

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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**THE STATE'S MEDI-CAL FISCAL INTERMEDIARY  
IS NOT MEETING THE REQUIREMENTS OF THE  
NEW CLAIMS PROCESSING CONTRACT**

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REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

P-228.6

THE STATE'S MEDI-CAL FISCAL INTERMEDIARY  
IS NOT MEETING THE REQUIREMENTS OF  
THE NEW CLAIMS PROCESSING CONTRACT

JANUARY 1984

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Thomas W. Hayes  
Auditor General

STATE OF CALIFORNIA  
**Office of the Auditor General**

660 J STREET, SUITE 300  
SACRAMENTO, CALIFORNIA 95814

January 27, 1984

P-228.6

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the State's review of the Computer Sciences Corporation's transition to the new Medi-Cal fiscal intermediary contract. The report concludes that the Computer Sciences Corporation has failed to meet requirements of the contract.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

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## SUMMARY

The Computer Sciences Corporation (CSC) has failed to meet the requirements of the new Medi-Cal fiscal intermediary contract, which became effective on October 1, 1983. The CSC has not delivered to the State acceptable plans, procedure manuals, and other required documents. (These documents are collectively called "deliverables.") In addition, the CSC has not submitted revisions of disapproved deliverables and has failed to submit seven major workplans. As a result, the CSC is not complying with the terms of the new fiscal intermediary contract.

The Department of Health Services' (department) Fiscal Intermediary Management Division (FIMD) is responsible for administering the current Medi-Cal fiscal intermediary contract and for reviewing the CSC's transition from the current to the new contract. Staff from the FIMD evaluated the CSC's deliverables and as of December 21, 1983, judged 67 percent (20 of 30 deliverables) to be unacceptable. The reasons for disapproval include lack of detail and failure to comply with contract requirements.

Furthermore, the CSC has failed to submit seven deliverables for review, and the CSC has failed to meet the deadlines for submitting revisions of disapproved deliverables. Although the State has disapproved most of the CSC's deliverables, the CSC has not submitted any revisions. The CSC's failure to submit deliverables by specified due

dates could result in a delay in the transition schedule. The CSC is scheduled to assume operations under the new contract on July 5, 1984. If the current contract must be extended because of delays, the State estimates it will incur additional costs of \$1 million per month.

According to CSC officials, the CSC's failure to devote sufficient resources to support the transition to the new contract may have been partly responsible for the failure to submit acceptable deliverables on time. Both the request for proposal and the CSC's proposal require the CSC to commit sufficient resources to meet the requirements of the contract.

To bring the CSC into compliance with the Medi-Cal fiscal intermediary contract, the State should assess the CSC for liquidated damages. According to the contract, the State's contracting officer can assess up to \$500 per day for each deliverable that is deficient.

## INTRODUCTION

As required by the Legislature, we have been monitoring each phase of the selection of the next Medi-Cal fiscal intermediary. In this our sixth report, we discuss the Computer Sciences Corporation's (CSC) failure to comply with requirements of the new fiscal intermediary contract.

### Medi-Cal History

Medi-Cal is California's version of the federal Medicaid program. The program, which is administered by the Department of Health Services (department), provides medical assistance to the State's poor. Medi-Cal's annual expenditures of approximately \$5 billion place it among the State's largest programs. Since the Medi-Cal program was implemented in 1966, a nongovernmental fiscal intermediary, under contract to the State, has processed Medi-Cal claims and performed various activities pertaining to Medi-Cal payments.

The contract with the current Medi-Cal fiscal intermediary is due to expire on February 29, 1984. To procure the next fiscal intermediary, the State established a task force to develop a new request for proposal (RFP). The State invited interested vendors to submit detailed proposals demonstrating their ability to meet the requirements of the RFP. The State's evaluation of the proposals involved two steps. The first step was a technical evaluation to determine if the proposals

met the RFP requirements and to ascertain whether the vendor had the ability to meet the contractual responsibilities. In the second step, the State received and evaluated bids and cost data from vendors to identify the lowest bid and to award the contract. The RFP, the vendor's proposal, the vendor's responses to clarifications and deficiencies, and the vendor's bid package constitute the main components of the fiscal intermediary contract.

On August 5, 1983, the State sent Invitations for Bid to the Electronic Data Systems Corporation, the Computer Sciences Corporation, and the McAuto Systems Group, Incorporated. On August 24, 1983, the bids were opened; the Computer Sciences Corporation submitted the lowest total bid and was awarded the contract which became effective on October 1, 1983.

Responsibilities of the  
Department of Health Services

The department's Fiscal Intermediary Management Division (FIMD) is responsible for administering the current fiscal intermediary contract and reviewing the CSC's transition from the current to the new contract. The FIMD's transition responsibilities include reviewing the plans, procedure manuals, and other related documents that are required in the RFP. These documents are referred to as "deliverables." The FIMD will also monitor the CSC's testing of the claims processing system, and it will test this system itself to see that it is acceptable.



