Medicaid Management Information System Reprocurement **FY2001 Request: $25,100,000**
Reference No: 32430

AP/AL: Appropriation
Project Type: Information Systems
Category: Health/Human Services
Location: Statewide
Contact: Larry Streuber
House District: Statewide (HD 1-40)
Contact Phone: (907)465-1870
Estimated Project Dates: 07/01/2000 - 06/30/2005

Brief Summary and Statement of Need:
This project will purchase a more flexible and responsive Medicaid claims processing and information retrieval system which will enhance the state's Medicaid program management, claims processing, provider payments and federal and state reporting capabilities. Federal requirements for federal financial participation in a state's Medicaid claims processing system, the risks associated with the age of the current system, and the minimum amount of time required to competitively procure, design, develop and implement of a new claims payment system create the urgent need to fund this request now.

Funding:	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	Total
Fed Rcpts	$22,590,000						$22,590,000
G/F Match	$2,510,000						$2,510,000
Total:	$25,100,000	$0	$0	$0	$0	$0	$25,100,000

☑ State Match Required ☐ One-Time Project ☑ Phased Project ☐ On-Going
10% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
CH96/SLA85/P6/L18 $2,000,000 GF. CH103/SLA95/P37/L29 $807,000 GF and $7,262,600 Federal.

Project Description/Justification:
BACKGROUND
The Alaska Medicaid program was implemented in July 1972 to provide medical assistance to recipients found eligible under Title XIX of the Social Security Act. In addition, medical services are funded by the State under the Chronic and Acute Medical Assistance (CAMA) program. Medical services are currently provided to categorically needy eligibles. An average of 141,000 claims were processed each month in FY99 for services provided to Medicaid and CAMA recipients. In FY99 some 98,139 recipients received medical services from claims payments totaling over $379 million.

Since 1979, Alaska has moved from a manual intensive, State-operated system, to a semi-mechanized State/contractor operation, to the current fully mechanized fiscal agent-operated claims processing system. Following a competitive procurement in 1987, First Health Services Corporation (FHSC) was selected to provide Medicaid and CAMA fiscal agent services for the State. The base MMIS which was transferred in from Virginia and tailored to Alaska's needs was initially developed and subsequently modified without consideration for date processing at the turn of the century.

During FY96 the Department released an RFP to procure a new claims payment system which among other things was Year 2000 compliant. The Department received one proposal and after lengthy negotiation with the proposer

subsequently rejected the proposal. While it was mainly other risks in and around the proposal that caused the Division to reject the bid, the proposed cost was much greater than the capital appropriation funding for the replacement of the MMIS.

After rejecting the bid and extending the current contract's period to run through December 30, 1999, the Division spent some time evaluating its options, especially in light of the dynamically changing health care delivery environment and the looming Year 2000 problem. Several options were considered, from doing nothing, bidding development of a completely new system, transfering in another system, to a take over of the current system. The Division finally settled on a strategy around the upgrade of the current MMIS system if the cost estimates proved reasonable because there was not adequate time to reprocure and implement a new system prior to January 1, 2000. An important point of this strategy was the requirement to freeze the system and prevent the development and implementation of any Medicaid program modifications once the code remediation began. The advantage of this strategy was the recognition and maintenance of the state's investments in the current system to meet Alaska's specific Medicaid requirements. However, this strategy also required development and implementation of changes necessary to support the state's managed care program directives and any other changes to continue meeting federal MMIS requirements before the remediation of the present MMIS begins. Lastly, the strategy called for the Department to consider its claims payment system options and opportunities after the year 2000 upgrade was completed and the system was successfully paying provider's claims.

CURRENT STATUS
The current claims processing system, Alaska Medical Management Information System, operated by FHSC, is a federally certified Medicaid Management Information System (MMIS).

The system is eligible for an enhanced federal financial participation (FFP) matching rate of 75% for operations costs. Federal regulations require that MMIS contracts be competitively bid every eight years. The current contract expires December 31, 1999. The Division has negotiated with FHSC a three year extension which will shortly be submitted to the Health Care Financing Administration for their review and approval. FHSC will have completed acceptance testing of the Year 2000 programming changes to the current claims payment system by September 30, 1999. The remediated system has been successfully paying medical claims accurately and timely since the new code was put into production June 25, 1999. To meet the three year contract extention deadline of December 31, 2002, DHSS must start to reprocure a new MMIS during FY01.

