

Notification

October 15, 2010

1 Purpose

The purpose of this notification is to provide a strategy update for the South Carolina Department of Health and Human Services (SCDHHS) Replacement Medicaid Management Information System (MMIS) project.

This document serves only to provide preliminary information to vendors and is not an authoritative source for procurement, budget, or planning information. The document and information contained herein is provided as is and without any warranty. Potential solicitations described in this document may not be published, competitive procurement strategies may be changed, and the State shall not compensate any party for any action taken as a result of the publication of this document or information contained in it.

This document is not an RFP. The State is not seeking proposals at this time.

2 Findings from RFI #3

The State published a draft acquisition strategy in *SCDHHS Replacement MMIS RFI #3* in August 2010. Thirteen responses were received in September 2010 from the following vendors:

- Arcadia Solutions
- BDMP
- CNSI
- IBM
- Infocrossing
- Maximus
- Oracle
- Plexis Healthcare Systems
- Portico Systems
- Quarterline Consulting
- SLI Global Solutions
- Software AG
- SourcePulse

The State thanks the respondents for their submissions. The responses were of high quality, and the information received was very valuable in assessing the viability of the proposed strategy.

After reviewing the responses, the State came to the following conclusions:

Vendor Pool Size. The concept of five separate business areas supported by five different vendors (one sole source contract to Clemson University and four contracts competitively

procured) does not appear to be viable given the respondent pool. If the thirteen respondents comprise all vendors interested in bidding on one or more project solicitations, the Offeror pool would include insufficient software development vendors to provide competition for four procurements (based on the preponderance of business as reported by the vendors). The State could consider consolidating some of the contracts to reduce the number of vendors needed to execute the strategy; however, two of the vendors split with this approach by suggesting that the Healthcare Services Management business area might best be divided into smaller pieces to make it easier to manage. This contradiction points to a weakness in the original strategy: if the contract scope and boundaries do not generally match the current market products and services, attracting vendors is substantially more difficult.

Information/Technical Architecture Maturity. While the State could easily collapse all four competitive procurements into a single contract, the resulting project would likely contain substantial amounts of research and development activities that would drive up risk. The lack of existing healthcare domain, service oriented products was known to the State prior to publication of the RFI; however, it appears that the shortage of standards within the MMIS/MITA ecosystem is inhibiting independent research and development on the part of vendors. Based on the responses received, further development of the MITA information and technical architectures appears to be necessary to drive a greater level of commonality into the marketplace.

New CMS MITA Vendor. As announced at the 2010 MMIS Conference, CMS has awarded a Technical Assistance Contract to develop business process models for the Business Architecture, develop information (data) models for the Information Architecture, and develop Technical Functions Templates for the Technical Architecture. As such, the results described in the previous topic above not only are consistent with expectations, they indicate that any attempt by South Carolina to “lead the pack” would probably result in inconsistencies with the direction that MITA is taking. The timing is not aligning properly. The State may be able to use the results of the new MITA contract, but it will have to do so on the schedule driven by that contract and the normal vetting process required of any new standard. Doing so could extend the project timeline beyond that which is acceptable.

Software Architecture Tradeoffs. Section 7.2 of the draft program acquisition strategy discussed the tradeoffs between using a service oriented architecture (SOA) vs. enterprise application integration (EAI). For the purposes of the strategy, EAI also included “full stack” applications integrated via service interfaces using an enterprise service bus. In the draft strategy, the State was leaning more strongly towards SOA. After evaluating the RFI responses, the State must shift more towards EAI, particularly with respect to the use of commercial off the shelf (COTS) components. The use of domain-specific COTS is still limited within the MMIS space, and while the State remains prudently wary, it is still interested in solutions containing true COTS insurance products (even if they satisfy only a portion of the requirements).

Requirements Specificity. In response to both *RFI #1* and *RFI #3*, vendors cautioned the State about the potential of over specifying the system if the requirements effort was made too large. This has caused the State to reconsider its upfront investment in requirements development.

Risk Reduction. In recent discussions, CMS has encouraged the State to minimize the risk it assumes in the replacement project because the pre-existing challenges posed by 5010, ICD-10, various health information technology (HIT) mandates, and changes driven by the Patient Protection and Affordable Care Act (PPACA) impose extensive risk already. Additionally, given

the timelines associated with such mandates, extending the Replacement MMIS schedule with substantial new software development could result in more downstream difficulties. As such, the State is increasing its schedule sensitivity with respect to starting design, development, and installation (DDI) as this will provide better opportunities to manage upcoming changes in a timely manner.

3 Strategy Updates

The key changes to the strategy are as follows:

Simplify the contract structure. One of the driving forces for the original strategy was to simplify the contract structure currently in place at SCDHHS. Additional simplification appears to be necessary. The State plans to award a single contract to a vendor (a single legal entity, with subcontractors or partners, as desired) to conduct DDI of a Replacement MMIS, and to perform outsourced business processes for the Medicaid enterprise. This is similar to a fiscal agent contract, but given the varying definitions of “fiscal agent” depending on duties, the State may choose to use a different term. This contract will replace most of the State’s existing contracts associated with the MMIS (see the “Scope” section below).

