



MEDICAID MANAGEMENT INFORMATION SYSTEM REPLACEMENT

SOCIAL SERVICES APPROPRIATIONS SUBCOMMITTEE
STAFF: RUSSELL FRANSDEN

BUDGET BRIEF

SUMMARY

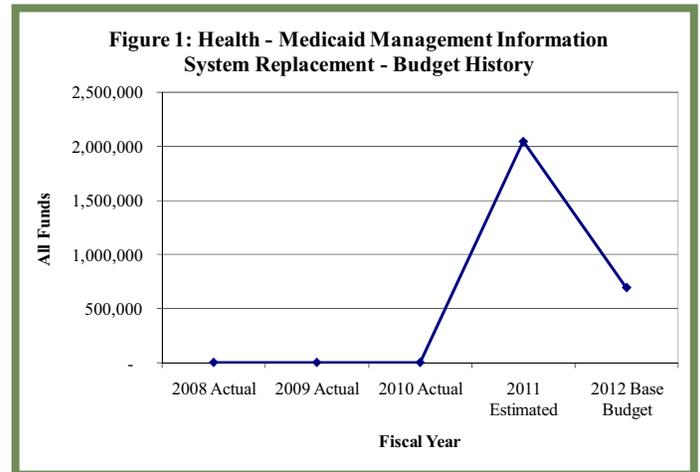
The current system used to process and pay medical claims, the Medicaid Management Information System, began in 1983 and is based upon a system that began operations in 1975 in Iowa. The system uses a programming language known as COBOL. New federal requirements beginning in 2012 and 2013 will add details to the information required for medical billing. As part of its FY 2010 Appropriations Request, the Department of Health estimated the total cost to replace the Medicaid Management Information System at \$91 million (\$11 million General Fund) over a three-year period. The Department has indicated that the system replacement could be done in pieces by function. For more detailed information please visit the online Compendium of Budget Information for the 2011 General Session at http://le.utah.gov/lfa/reports/cobi2011/LI_LKA.htm.

ISSUES AND RECOMMENDATIONS

The Analyst recommends a base budget for Medicaid Management Information System Replacement line item for FY 2012 in the amount of \$693,600. The funding level supports 3 FTE.

Building Block Request Included in the Governor’s Budget

- **Medicaid MMIS Replacement** - \$3,000,000 one-time General Fund (\$30,000,000 Total Funds) for the second phase of replacing the Medicaid Management Information System.



Intent Language

The Legislature approved similar intent statements for this line item during the 2010 General Session. The analyst recommends they be included again:

- *The Legislature intends that the Department of Health report quarterly to the Office of the Legislative Fiscal Analyst on the status of replacing the Medicaid Management Information System replacement beginning September 30, 2011. The reports should include, where applicable, the responses to any requests for proposals.*
- *Under Section 63J-1-603 of the Utah Code the Legislature intends that appropriations provided for Medicaid Management Information System Replacement in Item 207 of Chapter 408 Laws of Utah 2010 not lapse at the close of Fiscal Year 2010. The use of any nonlapsing funds is limited to \$2,800,000 for the redesign and replacement of the Medicaid Management Information System.*

ACCOUNTABILITY DETAIL

Use of Recent Appropriations

The following paragraphs discuss the use of the \$3,000,000 one-time General Fund provided for FY 2011 and how it was used by the agency:

1. **Pre-payment Editing System** – Bloodhound Technologies won the request for proposal process and is in operation as of January 2011. Bloodhound Technologies will review most professional and outpatient

facility claims. The Department of Health plans to review all claims with the new fraud and abuse detection system discussed below. In 2011, the contractor will be reimbursed via a 20% contingency fee for cost savings in excess of \$250,000. Beginning in 2012, the contractor will be reimbursed \$375,000 total funds (\$187,500 General Fund) annually. These payments will come out of the Medicaid Services line items.

2. **Fraud and Abuse Detection System** – Based on the experiences learned from a spring 2010 request for proposal for this system, the Department of Health provided a revised request for proposal for federal approval in November 2010. The Department of Health had planned to have the project started with a vendor in place by April 2011. Only one contractor responded to the RFP. Recently the federal government made a commitment to provide one fully-federally funded FTE and a fraud and abuse detection system for free for the next five years. The Department anticipates replacing its Fraud and Abuse Detection System as part of its MMIS replacement in phase three in FY 2015 at a cost of about \$1.4 million General Fund.
3. **Point of Sale and Drug Rebate System** – The Department of Health received federal approval in November 2010 for the request for proposal for the point of sale and drug rebate system. The Department of Health plans to have the new system operational by January 2012. The Department anticipates a cost of \$1 to \$4 million General Fund for this component.
4. **Data Warehouse Upgrade** – Ingenix won the request for proposal process and the contract has been signed. The upgrade will be complete by February 2011. The Department anticipates a cost of \$707,200 General Fund for this component.

