



Replacing the Medicaid Computer System *Getting It Right for Taxpayers*

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- ▶ In SFY 2009-10, All Funds spending for Medicaid was \$38.4 billion, representing 30.2 percent of the \$126.9 billion spent in New York State.
- ▶ OSC's Medicaid audits have found more than \$500 million in overpayments, largely due to system shortcomings.
- ▶ Prior to any new procurement to replace the current Medicaid computer system (eMedNY), the problems associated with the previous procurement should be analyzed so that these problems are not repeated and taxpayer dollars are not wasted.
- ▶ Largely due to delays by the contractor (CSC) and the Department of Health (DOH), eMedNY was implemented 33 months late and nearly 50 percent over budget (prior to a closeout adjustment).
- ▶ With CSC holding the contracts for both the aging "Legacy" system and eMedNY there was little incentive to implement the replacement system timely, as it continued to be paid for both systems.
- ▶ DOH waived contract provisions for CSC to pay damages for missed deadlines and instead negotiated a closeout price adjustment with CSC.
- ▶ The closeout was bundled with: an amendment extending the CSC contract, an unjustified 62 percent cost increase and a CSC ultimatum to cease operations if the amendment was not approved.
- ▶ With no contingency plan or contract provisions in place to address the problem, DOH had to accept CSC's demands.

In State Fiscal Year (SFY) 2009-10, All Funds spending for New York State amounted to \$126.9 billion. Of this amount, approximately \$38.4 billion or 30.2 percent was spent on Medicaid. Most Medicaid payments are processed through the State's current computer payment system, known as eMedNY, which is maintained by the Department of Health (DOH).

eMedNY, which was implemented in March 2005, is considered to be in need of replacement for a number of reasons, including the fact that the current system was not developed with the best available technology at the time. As a result, the eMedNY system has been plagued with numerous problems since implementation. Audits by the Office of the State Comptroller (OSC) since eMedNY implementation have identified losses to fraud, waste and abuse totaling more than \$500 million. Fraud audits and investigations by the Office of the Attorney General and the State Medicaid Inspector General have additionally found hundreds of millions of dollars in wasted Medicaid monies.

In addition, as discussed below, the eMedNY system was implemented 33 months late and \$166.4 million (47 percent) over budget. Prior to any new system procurement, a review of the problems associated with the previous procurement and system replacement should be conducted and analyzed so that additional taxpayer dollars are not wasted by repeating problems of the past.

While the eMedNY system processes claims and pays medical providers for services provided to eligible Medicaid recipients, it is equipped, but only to a limited extent, with an ability to detect fraudulent payment patterns. The procurement process for the new system should utilize the best available technology to enhance prevention and detection of fraud, waste and abuse. In addition, the project should maximize competition, be monitored effectively and implemented on time and within budget.

eMedNY

In 1998, DOH awarded Computer Sciences Corporation (CSC) a contract for the design and implementation of a replacement Medicaid system – eMedNY.ⁱ The original Medicaid Management Information System (MMIS), implemented in 1977, had become a patchwork system due to 20 years of modifications from numerous law and policy changes and did not reflect the best available technology at the time.

Largely due to delays by CSC and DOH, eMedNY was implemented March 31, 2005, 33 months later than scheduled and significantly over budget; with the cost for the project totaling \$523.4 million, \$166.4 million (47 percent) over the original estimate of \$357 million prior to a closeout adjustment.ⁱⁱ The contract term was May 1, 2000 through June 30, 2006.ⁱⁱⁱ

CSC also held the contract for the aging “Legacy” Medicaid Management Information System (MMIS) claims processing system. As a result, with dual roles as operator of the Legacy system and developer of eMedNY, little incentive existed to implement the replacement system timely as CSC continued to be paid for both systems.^{iv} Despite provisions in the eMedNY contract for consequential and liquidated damages for not meeting implementation deadlines, DOH waived such rights and instead chose to negotiate a closeout price adjustment to reflect the implementation delays.^v The negotiated closeout adjustment and other related adjustments brought the total cost of the eMedNY project to \$442.8 million, \$85.8 million (24 percent) over budget.^{vi}