Shift more upfront work to the vendor. This work includes requirements development. The result is a smaller State team, less requirements development duplication for the users, and a shorter time to get on contract. This approach drives project risk in a different way than before. The new risk is from the unknowns associated with requirements development, its impact on the solution, and the addition of some uncertainty about business strategy early in the project.

Minimize new software development. This goal could apply systems based on government off the shelf (GOTS) applications or commercial off the shelf (COTS) applications even though these two models may differ substantially in terms of overall flexibility and life-cycle support.

Focus more on how the project integrates with HIT and PPACA mandates. The upcoming IT mandates will stress all states substantially. The Replacement MMIS DDI needs to be responsive to the requirements driven by these mandates.

3.1 Scope

The table below indicates the planned scope of the contract in terms of existing contracts. Specific details are still being developed.

Contract	Vendor	Effective Date	Base Year End Date	Option Year End Date	Base Year(s)	Option Year(s)
MMIS	Clemson University	7/1/10	6/30/11	6/30/15	1	4
Medicaid Insurance Verification System (MIVS)	ACS	6/27/06	6/28/08	6/30/11	2	3
Interactive Voice Response System (IVRS)	First Data Government Solutions	1/2/07	1/1/10	1/1/12	3	2
Managed Care Enrollment Counselor	Maximus	4/1/07	3/31/10	3/31/12	3	2
Quality Improvement Organization (QIO)	Alliant (via emergency contract)	8/1/10	2/1/11	As needed until reprocurement completed	N/A	N/A
Pharmacy Benefits Management (PBM)	Magellan	3/19/09	3/18/12	3/18/14	3	2
Dental Administrative Services Organization (ASO)	DentaQuest	6/8/09	6/7/12	6/7/14	3	2
Medicaid Operations	Blue Cross Blue Shield of South Carolina	6/26/10	6/25/11	6/25/15	1	4
National Correct Coding Initiative (NCCI)	Not yet awarded					

The State is interested in an incremental development and implementation. This will likely involve “retiring” the existing contracts sequentially or in small combinations, as well as incremental deployment of functions associated with the classic “core” MMIS.

The State still plans to replace its eligibility system; however, that effort will not be part of this procurement.

Additionally, the State still plans to host the system in the Clemson University data center.

3.2 Solicitation Strategy

To encourage maximum flexibility and creativity in vendor proposals, the State plans an objectives driven solicitation (also known as a “solutions based procurement” in South Carolina). The Request for Proposals (RFP) will include a Statement of Objectives (SOO) that outlines the results the State desires in the project and will also include a list of performance standards for those duties for which such specification is practical. The State does not plan to include a detailed list of system or operations requirements in the RFP. This will be a substantial departure from the typical MMIS RFP. Detailed requirements will be developed as part of the contract duties. To assist vendors in understanding the scope of the contract and the State’s current operations, the contracts being absorbed into this project will be included in the Procurement Library, redacted, as necessary.

While this strategy offers substantial flexibility, it adds the risk of the uncertainty in contract duties and system requirements. To deal with this risk, the State plans to improve risk sharing on the contract by not using a firm fixed price for DDI. The State is considering the use of a billable hours contract that includes both positive and negative incentives. For example, if the vendor completes DDI below the bid target price, the State plans to pay the vendor an additional incentive based on the amount of underrun. If the vendor completes DDI above the bid target price, payments beyond the target price will be reduced by some percentage. Additionally, the State plans to cap payments at a not-to-exceed (NTE) value at some percentage above the target price to establish some absolute limit of liability for the State should the vendor substantially overrun.

Similarly, the State plans to offer both positive and negative incentives for schedule performance. If DDI completes prior to the targeted completion date (as proposed by the vendor, subject to negotiation), then the State plans to pay the vendor an additional incentive based on the amount of schedule underrun. If DDI completes after the targeted completion date, then the vendor will forfeit a percentage of the total price based on the amount of schedule overrun. The State is not assuming that the system must be operational prior to the ICD-10 transition.

In each case, the State intends to limit the magnitude of incentives in order to avoid encouraging risky or undesirable vendor behavior driven by the incentives.

3.3 Solicitation Schedule

The State is pressing ahead at the maximum prudent rate to complete an RFP. The likely publication date is between 60 and 135 days from this posting. Additionally, the State is considering publishing a draft RFP for vendor feedback.

The State plans to publish a Procurement Library containing key information that may be needed by vendors to form a responsive offer. In order to accelerate publication of the initial

information, the State may publish one or more updates to the Procurement Library as additional information is included.

The State is also considering the use of a pre-solicitation vendor strategy conference. This would allow interested parties to ask questions and exchange ideas outside the stricter legal boundaries typically imposed after solicitation publication.

3.4 Related Contracts

The State plans to competitively procure vendors for Independent Verification & Validation (IV&V) and Test Management Services separately. At this time, the State plans to require award of these contracts to different vendors (i.e., a single vendor cannot be awarded both contracts) to ensure that the IV&V vendor is truly “independent.” Timing for these procurements has not yet been established; however, the State hopes to have both contracts in place by the beginning the Replacement MMIS contract.

3.5 Vendor Questions

The State received few questions with the vendor RFI responses, and the majority of these questions were tied to the draft proposed strategy. As such, the State has determined that there is little value in publishing answers to these questions at this time. If vendors continue to have the same questions, there will be future opportunities to pose them.

Thank you for your interest in the State of South Carolina