COMMONWEALTH of VIRGINIA
Department of Medical Assistance Services

October 1, 2017

MEMORANDUM

TO: The Honorable Thomas K. Norment, Jr.
Co-Chairman, Senate Finance Committee

The Honorable Emmett W. Hanger, Jr.
Co-Chairman, Senate Finance Committee

The Honorable S. Chris Jones
Chairman, House Appropriations Committee

Daniel Timberlake
Director, Department of Planning and Budget

FROM: Cynthia B. Jones
Director, Virginia Department of Medical Assistance Services

SUBJECT: Report on the Replacement of the Medicaid Management Information System

The 2017 Appropriation Act, Chapter 836, 310 L, states:

1. Out of this appropriation, $4,635,000 the first year and $5,835,000 the second year from the general fund and $41,715,000 the first year and $52,515,000 the second year from non-general funds shall be provided to replace the Medicaid Management Information System.

2. Within 30 days of awarding a contract or contracts related to the replacement project, the Department of Medical Assistance Services shall provide the Chairmen of the House Appropriations and Senate Finance Committees, and the Director, Department of Planning and Budget, with a copy of the contract including costs.

3. Beginning July 1, 2016, the Department of Medical Assistance Services shall provide annual progress reports that must include a current project summary, implementation status, accounting of project expenditures and future milestones. All reports shall be submitted to the Chairmen of House Appropriations and Senate Finance Committees, and Director, Department of Planning and Budget.

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

CBJ/

Enclosure

pc: The Honorable William A. Hazel, Jr., MD, Secretary of Health and Human Resources

Annual Report on the Replacement of the Medicaid Management Information System

A Report to the Virginia General Assembly

October 1, 2017

Report Mandate:

Chapter 836, Item 310 L of the 2017 Appropriation Act, states, *"Beginning July 1, 2016, the Department of Medical Assistance Services shall provide annual progress reports that must include a current project summary, implementation status, accounting of project expenditures and future milestones. All reports shall be submitted to the Chairmen of House Appropriations and Senate Finance Committees, and Director, Department of Planning and Budget."*

Background

The Department of Medical Assistance Services (DMAS) is replacing its Medicaid Management Information System (MMIS) with a Medicaid Enterprise System (MES). As regulations have increased since the initial implementation of the MMIS, the system has become defined by several significant constraints, including: (1) a general lack of development agility; (2) increasing operational costs; and, (3) growing consumption of technical resources necessary to update this dated systems platform. At the same time, demands for new programs and services have increased. Virginia citizens expect more accessibility to these services and to the information related to obtaining the services. Consequently, it is DMAS' desire to establish mutually beneficial partnerships with business-driven, healthcare technology leaders to transition to a more modern Medicaid Business and Technical environment.

In 2016, DMAS began the procurement process to solicit proposals from qualified firms to collaborate with the Agency and other partners to achieve a more modern Medicaid Business and Technical environment. The Agency issued Request for Proposals (RFPs) to identify innovative, cooperative, flexible, and customer-oriented organizations that were willing to collaborate with each other and with DMAS to achieve common goals.

DMAS collaborated with the Centers for Medicare & Medicaid Services (CMS) and a CMS-sponsored state cohort group on the MES procurement. The cohort group created an RFP template for the procurement. DMAS also has been actively involved in CMS-sponsored workgroups that have helped ensure DMAS' vision aligns with CMS' goals concerning certification of the new MES solutions. CMS requires a formal Medicaid Enterprise Certification Lifecycle (MECL) and Medicaid Enterprise Certification Toolkit (MECT 2.2) checklists be followed for the Virginia MES modules to qualify for enhanced federal funding during the Operations and Maintenance period of the systems. An Independent Verification and Validation contractor is required to rate the states progress toward certification.

About DMAS and Medicaid

DMAS' mission is to ensure Virginia's Medicaid enrollees receive high quality and cost effective health care.

Medicaid plays a critical role in the lives of over a million Virginians, providing health care for those most in need. Medicaid enrollees include children, pregnant women, parents and care takers, older adults and individuals with disabilities. Virginians must meet income thresholds and other eligibility criteria before qualifying to receive Medicaid benefits.