PURPOSE
An Advance Planning Document (APD) will be prepared and submitted by the Department of Health & Social Services Division of Medical Assistance State of Alaska to request enhanced federal financial participation (FFP) from The Health Care Financing Administration (HCFA) for the design development, and implementation (DD&I) of a new Medicaid Management Information System. The federal government will participate in these DD&I costs at the rate of 90%. The result of this effort will be a more flexible, responsive, and automated claims processing and information retrieval system which will enhance the state's program management, claims processing and provider payments, and federal and state reporting capabilities.

Alaska, similarly to the rest of the nation, is faced with growing program costs for many Medicaid services. This escalation is partially a reflection of the state's difficulty in implementing significant new cost containment measures due to structural constraints within its current MMIS. Achieving control over this situation implies major changes in reimbursement methodologies, a broadened scope for prepayment and utilization management, and the capability to accurately forecast expenditure trends.

Although the current MMIS was installed in May of 1988, it is based on a 1970's federal general systems design which provides limited flexibility to accommodate significant upgrades or enhancements to the basic system. While this system remains difficult for users to access information; it also:

- captures less than optimal claims data to support alternative pricing and expanded edit/audit controls and utilization data;
- is costly to modify;
- does not support on-line real time claims adjudication or other new functions and technologies;
- provides limited, inefficient, and costly reporting of data.

The current MMIS as outlined in the 1985 Advanced planning document has satisfied the Department's goals. The major

goals at that time were federal certification, timely and accurate payment of claims, and automation to handle expected increase in claims volume. The State's FFP rate was increased from 50% to 75% for all MMIS operating expenses and the State has passed each system performance review conducted by the Federal government. While these goals remain Division goals, the need for greater flexibility in controlling health care costs has resulted in the need to replace the current MMIS.

It is the State's intent to replace the current system as a part of the reprocurement of the fiscal agent contract. The new MMIS must provide more than just program management and claims processing enhancements. The new MMIS must incorporate cost effective technological improvements which better serve the provider community and control data processing and software maintenance costs.

The new Alaska MMIS will be based on the revised functional definition of system requirements as contained in sections 11300-11375 of Part 11 of the State Medicaid Manual. The MMIS will meet or exceed clearly defined performance standards to ensure that:

· Future changes in the Medicaid program can be accommodated with minimal change to the overall system design. The department wants to move to a standardized paperless environment. (Electronic remittance documents, direct deposit, electronic submission of claims, optical storage of correspondence and documents, swipe cards, provider telephone & microcomputer inquiry into the claims and eligibility files to name a few.)
· Increased flexibility in report definition will be available to enhance both the detailed and the summary program information.
· All third party liability system requirements mandated in section 3903.2 of the State Medicaid Manual will be met.
· The system will comply with the system back-up and recovery requirement in accordance with 45CFR95 subpart F.
· The system will provide more efficient, economical, and effective administration of the State Plan.
· It will meet the system requirements and performance standards in Part II of the State Medicaid Manual, as periodically amended.
· The department has a royalty-free, non-exclusive, and irrevocable license to reproduce, publish, or otherwise use and authorize others to use, for Federal government purposes, software, modifications to software, and documentation that is designed, developed, installed, or improved with 90 percent FFP.
· The costs of the system are determined in accordance with 45CFR74.171 and Federal Management Circular 74-4.
· The Medicaid agency agrees in writing to use the system for the period of time specified in the Advanced Planning Document approved by HCFA or for any shorter period of time that HCFA determines justifies the Federal funds invested.

To begin this process the Division will procure the services of a technical assistance contractor (TAC) to:
1. determine if the present system can be modified and make better use of current technology,
2. review the cost previous cost benefit analysis to confirm the assumptions and basic calculations demonstrating the cost effectiveness of procuring a new MMIS versus the other alternatives,
3. identify technologies or system functions that would benefit the State's Medical Assistance programs,
4. edit the previous Request for Proposal (RFP) for the new MMIS, and
5. provide technical assistance throughout the RFP, contractor selection and design, development and implementation process.