The negotiated closeout adjustment raised serious concerns by the Office of the State Comptroller (OSC) at the time as it was bundled with an amendment that extended the CSC contract from one to three years, to June 30, 2009, and increased operational costs for the first year by 62 percent, from \$54.5 million to \$88.5 million. Although OSC initially returned the amendment unapproved, it was ultimately forced to approve the amendment as CSC indicated its intent to stop the processing and payment of Medicaid provider claims and other related services on June 30, 2006 without an approved extension.^{vii} The situation endangered the continuity of the State’s Medicaid program and the health of millions of vulnerable New Yorkers who rely on the program for care. DOH had no contingency plan or contract provisions in place to address the problem and therefore had to accept CSC’s demands.^{viii}

Total Project Cost For Existing eMedNY System (in millions)

Contractor/Component	Original Estimate	Delay Cost	Estimated Total with Delays	Increase Not Attributed to Delays	Negotiated Closeout Adjustment	Net Total Cost	Net Increase Over Original Estimate
CSC:							
eMedNY – Development, Eligibility and Claims Processing	\$55.9	\$8.7	\$64.6	\$10.6	\$0.0	\$75.2	\$19.3
eMedNY – Development, Data Warehouse	\$23.5	\$0.0	\$23.5	\$0.0	\$0.0	\$23.5	\$0.0
eMedNY – Operations	\$260.9	\$0.0	\$260.9	\$2.7	(\$90.6)	\$173.0	(\$87.9)
Legacy – Ops/Extensions	\$8.3	\$97.1	\$105.4	\$0.0	(\$3.3)	\$102.1	\$103.8
Legacy – HIPAA	\$0.0	\$41.0	\$41.0	\$0.0	\$0.0	\$41.0	\$41.0
CSC Total	\$348.6	\$146.8	\$495.4	\$13.3	(\$93.9)	\$414.8	\$66.2
Bearing Point (eMedNY)	\$5.6	\$7.2	\$12.8	\$0.0	\$0.0	\$12.8	\$7.2
EFunds (Legacy)	\$2.8	\$12.4	\$15.2	\$0.0	\$0.0	\$15.2	\$12.4

Contrary to DOH's original intentions, eMedNY was not based on the best available technology at the time and it has been plagued with numerous problems such as a significant inability to accommodate needed changes timely. The ongoing need to modify eMedNY arises due to changes in State and federal laws, the State budget and also policy changes.

OSC has performed numerous audits of eMedNY since implementation, which have resulted in identification of more than \$500 million in overpayments relating to fraud, waste and abuse. Many of the audits point to consistent problems related to shortcomings of the system such as insufficient controls to prevent payment of: certain duplicate claims, instances where third party insurance had not been billed and instances where limits on the number of services have been exceeded. In addition, fraud audits and investigations by the Office of the Attorney General and the State Medicaid Inspector have identified hundreds of millions of wasted Medicaid dollars.

In 2007, DOH recognized the need to improve the system significantly in order to meet program objectives of a new State administration. The original plans to provide for a takeover of eMedNY by another party when the CSC contract ended in June 2009 shifted to a takeover with "priority enhancements," and then to the procurement of a replacement system. As a consequence of these plans, DOH sought a second three year extension to continue operation of eMedNY by CSC to June 30, 2012, valued at \$322 million, bringing total payments to CSC for the eMedNY project to nearly \$900 million.^x

DOH indicated that seeking a replacement system could result in enhanced federal reimbursement provided for new systems, provide new technology for payment processing, provide new tools for enhanced efforts to reduce fraud, waste and abuse and increase vendor competition in submitting bids for a new system. DOH officials and industry experts believed that there would be limited vendor interest in taking over another vendor's computer system. In addition, DOH stated that the extension would provide time needed to ensure an improved request for proposal (RFP) to design and operate the new system.^x

The federal Centers for Medicare and Medicaid Services (CMS) approved the extension on August 25, 2008, but indicated DOH could face the loss of enhanced federal reimbursement if the system procurement and implementation did not meet the scheduled timelines of having the new system operational by July 1, 2012.^{xi}

DOH did not provide effective oversight during the development and implementation of the current eMedNY system and did not take advantage of available contract penalties in response to vendor performance issues. In addition, DOH did not ensure appropriate contingencies were in place to accommodate the implementation delays. As a result, the vendor was allowed to essentially hold the Medicaid program hostage in order to receive a contract extension at a price that was not justified.