Medicaid covers primary and specialty health care, inpatient care, and behavioral health and addiction and recovery treatment services. Medicaid also covers long term services and supports, making it possible for thousands of Virginians to remain in their homes or to access residential and nursing home care.

Quick Medicaid facts:

- Covers 1 in 8 Virginians
- Covers 1 in 3 births and 33% of children
- Supports 2 in 3 nursing facility residents

Virginia Medicaid and Children's Health Insurance Program (CHIP) are administered by the Department of Medical Assistance Services (DMAS) and are jointly funded by Virginia and the federal government under the Title XIX and Title XXI of the Social Security Act. Virginia generally receives $1 of federal matching funds for every $1 Virginia spends on Medicaid.

Transformation to a Modern Medicaid Program

The new technology platform selected to support Medicaid (MES) requires a more modern architecture that includes Medicaid Business, Information, and Technical layers, which efficiently address DMAS' business opportunities and challenges. To implement that change DMAS is taking the following actions:

- Transitioning more members from a fee-for-service delivery model to a managed care model;

- Providing a customer-centric environment that focuses on servicing rather than technology development;

- Creating the ability to measure the performance of programs so DMAS can make adjustments that lead to better results;

- Creating an environment in which DMAS can easily monitor fraud and abuse;

- Creating a more nimble speed-to-market environment that is responsive to changes and innovation. That is an environment with shorter software development life cycles;

- Creating an environment that promotes and strengthens DMAS' relationship with its Contractors to achieve strategic goals;

- Creating an environment that leverages state and federal opportunities to improve healthcare on a national and statewide level; and

- Transitioning from a customized software environment to one in which business needs are met through configuration of commercial off-the-shelf (COTS) software, and software as a service (SaaS) or Cloud-based solutions that are more easily and cost effectively supported.

MES Procurement Activities Summary

Between June 15 and July 15, 2016, DMAS released the following five (5) MES RFPs: Integration Services Solution (ISS), Enterprise Data Warehouse Solution (EDWS), Financial Management Solution (FMS), Modular Core Services Solution (MCSS) and Pharmacy Benefit Management Solution (PBMS). As part of the MES Program, DMAS added an in-house Encounter Processing Solution (EPS) project.

DMAS began the EPS project in July of 2016. DMAS is projecting an implementation of September 6, 2017. In March of 2017, the PBMS contract was awarded and the project began Initiation and Planning. DMAS projects an implementation of October 1, 2017.

DMAS has been actively engaged in negotiations with RFP submitters for the ISS, EDWS, and MCSS. It is anticipated contract awards will be completed by this fall.

During the RFP evaluations, DMAS was able to assess market readiness and maturity of solutions to meet the new MES models. This caused DMAS to alter the strategy in a couple of areas. The total costs were examined to see if the original modular strategy was still feasible. DMAS was able to see duplications of functionality in some of the solutions. That was the case for the FMS. Due the development required, the duplication of functionality with another MES module and the exorbitant costs of the solution, DMAS cancelled the FMS RFP on March 13, 2017 so the Agency could find a more cost effective approach. DMAS is still evaluating a final strategy to address functionality that overlaps multiple solutions.

Virginia's Medicaid Enterprise System Strategy

As illustrated in Table 1 below, the Virginia MES will consist of a modular architecture, with separate components pertaining to the following major business areas:

1. ***Modular Core Services Solution (MCSS)***: DMAS collaborated with CMS on the transformation of the main existing system into separate modules based on the Medicaid Information Technical Architecture (MITA) business functional groupings and placing those modules into an RFP that would result in 5 separate awards.

2. ***Financial Management Solution (FMS***): The FMS will represent a single system to DMAS and other users, although it may be made up of several products. The FMS will include some Financial Accounting and Reporting.

3. ***Pharmacy Benefit Management Solution (PBMS)***: The PBMS supports general claims processing, drug utilization reviews, utilization management, service authorizations, third party liability, drug rebate, encounters, and the capture of lab data.

4. ***Encounter Processing Solution (EPS)***: The EPS is being developed to fulfill all of DMAS' encounter data processing needs. Encounter data is information showing use of Medicaid services by Medicaid members.

