



## CALIFORNIA TECHNOLOGY AGENCY

Christy Quinlan  
Acting Secretary of California Technology Agency

March 10, 2011

Senator Mark Leno  
Chair  
Joint Legislative Budget Committee  
1020 N St. Room 553  
Sacramento, CA 95814

Dear Senator Leno:

### **California Medicaid Management Information System Project Report**

Senate Bill 853 (Chapter 717, Statutes of 2010) subjects the California Medicaid Management Information System (CA-MMIS) to the reviews and recommendations of the California Technology Agency (Technology Agency), and requires the Technology Agency to submit a copy of its reviews and recommendations to the Joint Legislative Budget Committee. The Technology Agency respectfully submits this report, documenting our review of the CA-MMIS project through February 28, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Christy Quinlan".

Christy Quinlan  
Acting Secretary  
California Technology Agency

AA: km  
Project No. 4260-200  
Log No. 474

cc: On following page

cc: Assemblymember Robert Blumenfield, Chair, Assembly Budget Committee  
Assemblymember James Nielsen, Vice Chair, Assembly Budget Committee  
Senator Robert Huff, Vice Chair, Senate Budget and Fiscal Review Committee  
Ms. Keely Bosler, Staff Director, Senate Budget and Fiscal Review Committee  
Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee  
Mr. Paul Benedetto, Acting Agency Information Officer, Health and Human Services  
Agency  
Mr. Toby Douglas, Director, Department of Health Care Services  
Mr. Chris Cruz, Chief Information Officer, Department of Health Care Services  
Ms. Vicky Sady, Project Director, CA-MMIS Project, Department of Health Care  
Services  
Mr. Adrian Farley, Chief Technology Officer, California Technology Agency  
Ms. Erika Li, Principal Fiscal and Policy Analyst, Legislative Analyst's Office  
Mr. James Butler, Deputy Director, Procurement Division, Department of General  
Services  
Mr. Richard Gillihan, Chief, Office of Information Technology Operations and  
Consulting, Department of Finance  
Ms. Susan Davis-James, Chief, Information Technology Consulting Unit,  
Department of Finance  
Mr. Jonathon Wunderlich, Principal Program Budget Analyst, Department of Finance

**California Technology Agency**

# **Review of the California Medicaid Management Information System**

**March 1, 2011**

## CA-MMIS Review

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## CA-MMIS Review

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## Executive Summary

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Senate Bill (SB) 853 (Chapter 717, Statutes of 2010) and SB 856 (Chapter 719, Statutes of 2010), extends the California Technology Agency's (Technology Agency) oversight authority to the California Medicaid Management Information System (CA-MMIS) project. As such, the CA-MMIS is subject to the Technology Agency's project oversight activities provided to all IT projects under its authority, including, but not limited to review of and consulting on project documents, governance, strategies, and resources associated with successful project management as well as the requirements of the California Project Management Methodology (CA-PMM) and the Information Technology Project Oversight Framework (Framework).

Generally, SB 856 extends the Technology Agency's existing authority and responsibility to service contracts that include an information technology component, such as the CA-MMIS takeover and replacement efforts within the fiscal intermediary contract. Specifically, SB 853 extends the Technology Agency's review and oversight role to the CA-MMIS project. Furthermore, SB 853 subjects the CA-MMIS to the reviews and recommendations of the Technology Agency. The Technology Agency shall submit a copy of its reviews and recommendations to the Joint Legislative Budget Committee. In conducting its review the Technology Agency shall consult with the department to review project governance and management framework to ensure that it is best designed for success and serve as a resource throughout the project implementation. This report documents the Technology Agency's review and recommendations for the period ending February 28, 2011.

The CA-MMIS project schedule for completion of the first phase, Takeover and eventually full Assumption of Operations (AOO), has been extended. The Technology Agency identified issues and provided recommendations for improvement to provide the project the best chance for success. These issues, mitigation steps taken and status are provided herein. Currently, the department is working towards implementing many recommendations and is progressing in a positive direction.

