

Specific Suggested Contract Changes - Confidential to Legislative Task Force

As Table 8 in the TSG Recommendations Report shows, the summary of the contract change is as follows.

	FY16 Contract Spend	Change in a PCMH model	Change in an MCO model
FY16 Spend on the top 25 contracts	\$62,691,762		
Savings from discontinuing contracts (already planned by DHS)		\$18,929,554	\$18,929,554
Savings from renegotiating contracts		\$7,046,064	\$ 4,100,000
Savings from reducing overhead costs		\$1,796,970	\$ 1,176,461 ¹
Costs shifted to an MCO			\$16,191,357
Total Changes		\$27,772,588	\$40,397,373

The specific detail contract by contract is shown in spreadsheet attached to this document – Confidential – Spending Level Changes. The discussion below highlights the assumptions made with respect to each and every contract change.

Discontinue Contracts

Discontinue Certain Contracts Already Planned by DHS

HP Enterprise Service Contracts– The development of the new MMIS system will concludes in May 2017 and transitions to ongoing maintenance and operations costs. The old HP contract will be discontinued as soon as the new system goes live in May 2017 resulting in an annual savings of \$16.5 million.

Cognosante MMIS PMO Contract – This contract will wind down as soon as the MMIS system is certified by the federal authorities. TSG has modeled this contract to conclude at the end of FY17 resulting in a savings of \$539K.

McKinsey and Company – This contract supports work on episodes of care and has been partially funded by a grant. That grant goes away shortly. TSG assumes this contract will conclude after FY18 resulting in a savings of \$5.2 million a year.

¹ In the case of MCO, some intra-agency contracts go away. The savings from reducing overhead costs is less than the PCMH model because the entire contract moves to the MCO.

Cognosante IT PMO Contract – This contract covers a number of IT projects. DHS plans to release an RFP for these services in FY17 to verify they are paying fair market rate. TSG has modeled that DHS should be able to reduce their dependence on outside PMO services by FY19.

Renegotiate Contracts

There are several contracts where the State may be able to renegotiate or go through a new competitive bid process to obtain a more favorable price. TSG identified the following contracts that should be considered for discussions with the vendor about moving to a market price. If these negotiations break down, the contracts should be bid out to obtain a fair market price. Obviously, renegotiation of these contracts will require time and skills to have these difficult discussions with the vendors.

The contracts include:

Palco – Both Palco contracts should be reevaluated in terms of volume of work and unit price for the work. If the State pursues an MCO scenario, this work will likely be given to the MCO. Under this scenario, it would not be worth the effort to renegotiate this contract.

ValueOptions – The Inpatient Determination contract should be reevaluated for market price. If the State pursues an MCO scenario, this work will likely be given to the MCO.

DataPath – The support for the Private Option Health Care Independence Accounts is costing the State a very large sum of money per account. The legislature could decide to discontinue this program and eliminate the cost altogether. In the event the State decides to move forward with this program, the agency should at least renegotiate this contract to pay a small fraction of the current cost.

Health Services Advisory Group, Inc – This contract is one of the few contracts with a private sector company that is priced on a cost plus basis. This contract is scheduled to be phased out with the new MMIS.

Indirect Costs

Regularly Reconsider the Acceptable Percentage of Indirect Costs Charged For Contracts

There is an opportunity to reconsider the acceptable percentage of indirect costs charged for contracts that bill actual direct and indirect costs. DHS identified 23 contracts that bill direct and indirect costs. These contracts include those of smaller size than were considered in the previous analysis of the largest 25 contracts. Their total dollar value is \$58.2 million of direct costs and \$11.5 million of indirect costs. Of these contracts, the ratio of indirect costs as a percentage of the direct costs are as follows: six charged 0% indirect costs, five charge between 5% and 10% indirect costs, six charged between 11% and 30% indirect costs, and six charged between 31% and 53% indirect costs.

