LAO

The 2021-22 Budget:
Medi-Cal Enterprise System Modernization Effort

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The *2021-22 Governor's Budget* proposes to continue the replacement of several Medi-Cal information technology (IT) systems and to plan the modernization of many of the remaining systems under a new effort called the Medi-Cal Enterprise System (MES) Modernization. This post assesses the Governor's budget proposal related to the new MES Modernization effort and provides associated recommendations.

Background

The Department of Health Care Services (DHCS) Manages Hundreds of IT Systems to Operate the Medi-Cal Program. Medi-Cal, the state's Medicaid program, provides health coverage to more than 13 million of the state's low-income residents. To operate the program, DHCS manages many IT systems enabling payment of over $100 billion in expenditures annually. (Other entities also manage IT systems that support the Medi-Cal program.) This post refers to some of the Medi-Cal IT systems DHCS manages that are relevant to this modernization effort, including the California Medicaid Management Information System (CA-MMIS) that processes payments for providers in Medi-Cal's fee-for-service program; Medi-Cal Eligibility Determination System (MEDS) as the system of record for program eligibility, enrollment, and reporting functions; and several separate behavioral health data systems.

DHCS Started a Number of Individual Medi-Cal IT System Modernization Initiatives. Many of the Medi-Cal program's IT systems do not meet the updated guidelines and standards in the federal government's recommended framework for state Medicaid IT systems, known as the Medicaid Information Technology Architecture (MITA). States that redesign their IT systems to align with MITA generally are eligible for enhanced federal financial participation at 90 percent of total costs

for planning, development, and implementation of a new system, and 75 percent of total costs for maintenance and operations of the system (once certified as aligned with MITA). To better align some Medi-Cal IT systems with MITA and benefit from the available enhanced federal funding, DHCS started a number of Medi-Cal IT system modernization initiatives, including CA-MMIS Modernization in 2010, the Comprehensive Behavioral Health Data System in 2015, and MEDS Modernization in 2016.

Some IT Modernization Projects Went Through the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. CDT's PAL process is the state's IT project approval process. The PAL process requires state entities to submit planning documents to CDT for approval that together provide a complete project plan, including projected cost, schedule, and scope. (For a comprehensive description of the PAL process, please see our February 17, 2017 report—*The 2017-18 Budget: The New IT Project Approval and Funding Process*.) Some of the IT projects within DHCS's Medi-Cal IT system modernization initiatives completed the PAL process and started development and implementation, including the Federal Draw and Reporting IT project within CA-MMIS Modernization. Other projects started the PAL process, but were withdrawn as the administration moved away from individual initiatives and towards a single, consolidated modernization effort.

All of the Prior Modernization Initiatives and Projects Are Now Consolidated Into a New Single MES Modernization Effort With an Expanded Scope. The administration decided last year to consolidate the previous Medi-Cal IT system modernization initiatives and associated projects into a single MES Modernization effort. While DHCS expects MES Modernization to include the previous Medi-Cal IT system modernization initiatives, the

new effort also will include other projects and substantially broadens the scope of Medi-Cal IT system modernization. DHCS expects to identify business needs across many Medi-Cal IT systems and address the program needs with modern technology that serves to benefit all Medi-Cal enrollees. For example, CA-MMIS Modernization focused on replacing the CA-MMIS subsystems that handle payments for Medi-Cal's fee-for-service program, which currently delivers services to less than 20 percent of Medi-Cal enrollees. The MES Modernization effort, in contrast, also will include modernization and/or replacement of subsystems that operate the Medi-Cal managed care program, which now supports the more than 80 percent of enrollees served by Medi-Cal managed care plans.

Budget Proposal

The Governor's Budget Requests $22.3 Million ($4 Million General Fund) for the MES Modernization Effort. The administration requests $14.1 million ($2.9 million General Fund) in 2021-22 and $1.3 million ($128,000 General Fund) in 2022-23 to continue three of the previous Medi-Cal IT system modernization projects—the approved Federal Draw and Reporting project, the proposed California Automated Recovery Management project, and the proposed Comprehensive Behavioral Health Data System Modernization project. The remaining $8.2 million ($1.1 million General Fund) in 2021-22 would provide resources to plan and support the new MES Modernization effort more broadly. Figure 1 on the next page describes each of these modernization proposals and provides the requested limited-term funding amount in 2021-22.