5. ***Integrated Services Solution (ISS)***: The ISS Contractor will be responsible for providing a plan to address the onboarding of a new MES modular solution and will include integration of all components of the new MES platform. The plan will include the overall security relative to the integration of the various solutions and the communications and messaging between all solutions components.

6. ***Enterprise Data Warehouse Solution (EDWS)***: The EDWS will serve as a central repository for all of DMAS's relevant data that will enable timely, accurate and consistent information and ultimately, empower executive management to make the most informed decisions on managing Medicaid programs.

An ISS vendor will incorporate these loosely-coupled modular systems into a cohesive MES. An Enterprise environment will be used as the secure integration vehicle through which all communication and data exchanges will flow. The loosely-coupled design will allow DMAS to more easily adapt to future innovations. As a result of the MES procurement process, the table below reflects DMAS' adjusted strategy since the October 1, 2016 report.

The change in strategy for DMAS has occurred in a couple of areas; FMS was cancelled due to excessive costs and functional duplications resulting in an alternative strategy being researched; Care Management was cancelled as DMAS re-assessed its business needs; and a few other requirements are being assessed for functionality in multiple modules.

Table 1: Business Process Areas Supported by MES

Modules	Business Process Areas – "Phased-In Approach"
MCSS: **1. Provider Services Solution - Active** **2. Care Management Solution - Suspended** **3. Plan Management Solution - Active** **4. Performance Management Solution –** **Pending a Strategy Decision** **5. Operations Services Solution – Active**	Phase I: Provider Services Solution with all related portal access Phase II: Operations Services Solution and Plan Management Solution
FMS – Suspended: *The agency is revisiting the consolidation to a single financial solution approach with moving toward COTS solutions.*	Phase I: Financial Accounting & Reporting Phase II: General Ledger, Accounts Receivable , Accounts Payable, Fiscal Management, and Payment and Reporting
PBMS – Active Project	Phase I: General/Claims Processing, Drug Utilization

	Review (DUR), Utilization Management, Service Authorization, Third Partly Liability, Encounters, Drug Rebate, and Optional Services Phase II: Capturing of Laboratory Data
EPS (in-house) – Active Project	Phase I: New Encounters Phase II: All other Encounters
ISS – Active Project	Integration of all MES Solutions in multiple phases
EDWS – Active Project	Enterprise Data Warehouse Solution and all other MES Solutions that provide the sources for Data Analytics by multiple phases

MES Implementation Project Activities Summary

On July 15, 2016, DMAS convened a kickoff meeting for the in-house MES module for EPS, which DMAS will implement on September 6, 2017. The EPS project will process encounters related to the Commonwealth Coordinated Care (CCC) Plus population. CCC Plus is DMAS' new statewide Medicaid long-term services and supports program that will be administered by six (6) Managed Care Organizations. To date, EPS has completed the Initiation and Planning phase and the Design and Development phase. The Testing phase is underway.

On March 21, 2017, DMAS awarded the MES Pharmacy Benefit Management Solution to Magellan Medicaid Administration. The Initiation and Planning phase is complete and the Design and Development phase is underway. The six-month implementation effort is on track for an October 1, 2017, effective date.

MES Independent Verification and Validation (IV&V) Activities

To meet the CMS Medicaid Certification Life Cycle requirements, DMAS engaged an Independent Verification and Validation (IV&V) contractor, Ernst & Young (EY), to conduct MES Program Oversight Governance and Milestone Reviews resulting in MES Certification Readiness Progress Reports. DMAS convened a kickoff meeting with EY on July 7, 2016. EY conducted the first (R1) of three reviews required for certification and completed the report in January 2017. EY delivered the R1 Certification Progress Report, which rated the program as progressing favorably, to DMAS Executive Management and CMS concurrently.

DMAS has chosen a certification by module approach versus a full MES certification for all modules at once. A staggered implementation and certification review results in less risks than a full system implementation. EY will conduct the Operational Readiness Milestone reviews (R2) and report on the EPS and PBMS modules. EY will also report on the quality of the MES Program Management and all other module progressions.