ALTERNATIVES
There are a number of alternatives for implementing a claims processing system.:

- Implementation or transfer in of a new MMIS
- Contract for a take over of the current MMIS
- Continuation of the status quo (no bid, keep current Fiscal Agent.)
- Contract with another state to process Alaska's claims

COSTS AND BENEFITS
The following assumptions and costs/benefits were developed for the FY96-97 procurement effort. Until demonstrated otherwise, we believe that the assumptions and costs developed for that effort still accurately reflect the basic cost benefits of the various alternatives reviewed at that time. In fact, given the rate at which technology has changed in the interim the benefits have probably become even more favorable. One of the first activities of this effort will be to review both the previous APD and the Cost Benefit Analysis and update them where necessary.

Assessing the costs and benefits assumes that the most feasible system approaches are used. The suggested approaches for each of the system alternatives are:
·The State will use the services of a consultant for technical assistance in the drafting/revising of the RFP.
·The development approach for a transfer will involve transferring and modifying an existing system to meet state and federal MMIS requirements.
·The operational approach will involve using a fiscal agent.
·Computer equipment should be a contractor-owned shared computer.
·System operation should be located in Anchorage except for the CPU.
·The development approach for a take over will be half as expensive as a system transfer with extensive enhancements.
·The maintenance and enhancement expense and effort for the operation of the current system are believed to be twice as much as for the " transfer" of an existing MMIS system.
.The ongoing yearly operations expenses for a " take over " will increase at faster rate than a " transfer ".
·The cost figures for the design, development and implementation of an MMIS have been derived from the department's actual experience in FY88 and a review of what other states had been paying recently. Exhibit IV.1 shows the total costs associated with that FY88 MMIS procurement and design effort. Over 13,400 hours were spent on the FY88 project by State staff. Over 68,000 hours were logged by MMIS contractor's staff. The Division used the average DDI and TAC costs from other states in estimating the cost of transferring in a system.

Exhibit IV.1 - Cost of Transferring MMIS

	(1986-1988) Previous MMIS	Take Over MMIS	Transfer MMIS
Amount paid FHSC	1,588,000	3,674,000	7,736,000
TAC Contractor	364,000	400,000	412,000
State expense	659,455	412,000	824,000
Total	2,611,455	4,486,000	8,972,000

EXHIBIT IV.2 - COST/BENEFIT SUMMARY
(In Thousands)

	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	Total
Implement New MMIS											
DDI *	0.600	8.372	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8.972
Operations	5.617	6.030	6.331	6.648	6.980	7.329	7.695	8.080	8.484	8.908	60.455
Enhance **	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225	1.800
DDI-Oper.***	6.442	14.627	6.556	6.873	7.205	7.554	7.920	8.305	8.709	9.133	71.227
FFP	4.711	12.000	4.680	4.905	5.142	5.391	5.652	5.926	6.214	6.516	61.131
State Share	1.731	2.627	1.876	1.976	2.063	2.163	2.269	2.379	2.495	2.617	52.499
Savings	0.000	0.200	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600	4.800
Takeover											
DDI *	0.300	4.186	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4.486
Operations	5.617	6.030	6.452	6.904	7.387	7.904	8.457	9.049	9.683	10.361	66.197
Enhance **	0.225	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	4.000
DDI-Oper.***	6.142	10.716	6.952	7.404	7.887	8.404	8.957	9.549	10.183	10.861	74.683
FFP	4.441	8.439	4.972	5.294	5.638	6.007	6.401	6.823	7.274	7.757	54.203
State Share	1.701	2.277	1.980	2.110	2.249	2.397	2.556	2.727	2.909	3.104	20.480

Savings	0.000	0.200	0.400	0.400	0.400	0.400	0.400	0.400	0.400	0.400	3.200

Continuation of the Status Quo

DDI *	0.400	0.420	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	82.000
Operations	5.617	6.030	6.452	6.904	7.387	7.904	8.457	9.049	9.683	10.361	66.197
Enhance **	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.750	0.750	0.750	4.750
DDI-Oper.***	6.517	6.950	6.952	7.404	7.887	8.404	8.957	9.799	10.433	11.111	71.767
FFP	4.737	5.049	4.972	5.294	5.638	6.007	6.401	7.010	7.462	7.944	51.466
State Share	1.780	1.901	4.972	7.148	7.480	7.830	8.196	8.581	8.985	9.409	20.301
Savings	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

* DDI = DDI One Time
** Enhance = Enhancement
*** DDI-Oper. = Total DDI & Operations
**** In all cases the length of the MMIS Contract is assumed to be eight years. The intended life of this contract is FY98 though FY05. Because eight years is assumed to begin with the new fiscal agent contract cost covers different years on this table. The totals are for the applicable fiscal years for each particular option, but not the same fiscal years throughout. For comparison purpose we have assumed that the eight years are the same for all fiscal years.

