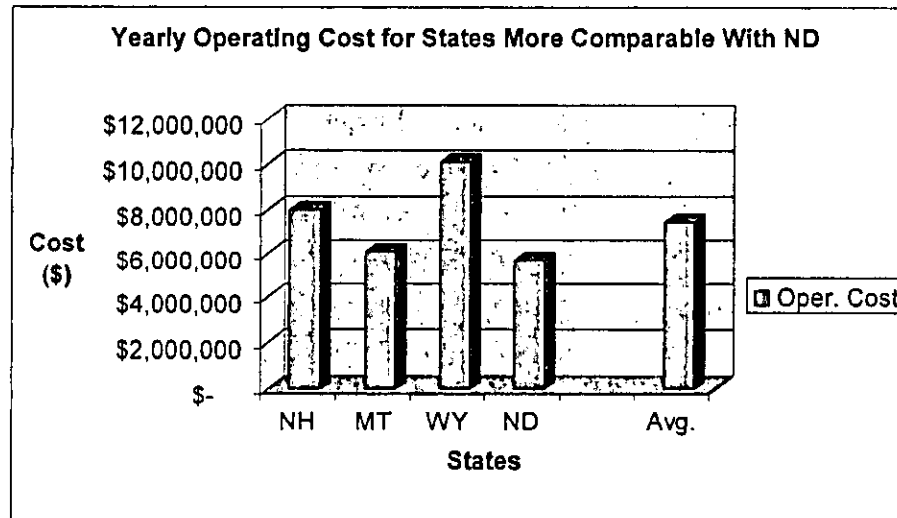
We compared the cost of NDDHS's approach against the costs for the states in our market data group that had comparable Medicaid enrollment populations, regardless of the solution that they procured to meet their MMIS needs. The table below presents the results of the comparison.

It should be noted that two of the states, Montana and Wyoming, did not have recent DDI cost data because they have long-term support and systems operation contracts.

State	Type	Vendor	Medicaid Enrollment (2004) ⁹	DDI Cos	Yearly Operating Cost
NH	Fiscal Agent	CNSI	98,693	\$22.10 M	\$8.00 M
MT	Fiscal Agent	ACS	83,620	N/A	\$6.10 M
WY	Fiscal Agent	ACS	55,984	N/A	\$10.10 M
ND	Turnkey/In-House	ACS	52,786	\$56.85 M ¹⁰	\$5.69 M ¹¹
Avg.			72,771	\$39.48 M	\$7.47 M

Given the lack of complete information on DDI costs, we did not have enough data to make a reasonable market comparison between NDDHS's DDI cost and the corresponding costs for the comparable states. However, when compared against the other states with comparable Medicaid enrollment populations, NDDHS's yearly operating cost was lower than the yearly operating costs for the other states.

The following diagram provides a graphical depiction of the yearly operating cost for NDDHS, reflecting the cost of its current approach working with ACS to develop a turnkey MMIS and its yearly operating cost, compared to the yearly operating cost for the states in our data group that had comparable Medicaid enrollment populations.



⁹ Compiled by Health Management Associates from state Medicaid enrollment reports, for the Kaiser Commission on Medicaid and the Uninsured. Data as of June 2004, published September 2005.

¹⁰ The \$56,849,371 of DDI cost for NDDHS includes all NDDHS project costs, while the DDI cost for the other state primarily covers contracted costs and most likely does not include other internal costs.

¹¹ The \$5,691,402 of yearly operating cost for NDDHS includes all predicted operating expenses. We believe that the other states have provided primarily contracted costs without including their associated internal costs.

V. Assessment of MMIS Replacement Alternatives



V. Assessment of MMIS Replacement Alternatives

This section outlines the assessment results for the five procurement alternatives identified by the Budget Section. The four MMIS replacement alternatives for which we performed detailed assessments are:

- Alternative #1 – Acceptance of the Current ACS Bid.
- Alternative #2 – Rebidding of the MMIS Project.
- Alternative #3 – Joint MMIS Development With Another State.
- Alternative #4 – Use of a Fiscal Agent.

For each procurement alternative, MTG assessed the feasibility of the approach for NDDHS, focusing on vendor implementation costs, vendor implementation schedules, management issues, and technical architecture implications.

It should be noted that the fifth alternative proposed for review by the Budget Section was to assess outsourcing of billing and payment components. We chose to treat this alternative differently because it represents an option that can be utilized in conjunction with any of the four primary alternatives that are being assessed. Therefore, we did not perform a detailed assessment for this approach as we did for the other four alternatives. However, we will address this approach in our final recommendations.

The following subsections presents an overview of the evaluation results for the four MMIS alternatives under consideration and an overview of the anticipated MMIS implementation time frames for these alternatives.

Comparison of Evaluation Results for MMIS Replacement Alternatives

The table below provides a summary-level comparison of the results of our evaluation of the four MMIS replacement alternatives.

NDDHS MMIS Procurement Alternatives Evaluation Summary						
Procurement Alternatives	Evaluation Criteria				Total Score	Percentage of Total
	Cost/Financial	Schedule	Management	Technology		
Weight	40.00%	20.00%	30.00%	10.00%	100.00%	
Points	400	200	300	100	1,000	
Alternatives						
Acceptance of the Current ACS Bid	280	200	240	91	811	81%

NDDHS MMIS Procurement Alternatives Evaluation Summary						
Procurement Alternatives	Evaluation Criteria				Total Score	Percentage of Total
	Cost/Financial	Schedule	Management	Technology		
Rebidding of the MMIS Project	216	120	201	80	617	62%
Joint Development With Another State	312	80	201	79	672	67%
Use of a Fiscal Agent	184	120	228	69	601	60%

Overall, Alternative #1 – Acceptance of the Current ACS Bid received the highest rating of the four alternatives under consideration. The primary reasons for this rating are:

- Alternative #1 offers the second-lowest total cost (combination of DDI costs and 6 years of operating costs) of any alternative, primarily due to the low operating costs incurred by using ITD.
- Alternative #1 requires no reprocurement costs.
- Alternative #1 provides the shortest MMIS implementation time frame of any alternative because there is no additional schedule delay due to reprocurement.
- Alternative #1 provides the most compatibility with CMS's MITA. The ACS solution aligns well with ITD's SOA-based technology.

