STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

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August 2018

AGENCY FOR HEALTH CARE ADMINISTRATION

Medicaid Enterprise System Procurement Project and Selected Administrative Activities

Sherrill F. Norman, CPA
Auditor General

Secretary of the Agency for Health Care Administration

The Agency for Health Care Administration is established by Section 20.42, Florida Statutes. The head of the Agency is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. During the period of our audit, the following individuals served as Secretary:

Justin Senior	From January 11, 2017 Interim, October 3, 2016, through January 10, 2017
Elizabeth Dudek	Through October 3, 2016

The team leader was Susan C. Phelan, CPA, and the audit was supervised by Lisa Norman, CPA.

Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

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AGENCY FOR HEALTH CARE ADMINISTRATION

Medicaid Enterprise System Procurement Project and Selected Administrative Activities

SUMMARY

This operational audit of the Agency for Health Care Administration (Agency) focused on the Medicaid Enterprise System (MES) procurement project and selected administrative activities, including Division of Health Quality Assurance travel. Our audit disclosed the following:

Medicaid Enterprise System Procurement Project

Finding 1: The establishment of a MES procurement project governance committee composed of Agency management and key project stakeholders with clearly defined committee member roles, responsibilities, and authorities would better ensure that project management activities are sufficiently monitored and guided and that the project meets Agency organizational, strategic, and operational goals.

Selected Administrative Activities

Finding 2: The Agency did not post information for all Agency contracts to the Florida Accountability Contract Tracking System as required by State law.

BACKGROUND

State law[1] designates the Agency for Health Care Administration (Agency) as the chief health policy and planning entity for the State and provides that the Agency is responsible for:

- Administering the Medicaid program and contracts with the Florida Healthy Kids Corporation.
- Licensing, inspecting, and regulating health care facilities.
- Investigating consumer complaints related to health care facilities and managed care organizations.
- Implementing the certificate of need program.
- Operating the Florida Center for Health Information and Transparency.
- Certifying health maintenance organizations and prepaid health clinics.

For the 2017-18 fiscal year, the Legislature appropriated approximately $26.4 billion to the Agency and authorized 1,533.50 positions.

FINDINGS AND RECOMMENDATIONS

MEDICAID ENTERPRISE SYSTEM PROCUREMENT PROJECT

The Agency utilizes the Medicaid Enterprise System (MES) to support the administration of the State's Medicaid program. The MES consists of various systems, including the Florida Medicaid Management

[1] Section 20.42(3), Florida Statutes.

Information System (FMMIS) that the Agency uses to process Medicaid claims. The Agency contracts with a fiscal agent to administer FMMIS and, in June 2018, the Agency amended the fiscal agent contract to extend the contract end date from June 30, 2018, to July 31, 2020, to allow the Agency to modernize the MES. In requesting legislative funding for the MES procurement project, the Agency noted that guidance from the Centers for Medicare and Medicaid Services raised significant questions regarding the strategy of the MES and that a strategic, phased-in process was necessary to modernize the MES, ensure the best technological solutions were procured, and Federal certification was maintained to ensure continued eligibility for enhanced Federal financial participation in the Medicaid program. For the 2017-18 and 2018-19 fiscal years, the Legislature appropriated Federal and State funds to the Agency totaling $7.5 million and $24.5 million, respectively, for the MES procurement project.[2]

The MES procurement project is a 6-year project that is expected to be implemented in four phases:

- Phase I - to address the need for a project planning and support structure.
- Phase II - to implement the technical and data infrastructure, including an Enterprise Data Warehouse, a system communication application to link the MES modules and data, and Systems Integrator services.
- Phase III - to begin to integrate the MES modules and data exchanges.
- Phase IV - to plan, procure, develop, and implement new modules to comprise the enterprise-level FMMIS.

The Agency began Phase I in September 2017 with the execution of a Strategic Enterprise Advisory Services (SEAS) contract pursuant to which the SEAS vendor was to provide the expertise needed to develop technical standards and propose solutions for the MES and provide strategic, programmatic, and technical advisory services to the Agency. According to Project Status Reports completed by the project's Independent Verification and Validation vendor, Phase I was completed in December 2017. Phase II is scheduled to begin during the 2018-19 fiscal year and focus on building the MES infrastructure. As of May 2018, the Agency estimated that the MES procurement project will cost $185,518,548, of which $2,293,021 had been expended as of April 30, 2018.

Finding 1: MES Procurement Project Governance

Project management is the application of knowledge, skills, tools, and techniques to project activities to meet project requirements. Effective project management helps organizations meet business objectives, respond to risks in a timely manner, optimize the use of organizational resources, and increase the chance of success. The absence of project management, or poor project management, may result in missed deadlines, cost overruns, and poor quality.