OPTIONAL ALTERNATIVES
The potential benefits of implementing the two other alternatives are expected to be of four types:

- Savings in program expenditures
- Reduction in administrative costs
- Other non-quantifiable benefits
- Enhanced federal financial participation

Alternative 1 - Implementation of new MMIS

Alternative 2 - Take over of existing MMIS

Both approaches could result in savings in program expenditures in a number of areas:
. Reduction in overpayments made from Medicaid services through more comprehensive prepayment edits and audits
. Improvement of control over utilization of medical services through implementation of a Drug Utilization Review Subsystem (DURS)
. Reduction of Medicaid Quality Control (MQC) error rates through improved claims processing
. Improved program management resulting from more flexible reporting capabilities
. Improvement of recipient eligibility verification through a more timely interface with the Eligibility Information System (EIS)
. Real time adjudication is possible under Alternative 1 but not under Alternative 2.

There are a number of enhancements worth considering. Some are listed below with the expected savings in parentheses.
1. DURS - drug utilization review system is a required enhancement. A prospective DURS might save as much as 2% of the state's pharmacy costs. ($200,000 per year)
2. Point of Sale - allows for prospective utilization review. This is primarily of benefit to the provider community but should reduce denied claims and providers inquiries by 2%. ($20,000 per year)
3. Laser Disc Storage - eliminates the need for microfilmed claims and aids in provider correspondence. Allows for quicker retrieval of documents and cleaner copies. Should reduce staff time for suspended claim resolution, provider inquires, appeals, audit, and research by 7%.
4. Scanning of Provider Invoices - avoids input errors and reduces data entry staffing needs. This technology demands providers submit clean claims so may only represents a 1% or 2 % reduction in data entry costs.
5. Scanning Networking which allows providers to use microcomputer to review the status of their claims. May reduce need for additional provider relations staff. The real advantage will be for other divisions and agencies such as CSED & Fraud.
6. Electronic Transfer of Funds - a benefit to providers.

7. Electronic Transfer of Remittance Advices - a benefit to providers.
8. Expand on line claims history to 36 months which will reduce staff research time for third party recovery, suspended claims resolution, audit, fraud, medical review, case management 7% of staff time.
9. Expand AD HOC reporting capability so that staff can perform claims records or special reports with minimal training. Should increase staff productivity by 5% .
10. Benefit or eligibility card issuance by the MMIS which would increases the federal participation for this process from the current 50% in EIS to 75%. ($60,000 per year)
11. Use of "smart " cards or "magnetic swipe" cards. By using one of these cards the state can reduce its monthly mailing and handling costs. In addition the eligibility verification process may be simplified and improved ($50,000 per year in program savings and $10,000 per in handling and processing costs.)
12. Real-time on-line adjudication may be possible. This is a major enhancement which could increase provider satisfaction and participation. This capability basically allows "point of sale" and immediate adjudication of the claim.
13. Photo Identification cards if cost effective. May reduce fraud and abuse. ($10,000 per year)
14. Expanded use of the "UPIN". May reduce processing errors for Medicare crossover claims. ($10,000 per year)
15. Automate the updates for the ICD-9 Procedure and Diagnosis Files.
16. Greater on-line user help screens and on-line detail design. (2% savings in staff time)
17. Increased flexibility in moving from screen to screen within the system. This would reduce staff time for prior authorization, suspended claims resolution. (1% of staff costs)
18. Adoption of ANSI standards for electronic benefit transfer and electronic data interchange governing claims submission. This would reduce administrative expense and allow for 2, 6, 7, 11 & 12. (3% of administrative costs)
19. Audio-Visual Training Aides for staff and provider training.
20. Expand search criteria for pended and adjudicated claims history, (5% of staff costs)
21. Automated TPL subsystem for Pay & Chase and Cost Avoidance. (Increase recoveries by 4% and reduce staff time by 1 %)
22. Increase timely interface with EIS to allow for day specific eligibility. This is necessary if 2, 11, & 12 are to be accomplished.
23. Increase number of data matches for third party recoveries. (Increase recoveries by 2%)
24. Automate tracking system for drug rebates. (This should improve timely collections by 10 %)