Comparison of Implementation Time Frames for MMIS Replacement Alternatives

Each of the four alternatives was analyzed to determine its potential MMIS implementation time frame. We developed an anticipated implementation schedule for each alternative, based on the reprocurement and development activities that must be accomplished to complete the project.

For each alternative that involves reprocurement, activities are included in the estimated project schedule to account for redefinition of MMIS requirements, recreation and rerelease of an RFP, evaluation of resubmitted vendor proposals, and award/negotiation of a new contract.

For Alternative #2, the implementation time frame is elongated due to the delay involved in reprocurement and negotiation of a replacement contract. For Alternative #3, the implementation time frame is further elongated due to the need to coordinate requirements definition with another state. For Alternative #4, the implementation time frame is further

elongated due to the need to establish the performance and contractual requirements for a fiscal agent.

Based on our analysis, Alternative #1 received the highest rating of the four alternatives with regard to implementation time frame. Alternative #1 provides the shortest time frame for MMIS implementation because there is no need to perform reprocurement activities; thus, there is no resulting delay in starting and completing MMIS development activities. In fact, Alternative #1 offers an MMIS implementation schedule that completes 24 to 30 months sooner than any of the other alternatives.

The table below provides a more detailed description of the anticipated implementation schedules for the four alternatives.

Name	Duration	Start Date	Finish Date
Alternative #1 – Acceptance of the Current ACS Bid	1,066 days	Fri. 7/1/05	Fri. 7/31/09
Procurement	245 days	Fri. 7/1/05	Thu. 6/8/06
DDI Phase 1	276 days	Fri. 6/9/06	Fri. 6/29/07
DDI Phase 2 (Custom Build)	545 days	Mon. 7/2/07	Fri. 7/31/09
Alternative #2 – Rebidding of the MMIS Project	1,586 days	Fri. 7/1/05	Fri. 7/29/11
Procurement	245 days	Fri. 7/1/05	Thu. 6/8/06
DDI Phase 1	275 days	Fri. 6/9/06	Thu. 6/28/07
Requirements (Re-)Definition	132 days	Fri. 6/29/07	Mon. 12/31/07
Reprocurement	262 days	Tue. 1/1/08	Wed. 12/31/08
DDI Phase 1 (New)	129 days	Thu. 1/1/09	Tue. 6/30/09
DDI Phase 2 (Custom Build)	543 days	Wed. 7/1/09	Fri. 7/29/11
Alternative #3 – Joint MMIS Development With Another State	1,696 days	Fri. 7/1/05	Fri. 12/30/11
Procurement	245 days	Fri. 7/1/05	Thu. 6/8/06
DDI Phase 1	275 days	Fri. 6/9/06	Thu. 6/28/07
Joint Requirements Definition With State	197 days	Fri. 6/29/07	Mon. 3/31/08
Reprocurement	261 days	Tue. 4/1/08	Tue. 3/31/09
DDI Phase 1 (New)	131 days	Wed. 4/1/09	Wed. 9/30/09
Phase 2 (Custom Build)	587 days	Thu. 10/1/09	Fri. 12/30/11
Alternative #4 – Use of a Fiscal Agent	1,718 days	Fri. 7/1/05	Tue. 1/31/12
Procurement	245 days	Fri. 7/1/05	Thu. 6/8/06
DDI Phase 1	275 days	Fri. 6/9/06	Thu. 6/28/07

Name	Duration	Start Date	Finish Date
Requirements (Re-)Definition/Planning Support	262 days	Fri. 6/29/07	Mon. 6/30/08
Reprocurement	262 days	Tue. 7/1/08	Wed. 7/1/09
DDI Phase 1 (New)	131 days	Thu. 7/2/09	Thu. 12/31/09
DDI Phase 2 (Transfer)	543 days	Fri. 1/1/10	Tue. 1/31/12

The subsections that follow present the detailed evaluation results for each MMIS replacement alternative.

A. Alternative #1 – Acceptance of the Current ACS Bid

Alternative #1 reflects the contract that is currently under way within NDDHS for MMIS implementation. NDDHS has selected ACS as its vendor to perform a turnkey MMIS custom-development effort that is based on modification of an existing ACS application. ITD is currently working with ACS in Phase 1 of the project to ensure that the replacement application meets NDDHS's requirements. Phase 2 involves the design and implementation of the MMIS and will occur upon completion and approval of Phase 1. ITD will provide maintenance and operational support to NDDHS once the MMIS implementation effort has been completed.

ACS will install the base MMIS application in the NDDHS data center, modify the base application to meet NDDHS's requirements, train NDDHS staff to operate the MMIS, and train ITD staff to maintain the new MMIS, including ongoing changes and enhancements. ITD and ACS will assist in performing business process engineering activities and providing training for NDDHS staff to perform claims management functions.

If this alternative is selected, NDDHS would continue to move forward with Phase 1 of the ongoing MMIS development effort. Following successful completion of Phase 1 and approval by the Sixtieth Legislative Assembly, ACS would continue with Phase 2 of the MMIS replacement project.

Alternative #1 received the highest rating of the four evaluated alternatives. The highlights for this alternative are that it:

1. Offers the second-lowest total cost (combination of DDI costs and 6 years of operating costs) among the alternatives, primarily due to the low operating costs incurred by using ITD.
2. Requires no reprocurement costs.
3. Provides the shortest MMIS implementation time frame of any alternative because there is no additional schedule delay due to reprocurement.

4. Provides the most compatibility with CMS's MITA. The ACS solution aligns well with ITD's SOA-based technology.

1. Pros and Cons

The table below describes the advantages and disadvantages of Alternative #1.

MMIS Alternative	Pros	Cons
Alternative #1 – Acceptance of the Current ACS Bid	<ul style="list-style-type: none"> Provides lowest TCV for MMIS procurement. Maximizes ROI on work performed to date by ACS (Phase 1). NDDHS will not incur reprocurement costs. Provides the fastest implementation schedule for the MMIS application, based on no delay due to reprocurement. Supports ITD transition to SOA. Provides NDDHS with maximum flexibility to implement required MMIS changes and enhancements. NDDHS achieves "budget certainty" (fixed-price contract-in-hand with ACS). 	<ul style="list-style-type: none"> NDDHS would retain responsibility for operational needs (support resources, infrastructure management, claims processing workload). NDDHS would need to obtain additional funding to cover the anticipated cost for Phase 2 of the project.