The Project Management Institute (PMI) is a non-profit, professional membership association for the project management profession. The PMI has established standards[3] for managing projects such as the design and implementation of the modernized MES. Those standards provide that there are various types of governance that can impact a project, including organizational governance, organizational project management governance, and project governance. Project governance is the framework,

[2] Chapters 2017-70 and 2018-9, Laws of Florida, General Appropriations Acts.

[3] *Project Management Body of Knowledge Guide*, 6th Edition.

functions, and processes that guide project management activities to create a unique product, service, or result to meet organizational, strategic, and operational goals. The standards further describe governance at the project level to include:

- Guiding and overseeing the management of project work;
- Ensuring adherence to policies, standards, and guidelines;
- Establishing governance roles, responsibilities, and authorities;
- Decision-making regarding risk escalations, changes, and resources;
- Ensuring appropriate stakeholder engagement; and
- Monitoring performance.

As part of our audit, we inquired of Agency personnel and reviewed Agency records to determine the extent to which the Agency had established an effective governance structure for the MES procurement project. Our audit procedures disclosed that the Agency established a MES Governance and Steering Committee (Committee) in October 2014 to provide a multi-user input forum for key decisions related to various impending large procurements, including FMMIS. The Committee's charter specified that the primary functions of the Committee were: to serve as a forum for Agency leadership to identify issues and make key decisions; establish priorities; approve recommendations to resolve issues; and ensure key decisions were disseminated. However, the last Committee meeting was held June 6, 2016, prior to Phase I of the MES procurement project, and our audit found that the Agency had not established a framework for MES procurement project governance that would provide project stakeholders with structure, processes, roles, responsibilities, accountabilities, and decision-making models for managing the project.

According to Agency management, the Agency revised the approach to managing the MES procurement project. In lieu of holding Committee meetings, in February 2018, MES procurement project leadership began meeting weekly with Agency management to provide critical project updates and to receive input and direction from Agency management. While Agency management provided talking points used at the weekly meetings, neither the talking points or other Agency records detailed the meetings' attendees, the specific information discussed, any potential concerns noted, or what actions, if any, were required to follow up on identified concerns.

The establishment of a MES procurement project governance committee composed of Agency management and key project stakeholders with clearly defined committee member roles, responsibilities, and authorities would better ensure that project management activities are sufficiently monitored and guided and that the project meets Agency organizational, strategic, and operational goals. Documentation of any risks, potential concerns, and required actions discussed by the committee would help demonstrate the effectiveness of the Agency's MES project management.

Recommendation: We recommend that Agency management establish a MES procurement project governance committee with clearly defined committee member roles, responsibilities, and authorities to ensure that project management activities are sufficiently monitored, guided, and that the project meets Agency organizational, strategic, and operational goals. We also recommend that Agency management ensure that Agency records evidence any risks, potential concerns, and required actions discussed by the committee.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Agency administrative activities and controls, including those related to Agency contracts.

Finding 2: Contract Information Reporting

Pursuant to State law,[4] the Department of Financial Services (DFS) established the Florida Accountability Contract Tracking System (FACTS), an online tool that provides users and the public access to State contract and grant financial information. State law requires, within 30 calendar days of executing a contract,[5] State agencies to post to FACTS for each contract:

- The names of the contracting entities and procurement method.
- The contract beginning and ending dates and the nature or type of commodities or services purchased.
- Applicable contract unit prices and deliverables and the total compensation to be paid or received under the contract.
- All payments made to the contractor to date and applicable contract performance measures.
- If a competitive solicitation was not used to procure the goods or services, the justification of such action, including citation to a statutory exemption or exception from competitive solicitation, if any.
- Electronic copies of the contract and procurement documents redacted to exclude confidential and exempt information.

The Agency records data for all executed contracts in the Agency's Contract Administration Tracking System (CATS), which is to electronically transmit contract information to FACTS each night. According to CATS records, as of April 6, 2018, the Agency had 246 contracts, totaling $92,952,088,846, active during the period July 2016 through January 2018. However, our analysis of FACTS records as of April 9, 2018, disclosed that FACTS only included information related to 166 active Agency contracts, totaling $2,523,338,881, for the period July 2016 through January 2018. The 166 contracts included 4 contracts posted to FACTS subsequent to our audit inquiry on April 6, 2018, or 547 to 2,362 days (an average of 1,350 days) after the contracts were executed.

