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

Page

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 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 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 reprocurement 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.

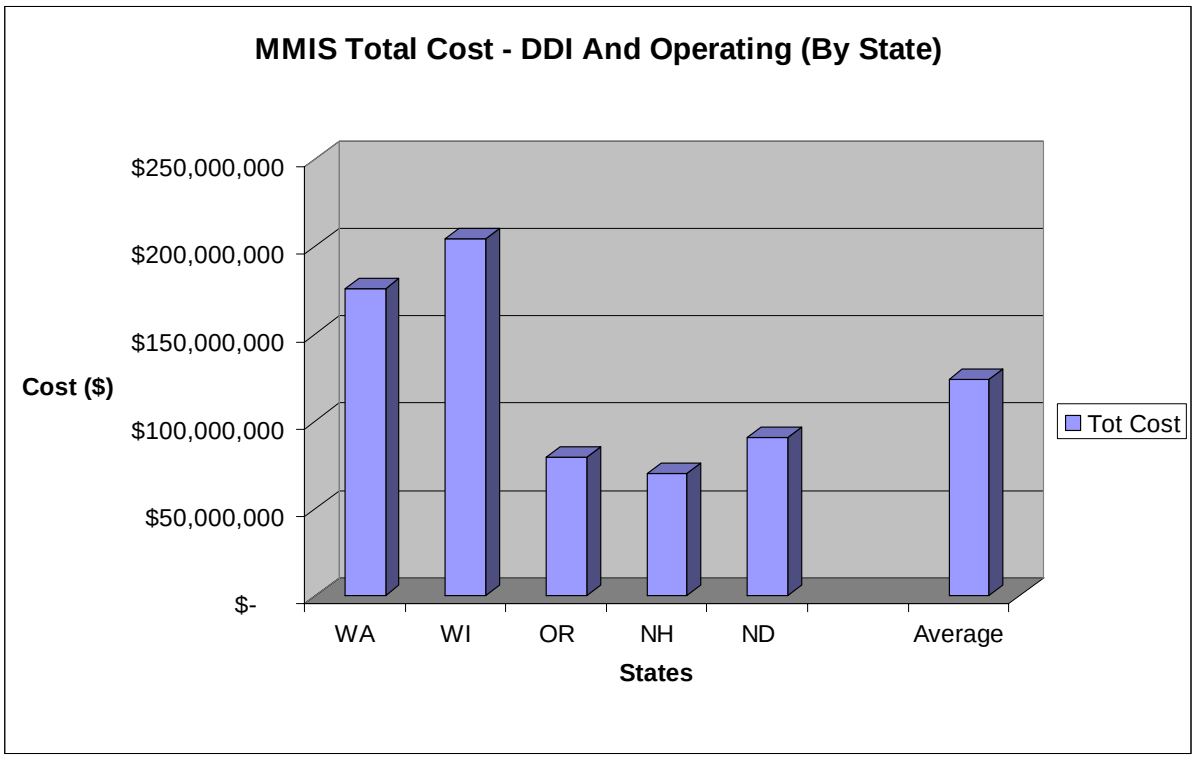
[4] The $5,691,402 of yearly operating cost for NDDHS includes all predicted operating expenses. We believe that the other states have provided primarily contracted costs without including their associated internal costs.

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.

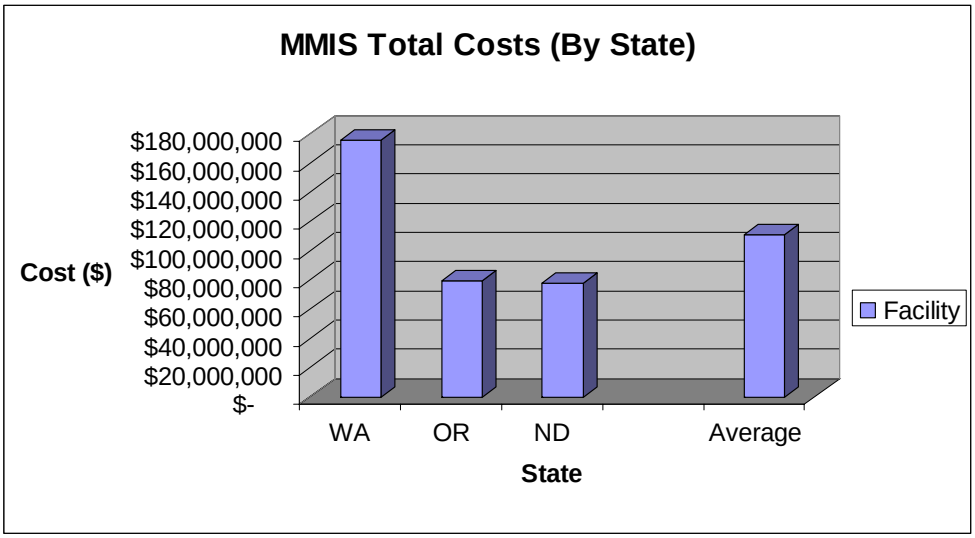
When compared against other recent turnkey/facility management procurements, NDDHS's DDI cost was the second lowest of the states from which data was collected and was lower

