



Replacement MMIS Implementation Audit

Office of the State Auditor
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- This performance audit was initiated under the discretionary authority of the State Auditor.
 - We conducted the fieldwork from February 2011 to December 2011.
 - The report was issued January 19, 2012.



The audit was not intended to be...

- An evaluation of the previous MMIS implementation attempt;
- An evaluation of the potential savings of the new system; or
- A comprehensive evaluation of the current system implementation



The audit asked...

- What caused the delay in the second attempt at implementing the new MMIS?
- Were the causes of the delays reasonably foreseeable as risks to the system implementation?
- Did management have controls in place to address foreseeable risks?



1: Impact of Delays Not Fully Documented

The Department did not fully document its analysis of the impact that schedule delays had on the MMIS implementation.



The reported causes of delays were...

- The vendor had planned to use 73% of the code from its New York project but could only use 32%;
- The vendor experienced higher than expected staff turnover;
- The Department took longer than planned to review and approve some project designs and deliverables; and
- New Federal and State mandated program changes.



Causes of delays were reasonably foreseeable as project risks because...

- **Coding:** each state's MMIS is unique, NC's system differed from NY's system;
- **Vendor staffing:** the Department identified problems with vendor staffing as an issue during the previous system implementation;
- **Review process:** the Department's review process was identified as an issue in the previous system implementation attempt;
- **Federal and State mandates:** a known risk because program changes are made frequently.



The audit found...

- **Coding:** The Department accepted the vendor's proposed use of 73% of the New York project code without any independent analysis to determine if the proposal was reasonable.
- **Vendor staffing:** The risk of high staff turnover was documented in May 2009. The vendor reported high turnover beginning in April 2010. Actions taken to address the issue were not documented in the project risk register until October 2010.
- **Review process:** Department documentation shows that the average deliverable review met the budgeted 2 cycles of review about 74% of the time. However, 26% (59 of 226) of the deliverables required 3 or more reviews.
- **Federal and State mandates:** The Department was aware that two major Medicaid regulation proposals (ICD-10 and HIPAA 5010) were published four months before the MMIS contract was awarded.



Auditor analysis indicates that...

- The MMIS is scheduled to be completed 22 months late;
- The state will pay about \$90.6 million to continue operating the old system while the new system is being built; and
- The CSC contract increased by \$229.7 million (86%) from \$265.2 million to \$494.9 million.



The Department...

- Reported that only \$67 million in additional contract costs and 6 months of delay is attributable to "schedule-slippage."
- Said it based its conclusions on "deep analysis" of the vendor prepared project schedules.
- Did not provide auditors documentation of its independent analysis or the reasoning used to determine the impact of schedule delays, federal mandates, and state mandates on the MMIS project.



The auditors...

- Stated that the Department's reasoning and analysis are needed to accurately separate the impact of the schedule delays from the impact of federal and state mandates and other changes to the MMIS.
- Stated that clear documentation and disclosure of government manager's reasoning, analysis, and decisions help make state government operations transparent and provides a mechanism to hold government managers accountable.
- Recommended that the Department should clearly document the reasoning and analysis used to determine and manage the effect of delays on the system project.



2: Damages Negotiations Not Fully Documented

The Department did not fully document its negotiations with the vendor. Specifically, the Department did not document how responsibility for delays was determined or how damages were calculated.



The Department...

- Included penalties for nonperformance in the contract that allowed the Vendor to be charged for the costs of operating the current MMIS and for OMMISS operations if the new system was delayed.
- Negotiated the amount of damages because "both parties had differing interpretations on how the contract called for the damages to be calculated."
- Assessed the vendor for 4 months of delay damages in the amount of \$10 million to be received as monthly credits of \$166,666 to the operational phase of the project beginning in 2013.
- Agreed to the \$10 million as a final settlement without clearly documenting its analysis or the reasoning used to calculate the cost of schedule delays to the state.



The auditors...

- Stated that it is important to have documentation that explains management's reasoning for the decisions it makes.
- Stated that clear documentation and disclosure of government manager's reasoning, analysis, and decisions help make state government operations transparent and provides a mechanism to hold government managers accountable.
- Recommended that the Department should document its methodology and in determining how penalties are assessed. The Department should also retain all documentation used to plan and conduct negotiations.



3: Monitoring Did Not Identify Unauthorized Changes

The Department did not timely identify about \$30.4 million of changes that the vendor made to the design, development, and integration phase of the replacement MMIS project.



Auditors found that...

- The vendor performed scope changes without direction from the Department; made changes to system requirements based on informal requests; and accepted change requests from personnel who were not authorized to make system changes.
- The Department's monitoring procedures did not identify some of the changes for more than a year after they were made.
- The Department rejected some of the unauthorized changes and paid \$15 million for the changes that it accepted.
- The Department did not agree that the unauthorized changes were a problem. The Department said some changes were requirements and other changes were enhancements that it was more efficient for the vendor to make without seeking approval.



The auditors...

- Stated that failure to identify unauthorized changes in a timely manner increases the risk that the state will not receive the system that it contracted for. It also increases the risk that the state could incur additional costs and need additional time to test unauthorized changes.
- Recommended that the Department should ensure that monitoring procedures are effective for identifying deviations from the project plan. For efficiency, management could establish, document, and communicate to the vendor the types of changes that can be made without prior approval.



This has been one of the most difficult audits we have ever performed, for several reasons:

- The department has been extremely critical of the numbers and cost schedules we developed to quantify the ongoing costs to the state.
- In a normal audit, we ask the audited agency to provide the cost information and schedules, which we then check for accuracy.
- In this case, repeated requests for information from the department went unanswered, or partially answered, which forced my auditors to produce the information needed from raw data.
- Only after we had analyzed their costs and produced our schedules did the department produce information, and that only to dispute our figures.



Also...

- We relied on the Department to provide all available documents.

But after our draft report was submitted, we found that the Division of Medical Assistance and the Division of Mental Health have extended the current MMIS contract until 12/31/2013 at an additional cost of \$123 million.

The Department has extended the Data Processing Services and Software Test Management Services and the Independent Verification and Validation Services contracts for an additional cost of \$3.6 million.

- We relied on the Department to maintain the integrity of available documents,

But in December 2011, the Department sent a memo to the vendor telling them to change an earlier report that indicated delays in agency reviews were responsible for the vendor failing to meet deadlines.