In response to our audit inquiry, Agency management indicated that, after conversations with the DFS, the Agency determined that it would only include contracts paid through the DFS in FACTS. However, the Agency was unable to provide documentation to support this decision and we noted no exemptions in State law that would allow the Agency to exclude from FACTS contracts that are not paid through the DFS. Additionally, according to Agency management, a CATS programming deficiency did not allow all executed contract information to be automatically uploaded into FACTS and the Agency had not established procedures to reconcile CATS contract data to FACTS contract data.

[4] Section 215.985(14), Florida Statutes.

[5] Section 215.985(2)(b), Florida Statutes, defines a contract to include a written agreement or purchase order for the purchase of goods or services or a written agreement for the receipt of State or Federal financial assistance.

Timely posting all required contracts and contract information to FACTS enhances transparency, strengthens accountability, and ensures compliance with State law.

Recommendation: We recommend that Agency management establish procedures, including procedures to timely reconcile CATS contract data to FACTS contract data, to ensure that all Agency contract information is timely posted to FACTS in accordance with State law.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2018 through June 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of the Agency for Health Care Administration (Agency) focused on the Medicaid Enterprise System (MES) procurement project and selected administrative activities, including Division of Health Quality Assurance travel. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests,

analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, Agency policies and procedures, and other guidelines, and interviewed Agency personnel to obtain an understanding of the MES procurement project and Division of Health Quality Assurance (HQA) travel.
- From the population of 47,242 HQA travel-related expenditure transactions, totaling $3,034,887 and made during the period July 2016 through January 2018, examined Agency records for 25 selected expenditure transactions, totaling $7,866, to determine whether the expenditure transactions were properly supported and made in accordance with applicable laws, rules, policies and procedures, and other guidelines.
- Examined Agency records related to facility survey travel conducted by two of the eight HQA field offices for 3 selected months during the period July 2016 through January 2018 to determine whether travel activities were consolidated to the extent practical.
- Examined Agency, Florida Certified Contract Manager, and Project Management Professional records for the eight full-time Agency employees assigned to the MES procurement project team as of January 2018 to determine whether sufficient and qualified staff had been assigned to the project team.
- Examined the Agency's Procurement Strategy, dated November 2016, for the MES procurement project to determine whether the scope of the project had been appropriately defined, planned, and whether a change control process had been established.
- From the population of 29 project risks identified by the MES project team as of January 2018, examined Agency records for 5 selected risks to determine whether the MES project team had identified and implemented risk mitigation plans for the risks identified.
- Examined Agency, Department of Management Services, and Department of Financial Services records for the two MES-related procurements made during the period September 2017 through January 2018 to determine whether the procurements were made in accordance with applicable laws and the Agency's Procurement Strategy.
- From the population of MES procurement project monitoring activities conducted during the period December 2017 through January 2018, examined Agency monitoring records for January 2018 to determine whether the Agency established effective monitoring controls and enforced corrective actions if project vendors failed to satisfy required deliverables schedules. In addition, examined Agency records to determine whether the Agency's December 2017 monthly status report to the Agency for State Technology was complete, and included the report period, project status, project progress, issues and risks identified, and project costs.

- Observed, documented, and evaluated the effectiveness of selected Agency processes and procedures for:
  - Cash management and revenues and cash receipts.
  - The administration of Agency contracts. During the period July 2016 through January 2018, the Agency was responsible for 246 active contracts totaling $92,952,088,846.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

RICK SCOTT
GOVERNOR

JUSTIN M. SENIOR
SECRETARY

August 24, 2018

Ms. Sherrill F. Norman
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Thank you for the opportunity to respond to the preliminary and tentative findings and recommendations from your operational audit of the Agency for Health Care Administration, Medicaid Enterprise System Procurement Project and Selected Administrative Activities, including Division of Health Quality Assurance, Bureau of Field Operations travel.

In the attached, we have responded to the findings identified, as well as the items you examined for which there were no findings. With regard to the MES procurement project, at no time was this project without intensive input from Agency leadership.

As a result of the review of travel-related transactions in the Division of Health Quality Assurance, we are pleased that no findings were identified. Travel is a key component of our health facility inspection duties and our staff work hard to maintain compliance with state travel requirements.

In accordance with your request, we have emailed you the preliminary and tentative audit findings document with our response incorporated therein.

If you have any questions regarding our response, please contact Pilar Zaki, Audit Director, at 412-3986.

