

**TESTIMONY BEFORE THE BUDGET SECTION
MEDICAID SYSTEMS PROJECT UPDATE
DECEMBER 15, 2005**

Chairman Svedjan, members of Budget Section, I am Maggie Anderson, Director of Medical Services for the Department of Human Services. I appear before you to provide information regarding the Medicaid Systems Project.

During the 2003-05 Biennium, the Department hired a consultant (Fox Systems, Inc.) to assist with the preparation of several documents for the eventual procurement of a new Medicaid Management Information System (MMIS), Pharmacy Point of Sale System (POS), and Decision Support System (DSS). These documents included a Business Requirements Analysis, an Advance Planning Document, a Cost-Benefit Analysis, and a Request for Proposal (RFP). In preparation for the 2005 Legislative Session, and as part of the Cost Benefit Analysis, the Department analyzed and considered seven different replacement options. At the time of our testimony, we had narrowed the options to two: (1) a turnkey solution and (2) a fiscal agent solution. Based on an analysis of the costs, benefits, and risks, the Department recommended the turnkey solution.

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 Point of Sale, and two proposals for Decision Support. 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 and vendors were asked for best and final offers, which were due December 5, 2005.

Frankly, the cost proposals, including the best and final offers, have come in higher than we expected. The Cost-Benefit Analysis was prepared with the best information available at the time. However, significant changes happening within the health care and Medicaid technology arena have affected current and future costs.

There have been changes in technology. Medicaid Information Technology Architecture (MITA) was a “concept” within the Centers for Medicare and Medicaid Services (CMS) when the Cost Benefit Analysis was prepared. Today, MITA is evolving and, as a result, cost proposals for all new Medicaid Systems are landing higher than two 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. 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 principles.

We are facing a build vs. transfer concept. When the Cost Benefit Analysis was prepared, it was based on estimates for North Dakota transferring a system in from another state. While a transfer is not uncommon, timing of our RFP coincided with the principle MMIS vendors completely rewriting their systems into a new technology. Therefore, we are experiencing a cost increase because of a shift in the technology platforms currently under development.

Based on the best and final offers received from the vendors, ITD’s estimated costs for staff, hardware and software, and DHS project office/support costs, we are faced with an overall projected cost of \$57.3 Million dollars (of this \$5.7 million are general funds). We were not expecting a cost at this level. As

compared to our original appropriation (\$29.2, of which \$3.7 was general funds), this difference equates to \$28.2 Million, of which \$2 Million would be general funds.

Other states are facing similar cost proposals for the design, development and implementation costs:

- Oregon \$53.3 million
- Washington \$82.5 million
- Massachusetts \$77.4 million

Nebraska (with the assistance of First Data Government Solutions) has recently completed an analysis of four replacement options, including fiscal agent and turnkey. They projected the fiscal agent solution to cost \$36 million more than a turnkey solution (development and eight years of operations). First Data Government Solution recommended a turnkey solution to the state.

In addition, the ongoing operations costs for fiscal agent solutions are expected to greatly exceed our current costs to operate the MMIS with state staff. Based on information provided by the Centers for Medicare and Medicaid Services, the following costs are annual operations costs:

- | | | ND Average FFY 2002-2004 |
|------------|---------------------------------|----------------------------|
| • Wyoming | \$ 9 million plus state costs | \$4.8 per year total costs |
| • Montana | \$ 7.5 million plus state costs | \$4.8 per year total costs |
| • Colorado | \$20.5 million plus state costs | \$4.8 per year total costs |

Building a system from the ground-up was one of the original seven options considered. Upon facing the original cost proposals in October, the Department approached ITD to prepare an estimate of the cost to custom build an MMIS. Their bid, for the MMIS component only was \$35 million and the timeline for development was five years.

The need to replace the existing system has not changed. Our claims processing system is antiquated, difficult and expensive to maintain, and not efficient – for either state users or local providers. Also, as you know, the State Auditor’s Office continues to have concerns about the ability of MMIS to process claims accurately.

If we postpone the replacement, it would cost more in the short and long-term. We risk the 90% federal match secured for the replacement project costs. If we delay the project, we would lose the current approval, and have no assurance of future approval. As you may recall from our testimony during the 2005 Session, CMS, the President, and Congress are continually looking at reducing this match to 75%. Also, third, providers and clients would be negatively impacted. The current system does not meet current business needs, let alone the ongoing needs of 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 cost of the system would decrease if the project were postponed. In fact, with inflation, potential Federal match changes and changing technology, it is likely that the costs would continue to increase.

A modern technology would save money through improved business processes. For example, we are estimating \$32.2 million dollars in savings over the first seven years of operations. Based on Federal Fiscal Year 2007 FMAP, this is approximately \$10.4 million in general fund savings. The following improvements are included in the business requirements for the new system:

- **Claims Appropriateness Edits** **\$30.4 million**

- **Electronic Remittance Advice/
Electronic Funds Transfer** **\$.3 million**
- **Drug Rebate Improvements** **\$1.3 million**
- **Improved Recoupment Accounting** **\$.2 million**

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 appropriation; however, the Medicaid system processes over 6 million claims per Biennium, totaling expenditures over \$1 Billion dollars, and it is CRITICAL to the Medical Services Division being able to fulfill its 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 Department included provider associations, ITD representatives, Legislative Council, 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.

The Department and ITD have carefully researched and analyzed all viable options. We continue to believe the turnkey solution is the best alternative for North Dakota from both a fiscal and operational perspective.

I would be happy to respond to any questions you may have.