While renegotiating contracts without going through a new competitive procurement may be difficult, there may still be opportunities for the legislature to consider suggesting that interagency agreements have a cap on indirect costs and for procurement experts to consider a reasonableness check on indirect costs for future procurements. If DHS were able to cap the indirect costs at the current average of all these contracts, they would save \$10.2 million a year.

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Reduce Indirect Costs on Intra-Agency Contracts

Independent of other legislative changes, Arkansas should consider capping the amount of indirect, or “overhead” charges, that one agency can bill another agency. For the top 25 contracts, this amount is projected to be approximately \$1.796 million a year upon full implementation. There are additional smaller contracts that would benefit from this change as well.

The savings could come from standardizing the overhead rates charged by contractors. There are additional smaller contracts that would benefit from this change as well.

Managed Care Scenario (if this is the choice of TF)

Under a complete transition to a Managed Care Organization, without carve outs, there would be significant changes to the current contracts and providers as many activities will be done by the MCO. In addition to the savings from other sources, State spend level reduces on the following contracts by mid FY18 when the MCO contract will include these responsibilities.

Palco - Self-Directed Service Budget Counseling Support and the Self Directed Service Budget Financial Management Services. TSG projected these contracts will go to a zero spend level once the MCO has assumed responsibilities.

Magellan – MMIS Pharmacy –In discussions between TSG and DHS, we agreed to conservatively model the Magellan contract as having a slight cost increase to move to the MCO model. There will still be a MMIS system that DHS has to maintain.

Arkansas Foundation for Medical Care – The contract to develop, implement, and update criteria for the Prior Authorization and extension of benefits, the contract for Medicaid Beneficiary Relations and Non-Emergency Transportation Administration, the contract for the Medicaid Provider Representative and the contract to provide retrospective reviews of physical, speech, and occupational therapies and prior authorizations for personal care for under age 21. Work under both these contracts would logically become part of the MCO’s responsibilities, so this contract spend goes to zero once the MCO is in place and costs would be shifted to MCO. MCO could use AFMC as subcontractor to ensure continuity of some of these activities under the MCO arrangement.

ValueOptions – Mental Health Determination Inpatient and Outpatient. Work under these contracts would logically become part of the MCO’s responsibilities, so this contract spend goes to zero once the MCO is in place.

Optum – There are some changes to the Federal/State funding level upon system certification. This results in a slight decrease in State spend.

General Dynamics Information Technology – Analytical Episodes - Work under this contract would logically become part of the MCO’s responsibilities, so this contract spend goes to zero once the MCO is in place.

McKinsey and Company – AR Health Care Payment Improvement Initiative – Work under this contract should cease if the State makes a decision to move into a Managed Care model. This spend reduction could happen as early as mid-way through FY16 with the spend level reduced to zero by FY17.

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Office of Health Technology – PCMH model – Work under this contract will be replaced by the MCO model. This contract would conclude as soon as the MCO is in place.

Pine Bluff Psychological Associates – Independent Assessors School Age Assessments - Work under this contract should cease as soon as the Managed Care model is in place.

AR Department of Health – Medicaid Outreach and Education – Work under this contract should cease as soon as the Managed Care model is in place.