In accordance with SB 853 and SB 856, the department has actively been following the CA-PMM guidelines, since the enactment of this legislation in November 2010. The department's executive staff has been, and continues to be actively engaged in the CA-MMIS projects, enabling issues to be solved and decisions to be made quickly.

# Findings

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As is common with projects of this size and complexity, the project faced challenges with project management processes, resources, planning, and scheduling. Specifically, the challenges and delays surrounding the CA-MMIS project are primarily attributable to four key factors.

- Inadequate planning
- Schedule deficiencies
- Project management methodology and process deficiencies
- Resource challenges

These key factors were concurrently identified by the Independent Project Oversight (IPO) and Independent Verification and Validation (IV&V) consultants further substantiating and confirming the Technology Agency findings.

## Inadequate Planning

- **Change in Requirements:** The Technology Agency requires all IT projects to follow a specific format to identify and document the requirements in a Feasibility Study Report (FSR) and subsequently, this information is used in the Request for Proposal (RFP). This type of detail was not part of the CA-MMIS Service Contract Fiscal Intermediary (FI) RFP. Originally, this project was a service contract and not subject to standardized IT project requirements. Therefore, in lieu of an FSR the department issued a Planning Advance Planning Document (PAPD) in accordance with Federal Regulations 45 CFR 92.36, 45 CFR 95 and the State Medicaid Manual Part 11 to request Federal Financial Participation (FFP) from the Centers for Medicare and Medicaid Services (CMS). The FFP is requested for re-procurement activities related to Medicaid Medical FI services and the takeover of CA-MMIS. This PAPD was developed as a guide and plan of action for the planning and development of the RFP for the re-procurement of the California Medicaid claims processing fiscal intermediary services, and made available to all potential vendors. The components of the PAPD and subsequent Implementation Advance Planning document (IAPD) are comparable to the requirements in an FSR.
- **→Mitigation and Status:** As a result of the recent legislation extending the Technology Agency's review and oversight role to the CA-MMIS, the Technology Agency recommended the project adopt and adhere to the State's requirements for all IT projects. Currently, the project is classified as an IT project and being monitored as part of the State's IT project portfolio. The Department of Health Care

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Services (DHCS) has adopted the Technology Agency's requirements for an IT project. Furthermore, the vendor has delivered a draft requirements mapping document that is currently under review by the DHCS.

- **Unexpected procurement activities:** During the Takeover process, Affiliated Computer Services (ACS) discovered additional servers they believe were omitted and/or misclassified in the Department's data library. These discoveries subsequently resulted in the need to account for an additional 97 servers. This caused additional pressure for the project staff to install the servers in addition to other planned workload.

→**Mitigation and Status:** The DHCS developed a mitigation plan to expedite the procurement, installation and testing process to minimize the time necessary to have the servers ready for use. The DHCS has followed through and in addition, documented processes and lessons learned to minimize exposure. Responding to the hardware gap, ACS secured the necessary number of servers required to replicate the existing infrastructure.

**Aggressive timelines:** The timelines listed in the Statement of Work (SOW) are very aggressive for a new vendor to replicate a 30 year old legacy system that has been handled by the incumbent vendor for more than 20 years. The dependencies and timeframes identified in ACS original schedule (submitted in the narrative technical proposal) assumed availability of all CA-MMIS documentation, including mainframe applications/data mid-range systems, Source Code and Security rules (considered by the incumbent as proprietary), as well as other CA-MMIS related data, applications, codes, scripts and rules. Since CA-MMIS currently resides in a leveraged system environment, unlimited access to this environment was not feasible. Intellectual property used for other non-CA-MMIS related business was protected by the incumbent. For example, complete ACF-2 security rules used in the leveraged environment were not available to ACS as they contained references to business rules for non-CA-MMIS customers. Even though the contractor bid on the RFP and committed to meeting the schedule, our concerns have materialized. The current proposed schedule shows AOO occurring eight months later than the date stipulated in the SOW.

→**Mitigation and Status:** Recognizing the contractual timelines were aggressive, the DHCS is holding the vendor to their contractual obligation to provide complete project deliverables and meet project milestones in compliance with the statement of work; anything less should not be accepted. To date, the DHCS is requiring the vendor to meet the requirements defined in the SOW. In accordance with the

## CA-MMIS Review

payment provisions of the FI Contract, ACS has not received payments for work performed.