Non-Quantifiable Benefits include:

- Advantages of fiscal agent competition
- Enhanced State control and understanding of the MMIS
- Security of State ownership of the system
- Contractor familiarity with system operation

PROPOSED SCHEDULE

	Scheduled Start	**Scheduled Finish**
Procure TAC	October 1999	November 1999
Develop System Requirements	December 1999	March 2000
Developed Draft RFP	April 2000	April 2000
Release Draft RFP	May 2000	May 2000
Release Final RFP	June 2000	June 2000
Bid Development	June 2000	August 2000
PEC Evaluations	September 2000	November 2000

Award Contract	December 2000	December 2000
HCFA Approval	December 2000	December 2000
Contract Signing	December 2000	December 2000
Design, Development and Implementation Effort	January 2001	September 2002
Acceptance Testing	October 2002	December 2002
MMIS Implementation	January 1, 2003	

New Project – TIC/TAC Review Questions

1. Has this project been previously approved by TIC/TAC? If yes, and there are no significant changes to funding amounts or technologies there is no need to continue with these questions.
No

2. What is the purpose of the project?
The design, development, modification and implementation of a new Medicaid Management Information System (MMIS). The new system will be a more flexible, responsive and automated, claims processing and information retrieval system to enhance Alaska's Medical Assistance program management, claims processing and federal and state reporting.

2. Is this a new systems development project?
Yes.
Upgrade or enhancement to existing department capabilities?
Yes.

3. Specifically, what hardware, software, consulting services, or other items will be purchased with this expenditure?
Technical assistance services to do a cost benefit analysis, guide the state through the the production of the RFP and monitor the actual contractor's design, development and implementation activities. Secondly, the acutal contractor to do the work of designing, developing and implementing the new MMIS. Lastly, the contractor would implement and operate the MMIS as the state's fiscal agent in the processing and payment of medical claims.

5. How will service to the public measurably improve if this project is funded?
The new MMIS will be a more flexible and responsive automated claims processing and information retrieval system, which will enhance the state's program management, claims processing and reporting capabilities. Although the current MMIS was implemented in May 1988, it is based on a 1970's federal general system design that provides very limited flexibility to accommodate significant upgrades or enhancements.

Additionally, the current system is difficult for users to access information, captures less than optimal claims data to support alternative pricing and expanded edit/audit control, is costly to modify, does not support on-line real time claims adjudication and provides limited, inefficient and costly reporting of data.

Potential for reduced operating costs due to competitive procurement of newer technology.

Federal government funds the enhancements to Alaska's Medicaid claims payment system at 90% rather than the regular Medicaid administration of 50% participation.

6. How does the project fit into the long-range technology plans for your department and the technology goals of the Knowles/Ulmer administration? (They are: Improve public access to information; Maximize service to the public through voice, video and data systems; Optimize government efficiencies; Explore innovating and cost-effective services that meet Alaska's challenges; Stimulate the development of private and public services.)

It fits very well into several of the administration's long-range goals: specifically, the maximize service to the public through data systems, optimize government efficiencies, and explore innovating and cost effective services meeting Alaska's challenges.

7. Does project affect the way in which other public agencies will conduct their business?
No

8. What are the potential out-year cost implications if this project is approved? (Bandwidth requirements, etc.)
Approval of this project will not significantly impact the state's wide area network nor will it impact the state's mainframe computers. Without having done the cost benefit study and the procurement it is difficult to at this time quantify any additional costs resulting from the approval of this request.

9. What will happen if the project is not approved?
The current MMIS will become increasingly inefficient and costly to operate and modify to keep pace with Alaska's changing health care delivery environment. Indeed some changes such as the electronic claim formats which meet the federal "Electronic Data Interchange" requirements will not be totally achievable within the current system without very costly modification.

The following addresses the two questions raised by the TIC in reviewing the Division's FY01 Medicaid Management Information System (MMIS) capital request. The two questions concerned the need for and timing of the funding request. Specifically, we were asked to respond to:

A. What is the state of crisis to fund this request this year?, and
B. If the request is not funded;
    1. What is the cost to the State?
    2. What are the consequences of phased funding of this request?

