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From: Edward R. Armstrong,
Director, Office of State Procurement

Date: April 25, 2019

Subject: Special Procurement for the Arkansas Department of Human Services, Office of Procurement

Special Procurement Authority

Pursuant to Ark. Code Ann. § 19-11-263, the Director of the Office of State Procurement ("OSP") may initiate a special procurement when he or she determines that an unusual or unique situation exists that makes applying the requirements of competitive bidding, competitive sealed bidding, or competitive sealed proposals contrary to the public interest. Ark. Code Ann. § 19-11-263(a). This determination must be in writing and explain the basis for the special procurement and for the selection of the particular contractor.

Agency Request

The Arkansas Department of Human Services ("DHS"), Office of Procurement ("OP") requests a special procurement to maintain services providing for the maintenance and operation of the state's Eligibility and Enrollment Framework ("EEF") provided currently by Optum Government Solutions Inc. ("Optum"), Magellan Medicaid Administration, Inc. doing business as Magellan Health Services ("Magellan"), and DXC Technology Services, LLC ("DXC") (collectively, the "EEF Contractors"). Each contractor provides services for a module within the EEF Medicaid Enterprise. EEF provides processing of medical, hospital, and pharmacy claims for approximately forty-four thousand (44,000) active providers of services, and over one million one hundred thousand (1,100,000) eligible Arkansans.

The federal Center for Medicare and Medicaid Services ("CMS") issued instructions to states requiring the use and procurement of modules which should serve to support an enterprise approach where individual processes and systems work together seamlessly to support a unified Medicaid enterprise. To comply with these CMS requirements, DHS issued a set of Request for Proposals ("RFPs") separating the Medicaid Management Information System, once a single contract with a single contractor, into three distinct contracts with separate solicitations and contracts. Accordingly, the Decision/Support Management Administrative Reporting System ("DSS/MAR") contract was awarded to Optum in December 2013 (contract number 4600031305); the pharmacy contract was

awarded to Magellan in March 2014 (contract number 4600031227); and the core services contract was awarded to DXC in December 2014 (contract number 4600033377).

DHS now faces significant risks regarding resource capabilities and contract transition due to these three related contracts all being executed, and therefore expiring, relatively close in time to one another. Upon entering the contracts, each contractor was required to perform an integrated design, development and implementation (“DDI”) project for their services and software. The cumulative result of their respective projects was an effective and CMS certified EEF system by January 2018. The life of an EEF system is generally considered between twelve (12) years and fifteen (15) years. Based on the present contract term length and pending expirations, DHS will see a mere three (3) years of life on the current EEF system before issuing another series of solicitations, a rather poor return of investment.

Second, given the poor return on investment, the costs for a new series of solicitations and subsequent DDI are extremely high and not in the interest of the state. DHS states the original DDI for all three contracts was one hundred nineteen million dollars (\$119,000,000), whereas the projected costs of maintaining the current EEF system via contracts with the current EEF Contractors is eighty-one million, two hundred thousand dollars (\$81,200,000).

Furthermore, attempting to transition to new contractors at this time, after such a brief period in the operation of the present system, risks introducing complications and delays to Medicaid processing for a significant number of Arkansas Medicaid providers and individuals, including the need to freeze the system during transition activities.

Finally, transitioning to a new EEF system would impact other large DHS projects. The Arkansas Integrated Eligibility System, which is the sole source of Medicaid eligibility enrollment information to the EEF system. Transitioning to a new EEF system now would risk causing delays to this project.

To mitigate these risks in the future, DHS plans to start competitive procurement activities for the pharmacy services in the third or fourth year of these special procurement contracts, followed by a competitive procurement for the core services, and finishing with a competitive procurement of the DSS/MAR services. In this way, the contract expirations for the distinct modules within the EEF system will be spread out to allow for a reduction in transition risks.

The special procurement contract term lengths DHS seeks are as follows:

1. Optum contract, term of July 1, 2020 – June 30, 2027;
2. Magellan contract, term of July 1, 2020 – June 30, 2027; and
3. DXC contract, term of December 1, 2021 – November 30, 2028.

Determination

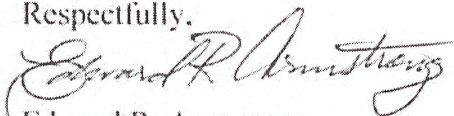
DHS presently is in the early stages of the life cycle of its EEF system, a system that required significant resources to develop and implement and certify with CMS. It has made a substantial investment in getting the work underway. Furthermore, transitioning to a new system would impact the services provided by EEF, as well as other services provided DHS under Medicaid, impacting thousands of providers and millions of eligible Arkansans. It would likely result in disruption of services. Based on the information DHS has provided to me, which I have relied on and which I incorporate herein by reference, a unique and unusual situation exists under which it would be contrary to the public interest to apply all of the requirements of competitive bidding, competitive sealed bidding, or competitive sealed proposals, as it would risk disruption of services and loss of the value of the State's investment to date. DHS intends to begin competitive procurements for each of these contracts within the EEF system in a structured rolling timeline that minimizes these risks. Special procurement would allow DHS the time it needs to do so in an orderly and planned fashion that minimizes the aforesaid risks.

For the aforementioned reasons, and subject to the understanding that DHS will make good faith efforts to prepare competitive procurements and plan for the completion of these inter-related solicitations as it proposed in its request, I authorize DHS to initiate a special procurement with the following contractors and respective contract term lengths:

1. Optum, term of July 1, 2020 – June 30, 2027;
2. Magellan, term of July 1, 2020 – June 30, 2027; and
3. DXC, term of December 1, 2021 – November 30, 2028.

These proposed contracts should be presented to Arkansas Legislative Council for review prior to execution.

Respectfully,



Edward R. Armstrong
Director, Office of State Procurement