Recommendations

DOH anticipates release of an RFP for the procurement of the replacement Medicaid system (RMS) soon. In acquiring the replacement system there are several steps DOH should take to ensure an effective procurement and effective use of taxpayer dollars.

- **System Architecture and Competition** – Based on the most recent contract extension, the new system is expected to be capable of quickly implementing evolution changes, thereby reducing costs and increasing the capability to reduce or eliminate fraud, waste and abuse. DOH should ensure that the new system is based on the most advanced technology available and that the system architecture provides flexibility and efficiency in three areas: payment processing, law and/or policy changes, and finally protocols for the detection of fraud, waste and abuse. This will help ensure an end to problems that plagued eMedNY and encourage vendor competition.

- **System Implementation and Timelines** – The eMedNY implementation took 33 months longer than scheduled and resulted in significant cost overruns. Further, due to time constraints, the implemented system excluded several planned components such as the ability to prevent duplicate payments from different types of medical providers. CMS approval of the most recent CSC contract extension was contingent on DOH procuring and implementing the replacement Medicaid system by June 30, 2012.

DOH must set appropriate and realistic timelines and plan effectively for significant contingencies in place. For example, DOH must ensure that it can address the following concerns:

- Will the current procurement schedule support having a new system in place by the expiration date of the existing agreement?
 - If an awarded vendor fails to meet implementation timeframes, necessitating the operation of the existing system beyond the term of the current contract, what financial penalties or other responsibilities will be borne by that vendor?
 - What is DOH's contingency plan should CSC be unwilling to negotiate an extension to continue system operations at a reasonable cost due to late implementation of the new system?
 - If the existing system has to be operated longer than currently anticipated, will the vendor's penalties for nonperformance cover the State's additional costs?
 - How does the planned procurement timetable line up with the end date and any remaining extensions in the existing agreement?
- **Penalties for Non-performance** – Although DOH did not utilize them, the prior contract, provided specific penalties for not meeting the required deadline for implementing the system.

DOH must not only commit to firm oversight and monitoring of the upcoming procurement, but must also use available tools to ensure contractor performance. In addition, DOH must ensure that there will be sufficient monies available to recover costs resulting from any decrease in the federal reimbursement rate should the system not be implemented according to defined timelines.

In moving ahead, DOH must ensure that the upcoming procurement for the replacement system addresses the concerns raised by OSC. Doing so, will help ensure timely implementation of a system based on the most advanced technology that is selected through a process that encourages competition and effectively uses taxpayer dollars.

ⁱ Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 12. Citing Department of Health Contract C014305.

ⁱⁱ Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 12.

ⁱⁱⁱ Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 15.

^{iv} Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 11.

^v Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 12.

^{vi} Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 14.

^{vii} Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006.. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 14-16.

^{viii} Office of the State Comptroller. New York State Replacement Medicaid System eMedNY Project. December 2006. <<http://www.osc.state.ny.us/reports/health/emed.pdf>>. 17.

^{ix} Gabriel Deyo, Director, Division of Program Operations and Systems, Department of Health. Letter to John Moriarty, Director, Bureau of Contracts, Division of State Services, Office of the State Comptroller. June 7, 2007. Department of Health Contract C014305, Amendment 10.

^x *Ibid.*

^{xi} Sue Kelly, Associate Regional Administrator, Division of Medicaid and Children's Health, Department of Health and Human Services, Centers for Medicare and Medicaid Services. Letter to Deborah Bachrach, Deputy Commissioner, Office of Health Insurance Programs, Department of Health. August 25, 2008.