2. Evaluation Results

The table below outlines the evaluation results for this alternative.

Maximum Score: 1,000 Points

Alternative #1 Score: ~~814 Points~~

81 points

Number	Evaluation Category/Criteria	Rating	Score
1.	Cost/Financial		
1.1	Total Contract Value	5	160
1.2	MMIS Reprocurement Savings	0	0
1.3	MMIS Reprocurement Costs	5	80
1.4	ROI for Phase 1 Work	5	40
	Cost Financial Total		280
2.	Schedule		
2.1	Time Frame for Realizing MMIS Benefits	5	200
	Schedule Total		200
3.	Management		
3.1	Ability to Implement Service Delivery Improvements	5	75
3.2	Support for Required Changes and Enhancements	5	90
3.3	Low-Risk Implementation	3	63
3.4	Resource/Organizational Requirements	2	12
	Management Total		240
4.	Technology		
4.1	Cost-Effective Technology Approach	4	36
4.2	Compatibility With NDDHS Technical Approach	5	30
4.3	Ability to Update Technology as Required	5	25
	Technology Total		91
	TOTAL FOR ALTERNATIVE #1		811

B. Alternative #2 – Rebidding of the MMIS Project

Alternative #2 involves halting the current MMIS development project and reprocuring an MMIS solution through the competitive bid process. For the purposes of this evaluation, we assume that NDDHS would reprocure a turnkey solution and consider the use of a facilities management vendor. The procurement of a fiscal agent was evaluated as a separate alternative (Alternative #4).

If this alternative is selected, NDDHS would have to redefine the MMIS requirements, recreate and rerelease an RFP, obtain approval from CMS for funding of the reprocurement

effort, evaluate resubmitted vendor proposals, and award/negotiate a new contract with the winning vendor. We anticipate that this process would result in substantial delays in the MMIS implementation schedule.

Alternative #2 received the second-lowest rating of the four evaluated alternatives. The key points to be considered for this alternative are:

1. The reprourement would result in a delay of up to 24 months in the MMIS implementation time frame. The key driver for this delay would be the length of time (6 to 9 months) estimated to obtain funding approval from CMS for the reprourement.
2. We estimate that NDDHS would incur reprourement costs of up to \$768,000. This cost was estimated as follows: 2 equivalent FTEs × 160 hours per month (on average) × blended rate of \$100 per hour (industry average for contract resources) × 24-month reprourement duration = \$768,000.
3. Even though reprourement would seem to offer NDDHS an opportunity to reduce its existing DDI and operating costs, our analysis of recent market data, as presented in Section IV, suggests that it is actually unlikely that NDDHS would receive a new DDI bid that is lower than the remaining funding for the current bid (\$29.6 million).
4. Based on our analysis of recent market data, it is even more unlikely that NDDHS would be able to procure the services of a facilities management vendor for a cost that is lower than its current anticipated yearly operating cost (\$3.48 million per year).
5. There is a strong risk of delay (and possibly refusal) by CMS to approve funding for the MMIS reprourement.

1. Pros and Cons

The table below describes the advantages and disadvantages of Alternative #2.

MMIS Alternative	Pros	Cons
Alternative #2 – Rebidding of the MMIS Project	<ul style="list-style-type: none"> Provides ability to select from a variety of potentially viable MMIS solutions (turnkey, facilities management, etc.). Could support NDDHS transition to SOA. 	<ul style="list-style-type: none"> NDDHS would incur reprocurement costs of up to \$768,000. Would result in a delay of up to 24 months in MMIS implementation. Could result in CMS delay (or refusal) in providing additional funding for MMIS reprocurement. Based on analysis of market data, NDDHS is not likely to receive a new DDI bid that is less than the remaining funding for the current bid (\$29.6 million) and NDDHS's yearly operating cost (\$3.48 million). NDDHS will receive limited ROI on its Phase 1 cost if a different DDI vendor is selected.

2. Evaluation Results

The table below outlines the evaluation results for this alternative.

Maximum Score: **1,000 Points**

Alternative #2 Score:

817 Points *817 points*

Number	Evaluation Category/Criteria	Rating	Score
1.	Cost/Financial		
1.1	Total Contract Value	3	96
1.2	MMIS Reprocurement Savings	2	48
1.3	MMIS Reprocurement Costs	3	48
1.4	ROI for Phase 1 Work	3	24
	Cost/Financial Total		216

Number	Evaluation Category/Criteria	Rating	Score
2.	Schedule		
2.1	Time Frame for Realizing MMIS Benefits	3	120
	Schedule Total		120
3.	Management		
3.1	Ability to Implement Service Delivery Improvements	4	60
3.2	Support for Required Changes and Enhancements	3	54
3.3	Low-Risk Implementation	3	63
3.4	Resource/Organizational Requirements	4	24
	Management Total		201
4.	Technology		
4.1	Cost-Effective Technology Approach	4	36
4.2	Compatibility With NDDHS Technical Approach	4	24
4.3	Ability to Update Technology as Required	4	20
	Technology Total		80
	TOTAL FOR ALTERNATIVE #2		617

C. Alternative #3 – Joint Development With Another State(s)

Alternative #3 requires that NDDHS terminate its current MMIS development effort and secure commitment from one or more partner states to cooperate with North Dakota in building a new certifiable system. The partner state(s) would provide its state-specific MMIS requirements to NDDHS for inclusion into the MMIS application under the joint development structure. For the purposes of this evaluation, we assume that NDDHS would operate and provide technical support for the jointly developed MMIS.

Funding for the jointly developed MMIS application would be shared between the partner state(s) using a mutually agreed-upon approach. It should be noted that market intelligence has been collected which implies that CMS is favorable toward joint development efforts between states, as long as a funding approach is used that complies with established cost allocation rules.

If this alternative is selected, NDDHS would have to define the joint MMIS requirements, recreate and rerelease an RFP, obtain joint approval from CMS for funding of the procurement effort, evaluate resubmitted vendor proposals, and award/negotiate a new



contract with the winning vendor. We anticipate that this process would result in substantial delays in the MMIS implementation schedule.