### Schedule Deficiencies

- **Lack of a schedule:** A schedule is a fundamental necessity in managing a project. Given the size of this project, a schedule is a critical part of managing it. A master schedule incorporating dependencies and identifying critical paths was due from the contractor one week after the contract effective date of May 1, 2010. It is expected that this complete schedule will be delivered at the end of February 2011. Without a schedule, it proves difficult to determine if a project is on-track in meeting their milestones to ensure success in a timely and efficient manner.
- **Proposed schedule lacked standard System Development Life Cycle activities (i.e. requirements document, functional requirements, technical requirements, testing approach plan):** The latest ACS submitted schedule is not fully resource loaded nor does it contain a critical path. There are essential sub-group schedules that are incorrectly listed as not affecting the critical path. In other words, this schedule gives the impression that if essential tasks are delayed or even not performed at all, that they will not impact the project. This is incorrect and ACS needs to comply with the SOW and provide an acceptable schedule. The current proposed schedule is incomplete and does not meet the requirement of a schedule based on the SOW.
- **→Mitigation and Status:** Responding to concerns identified by multiple parties including the Technology Agency, IV&V, IPO and the Project, DHCS is holding the vendor to their contractual obligation to provide complete project deliverables and meet project milestones in compliance with the statement of work; anything less should not be accepted. The schedule to date now incorporates all of the known risks and issues that were impeding progress. DHCS continues to require the vendor to meet the requirements defined in the statement of work. In accordance with the payment provisions of the FI Contract, ACS has not been paid for work performed. In addition, the DHCS is requiring ACS to fully integrate the dependent tasks from the HP Turnover schedule into the Takeover project schedule, to monitor impacts to the critical path.

### Project management methodology and process deficiencies

Project management methodologies are the basic fundamental framework necessary to ensure a project is properly managed. The Technology Agency has required that all IT

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projects follow the CA-PMM, the state's standard methodology for IT project management per IT Policy Letter 09-01.

- **DHCS does not have a project manager for this project:** Due to recent retirements, staff attrition and hiring freezes the department is in a transitional state, resulting in a lack of a state project manager to ensure all requirements are documented and deliverables executed. The DHCS is currently in the process of hiring a state project manager. State Domain Leads have been assigned to each workgroup and provide oversight of the requirements for their area of responsibility. In addition, the DHCS hired the Aeon Group to provide Certified Project Management oversight for the CA-MMIS Project beginning in November 2009, as specified in the PAPD and IAPD. In addition, the DHCS has provisions in Exhibit E stating the Contractor shall adhere to the State CIO PMO and PMI practice standards.
- **Project Management Plans not fully utilized:** Comparison of all submitted schedules (none formally accepted) and project status updates indicate that the project was neither managing to nor updating their Project Management Plans. Project Management Plans are only good when being used.  
→**Mitigation and Status:** The Technology Agency in conjunction with DHCS recognized the need to adopt and adhere to the state's IT project management methodology and framework. To date, the project has adopted the CA-PMM, hired a project director, and is currently in the process of hiring a state project manager as defined in the adopted CA-MMIS Budget Change Proposal for 2010/11. Furthermore, as required of all state IT projects, the DHCS will submit Project Status Reports, Independent Project Oversight Reports, IV&V Reports, updated Project Schedule, and IT Project Cost Tracking Reports to the Technology Agency each month, as well as participate in ongoing Project Status Meetings. Based on the changes, the vendor is in a position to finalize the contractually acceptable schedule. The project needs a contractually acceptable schedule, needs to manage to the tasks, and dates in the schedule.
- **Communication is not being freely shared from the workgroups up to project executives:** This has resulted in risks and issues not being communicated to upper management. In addition, staff in the workgroups has not been as productive due to lack of clear direction.
- →**Mitigation and Status:** The Technology Agency recommended changes to the project's governance structure that more aligned with the State's IT project methodology, for a project of this size and complexity. In addition, the project has implemented changes in the project governance which will help the communication

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throughout the project workgroups. Based on the changes, the DHCS should be a position to manage the IT Project.