Follow up on Intent Language Passed During the Last General Session

The following paragraphs list two of the intent language statements passed for this line item in the 2010 General Session and discuss how the agency complied with that intent language:

1. *The Legislature intends that the Department of Health report to the Office of the Legislative Fiscal Analyst by July 1, 2010 its plans for a Medicaid Management Information System replacement. The presentation should include the full array of options for which parts of claims processing are performed by State vs contracted workers.*
 - a. The Department of Health submitted its report to the Legislative Fiscal Analyst Office on time. The Executive Appropriations Committee had the Department of Health present its report at the August 17, 2010 meeting. The audio recording of the presentation can be accessed at <http://www.le.state.ut.us/ASP/interim/Minutes.asp?Meeting=8157#Audio>.
 - b. The full report can be found at <http://health.utah.gov/medicaid/stplan/LegReports/HB2%20MMIS%20System%20Replacement%20Options.pdf>.

Below is a quote from the summary of recommendations section of the Department’s Medicaid Management Information System replacement options report as well as a table showing four replacement options with costs in total funds:

Option	Design, Development, and Implementation Cost	Estimated Total Costs Over 14 Years
State Integrator	\$75 million	\$315 million
Contractor Integrator	\$91 million	\$331 million
Facility Management	\$85 million	\$414 million
Fiscal Agent	\$67 million	\$603 million

“FOX recommends that Utah proceed with Option B – Select a Contractor Integrator to transfer, modify, and enhance a state-of-the-art, certifiable MMIS under the management of a Project Management Office (PMO). Option B is recommended because it is the least costly option (\$331 million) associated with an acceptable level of risk the State is willing to assume. While Option A is less costly (\$314.8 million), it has a considerably higher risk factor. With Option A, work is paid for on an hourly basis without regard to tasks accomplished, whereas with Option B payment is based on specific deliverables providing more control for Utah. Furthermore, Option B is identified as the most feasible Option based on Table 17 in Section 5.10 Feasibility Analysis, which takes into consideration schedule, resources, culture, and value.”

2. *The Legislature intends that the Department of Health report quarterly to the Office of the Legislative Fiscal Analyst on the status of replacing the Medicaid Management Information System replacement beginning September 30, 2010. The reports should include, where applicable, the responses to any requests for proposals.*

a. The most recent quarterly report is available at

<http://health.utah.gov/medicaid/stplan/LegReports/Ball,%20Jonathan%2012-28-10.PDF>.

BUDGET DETAIL

The budget listed in the table below details the budget allocations in the base budget bill.

Health - Medicaid Management Information System Replacement						
Sources of Finance	FY 2010 Actual	FY 2011 Appropriated	FY 2011 Changes	FY 2011 Revised	FY 2011 Changes	FY 2012* Base Budget
General Fund, One-time	0	3,000,000	0	3,000,000	(3,000,000)	0
Federal Funds	0	21,577,600	(19,735,000)	1,842,600	(1,149,000)	693,600
Lapsing Balance	0	0	(2,795,300)	(2,795,300)	2,795,300	0
Total	\$0	\$24,577,600	(\$22,530,300)	\$2,047,300	(\$1,353,700)	\$693,600
Programs						
Medicaid Management Information System	0	24,577,600	(22,530,300)	2,047,300	(1,353,700)	693,600
Total	\$0	\$24,577,600	(\$22,530,300)	\$2,047,300	(\$1,353,700)	\$693,600
Categories of Expenditure						
Personnel Services	0	0	401,500	401,500	0	401,500
Current Expense	0	0	1,645,800	1,645,800	(1,353,700)	292,100
Other Charges/Pass Thru	0	24,577,600	(24,577,600)	0	0	0
Total	\$0	\$24,577,600	(\$22,530,300)	\$2,047,300	(\$1,353,700)	\$693,600
Other Data						
Budgeted FTE	0	0	3	3	0	3

LEGISLATIVE ACTION

1. The Analyst recommends that the Health and Human Services Appropriations Subcommittee approve a base budget for FY 2012 for the Medicaid Management Information System Replacement line item in the amount of \$693,600 with funding as listed in the Budget Detail Table.
2. The Analyst recommends the adoption of the intent language as listed on the previous page.