Alternative #3 received the second-highest rating of the four evaluated alternatives. The key points to be considered for this alternative are:

1. The primary reason for the relatively high rating for this alternative is that it would involve sharing NDDHS's DDI and operational costs with one or more state partners. The cost-sharing approach would be based on the number of partners and their potential contribution to procurement and operating costs.
2. The reprourement would result in a delay of up to 29 months in the MMIS implementation time frame. The key drivers for this delay would be the time required to develop requirements for the joint development effort (9 months) and the length of time (6 to 9 months) estimated to obtain funding approval from CMS for the reprourement.
3. We estimate that NDDHS would incur reprourement costs of up to \$928,000. This cost was estimated as follows: 2 equivalent FTEs × 160 hours per month (on average) × blended rate of \$100 per hour (industry average for contract resources) × 29-month reprourement duration = \$928,000.
4. The inclusion of one or more state partners would significantly increase the amount of planning and coordination required for the procurement and would result in a more difficult design and implementation effort (depending on the similarity of the MMIS requirements for the participating partner states). These factors would, in turn, increase the overall risk and complexity of the project.

1. Pros and Cons

The table below describes the advantages and disadvantages of Alternative #3.

MMIS Alternative	Pros	Cons
Alternative #3 – Joint Development with Another State	<ul style="list-style-type: none"> • MMIS procurement, development, and operational costs could be shared between partner states. • Minimizes redundant development and operating costs between partner states. • CMS seems to be supportive of multistate partnering approach. 	<ul style="list-style-type: none"> • Difficult to design/build a solution that meets the unique program, technical, and organizational needs of multiple states. • Difficult to coordinate joint MMIS activities (funding agreements, procurement approach, requirements definition, development approach) between multiple states. • NDDHS would incur reprourement costs of up to \$928,000. • Restarting the procurement effort would result in delay of up to 29 months in MMIS implementation. • Joint effort could make it more difficult for NDDHS to control the resulting MMIS application and technical environment (planned to support SOA).

2. Evaluation Results

The table below outlines the evaluation results for this alternative.

Maximum Score: 1,000 Points

Alternative #3 Score:

672 points

Number	Evaluation Category/Criteria	Rating	Score
1.	Cost/Financial		
1.1	Total Contract Value	4	128
1.2	MMIS Reprourement Savings	4	96
1.3	MMIS Reprourement Costs	4	64
1.4	ROI for Phase 1 Work	3	24
	Cost/Financial Total		312

Number	Evaluation Category/Criteria	Rating	Score
2.	Schedule		
2.1	Time Frame for Realizing MMIS Benefits	2	80
	Schedule Total		80
3.	Management		
3.1	Ability to Implement Service Delivery Improvements	4	60
3.2	Support for Required Changes and Enhancements	3	54
3.3	Low-Risk Implementation	3	63
3.4	Resource/Organizational Requirements	4	24
	Management Total		201
4.	Technology		
4.1	Cost-Effective Technology Approach	4	36
4.2	Compatibility With NDDHS Technical Approach	3	18
4.3	Ability to Update Technology as Required	5	25
	Technology Total		79
	TOTAL FOR ALTERNATIVE #3		672

D. Alternative #4 – Use of a Fiscal Agent

In Alternative #4, which utilizes a fiscal agent, the contractor selects, transfers, and modifies an existing system to meet North Dakota requirements. The contractor would operate the MMIS and provide application-programming support for the MMIS (including ongoing changes and enhancements). Typically, the contractor provides full-service claims management responsibilities including fee-for-service (FFS) claims payment processing, managed care processing, file maintenance, provider enrollment, provider relations, and mailing and distribution functions. The contractor will support point-of-service (POS) functions and processes.

If this alternative is selected, NDDHS would have to redefine the MMIS requirements, determine the desired service levels and performance requirements for the fiscal agent, recreate and rerelease an RFP, obtain approval from CMS for funding of the reprourement effort, evaluate resubmitted vendor proposals, and award/negotiate a new contract with the winning vendor. We anticipate that this process would result in substantial delays in the MMIS implementation schedule.

Alternative #4 received the lowest rating of the four evaluated alternatives. The key points to be considered for this alternative are:

1. Use of a fiscal agent could provide NDDHS with an opportunity to better meet its operational needs (support resources and infrastructure management), thus allowing NDDHS staff to focus more on responding to business needs.
2. The primary reason for the low rating for this alternative is that it results in a significant increase in total cost over the current alternative (Alternative #1), based on our analysis of the market data.
3. The reprocurement would result in a delay of up to 30 months in the MMIS implementation time frame. The key drivers for this delay would be the time required to develop requirements for the fiscal agent (12 months) and the length of time (6 to 9 months) estimated to obtain funding approval from CMS for the reprocurement.
4. We estimate that NDDHS would incur reprocurement costs of up to \$960,000. This cost was estimated as follows: 2 equivalent FTEs × 160 hours per month (on average) × blended rate of \$100 per hour (industry average for contract resources) × 30-month reprocurement duration = \$960,000.

1. Pros and Cons

The table below describes the advantages and disadvantages of Alternative #4.

MMIS Alternatives	Pros	Cons
Alternative #4 – Use of a Fiscal Agent	<ul style="list-style-type: none"> • Could reduce workload of NDDHS/ITD staff to meet operational needs (support resources, infrastructure management). • Could provide opportunity for NDDHS staff to spend more time responding to business needs. 	<ul style="list-style-type: none"> • NDDHS would incur reprocurement costs of up to \$960,000. • Would result in a delay of up to 30 months in MMIS implementation. • Approach has significantly higher TCV than current approach. • Could be more difficult for NDDHS to respond to needs of external providers. • State could have less control of application (changes and enhancements, application hosting, etc.) due to contractual and technical architecture constraints.

2. Evaluation Results

The table below outlines the evaluation results for this alternative.