The FIMD has established a detailed review process to ensure that deliverables meet the requirements of the RFP and that they conform to the CSC's proposal. After extensive review, the FIMD either approves a deliverable as meeting contractual requirements or disapproves it for failing to meet such requirements. If the FIMD does not approve the deliverable, the CSC is required to correct it. The FIMD again reviews the revisions for compliance with contractual requirements. According to the RFP, the FIMD can also assess liquidated damages against the CSC if the CSC fails to meet contractual requirements.

#### SCOPE AND METHODOLOGY

The primary objective of this phase of our monitoring is to review the transition to the new fiscal intermediary contract. Consequently, we concentrated our review on the FIMD's procedures for approving or disapproving the CSC's deliverables. We met with FIMD staff responsible for developing the review procedures, and we met with other department staff involved in developing review procedures and criteria.

During the FIMD's review of deliverables, we monitored the reviewers' adherence to procedures. We received status reports from the FIMD on the review process, and we examined the documents it prepared in approving and disapproving CSC deliverables. We also attended meetings between the reviewers and the FIMD staff responsible for the transition to the new fiscal intermediary contract.

During our monitoring, we expressed to FIMD management and staff our concerns over the CSC's failure to comply with contractual requirements. We also met with CSC officials to express these concerns.

## AUDIT RESULTS

### THE COMPUTER SCIENCES CORPORATION HAS FAILED TO MEET CONTRACTUAL REQUIREMENTS

As of December 21, 1983, the State had disapproved 67 percent of the deliverables submitted by the Computer Sciences Corporation (CSC) because these deliverables failed to comply with contract requirements. Moreover, the CSC has submitted deliverables that violate the state-mandated terms and conditions of the fiscal intermediary contract. Furthermore, the CSC has not submitted revisions for any of these unacceptable deliverables, and it has not submitted certain deliverables for state review. By not submitting deliverables that fulfill the requirements of either the request for proposal (RFP) or its own proposal, and by not submitting deliverables on time, the CSC has failed to comply with the contractual requirements of the new fiscal intermediary contract.

The CSC's failure to comply has resulted in increased expenditures of state resources because staff of the Department of Health Services must review the resubmitted deliverables. In addition, the CSC's failure to submit deliverables on time could delay the scheduled transition to the new fiscal intermediary contract. If the current contract must be extended, the State estimates it will incur additional costs of approximately \$1 million per month. According to CSC officials, the CSC's failure to devote sufficient resources to make the transition to the new contract may have been partially responsible for its failure to meet contract requirements.

## The Computer Sciences Corporation's Deliverables Are Not Acceptable

Of the 30 deliverables that the CSC has submitted and that the department has reviewed, 20 fail to comply with the terms and conditions of the new fiscal intermediary contract. For some deliverables, including the Expert Witness Plan and the State Access Methods Plan, the CSC neglected to include materials or details outlined in the RFP. For other deliverables, such as the Operations Monthly Billing Report, the CSC presented formats that do not conform to those required by the RFP.\*

The CSC has also submitted several deliverables that not only fail to meet the RFP requirements but also contradict previous CSC proposals. For example, the Provider Services Plan states that the CSC will respond to provider inquiries within 30 days. The RFP, however, specifically states that the contractor must respond to all inquiries from providers within 15 working days of receipt. In addition, the CSC's proposal assured the State that it would respond to inquiries within the required 15 days. By extending the response time, the CSC fails to comply with its previous proposal and with the RFP requirement.

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\*The Expert Witness Plan describes the CSC's procedures for providing expert witness services to the State. The State Access Methods Plan shows the CSC's methods for allowing the State to review the CSC's quality control process. The Operations Monthly Billing Report describes the specifications and format for the CSC's monthly bill to the State.

Furthermore, the CSC imposes an additional constraint on the State beyond those specified in the RFP. In its proposal, the CSC agreed not to require the State to organize requests for records numerically by claim control numbers. The CSC's Records Retention Procedure Manual, however, requires that such requests be organized in this way. The Records Retention Procedure Manual also significantly extends the CSC's time for responding to claim requests and may therefore delay the State's access to information on claims. In our review of the availability of CSC claims information under the current contract (Letter Report 317, May 5, 1983), we found that the State needs to receive this information in a timely manner to file liens to recover monies owed the State for Medi-Cal services.

Finally, the CSC's State Access Methods Plan could restrict the State's access to CSC's operations. This restriction contradicts the RFP requirements. Similar restrictions in the current contract have limited the State's ability to monitor the CSC. The State has disapproved CSC's State Access Methods Plan.