There are two general responses to these questions: federal requirements for federal financial participation (FFP) in the project and the risk assessment of the current system. It is both the federal requirements for MMIS certification and the age of the current system and that create the need to fund this request this Legislative Session.

Specifically the federal rules for the receipt of enhanced federal funding participation require that the Health Care Financing Administration (HCFA) prior approve the;
1. Advance Planning Document (42CFR433.112) (3months), Request for Proposals (RFP) (six months), and the Contract Award for a mechanized claims processing and information retrieval system (24 months).
2. As a part of the Advanced Planning Requirements the State must certify that it has available the funding to complete the project.

For the system to be operational by end of the current contract period, December 31, 2002, funding will need to be available no later than December 31, 2000 or 24 months before implementation of the new or transfer MMIS. Current Federal guidelines recommend States estimate 24 months between the time the contract is awarded and the implementation of the new system. The coming 2000 Legislative session is the only available session within this schedule to achieve funding availability. The following displays the schedule of major milestones in the procurement and implementation of the new MMIS.

State Advanced Planning Document	November & December 1999
Technical Assistance Contractor RFP	January 2, 2000
HCFA Approval	February 2000
Award Technical Assistance Contract	March 1, 2000
Develop RFP for new MMIS	January -June ,2000
HCFA Approval	June 2000
Issue MMIS RFP	July 1, 2000
Pre-Proposal Conference	Fall 2000
Receive Letter of Intent to Bid (Mandatory)	Fall 2000
Deadline for Submission of Questions	Fall 2000
Proposal Due Date	Fall 2000

Proposal Opening Date	Fall 2000
Oral Presentations	Fall 2000
Proposal Evaluation Committee Completes Evaluation	Fall 2000
State Issues Notice of Intent to Award Contract	December 1, 2000
Obtain HCFA Approval for the Award	November 15, 2000
Award Contract	December 31, 2000
Contract Start Date	January 1, 2001
Design Development and Implementation Phase Begins	January 1, 2001
Operations Phase Begins	December 31, 2002

There are basically four alternatives available to Alaska for the MMIS.
· Alternative 1- Issue a contract for a Take-Over of the existing MMIS system and Fiscal Agent Services.
· Alternative 2 - Transfer in another State's Certified MMIS for modification and operation by State personnel and on the State's mainframe.
· Alternative 3 - Transfer in another State's Certified MMIS for modification and operation by a Fiscal Agent.
· Alternative 4 - Develop a unique MMIS specific to Alaska's health delivery goals to be operated by the state or a fiscal agent.

The alternatives available to the state have never been better. Several small States have recently developed MMIS using combinations of more current hardware and software, Idaho, Colorado and Maine to name just three transfer systems. Each of these systems has had a trial period to work out problems. The three represent the work of three separate vendors. If one includes the system presently in development by First Health for the State of Virginia, the market looks very good for the purchaser in that several competitive products are available for modification and transfer to Alaska. The alternatives 2, 3 & 4 could take a minimum of 18 to 24 months to implement.

Alaska's last MMIS procurement effort ended in failure because of a lack of competitive responses. The Division received only one proposal and that bid was deemed too expensive. In August 1997 the Division decided not to accept the one bid but rather to modify the current MMIS to become Y2K compliant. Once the system was compliant, the Division would again look at the market and evaluate its alternatives. The Division completed Y2K remediation of the MMIS in September 1999.

In addition to the time necessary to procure a new MMIS, the December 31, 2002 extension date for the current contract and the resulting implementation date for the new system were selected because of the age of the current system. The current Alaska MMIS was imported with modification by First Health Services Corporation (then known as The Computer Company, TCC) in 1987 from the State of Tennessee where it had been in operations since early 1985. The base system was actually programmed by TCC in 1972 for the State of Virginia where it had been in operation until the transfer to Tennessee. Much of the original COBOL programming remains in Alaska's MMIS. While First Health Services Corp. guarantees that Alaska's MMIS will continue to run throughout the next decade we doubt that other vendors would accept the same risk with a Take-Over of the Alaska MMIS alternative. This restricts Alaska's alternatives to continuing the current fiscal agent contract until a replacement system is implemented.