Maximum Score: 1,000 Points

Alternative #4 Score: **601 Points**

Number	Evaluation Category/Criteria	Rating	Score
1.	Cost/Financial		
1.1	Total Contract Value	2	64
1.2	MMIS Reprocurement Savings	2	48
1.3	MMIS Reprocurement Costs	3	48
1.4	ROI for Phase 1 Work	3	24
	Cost/Financial Total		184
2.	Schedule		
2.1	Time Frame for Realizing MMIS Benefits	3	120
	Schedule Total		120
3.	Management		
3.1	Ability to Implement Service Delivery Improvements	4	60
3.2	Support for Required Changes and Enhancements	3	54
3.3	Low-Risk Implementation	4	84
3.4	Resource/Organizational Requirements	5	30
	Management Total		228
4.	Technology		
4.1	Cost-Effective Technology Approach	4	36
4.2	Compatibility With NDDHS Technical Approach	3	18
4.3	Ability to Update Technology as Required	3	15
	Technology Total		69
	TOTAL FOR ALTERNATIVE #4		601

VI. Recommendations



VI. Recommendations

This section contains MTG's recommendations on how NDDHS should proceed with the procurement and implementation of an MMIS solution.

Given the results of our independent assessment, which was based on the evaluation criteria selected for use in performing the analysis, Alternative #1 – Acceptance of the Current ACS Bid appears to provide the most benefits for NDDHS. It has the second-lowest total cost of the considered alternatives, incurs no reprourement costs, provides an MMIS implementation schedule that finishes 24 to 30 months earlier than the other alternatives, and offers the most compatibility with CMS's MITA and ITD's SOA-based technology.

We recommend that NDDHS continue working with ACS to complete its current MMIS development effort.

We also recommend that NDDHS consider the fifth alternative proposed by the Budget Section – outsourcing the billing and payment components. NDDHS should thoroughly review the potential benefits and problems associated with this approach before making a decision. It should be noted that this alternative can be implemented anytime in the future, based on the results of NDDHS's decision process. It should also be noted, however, that we consider the replacement of the MMIS to be much more critical to NDDHS and the state than the decision to outsource the billing and payment components. We strongly recommend that NDDHS remain focused on replacement of the MMIS until the project has been completed and delay the outsourcing decision until after successful MMIS deployment.

**North Dakota
Department of Human Services**

**Independent Assessment of Potential MMIS
Replacement Options**

Report of Findings

January 4, 2007



MTG Management Consultants, L.L.C.
1111 Third Avenue, Suite 3010
Seattle, Washington 98101-3292
206.442.5010 206.442.5011 fax
www.mtgmc.com

Albany Austin Denver Seattle Topeka Washington D.C.

Report Sections

- I. Executive Summary
- II. Introduction
- III. Assessment Approach
- IV. MMIS Market Assessment
- V. Assessment of MMIS Replacement Alternatives
- VI. Recommendations

II. Introduction

II. Introduction Background

- NDDHS requested that the Budget Section provide additional funding for the project.
- The Budget Section expressed support for the project by allowing NDDHS to proceed with preliminary work with Affiliated Computer Services, Inc. (ACS).
- The final decision on continuation of the project is to be made by the 60th Legislative Assembly.
- NDDHS signed a contract with ACS to replace the existing Medicaid Management Information System (MMIS).
- The Budget Section requested that NDDHS contract for an independent assessment of potential MMIS replacement options and suggested five alternatives for consideration.
- NDDHS selected MTG Management Consultants, LLC, to perform the independent assessment.

II. Introduction Background

- Based on direction from the Budget Section, MTG evaluated the following primary alternatives:
 - » *Alternative #1* – Acceptance of the current ACS bid.
 - » *Alternative #2* – Rebidding of the MMIS project.
 - » *Alternative #3* – Joint development with another state.
 - » *Alternative #4* – Use of a fiscal agent.
- As the fifth alternative, the Budget Section proposed outsourcing billing and payment components. This option is addressed separately within the assessment.

III. Assessment Approach

III. Assessment Approach

Why MTG?

- Extensive experience providing independent assessments.
- Extensive experience performing procurement planning.
- Recent experience supporting Medicaid programs.
- Knowledge of the MMIS marketplace.
- Focus on maintaining independence from systems integrators and other implementation vendors.
- National reputation for quality, thoroughness, objectivity, and integrity.

III. Assessment Approach

- Clearly define MMIS replacement options (alternatives).
- Develop an evaluation model to assess the alternatives.
 - » Establish evaluation criteria.
 - » Rank and weight the evaluation criteria.
 - » Define ratings for use in performing the evaluation.
- Collect MMIS market data for recent procurements.
- Perform a qualitative assessment of the alternatives.
 - » Identify pros and cons of each alternative.
- Perform a quantitative assessment of the alternatives.
 - » Assess the alternatives using the evaluation model.
- Provide recommendations.

IV. MMIS Market Assessment

IV. MMIS Market Assessment

The Current MMIS Approach Provides Strong Cost Performance Against Other Market Approaches

State	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WA (Turnkey/Facility Management)	\$71,653,142	\$17,363,933	6	\$104,183,598	\$175,836,740
WI (Fiscal Agent)	\$21,500,000	\$30,460,000	6	\$182,760,000	\$204,260,000
OR (Turnkey/Facility Management)	\$53,306,217	\$4,400,000	6	\$26,400,000	\$79,706,217
NH (Fiscal Agent)	\$22,100,000	\$8,000,000	6	\$48,000,000	\$70,100,000
ND (Turnkey/In-House)	\$56,849,371 ¹	\$5,691,402 ²	6	\$34,148,412	\$90,997,783
Average	\$45,081,746	\$13,183,067	6	\$79,098,402	\$124,180,148

¹ The \$56,849,371 DDI cost for NDDHS includes all of the NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

² The \$5,691,402 yearly operating cost for NDDHS includes all predicted operating expenses. We believe that the other states have provided primarily contracted costs without including their associated internal costs.