The CSC's failure to submit acceptable deliverables means that the State must spend additional resources because the State must once again review the revised deliverables. In addition, the lack of detail and the information missing in the disapproved deliverables violate the fiscal intermediary contract. If the State were to accept the unrevised deliverables, the State's ability to monitor the contract would be limited. According to the RFP, the State can assess liquidated damages to enforce the contract.

The Computer Sciences Corporation  
Has Failed to Meet Submission Deadlines

The CSC has failed to resubmit any deliverables that have been previously disapproved by the State. The State has disapproved 67 percent of the deliverables submitted by the CSC. When the State disapproved the deliverables, it negotiated with the CSC to establish due dates for submitting revised deliverables. But, the CSC has failed to submit revisions for these deliverables. (Appendix A lists the deliverables that are overdue.)

In addition to its failure to submit revisions of disapproved deliverables, the CSC has not submitted seven workplans even though the contract requires that the contractor submit deliverables by required due dates. Specifically, the CSC has not submitted the Acceptance Test Support Plan (due December 1, 1983), the Security and Confidentiality Plan (due December 5), the Systems Development Group Procedures (due December 9), the Documentation Upgrade Plan (due December 16), the Program Code Update Plan (due December 16), and two deliverables related to the CSC's project control system (due December 2 and December 19, respectively).

The CSC's failure to submit deliverables by specified due dates could result in a delay in the transition schedule. The CSC is scheduled to assume operations under the new contract on July 5, 1984. If the current contract must be extended because of delays, the State estimates it will incur additional costs of \$1 million per month. These costs represent the difference between the CSC's current contract payment and the amount of

the payment under the new contract. The CSC's failure to submit deliverables by the dates specified in the contract may mean that the State will have to approve of the CSC's assumption of the new contract even though certain deliverables have not been received or approved. A similar situation occurred when the State entered into the current contract with the CSC; the CSC assumed operation as the Medi-Cal fiscal intermediary without an approved quality control plan.

The CSC's failure to devote sufficient resources to making the transition to the new contract has contributed to its inability to submit acceptable deliverables and to meet deadlines. The State found the CSC's original proposal deficient because the CSC had not committed enough staff to complete the transition. The CSC responded by assuring the State that the CSC intended to use sufficient staff to support this effort. However, in a letter to the Chief of the FIMD, the Vice President and General Manager of the CSC stated that "had we been able to anticipate the quantity and extent of the clarifications [disapprovals] the State would request, ... we could have assigned more resources to the initial submittal of some of the deliverables." Nevertheless, the fiscal intermediary contract requires the contractor to provide sufficient resources to execute all responsibilities required by the contract, regardless of proposed staffing or resource levels. According to the RFP, the State can assess liquidated damages to enforce the contract.

## CONCLUSION

The Computer Sciences Corporation is not meeting the requirements of the new fiscal intermediary contract. As of December 21, 1983, 67 percent of the CSC's deliverables were unacceptable, and the CSC had failed to submit revisions for those deliverables that had been disapproved. Furthermore, the CSC had not submitted some deliverables to the State. As a result of the CSC's failure to meet contractual requirements, the State will have to spend additional resources to complete the review of the CSC's deliverables. In addition, if the transition schedule slips, the State estimates it may have to pay an additional \$1 million per month to the CSC under the provisions of the current contract.

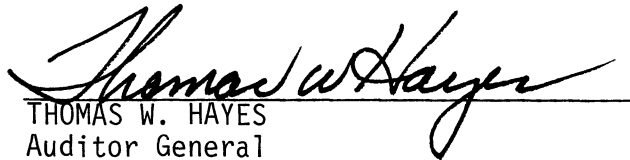
## RECOMMENDATION

The State should assess the Computer Sciences Corporation for liquidated damages. According to the fiscal intermediary contract, the State's contracting officer can assess up to \$500 per day for each deliverable that fails to meet contract requirements.



We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

Date: January 17, 1984

Staff: Robert E. Christophel, Audit Manager  
Clifton John Curry  
Gregg A. Gunderson  
Frank A. Luera



HEALTH and WELFARE AGENCY  
OFFICE OF THE SECRETARY  
1600 NINTH STREET, ROOM 460  
Sacramento, California 95814  
(916) 445-6951

January 12, 1984

Mr. Thomas W. Hayes  
Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to review a draft copy of your report, "The State's Fiscal Intermediary Is Not Meeting All Requirements of the New Claims Processing Contract".

We believe your report accurately describes the status of CSC's contract deliverables for the period covered by the report. This has and will continue to be a major concern of Department of Health Services staff responsible for managing the transition to the new fiscal intermediary contract.

Since the period covered by this report, CSC has improved their performance in this area. As of January 6, 67 of 71 deliverables initially due to the Department and 8 of 19 revisions have been received. One of the late deliverables, the Acceptance Test Support Plan, is of concern because of the possible impact on Acceptance Testing. Consideration is now being given to notify CSC of the State's intent to assess liquidated damages.