### Staffing resource challenges

- **Many resources have left HP for ACS:** There are risks with HP continuing existing Medi-Cal operations and providing expertise during the Takeover. In addition, the delay in the project will result in negotiating a sole source contract extension with HP to continue the FI services until ACS completes the Takeover.
- **→Recommendation and Status:** The Technology Agency in partnership with DHCS recommended the project schedule include loaded and allocated resources. This is necessary to determine the span of competing resources priorities. A job sharing plan has been implemented to address the resource challenges. The project is currently reviewing the recently submitted draft schedule.
- **ACS did not provide the proper staffing to handle the Takeover:** There were key assumptions that were not realized that added to the complexity of the Takeover. ACS has identified the level of additional staffing and has been hiring HP staff through a coordinated process established between ACS and HP early in the Takeover phase, assigning additional staff from within ACS, local hiring of qualified staff, and adding contractor resources. ACS has been providing on a bi-weekly basis hiring information, both planned and actual, focused on the Takeover schedule. Additionally, ACS' HIPAA resources are committed to both this project and the HIPAA 2 project simultaneously, which is causing resource constraints and will impact one or both of the projects.  
  
**→Mitigation and Status:** The Technology Agency in conjunction with DHCS recommended that ACS perform a resource assessment on both projects and develop a mitigation plan. Certain ACS staff (e.g. project director and project manager) have been replaced to enhance the competency required for this Takeover. The staffing changes appear to be having a positive impact. HP and ACS have started a pilot to job share experienced staff to provide the expertise to both vendors. The resource assessment on both projects is underway.
- **DHCS has endured staffing challenges in ensuring there are enough dedicated resources to manage the project:** DHCS is actively adding dedicated resources (e.g. announcement is out to hire a project manager).
- **→Mitigation and Status:** Technology Agency recommended that the DHCS approach and resource the state interest in the CA-MMIS as an IT Project not a

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service contract. As such, it should be staffed with the appropriate dedicated resources necessary to support an IT project of its size and complexity. The project understands the risk related to staffing. The DHCS has added staff to the project. The DHCS is waiting for ACS' resource assessment.

## Summary / Conclusion

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The CA-MMIS project has been challenged to date with an acceptable project plan, governance structure and staffing resources. In addition, there was an early lack of adherence to project management processes. Despite these setbacks and future risks, the Technology Agency believes the project is at a point where there is positive progress being made.

Based on our review of project documents, attending all levels of work group and executive meetings, interviews with vendor and project executive staff, the Technology Agency recommended the following to the CA-MMIS project:

- In accordance with SB 853 and SB 856, the project is now classified as a reportable IT project. Therefore, the project is subject to the oversight from the Technology Agency and is required provide status reports on a regular basis.
- The project will use the CA-PMM, which is the state's standard methodology for IT project management (IT Policy Letter 09-01). Implementation of IT project management standards will allow a better chance of successful completion during the CA-MMIS Takeover and Turnover.
- The Technology Agency recommends more extensive and frequent project status reporting information about project performance to the date of work performed.
- IV&V in addition to IPO should be reporting on the risks and contractual deficiencies within the project. Historically speaking the IPO and IV&V have not effectively identified their findings as deficiencies to the contractual obligations to which there are consequences. The IPO and IV&V have begun to take action to identify the deficiency in vendor deliverables as illustrated in the "IPOC Takeover Project Schedule Review Findings" Report.
- The Technology Agency requests to review project deliverables and incorporate specific recommendations (i.e. schedule comments, letters, etc) to project documents.

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The project has implemented the following changes:

- Hired a project director familiar with CA-PMM,
- Actively recruiting a project manager,
- Strengthened the project governance structure,
- Notified the vendor of the project schedule deficiencies,
- Enforcing that IV&V and IPOC are to report on contractual deficiencies of vendor deliverables.