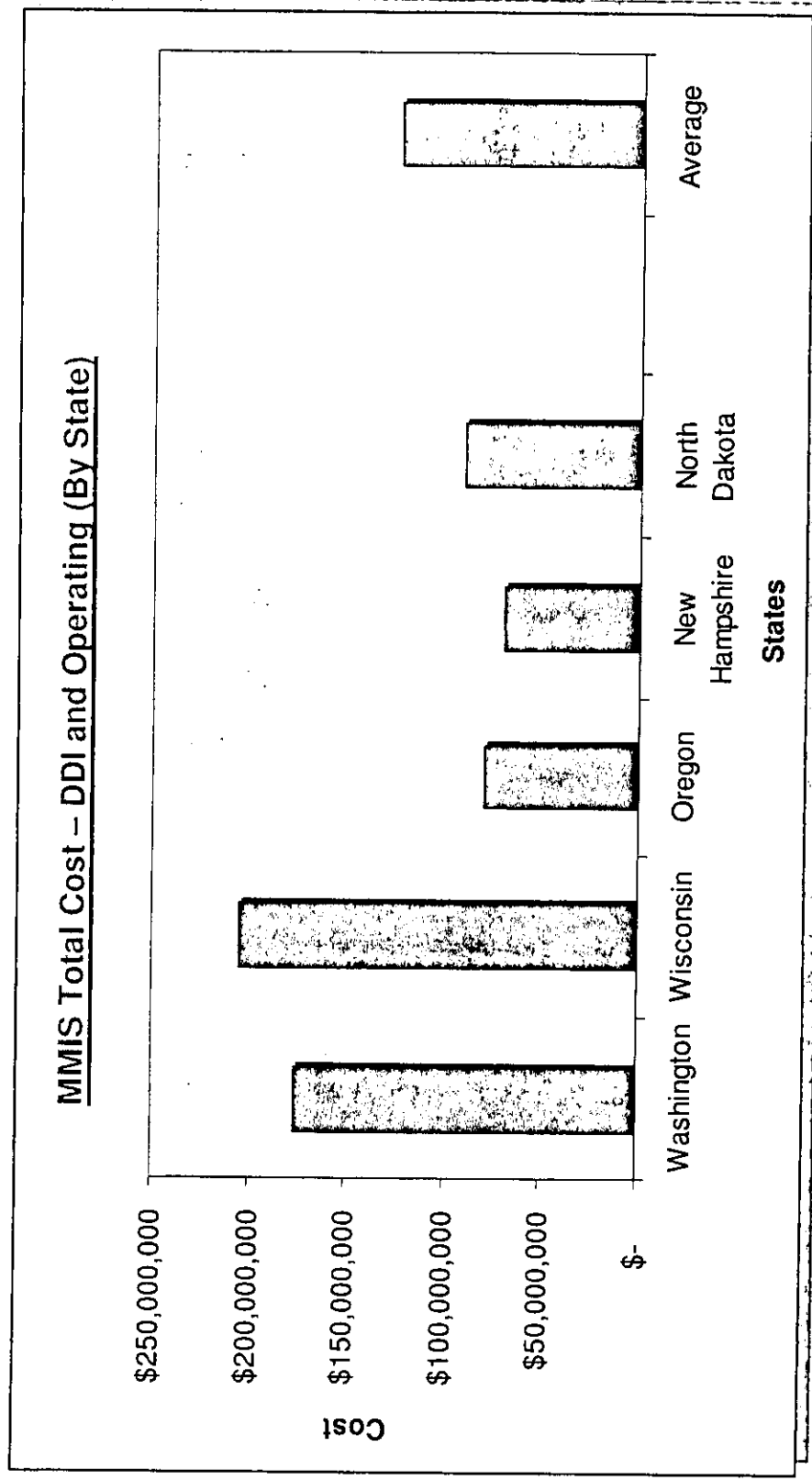
NOTES:

- Washington and Oregon are facility management states. Yearly operating costs are comparable to NDDHS's projected cost of \$3.48 million.
- Wisconsin and New Hampshire are fiscal agent states. Yearly operating costs are comparable to NDDHS's projected cost of \$5.29 million.



IV. MMIS Market Assessment

The Current MMIS Approach Provides Strong Cost Performance Against Other Market Approaches



IV. MMIS Market Assessment

The Current MMIS Approach Provides the Lowest Cost When Compared to Other Facility Management Approaches

State	Type	Vendor	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WA	Turnkey/ Facility Manage- ment	CNSI	\$71.65 million	\$17.36 million	6	\$104.18 million	\$175.84 million
OR	Turnkey/ Facility Manage- ment	EDS	\$53.31 million	\$4.40 million	6	\$26.40 million	\$79.71 million
ND	Turnkey/ In-House	ACS	\$56.85 million ¹	\$3.48 million ²	6	\$20.90 million	\$77.75 million
Average			\$60.60 million	\$8.41 million	6	\$50.49 million	\$111.10 million

¹ The \$56.85 million DDI cost for NDDHS includes all of the NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