I share your concern that the contract transition schedule be met and contract requirements be fulfilled. Liquidated damages provisions in this contract are designed to assure performance and to protect the State from losses caused by contractor failure to perform requirements. The Contracting Officer has the discretion in any given situation to determine whether or not to assess damages, taking into consideration all relevant factors. One of the factors which the Contracting Officer must consider in reaching a decision is the degree to which the State has been harmed by CSC's failure to perform a contractual requirement.

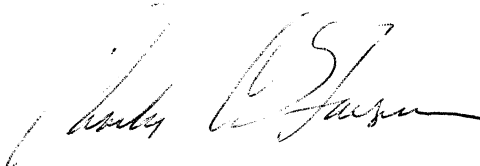
Mr. Thomas W. Hayes

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We expect all deliverables will meet contract requirements and the transition to the new contract will occur on schedule. The Department of Health Services will continue to monitor the situation and any and all contract remedies, including liquidated damages, will be used as appropriate.

CSC has conducted an independent analysis of your report and I am enclosing their comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "David B. Swop".

For DAVID B. SWOAP  
Secretary

Enclosure

# COMPUTER SCIENCES CORPORATION

GOVERNMENT HEALTH SERVICES DIVISION

(916) 920-5000

2000 EVERGREEN · P.O. BOX 15000 · SACRAMENTO, CALIFORNIA 95813

January 9, 1984  
CSC Ref. #363A

Mr. Ben Thomas, Chief  
Fiscal Intermediary  
Management Division  
Department of Health Services  
714 "P" Street, Room 950  
Sacramento, CA 95814

Subject: Takeover Phase Deliverables

Dear Mr. Thomas:

This letter transmits CSC's current status of deliverables required during the Takeover Phase of the new Medi-Cal contract. As we have discussed, there are some minor discrepancies between the status reports prepared by your staff and those prepared by mine; however, I do not believe those reporting errors will impact any of the actual deliverables.

The only status reporting changes which could improve the ability of others to monitor CSC's progress (without talking directly to CSC) are:

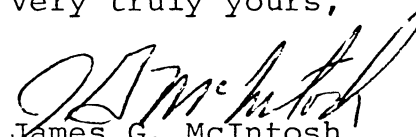
- o Add columns for additional dates so that a reviewer can understand the difference between plan (objective), estimate (assessment), and completion (achieved).
- o For deliverables which have been disapproved, the status reports could reflect the reason for disapproval. To place all rejections in the same category lessens the importance of any deliverable which may be truly time critical to the implementation of the new contract.
- o Again for disapproved deliverables, add another estimated completion date or revise the original after CSC has an opportunity to review your reasons for rejection. Too often the initial estimate is based on too few facts, or the receipt of the rejection notice is delayed, or too many deliverables are competing for the same resources.

Along these same lines, CSC has reviewed the draft copy of the State's internal audit of the Takeover Phase. While the draft report tends to be overdramatic, its biggest failing is its lack of any substance about the activities involved with the Takeover Phase. CSC finds little significance in the statistical evaluation that some deliverables: were late, without the report including any clarifying information about other priority work which the State had assigned; were rejected, without the report indicating the severity of the flaw; or were not resubmitted as requested, without the report recognizing the complexity of the clarifications, therefore the probability of an estimated completion date.

The State's draft report says that CSC believes that part of the reason for the Takeover Phase deliverables not being on time was because CSC did not devote enough resources to support the effort. That is not what we told your auditors. Our comments were, had we been able to anticipate the quantity and extent of the clarifications the State would request, that we could have assigned more resources to the initial submittal of some of the deliverables.\*

Most importantly, the draft report fails to recognize that in every instance CSC has responded to the State's requests for clarifications and we will continue to do so. Despite the State giving us several unexpected priority tasks under the old contract, CSC is completing its requirements under the new contract Takeover Phase to ensure an effective transition to the Operations Phase.

Very truly yours,



James G. McIntosh  
Vice President and  
General Manager

JGM:sh

Enclosures

cc: Thomas W. Hayes  
Frank Murray, Jr.  
Frederick H. Noteware

\* Auditor General's Note: The CSC responded to a draft copy of our report. The text of the final report was changed to reflect this information. (Additional Auditor General comments appear on pages 31 and 32 of this report.)