Sincerely,

Justin M. Senior
Secretary

JMS/szg
Enclosure
cc: Beth Kidder, Deputy Secretary for Medicaid
Jon Manalo, Deputy Secretary of Operations
Molly McKinstry, Deputy Secretary for Health Quality Assurance
Mary Beth Sheffield, Inspector General

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Medicaid Enterprise System Procurement Project

Finding No. 1:
MES Procurement Project Governance. The establishment of a MES procurement project governance committee composed of Agency management and key project stakeholders with clearly defined committee member roles, responsibilities, and authorities would better ensure that project management activities are sufficiently monitored and guided and that the project meets Agency organizational, strategic, and operational goals.

Recommendation:
We recommend that Agency management establish a MES procurement project governance committee with clearly defined committee member roles, responsibilities, and authorities to ensure that project management activities are sufficiently monitored, guided, and that the project meets Agency organizational, strategic, and operational goals. We also recommend that Agency management ensure that Agency records evidence any risks, potential concerns, and required actions discussed by the committee.

Agency Response:
This item is complete, and in fact the Agency informed the Auditor General that it was already implementing a project governance system during the audit, although full implementation did not occur until after the audit period. The Agency has and had always planned to implement a new MES governance structure. In fact, the design and oversight of governance was a deliverable in the first year of the Strategic Enterprise Advisory Services (SEAS) contract. That deliverable is now complete, and the Agency had implemented a robust MES project governance that meets all project management standards. The Agency has committed an intense level of resources and leadership attention to this system transformation, and at no time was the project without appropriate Agency oversight and leadership.

The SEAS vendor submitted the final draft Governance Plan deliverable, in accordance with its contract, on February 14, 2018. After a series of discussions between Agency leadership and the vendor, the plan was approved on April 3, 2018. Agency leadership launched the Governance committees with an announcement accompanied by the charters, committee membership, and structure. The Governance committees are meeting and making MES project decisions. In September the Agency and SEAS vendor will assess MES Governance for process improvement and committee membership revisions.

During the time between formal governance structures, the MES procurement project received regular and frequent guidance from the Agency's leadership team, following the chain of command. The project team operated an interim Project Management Office (PMO) that ensured that standard project management activities were performed, reported, and known to Agency leadership and that the project was aligned with the Agency goals. The PMO met weekly, tracked risks and mitigation plans, and maintained a project schedule and spend plan. A monthly report was prepared and shared with the Project Sponsor and Executive Sponsor and other Agency management, as needed. This information was also shared with the Agency for State Technology and the Centers for Medicare and Medicaid Services.

In addition, once the SEAS vendor was in place, intensive work with Agency leadership began to further shape strategic priorities. For example, from November 2017 through May 2018, there

were 11 sessions to prepare a strategic plan for the project, develop governance, and target project domains. These sessions were typically an hour, but ranged up to four hours, and were held with top Agency management, including the Secretary, Division directors, and bureau chiefs.

We are pleased the Agency has already addressed this finding and also pleased that the other areas examined during this audit showed no findings. This further supports that the project has been appropriately managed at all times. The audit examined the following areas, and there were no findings:

- *There were sufficient and qualified staff assigned to the project team.*
- *The Agency's Procurement Strategy for the MES procurement project appropriately defined the project's scope, was planned, and there was an established change control process.*
- *The MES project team identified and implemented risk mitigation plans for project risks.*
- *MES-related procurements for Strategic Enterprise Advisory Services and Independent Verification and Validation were conducted in accordance with applicable laws and the Agency's Procurement Strategy.*
- *The Agency established effective monitoring controls and enforced corrective actions if project vendors failed to satisfy required deliverables schedules.*
- *The Agency's monthly status report to the Agency for State Technology was complete, and included the report period, project status, project progress, issues and risks identified, and project costs.*

Agency Contact
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Medicaid Fiscal Agent Operations
(850) 412-3440

Selected Administrative Activities

Finding No. 2:
Contract Information Reporting. The Agency did not post information for all Agency contracts to the Florida Accountability Contract Tracking System as required by State law.

Recommendation:
We recommend that Agency management establish procedures, including procedures to timely reconcile CATS contract data to FACTS contract data, to ensure that all Agency contract information is timely posted to FACTS in accordance with State law.

Agency Response:
Since January 2018 the Agency has been working to establish and implement a procedure to reconcile CATS data to FACTS data on a bi-weekly basis to ensure compliance with State law. As the Agency shared with the Auditor General during their audit, this process is ongoing.

The current structure of FACTS limits the Agency's ability to load these contracts and its related documentation that accurately reflects the unit prices and deliverables, total compensation paid under the contract, applicable performance measure and invoicing data. However, the Agency is and has always been committed to being transparent, therefore the Agency posts these contracts to the Agency's public website.

The Agency has continued to seek guidance from DFS for the appropriate treatment in FACTS of contracts that are not paid through DFS.

Agency Contact
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