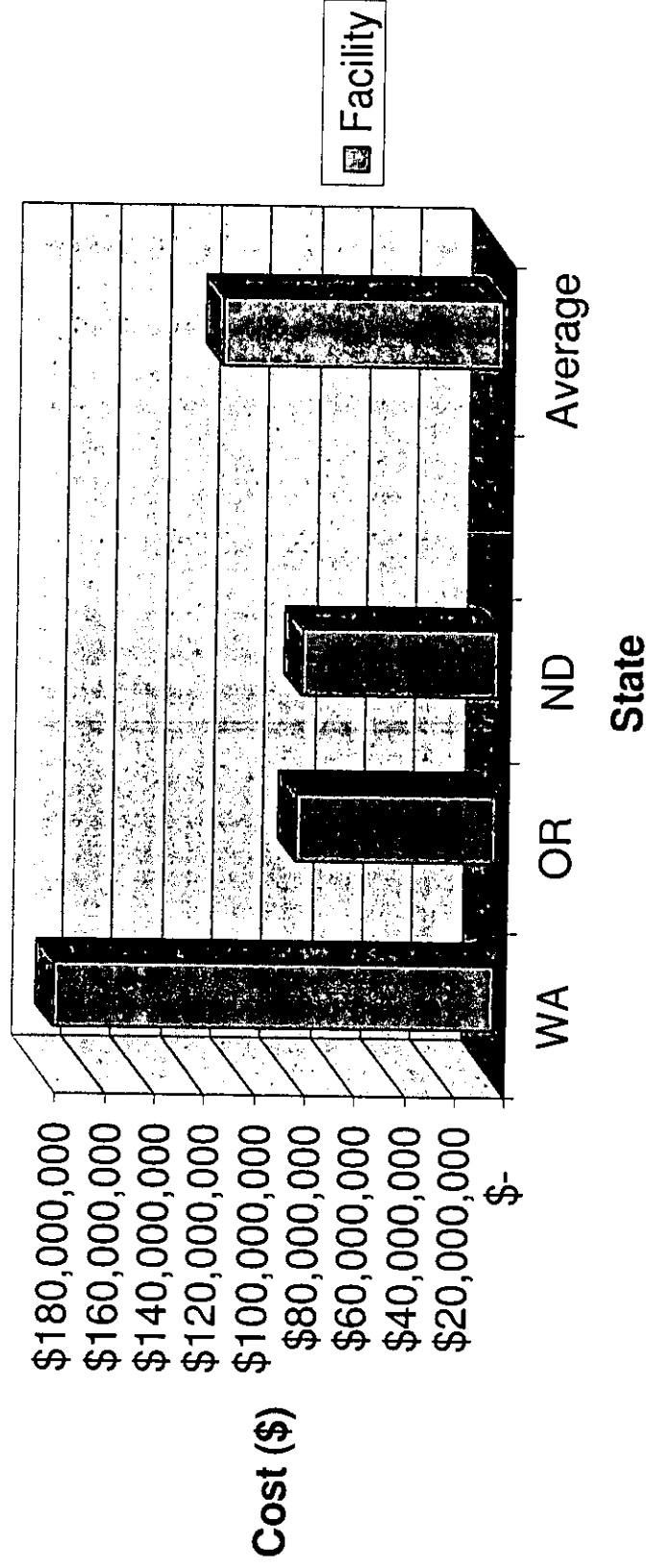
² The \$3.48 million yearly operating cost for NDDHS represents what NDDHS pays to ITD for support and services that are comparable to the facility management services provided by vendors in the other states.

NOTE: Washington and Oregon are facility management states. Yearly operating costs are comparable to NDDHS's projected cost of \$3.48 million.

IV. MMIS Market Assessment

The Current MMIS Approach Provides the Lowest Cost When Compared to Other Facility Management Approaches

MMIS Total Costs (By State)



IV. MMIS Market Assessment

The Current MMIS Approach Provides the Second-Lowest Cost When Compared Against Other Fiscal Agent Approaches

State	Type	Vendor	DDI Cost	Yearly Operating Cost	Operating Years	Operating Cost (6-Year Period)	Total Cost
WI	Fiscal Agent	EDS	\$21.50 million	\$30.46 million	6	\$182.76 million	\$204.26 million
NH	Fiscal Agent	ACS	\$22.10 million	\$8.00 million	6	\$48.00 million	\$70.10 million
ND	Turnkey/ In-House	ACS	\$56.85 million ¹	\$5.29 million ²	6	\$31.76 million	\$88.61 million
Average			\$33.48 million	\$14.58 million	6	\$87.50 million	\$120.98 million

¹ The \$56.85 million DDI cost for NDDHS includes all of the NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

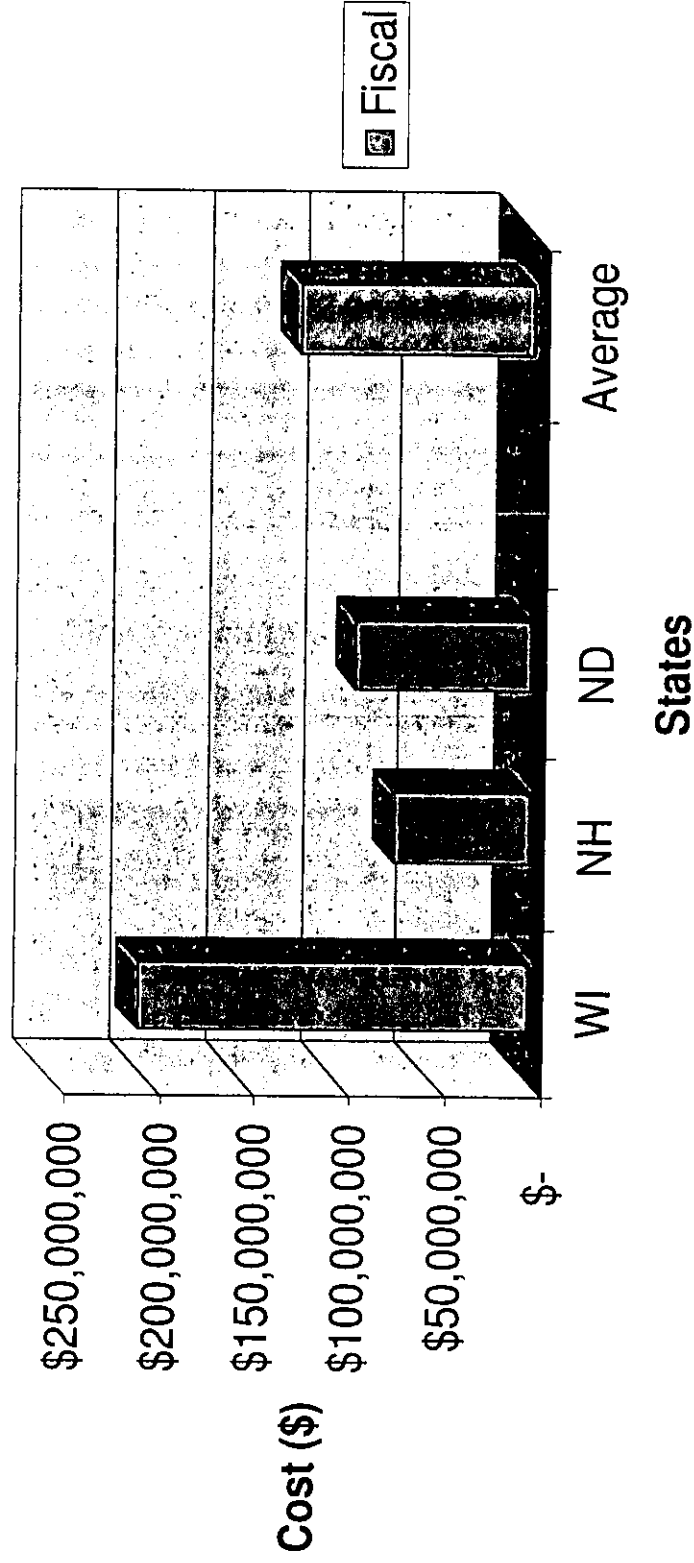
² The \$5.29 million yearly operating cost for NDDHS represents what NDDHS would pay to a fiscal agent to obtain the support and services that are comparable to those currently provided by ITD and NDDHS staff.