TAKEOVER CONTRACT DELIVERABLES

TIMELY SUBMISSION

	<u>As of 12/21/83</u>	<u>As of 01/06/84</u>
Original Deliverables Submitted on Time	20 (59%)	35 (66%)
Submitted Early	1 ( 3%)	5 ( 9%)
Submitted One Day Late	4 (12%)	4 ( 7%)
Submitted Two Days Late	1 ( 3%)	1 ( 2%)
Submitted Three Days Late	2 ( 6%)	2 ( 4%)
Submitted More Than Three Days Late	1 ( 3%)	2 ( 4%)
Not Yet Submitted	<u>5 (14%)</u>	<u>4 ( 8%)</u>
TOTALS	34	53

Note: Excludes Takeover Progress Reports

TAKEOVER CONTRACT DELIVERABLES

APPROVAL STATUS

As of 12/21/83

Deliverables Approved	10 (40%)
Requests for Clarification Prior to Approval	1 ( 4%)
Disapproved - Minor Changes Required	9 (36%)
Disapproved - Major Changes Required	5 (20%)
	<hr/>
TOTAL	25

Note: Excludes Takeover Progress Reports

TAKEOVER STAFFING COMPARISON

TOTAL FTE'S PER TAKEOVER PHASE STAFFING PLAN*		TOTAL FTE'S REPORTED ON TIMECARDS (Actual Hours)			
<u>10/83</u>	<u>11/83</u>	<u>12/83</u>	<u>10/83</u>	<u>11/83</u>	<u>12/83</u>
1.3	9.3	14.4	3.1	17.7	18.3
TOTAL		<u>24.8</u>	TOTAL		<u>39.1</u>



TAKEOVER DELIVERABLE STATUS

<u>DELIVERABLE</u>	<u>DUE TO FIRM</u>	<u>SUBMITTED TO FIRM</u>	<u>APPROVED/DISAPPROVED</u>	<u>REMARKS</u>	<u>DISAPPROVAL REASONS (Per FIMD)</u>
Assemble Management Team	10/31/83	10/31/83	A		
Install O.C. Program	10/31/83	10/31/83	A	Required resubmission	
Install CACI Procedures	10/31/83	10/31/83	A		
*Takeover Work Plan	11/07/83	11/07/83	D	Completed 01/06/84	Need to distinguish between CA-HMIS training for CSC and State; show level of effort for file maintenance; correct typographical errors
*Takeover Organization Plan	11/14/83	11/14/83	D	Completed 01/04/84	CACI staffing for Takeover needs to be at the same level as specified in the Technical Proposal
CA-HMIS Training Plan	11/14/83	11/14/83	D	Completed 12/30/83	Training schedule not included; more information required on trainer's background and experience; need to identify number of staff to be trained and number of hours required; samples of training materials omitted
S/URS Training Plan	11/14/83	11/14/83	D	Resubmission overdue; project completion by 01/10/84	More information required on trainer's background and experience; detailed description of each program must be included; standards and policies omitted; no information on CDR training; training schedules omitted
Personnel Acquisition Plan	11/14/83	11/14/83	D	Completed 01/03/84	CACI staffing level for period 05/84 to 10/84 needs to be at the same level as specified in the Technical Proposal
Provider Services Plan	11/14/83	11/14/83	D	Resubmitted on 12/22/83	Date discrepancy (15 vs. 30); number of WATS lines not cited; references to "operational" activities needs to be deleted
CA-HMIS Manual Procedures Plan	11/14/83	11/14/83	D	Resubmission overdue; project completion by 01/13/84	A methodology for reviewing each manual is lacking; need a plan for accomplishing changes to existing manuals; need to identify a schedule for delivery of manuals
Records Retention Plan	11/14/83	11/14/83	D	Resubmission overdue; project completion by 01/11/84	Complete procedures are not provided; parts of Records Retention Procedure Manual need to be incorporated in this Plan; one clarification response not incorporated
Expert Witness Plan	11/14/83	11/14/83	D	Resubmission overdue; project completion by 01/13/84	Complete procedures are not provided; training for Expert Witness not fully described; alternate staff not adequately described
Systems Test Plan	11/28/83	12/01/83	A		
Hardware/Equipment Acquisition/Installation Plan	11/28/83	11/30/83	A		
Software Installation Plan	11/28/83	11/29/83	A		
CACI Procedures	11/28/83	11/29/83	D	Resubmission due 01/13/84	Complete and detailed procedures are lacking; two of the stated assumptions need rewording; reference to Project/2 instead of PLS needs to be included.