The Department needs a competitive procurement of the current Fiscal Agent contract. The current contract has been in effect since April of 1987. While HCFA has approved all of the contract extension amendments, they can not be expected to do so indefinitely. This is especially so given the federal government's financial participation in the operational costs of the MMIS. The federal government reimburses Alaska for 59.8% of the Medicaid program costs and 75% of administrative costs associated with the processing of medical claims. Without a federally certified MMIS federal participation would drop to 50% for the administrative costs to process claims. Annually, Alaska expends approximately $8 million for this contract. The loss of $2 million in federal financial participation and its replacement with state general funds would be devastating to the State's goals and objectives for the Medicaid program.

Additionally, the choices made by First Health in the Y2K project have increased the risks that the MMIS will require additional remediation the longer it remains in use. For example, First Health maintains that it is not necessary to replace the original COBOL programming, expand the date fields in the files or implement a new CICS operating system version. First Health's estimate to modify all the COBOL language to the most current version was between $1 and $2 million dollars. First Health has accepted the risks of their choices with the current system. While First Health has guaranteed to continue to operate and maintain the current system the maintenance effort is expected to grow. As it grows, its programming resource needs will compete with and take precedence over Medicaid program changes such as new

reimbursement methodologies, cost containment activities, and non-critical error corrections etc. To avoid those risks Alaska must procure a new MMIS or continue to extend the current MMIS contract with the consequent increased operational costs and inefficiencies.

In the 1997 RFP, the Division asked vendors to consider a phased reimbursement for development and implementation costs of their proposed MMIS. The lack of positive responses clearly reflects their opinion on the matter. As a matter of fact, the one proposal received requested payment up-front before incurring costs or demonstrating successful implementation. The Department elected not to make an award under those circumstances. I do not think vendors will accept a phased reimbursement plan that did not included at least 75% of the development bid being reimbursed during the development period. In that situation, the Division would look for at least 25% of the development bid to be withheld pending Federal Certification of the MMIS and successful implementation and operation.

I have attached a table and two graphs at the end of this memorandum. Table 1 shows the number of eligibles, recipients, providers, claims and other Medicaid statistics for the period FY95 through FY99.
Graph 1 displays the number of claims documents processed and Graph 2 the average weekly expenditures through the MMIS since it was installed in May of 1988.

Medicaid Statistics: FY95 - FY99

	FY 95	% Change (FY95 to FY96)	FY 96	% Change (FY96 - FY97)	FY 97	% Change (FY97 - FY98)	FY 98	% Change (FY98 - FY99)	FY 99
Eligibles	86.4	0.8%	87.2	0.9%	88.0	0.3%	88.2	7.1%	94.5
Recipients	69.7	-0.2%	69.6	2.3%	71.2	3.8%	73.9	8.0%	79.8
% of Eligibles Participating	80.7%	-1.0%	79.9%	1.3%	80.9%	3.5%	83.7%	0.8%	84.4%

Cost Per

Recipient	$3.7	9.0%	$4.0	1.5%	$4.1	6.7%	$4.3	9.1%	$4.7
Cost per Eligible	$3.0	7.9%	$3.2	2.9%	$3.3	10.4%	$3.6	10.0%	$4.0
Providers Participating	2.9	8.0%	3.1	7.0%	3.3	6.3%	3.5	6.8%	3.8
Payment Per Participating Provider	$89.0	0.7%	89.6	-3.0%	87.0	4.1%	90.6	10.3%	99.9
Total Reimbursement for Claims Paid	$257,071.9	8.7%	$279,559.0	3.8%	$290,250.3	10.7%	$321,244.4	17.8%	$378,451.8
Claim Lines Processed	2,068.0	10.7%	2,289.2	8.3%	2,478.3	9.5%	2,714.8	13.9%	3,091.5
Paid Claim Lines	1,807.1	6.1%	1,918.0	8.9%	2,088.2	8.0%	2,255.4	10.5%	2,492.8
Processed Claim Lines Paid	87.4%	-4.1%	83.8%	0.6%	84.3%	-1.4%	83.1%	-2.9%	80.6%
Payment Per Paid Claim	$142.26	2.5%	$145.76	-4.6%	$139.00	2.5%	$142.44	6.6%	$151.82
Paid Claims Per Recipient	25.9	6.3%	27.6	6.5%	29.3	4.1%	30.5	2.3%	31.2
Paid Claims Per Participating Provider	625.9	-1.8%	614.9	1.8%	625.8	1.6%	635.9	3.5%	658.3