## Background

In July 1965, an amendment of the Social Security Act, Title XIX, established the state-option medical assistance program known as Medicaid which provided matching federal funds for states to implement a single, comprehensive medical care program. Medi-Cal, California's version of the Medicaid program provides comprehensive health care services for eligible individuals and families which are delivered by private and public health care providers throughout the state. With a budget approaching \$40 billion annually, the Medi-Cal program serves nearly 7.5 million Californians each year. As the single Medi-Cal program administrator, the DHCS is the single largest purchaser of health care in California.

Since 1966, the Medi-Cal program claims payment activities have been performed under a contract with fiscal intermediaries (FI). These activities include but are not limited to provider related operations, claims adjudication operations, telephone services center operations, provider publications media and distribution, quality management, security and confidentiality and maintenance and operation of the CA-MMIS system.

The DHCS, as part of the Health and Human Services Agency, is the single state department responsible for administering and managing the Medi-Cal program. Within the DHCS, the Fiscal Intermediary and Contracts Oversight Division (FICOD) is where day-to-day contract oversight and management of fiscal intermediary services occur. FICOD ensures that FI contractors meet performance standards.

In 2002, the HP (formerly EDS) won the FI contract to takeover, operate and enhance the existing CA-MMIS system. This contract will expire in June 2011. In 2008, the DHCS initiated a competitive bid process to select a new FI contractor. In 2010, the DHCS FICOD awarded an FI contract to ACS to assume responsibility for the operation

## CA-MMIS Review

of the existing CA-MMIS. Concurrently, the FI contractor will design, develop and implement a Replacement CA-MMIS. Finally, the FI contractor will transition to the Replacement CA-MMIS. The expected duration for this project is five years after contract effective date (May 1, 2010). The CA-MMIS contract states the Takeover Phase/AOO Phase is to be completed in nine months and includes:

- Complete Takeover of the CA-MMIS applications and operational activities (as specified in Exhibit A, Attachment 1-Takeover, Section 3).
- Implement the 15 Expansion Items (as specified in Exhibit A, Attachment 1-Takeover, Section 2).

## CA-MMIS Review

### CA-MMIS Project Chronology

<b>Project Phase</b>	<b>Contract Milestone/Deliverable</b>	<b>Contract Due Date</b>	<b>When It Occurred</b>
Takeover Project Management Plans & Other Administrative Plans	A.1 Deliver Takeover Project Schedule	May 8, 2010	Draft received January 4, 2011
	A.8 Update Enhancements Project Plan	May 15, 2010	July 7, 2010
	A.6 Submit plan for CA-MMIS AOO for approval	August 1, 2010	March 21, 2011 proposed
Facilities Acquisition & Installation	B.3 Sacramento Facility Operable	January 15, 2011	January 12, 2011
	B.6 Occupy Medi-Cal Field Offices	February 1, 2011	September 30, 2011 proposed
Hardware and Equipment Acquisition & Installation	C.2 Install system test equipment	July 1, 2010	April 11, 2011 proposed
	C.3 Install acceptance test equipment	October 1, 2010	September 19, 2011 proposed
	C.4 Install all other FI equipment	January 15, 2011	September 16, 2011 proposed
	C.5 Install DHCS equipment	February 1, 2011	October 14, 2011 proposed
Software Installation	D.4 Install system software	July 1, 2010	June 30, 2011 proposed
	D.5 CA-MMIS system software	August 1, 2010	April 5, 2011 proposed
	D.6 Non-mainframe system software	August 1, 2010	June 16, 2011 proposed
	D.9 Additional applications software	September 1, 2010	May 3, 2011 proposed
Testing	V.2 Complete system testing & certify system	October 15, 2010	July 24, 2011 proposed
Assumption of Operations	Z.1 All claims transitioned	February 1, 2011	September 30, 2011 proposed
Takeover Completion	AA.3 Successful operation of full CA-MMIS for four consecutive months	June 1, 2011	January 31, 2012 proposed
HP contract expiration		June 30, 2011	HP contract extension*

\* The current contract with HP expires on June 30, 2011. In order to assure uninterrupted operations of CA-MMIS during the delay in transition from HP to ACS, the DHCS will enter into a 12-month non-competitive bid contract extension with HP. The DHCS is working with both contractors to assess the amount and allocation of the additional costs associated with this extension.