\*Critical Deliverable

TAKEOVER DELIVERABLE STATUS

<u>DELIVERABLE</u>	<u>DUE TO FIND</u>	<u>SUBMITTED TO FIND</u>	<u>APPROVED/DISAPPROVED</u>	<u>REMARKS</u>	<u>DISAPPROVAL REASONS (Per FIND)</u>
Paper Stock Samples	11/28/83	11/28/83	A		
Facility Acquisition/Installation Plan	11/28/83	11/28/83	A		
CA-MHIS Files Installation Plan	11/28/83	11/29/83	A		
Plan for Assumption of CA-MHIS Operations	11/28/83	12/01/83	D	Resubmission due 01/11/84	Procedures pertaining to assumption of claims processing based on receipt date need to be clarified; clarify interim payment denials as a CSC responsibility; clarify CA-MHIS files installation dates
Record Retention Procedure Annual	11/28/83	12/02/83	D	Resubmission due 01/10/84	Provisions contained in this manual conflict with RFP requirements; DHS does not want to pre-authorize document requests; numerous other procedures need clarification
*State Access Methods	12/01/83	12/01/83	D	Resubmission due 01/09/84	Detailed plans, methods, or procedures are not presented
Accounting Requirements	12/01/83	12/02/83	D	Resubmission due 01/18/84	Workorder structure needs clarification; personnel time reporting needs further discussion; specified procedures omitted; allocations of expenses need clarification; accounting ledgers must be further defined; several technical items were omitted
Operations Monthly Billing Report Design	12/01/83	12/01/83	D	Resubmission due 01/13/84	Design documentation and programming specifications not included; several definitions are unacceptable; several requirements are not addressed; format is not easily understood
Cost Reimbursement Plan	12/01/83	12/01/83	A		
*Acceptance Test Support Plan	12/01/83	--	--	OVERDUE; project completion by 01/09/84	
*Security/Confidentiality Plan	12/05/83	--	--	OVERDUE; completed 01/06/84	
*Systems Development Group Procedures	12/09/83	--	--	OVERDUE; project completion by 01/09/84	
Documentation Upgrade Plan	12/16/83	--	--	OVERDUE; project completion by 01/18/84	
Program Code Upgrade Plan	12/16/83	--	--	OVERDUE; project completion by 01/13/84	

\*Critical Deliverables

TAKEOVER DELIVERABLE STATUS

<u>DELIVERABLE</u>	<u>DUE TO FIND</u>	<u>SUBMITTED TO FIND</u>	<u>APPROVED/DISAPPROVED</u>	<u>REMARKS</u>	<u>DISAPPROVAL REASONS (Per FIND)</u>
Updated/New Operating Procedure Manuals					
- Micrographics	12/21/83	12/21/83			
- Mail Room	12/21/83	12/21/83			
- Claims Preparation	12/21/83	12/21/83			
- Claims Control	12/22/83	12/21/83			
- Accounts Receivable	12/23/83	12/23/83			
- Claims Research	12/28/83	12/28/83			
- Total Data Entry	12/30/83	12/23/83			
- CRT Training	12/30/83	12/30/83			
- TAR Suspense Proc.	01/03/84	01/03/84			
- Pharmacy Suspense Proc.	01/03/84	01/03/84			
- LTC Suspense Proc.	01/03/84	01/03/84			
- Inpatient Suspense Proc.	01/03/84	01/03/84			
- Outpatient Suspense Proc.	01/03/84	01/03/84			
- Professional/Supplier Suspense Proc.	01/03/84	01/03/84			
- Vision Suspense Proc.	01/03/84	01/03/84			
- Diagnosis File	01/04/84	01/04/84			
- Formulary File	01/04/84	01/04/84			
- Procedure File	01/04/84	01/04/84			
- Rpt Distribution List	01/05/84	01/05/84			
- Medical Review	01/06/84	01/05/84			
- Data Control	01/06/84	01/06/84			
- Provider Services	01/09/84			On schedule	
- S/URS Rpts User Manual	01/09/84			On schedule	
- CACI Procedures	01/11/84			On schedule	
- Contract Monitoring	01/11/84			On schedule	
- MARS Rpts User Manual	01/13/84			On schedule	
- Claims Procedure Rpts User Manual	01/13/84			On schedule	
- Recipient Rpts User Manual	01/13/84			On schedule	
- Provider Rpts User Manual	01/13/84			On schedule	
- Reference Rpts User Manual	01/13/84			On schedule	
Quality Control Plan	12/23/83	12/22/83			

RESPONSE TO THE DRAFT REPORT P-228.6  
BY THE OFFICE OF THE AUDITOR GENERAL

In the draft report issued by the Auditor General three separate points are made. This response will address each of these points and present the appropriate clarifying information to form a more complete picture of the Medi-Cal contract transition.

- I. CSC has not delivered to the State acceptable plans, procedure manuals and other required documents.
- 67% (20 of 30) deliverables have been judged unacceptable as of December 21, 1983
  - CSC has failed to submit seven major work plans
  - CSC has not submitted revisions of disapproved deliverables
  - The Auditor General expressed concern over these deliverables to CSC officials.

RESPONSE:

1. For the record, CSC was contractually required to submit three Takeover deliverables on October 31, 1983; all three were submitted on time. CSC was also required to submit one deliverable on November 7, 1983. It, too, was delivered on time. On November 14, 1983 CSC was required to submit eight Takeover deliverables; again, each was delivered on time. On November 28, 1983 CSC was required to submit nine deliverables; on this date CSC actually delivered two deliverables. On November 29, 1983 CSC submitted three more of these deliverables and submitted one additional deliverable on November 30, 1983. On December 1, 1983, CSC submitted two more of these nine deliverables and the last deliverable in that group was submitted on December 2, 1983, only four days late.