NOTE: Wisconsin and New Hampshire are fiscal agent states. Yearly operating costs are comparable to NDDHS's projected cost of \$5.29 million.

IV. MMIS Market Assessment

The Current MMIS Approach Provides the Second-Lowest Cost When Compared Against Other Fiscal Agent Approaches

MMIS Total Cost (By State)



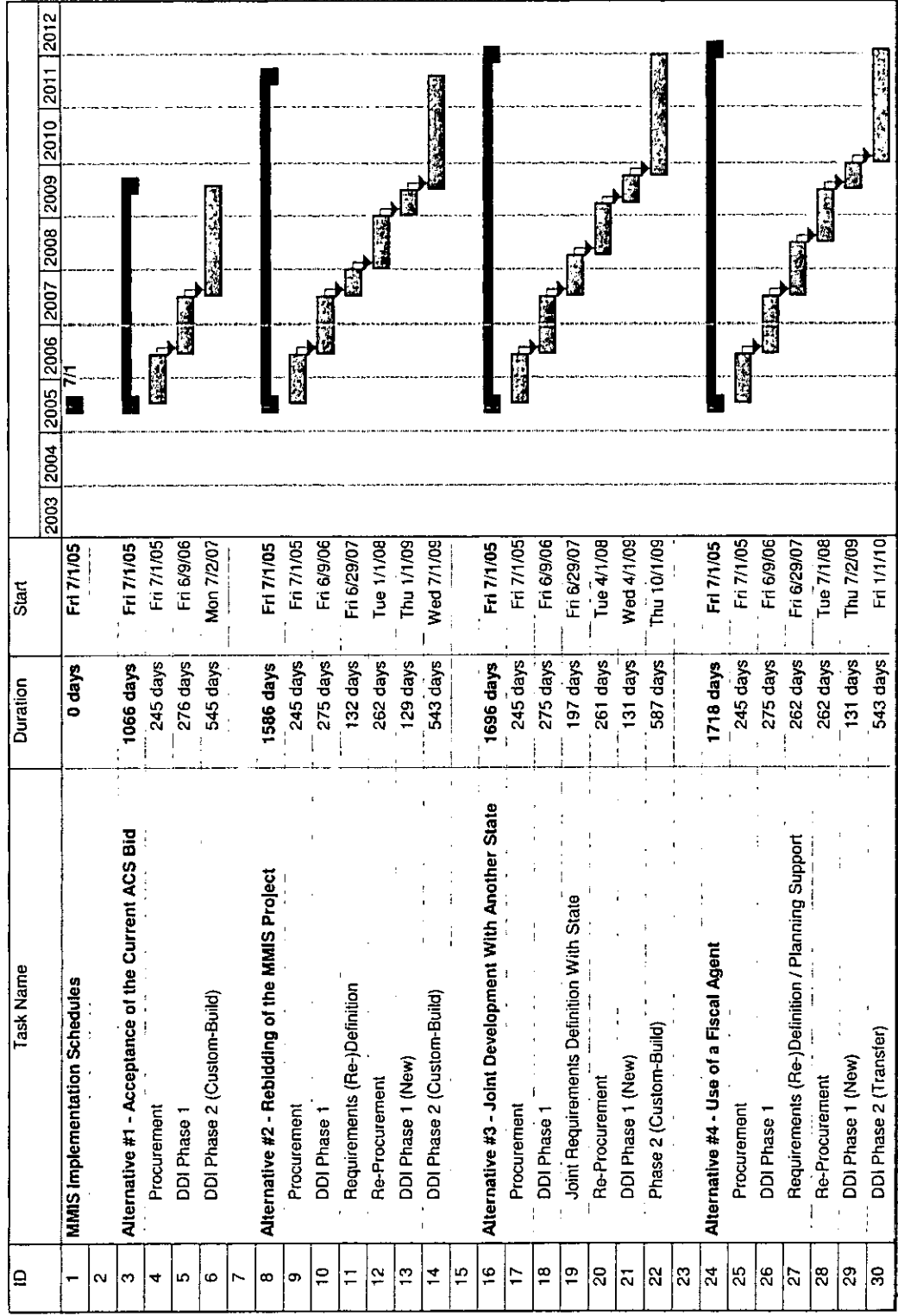
V. Assessment of MMS Replacement Alternatives

V. Assessment of MMIS Replacement Alternatives The Current MMIS Approach Was Rated the Highest of the Evaluated Alternatives

NDDHS MMIS Procurement Alternatives Evaluation Summary

Procurement Alternatives	Evaluation Criteria				Total Score	Percentage of Total
	Cost/ Financial	Schedule	Management	Technology		
Weight	40.00%	20.00%	30.00%	10.00%	100.00%	
Points	400	200	300	100	1000	
Categories						
Alternative #1 – Acceptance of the Current ACS Bid	280	200	240	91	811	81%
Alternative #2 – Rebidding of the MMIS Project	216	120	201	80	617	62%
Alternative #3 – Joint Development With Another State	312	80	201	79	672	67%
Alternative #4 – Use of a Fiscal Agent	184	120	228	69	601	60%

V. Assessment of MMIS Replacement Alternatives The Current MMIS Implementation Approach Concludes 24 to 30 Months Earlier Than Other Alternatives



VI. Recommendations

VI. Recommendations

- Continue with the current MMIS approach – acceptance of the current ACS bid (Alternative #1).
 - » Second-lowest total cost among evaluated alternatives.
 - » Implementation schedule 24 to 30 months faster than other alternatives.
 - » Highest compatibility with the Information Technology Division's (ITD's) technology approach.
 - » No re-procurement costs.
- Consider third-party support options following completion of the current MMIS DDI effort.
 - » Facility management.
 - » Outsourcing of billing and payment process (fifth alternative).