Contract Costs By Scenario					State Share of Costs											
#	Contractor Name	Contract	Approximate Federal / State Share	Procurement Method	FY2016 Spend	State Spend FY16	Managed Care Scenario -----					Enhanced PCMH -----				
							FY16 (7/1/15 - 6/30/16)	FY17 (7/1/16 - 6/30/17)	Total FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20
1	HP Enterprise Services, LLC	MMIS Core	88/12	RFP amendments to extend	\$23,117,433	\$2,774,092	\$2,774,092	\$4,901,978	\$10,169,900	\$6,387,911	\$6,421,926	\$2,774,092	\$4,901,978	\$7,669,899.75	\$6,387,911	\$6,421,926
2	HP Enterprise Services, LLC	MMIS Fiscal Agent	Average 71/29. Varies	Sole Source	\$57,106,070	\$16,560,760	\$16,560,760	\$16,560,760	\$0	\$0	\$0	\$16,560,760	\$16,560,760	\$0	\$0	\$0
3	Palco	Self-Directed Service Budget Counseling Support	50/50	RFP	\$9,235,460	\$4,617,730	\$4,617,730	\$4,617,730	\$2,308,865	\$0	\$0	\$4,617,730	\$4,617,730	\$2,308,865	\$2,308,865	\$2,308,865
4	Magellan	MMIS Pharmacy	75/25	RFP amendme	\$5,956,564	\$1,489,141	\$1,489,141	\$1,535,054	\$1,582,345	\$1,631,054	\$1,709,829	\$1,489,141	\$1,535,054	\$1,582,345	\$1,631,054	\$1,709,829
5	Arkansas Foundation for Medical Care	To develop, review, implement &	75/25	RFP amendments to	\$6,524,687	\$1,631,172	\$1,631,172	\$1,468,055	\$734,027	\$0	\$0	\$1,631,172	\$1,468,055	\$1,468,055	\$1,468,055	\$1,468,055
6	UAMS Dept. of Obstetrics & Gynecology	Center for Distance Health - Formally	75/25. Note UAMS	Intergovernmental agency	\$31,372,304	\$7,843,076	\$7,843,076	\$6,666,615	\$6,666,615	\$6,666,615	\$6,666,615	\$7,843,076	\$6,666,615	\$6,666,615	\$6,666,615	\$6,666,615
7	ValueOptions Inc.	Mental Health Determination -	75/25	RFP Amendme	\$4,765,594	\$1,191,399	\$1,191,399	\$1,191,399	\$595,699	\$0	\$0	\$1,191,399	\$1,191,399	\$1,191,399	\$1,191,399	\$1,191,399
8	General Dynamics Information Technology Inc (GDIT)	Analytical Episode	90/10	RFP	\$4,330,000	\$433,000	\$433,000	\$433,000	\$216,500	\$0	\$0	\$433,000	\$433,000	\$433,000	\$433,000	\$433,000
9	Health Management Systems, Inc.	Third Party Liability & Recovery Services	50/50	RFP	\$4,707,380	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690	\$2,353,690
10	Palco	Self-Directed Service Budget Financial Management	50/50	RFP Amendme nts to Extend	\$2,454,600	\$1,227,300	\$1,227,300	\$1,227,300	\$613,650	\$0	\$0	\$1,227,300	\$981,840	\$953,119	\$953,119	\$953,119
11	Cognosante, LLC	MMIS PMO	90/10	RFP Amendme nts to	\$5,395,727	\$539,573	\$539,573	\$539,573	\$400,000	\$0	\$0	\$539,573	\$539,573	\$400,000	\$0	\$0
12	AFMC	Medicaid Beneficiary Relations and Non-Emergency Transportation Administration	50/50	RFP Amendme nts to Extend	\$4,023,577	\$2,011,789	\$2,011,789	\$1,810,610	\$905,305	\$0	\$0	\$2,011,789	\$1,810,610	\$1,810,610	\$1,810,610	\$1,810,610
13	McKinsey and Company Washington	AR Health Care Payment Improvement Initiative	66/34	Sole Source	\$15,400,000	\$5,236,000	\$1,570,800	\$0	\$0	\$0	\$0	\$5,236,000	\$2,618,000	\$1,309,000	\$0	\$0
14	ValueOptions Inc.	Mental Health Determination - Inpatient	75/25	RFP Amendme nts to	\$2,724,788	\$681,197	\$681,197	\$681,197	\$340,599	\$0	\$0	\$681,197	\$340,599	\$340,599	\$340,599	\$340,599
15	Optum	MMIS Decision Support System (DSS)	75/25	RFP Amendme nts to	\$7,610,020	\$1,902,505	\$1,902,505	\$2,779,367	\$1,897,954	\$1,866,270	\$1,892,273	\$1,902,505	\$2,779,367	\$1,897,954	\$1,866,270	\$1,892,273
16	AFMC	Medicaid Quality	75/25	RFP	\$2,729,382	\$682,346	\$682,346	\$614,111	\$614,111	\$614,111	\$614,111	\$682,346	\$614,111	\$614,111	\$614,111	\$614,111
17	Office Of Health Technology - OHIT	PCMH Model	90/10	Intergovernmental Agency	\$5,595,611	\$559,561	\$559,561	\$503,605	\$279,781	\$0	\$0	\$559,561	\$503,605	\$503,605	\$503,605	\$503,605
18	AFMC	AR Innovative Performance Program (AIPP) for Long Term Care facilities	72/24	RFP Amendme nts to Extend	\$1,545,508	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922	\$370,922