On December 1, 1983, CSC was to submit five deliverables; three of which were actually delivered on December 1, one was delivered on December 2, and one remains outstanding.

CSC was also required to submit one deliverable on December 5,

one deliverable on December 9, and two deliverables on December 16, 1983. Three of these deliverables remain outstanding as of this date; the fourth deliverable was submitted on January 6, 1984.

In order to avoid further disapprovals, CSC elected to withhold submission of these deliverables until it clearly understood the Department's interpretation of the deliverable requirements. Preparation of these deliverables is proceeding expeditiously.

The conclusion drawn is that the vast majority of Takeover deliverables submitted in original form have been submitted timely. (1)\*

2. The contract deliverable review process is substantially subjective. Despite the careful wording contained in the Request For Proposal, numerous specific details are left to the interpretation of the contractor and the Department. Consequently, the review process is indeed subjective and dependent upon the perception of the individual evaluators and deliverable preparers. In recognition of the fact that deliverables are not black and white, CSC's Takeover Director attempted to minimize any second guessing on CSC's part in determining what is required for each deliverable by holding several meetings with FIMD in advance of the deliverable submission. The express purpose of these meetings was for CSC to outline each deliverable, its primary contents, and focus. FIMD was afforded an opportunity in advance of the submission of these deliverables to identify specific areas which needed to be addressed. Although the intent of these meetings was sound, the end result was that the hands-on reviewers were not in attendance. CSC recognizes that a large portion of the deliverable evaluators role is one of interpretation, to which CSC takes no exception. However, the determination of what is or is not adequate to accomplish a particular contract activity is much more difficult to define and as it was not defined in the RFP, then the deliverable clarification process is prolonged.
3. FIMD's deliverable review process does not recognize the need for clarifications. In spite of discussions between FIMD's Transition Manager and CSC's Takeover Director, which would have permitted a clarification step in the review

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\* The Auditor General's comments on specific points contained in the CSC's response begin on page 31.

process of deliverables, FIMD adopted an approach which requires evaluators to either find the deliverable 100% acceptable or disapprove it. The Auditor General fails to identify, in any manner, the magnitude of requested changes in the disapproved deliverables. From the draft report it appears the Auditor General is making no qualitative assessments. The Auditor General also asserts that CSC's failure to comply with contract requirements has resulted in increased expenditures of State resources because DHS staff must review the resubmitted deliverables. It should be noted that FIMD made the determination not to allow formal clarifications and must therefore have anticipated the need for resources to review resubmitted deliverables.

4. The establishment of estimated due dates for the resubmission of disapproved deliverables is a joint responsibility between FIMD and CSC. Once a determination is made by FIMD that a deliverable is not acceptable in its present form, CSC's Takeover Director is contacted either in person or by telephone and advised of the impending disapproval. Additionally, the Takeover Director is also informed of either the general or specific reasons for the disapproval. At the conclusion of this discussion, a mutually agreeable date is established for the resubmission of the deliverable. In most cases, a two week turnaround period is utilized. The establishment of these dates is predicated on FIMD's formal clarification of the disapproval and the specific reasons for such disapproval. On at least three occasions, FIMD was unable to get a formal notification of the disapproval for at least one week from the date that the resubmission timeframe was established. This has been a contributing factor to CSC's schedule for the resubmission of disapproved deliverables.
5. The Auditor General purports that CSC has failed to submit seven major work plans. CSC is unable to determine what deliverable this reference pertains. The use of the phrase "work plans" is incorrect. (2)

6. The Auditor General states that representatives met with CSC officials to express concerns regarding CSC's failure to comply with contractual requirements. The only meeting held between the Auditor General and CSC prior to the closing period of this report was December 20, 1983. In this meeting a few questions relating to the timeliness and accuracy of contract deliverables were addressed to the CSC Takeover Director. None of the concerns relating to a potential delay in the schedule transition were expressed to CSC's Takeover Director. (3)
7. Specific examples of disapproved deliverables are cited by the Auditor General:
  - Provider Services Plan -- Although the facts presented in the Auditor General's report related to this plan are accurate, the modification was made and this deliverable was resubmitted on December 22, 1983.
  - Operations Monthly Billing Report Deliverable -- The Auditor General indicates that the CSC presented formats do not conform to those required by the RFP. This is particularly interesting in light of the fact that CSC initiated a special meeting with FIMD management and staff to review the report formats prior to submission. From our perspective, this is an example of the contract requirements being interpreted by an evaluator(s) which differs from CSC's understanding of FIMD's requirements. It also indicates that the Auditor General did not fully develop the audit. (4)
  - Records Retention Procedures Manual -- The Auditor General contends that this manual significantly extends CSC's time for responding to claim requests and may, therefore, delay the State's access to information on claims. This is not a correct interpretation of what was proposed. CSC has never attempted to delay the State's accessibility to claims information, and strongly supports the use of claims information to recover monies owed the State. (5)
  - State Access Methods Plan -- The Auditor General asserts

that this plan restricts the States access to CSC's operation. The perception of the Auditor General is incorrect. The disapproval of this plan was based on CSC's submission of this deliverable in a "plan" format; FIMD was seeking "methods and procedures" which CSC is providing. (6)