Assessment

The New MES Modernization Effort Is Unlike Almost Any Other IT Project. DHCS's new MES Modernization effort represents an as-yet-determined portfolio of numerous IT projects expected to modernize the state's Medi-Cal IT systems. The project portfolio will be unlike almost any other IT project in the state because of its breadth and complexity. (Another project of comparable breadth and complexity, for example, might be the Financial Information System for

California.) The administration's traditional approach to the planning, development, and implementation of IT projects likely will need to be modified to accommodate the individual projects within the MES Modernization effort, as well as oversight of the whole project portfolio. We understand that DHCS and other state entities currently are exploring how to modify existing processes, such as CDT's PAL process, for the MES Modernization effort.

Unclear What Baseline Cost, Schedule, and Scope Information Will Be Available for the MES Modernization Effort. As individual IT projects within the portfolio are planned (either through the traditional PAL process or some modified process the administration implements), baseline project cost, schedule, and scope information is expected to be made available for the Legislature to assess future budget requests. Whether the baseline cost, schedule, and scope of the *entire* MES Modernization effort will ever be available, however, is unclear. This information is critical because it would help identify when complex and costly Medi-Cal IT system modernization projects in the portfolio are expected to begin and what (if any) impact their failure could have on the MES Modernization effort as a whole. Cost, schedule, and scope information for the effort also would identify the dependencies between projects in the portfolio that could affect the effort's schedule. This information also could list any of the potential changes to interfaces between Medi-Cal IT systems and other health and human services IT systems that might be required to avoid unanticipated disruptions to other programs and services.

Potential Modifications to Existing Processes and Lack of Information Raise Concerns About Legislative Oversight. While we raise no specific concerns with the funding aspect of this specific proposal, we do raise concerns about the lack of detail regarding legislative oversight of the MES Modernization effort in light of potential changes to existing IT project processes (such as the project approval process) and limited baseline cost, schedule, and scope information. We understand the magnitude of this effort to modernize Medi-Cal IT systems is unique, but the Legislature should have input on any major IT policy changes to

accommodate the MES Modernization effort. We also would argue the MES Modernization effort requires the administration and the Legislature to rethink how the state oversees complex and costly IT projects in general. (In particular, the state might rethink oversight of projects that are part of a larger portfolio of projects like MES Modernization, and projects that address similar business needs like supporting the Medi-Cal program across several state entities.)

Recommendations

Approve the Budget Proposal. We recommend the Legislature approve the budget proposal for DHCS to continue existing Medi-Cal IT system modernization projects that leverage enhanced federal financial participation, and for the department to plan a strategy for the complex MES Modernization project portfolio.

Direct the Administration to Work With the Legislature on Potential Changes to IT Project Processes. To improve legislative oversight of the MES Modernization effort (and possibly other complex and costly efforts or projects), we recommend the Legislature direct the administration to keep the Legislature regularly informed of key changes to existing IT project processes that the administration is considering for the MES Modernization effort. (The Legislature could, for example, direct the administration to update our office at least quarterly on these changes.) We also recommend the Legislature adopt supplemental report language that directs the administration to report back before January 10, 2022 on (1) changes made to existing IT project processes for the MES Modernization effort; (2) new options for legislative oversight of MES Modernization; and (3) other potential improvements to current oversight processes for, in particular, complex and costly IT projects.

Figure 1

Breakdown of the *2021-22 Governor's Budget* Request for the MES Modernization Effort

(In Thousands)

Project or Effort	Description[a]	Total Funds	General Fund
Federal Draw and Reporting IT Project[b]	An approved IT project in development and implementation to replace the current system (CMS-64) that receives requests for Medi-Cal provider payments, assigns costs to federal and state program funds, reconciles financial data with other state accounting systems, and submits reports to CMS.	$9,800	$2,450
California Automated Recovery Management IT Project[b]	A proposed IT project to replace the current system (Automated Collection Management System) that manages third party Medi-Cal expense liability and recovery.	2,970	297
Comprehensive Behavioral Health Data System Modernization IT Project	A proposed IT project to consolidate functions from at least 11 separate systems that collect and store behavioral health data into a single system.	1,275	128
MES Modernization Effort—Planning and Support	A new effort to combine previous Medi-Cal IT system modernization initiatives and broaden scope to other Medi-Cal IT systems based on Medi-Cal program business needs. Requested resources would plan the remainder of the effort, and support contracts for services such as change management and project oversight across both existing and new Medi-Cal IT system modernization projects.	8,234	1,141
Totals		**$22,279**	**$4,016**

[a] Approved IT projects are projects approved by the California Department of Technology (CDT) through its Project Approval Lifecycle (PAL)—the state's IT project approval process. Proposed IT projects are projects that continue to be planned through CDT's PAL process.

[b] These projects were part of the former California Medicaid Management Information System modernization initiative.

MES = Medi-Cal Enterprise System; IT = information technology; and CMS = Centers for Medicare and Medicaid Services.

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