Contract Costs By Scenario													State Share of Costs				
#	Contractor Name	Contract	Approximate Federal / State Share	Procurement Method	FY2016 Spend	State Spend FY16	Managed Care Scenario -----					Enhanced PCMH -----					
							FY16 (7/1/15 - 6/30/16)	FY17 (7/1/16 - 6/30/17)	Total FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20	
19	AFMC	Medicaid Provider Representative	50/50	RFP Amendme	\$2,064,512	\$1,032,256	\$1,032,256	\$929,030	\$464,515	\$0	\$0	\$1,032,256	\$929,030	\$929,030	\$929,030	\$929,030	
20	Cognosante, LLC	DHS IT Project Management Office	90/10	Sole Source	\$9,642,211	\$964,221	\$964,221	\$964,221	\$964,221	\$723,166	\$723,166	\$964,221	\$964,221	\$964,221	\$723,166	\$723,166	
21	DataPath	Private Option Health Care Independence Accounts	50/50	Sole Source	\$8,200,000	\$4,100,000	\$4,100,000	\$0	\$0	\$0	\$0	\$4,100,000	\$0	\$0	\$0	\$0	
22	AFMC	Retrospective Reviews of physical, speech, and occupational therapies and PA's for personal care for under age 21	75/25	RFP Amendme nts to Extend	\$1,151,844	\$287,961	\$287,961	\$259,165	\$129,582	\$0	\$0	\$287,961	\$259,165	\$259,165	\$259,165	\$259,165	
23	Pine Bluff Psychological Associates	DDS Procurement of Independent Assessors School Age Assessments	50/50	RFP Amendme nts to Extend	\$930,600	\$465,300	\$465,300	\$465,300	\$0	\$0	\$0	\$465,300	\$465,300	\$465,300	\$465,300	\$465,300	
24	AR Dept. of Health	Medicaid Outreach & Education ConnectCare and provide information in the Primary Care Case Management (PCCM) program & support ARKids 1st info line	50/50	Intergove rnmental Agency	\$2,862,302	\$1,431,151	\$1,431,151	\$1,431,151	\$715,576	\$0	\$0	\$1,431,151	\$1,431,151	\$1,431,151	\$1,431,151	\$1,431,151	
25	Health Services Advisory Group, Inc.	Medicaid Data Mining and Program Evaluation	75/25	RFP Amendme nts to Extend	\$896,764	\$224,191	\$224,191	\$201,772	\$0	\$0	\$0	\$224,191	\$201,772	\$201,772	\$201,772	\$201,772	
Total					\$220,342,938	\$60,610,331	\$56,945,131	\$52,505,604	\$32,323,856	\$20,613,738	\$20,752,531	\$60,610,331	\$54,537,545	\$36,124,425	\$32,909,406	\$33,048,199	
Changes in Spending Levels							\$3,665,200	\$8,104,727	\$28,286,476	\$39,996,594	\$39,857,800	\$0	\$6,072,786	\$24,485,906	\$27,700,925	\$27,562,132	