MES Project Milestones with Revised Dates

The chart below outlines milestones for the MES related projects. The staggered implementations will start in September 2017 and continue through July 2020. The MES will be fully implemented by July 2020.
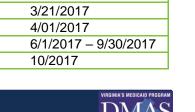
MES PROJECT	MILESTONE	REVISED DATES
Financial Management Solution (FMS)	Receive RFP Responses	8/2016
	Issued RFP Cancellation Notice	10/25/2016

MES PROJECT	MILESTONE	REVISED DATES
Pharmacy Benefit Management Solution (PBMS)	Conduct Orals and Presentations	9/2016
	Complete Evaluations/Notice of Intent to Award (NOIA)	3/11/2017
	Award Contract	3/21/2017
	Project Planning & Initiation	4/01/2017
	Project Execution and Control	6/1/2017 – 9/30/2017
	Implementation	10/2017

MES PROJECT	MILESTONE	REVISED DATES
	Post Implementation/Certification Readiness	10/2017 – 12/2017

MES PROJECT	MILESTONE	REVISED DATES
Integrated Services Solution (ISS)	Conduct Orals and Presentations	9/2016
	Complete Evaluations/NOIA	9/2017
	Award Contract	9/2017
	Project Planning & Initiation	10/2017 – 2/2018
	Project Execution and Control	03/2018 – 06/2019
	Implementation	07/2019
	Post Implementation/Certification Readiness	09/2019 – 7/2020

MES PROJECT	MILESTONE	REVISED DATES
Enterprise Data Warehouse Solution (EDWS)	Conduct Orals and Presentations	10/2016
	Complete Evaluations/NOIA	9/2017
	Award Contract	9/2017
	Project Planning & Initiation	10/2017 – 2/2018
	Project Execution and Control	3/2018 – 6/2019
	Implementation	7/2019
	Post Implementation/Certification Readiness	7/2019 – 10/2019

MES PROJECT	MILESTONE	REVISED DATES
Modular Core Services Solution (MCSS)	Conduct Orals and Presentations	10/2016
	Complete Evaluations/NOIA	9/2017
	Award Contract	9/2017
	Project Planning & Initiation	10/2017 – 2/2018
	Project Execution and Control	03/2018 – 6/2019
	Implementation	07/2019
	Post Implementation/Certification Readiness	07/2019 – 10/2019

MES PROJECT	MILESTONE	REVISED DATES
Encounter Processing Solution (EPS)	Project Planning & Initiation	7/2016 – 9/2016
	Project Execution and Control	10/2016 – 8/2017
	Implementation – Phase 1	9/2017
	Post Implementation/Certification Readiness	9/2017 – 11/2017
	Project Planning & Initiation Phase 2	7/2017 – 10/2017
	Project Execution and Control Phase 2	8/2018 – 1/2019
	Implementation Phase 2	1/2019
	Post Implementation Phase 2	1/2019 – 3/2019

Fiscal Impact

The 2016 Appropriation Act provided $4,635,000 for fiscal year (FY) 2017 and $5,835,000 for FY 2018 from the general fund and $41,715,000 for FY 2017 and $52,515,000 for FY 2018 from non-general funds to replace the MMIS with a new MES. The design, development and implementation costs qualify for an enhanced federal match rate of 90 percent for Medicaid transformation to MES when approved by CMS. The state provides the 10 percent general fund for the MES transformation. MES solution modules are in various stages of procurement, however, due to the complex procurement process required for each, including lengthy CMS, VITA, and Office of Attorney General approval timelines, expenditures through FY 2017 were less than originally estimated. General fund expenditures for FY 2017 were $519,061 ($4,665,974 from non-general funds). As project contracts are finalized, DMAS is gathering additional financial information and currently anticipates the bulk of spending to be realized in the second half of fiscal year 2018 and throughout 2020.

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Summary

In conclusion, the transformation to a modern Medicaid environment in Virginia is consistent with both CMS' and Virginia's goal for modular information system solutions. The MES program consists of seven (7) MES projects; six (6) by external suppliers and one (1) internal in-house project. The uncoupling of the monolithic MMIS into separate MES solutions and suppliers will continue through multiple projects. This staggered implementation approach will result in transitioning to the new MES while minimizing risks associated with smaller implementation efforts. DMAS will continue to refine the MES strategy to ensure the solutions best meet DMAS' current and future needs while complying with CMS Certification requirements, and effectively utilize the approved funding.