[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

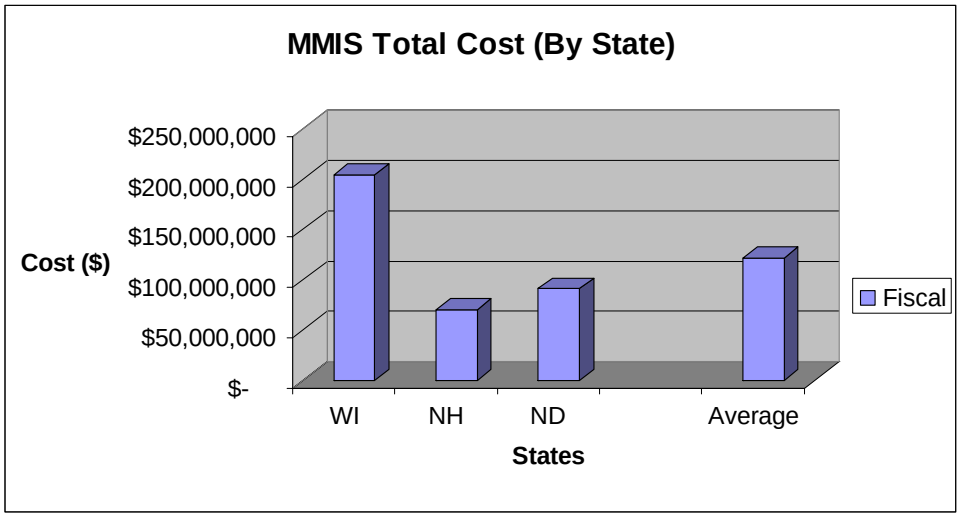
[7] The $56,849,371 of DDI cost for NDDHS includes all NDDHS project costs, while the DDI costs for the other states primarily cover contracted costs and most likely do not include other internal costs.

[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

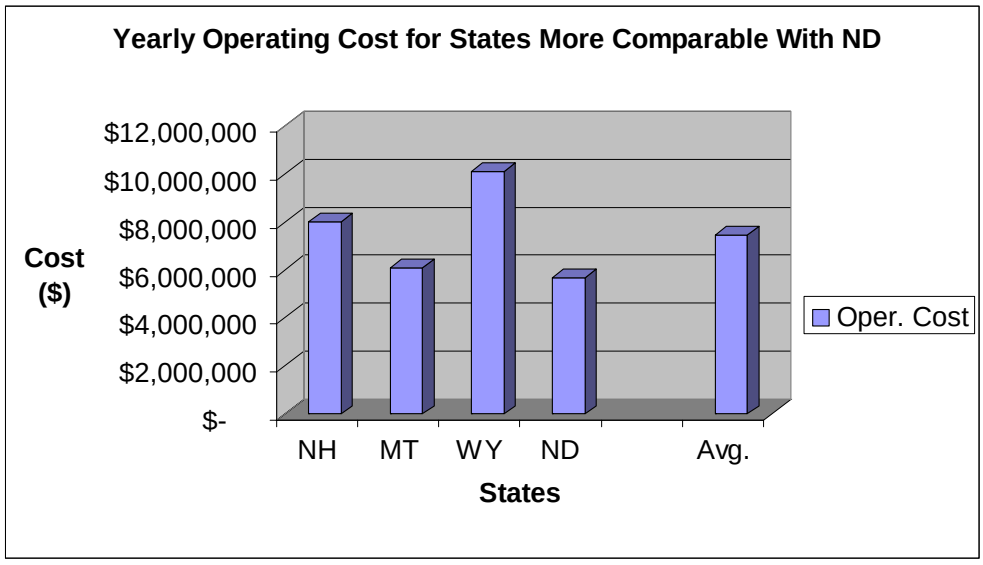
We compared the cost of NDDHS's approach against the costs for the states in our market data group that had comparable Medicaid enrollment populations, regardless of the solution that they procured to meet their MMIS needs. The table below presents the results of the comparison.

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 Cost	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						
	Evaluation Criteria					
Procurement Alternatives	Cost/ Financial	Schedule	Management	Technology	Total Score	Percentage of Total
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	• 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).	• 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: **811 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 reprocurement 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 reprocurement.

2. We estimate that NDDHS would incur reprocurement 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 reprocurement duration = $768,000.

3. Even though reprocurement 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 reprocurement.

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	• Provides ability to select from a variety of potentially viable MMIS solutions (turnkey, facilities management, etc.). • Could support NDDHS transition to SOA.	• 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: **617 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 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 #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 reprocurement 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 reprocurement.

3. We estimate that NDDHS would incur reprocurement 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 reprocurement 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	• 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.	• 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 reprocurement 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 Reprocurement Savings	4	96
1.3	MMIS Reprocurement 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 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 #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	• 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.	• 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 reprocurement 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.