II. CSC failed to devote sufficient resources to support the transition to the new contract

- The RFP and CSC's Technical Proposal committed that sufficient resources would be made available to meet contract requirements
- CSC officials acknowledged that the lack of sufficient resources was part of the reason for untimely or inaccurate deliverables being submitted.

RESPONSE:

CSC concurs with the reference to our commitment to meet contract requirements. CSC disagrees with the Auditor General about assigning sufficient resources. In fact, CSC's personnel records indicate that the hours reported for the takeover effort since October 1983 exceed the number of hours committed by CSC in its Takeover Staffing Plan. The personnel full-time equivalents (FTE) for November 1983 total 17.7; the Takeover Staffing Plan for that same month totalled 9.3. Likewise, in December 1983, CSC actually expended 18.3 FTE's as compared to 14.4 contained in the staffing plan.

As stated in CSC's Technical Proposal, CSC is committed to providing sufficient resources to meet contract requirements. Our record to date is testimony of our intent to fulfill this commitment. The Auditor General makes reference to CSC officials having indicated that CSC's failure to submit acceptable deliverables on time was partially due to lack of sufficient resources to support the transition to the new contract. Additionally, reference is made to the CSC's Takeover Manager on page nine of the report indicating that the Auditor General was informed that CSC had underestimated the scope of the effort involved in the transition and that inadequate staffing was at least partly responsible for the failure to submit acceptable deliverables on time. What CSC's Takeover



Director did say was that certain key personnel continue to carry dual responsibilities for both the old and new contracts during the takeover period. The dual responsibilities carried by these individuals require that their time be split between old contract and new contract. This is in conformance with CSC's Takeover Staffing Plan. Additionally, CSC's Takeover Director did discuss his own responsibilities on particular deliverables and the extent and number of meetings he was involved in with FIMD at their request. At no time was there ever an indication that CSC had either underestimated the scope of the transition effort or devoted insufficient resources to fulfill the contract requirements.

The Auditor General makes some rather general observations related to CSC's staffing without ever having been present to discuss CSC's staffing with the exception of the brief meeting held on December 20, 1983. CSC has only diverted resources from Takeover Phase activities when FIMD has asked that we complete higher priority activities. (7)

III. Failure by CSC to comply with contract requirements could delay the scheduled transition

RESPONSE:

The Auditor General uses periodic references throughout the report indicating that CSC's failure to submit deliverables by specified due dates could result in a delay in the transition schedule. However, there is no reference or support from either FIMD or CSC for the conclusion drawn by the Auditor General. At best this conclusion is conjecture. (8)

CSC's position is that these minor schedule delays in the submission of either original deliverables or resubmitted deliverables has not affected any of the key contract phases. These phases include systems testing, acceptance testing, and the implementation of claims processing of July 5, 1984. CSC is confident that all Takeover deliverables will be submitted and subsequently approved by FIMD. There has not been any attempt on the part of CSC to require the State to accept unrevised deliverables, thereby inhibiting the State's ability to monitor this contract nor will there be. The State will be able to approve of CSC's assumption

of the new contract, certain that the deliverables have been received and approved.

- IV. The Auditor General suggests that the liquidated damages provisions of the contract be invoked in order to bring CSC into compliance

RESPONSE:

The RFP contains provisions which would permit the State's Contracting Officer to assess liquidated damages in the amount of \$500 per day for each Takeover Phase requirement not provided or performed. From December 21, 1983 through January 6, 1984, CSC was required to submit twenty-one updated or new operating procedure manuals. Eighteen of these manuals were submitted on schedule; four were submitted ahead of schedule; and no manuals have been submitted late. Additionally, CSC has resubmitted five of the disapproved deliverables and has submitted a schedule specifying delivery dates for the remaining disapproved deliverables. The progress that CSC has made in this developmental process is indicative of the conscientious effort it will continue to expend in meeting contract requirements. The intent of the liquidated damages provisions contained in the Medi-Cal contract are to provide the State with leverage in order to insure contract performance. CSC does not believe that these provisions should be invoked at this time as recommended by the Auditor General.

Finally, CSC offers the following general observations of the Auditor General's draft report:

1. The language contained in the report summary leads the reader to the conclusion that CSC has delivered no acceptable plans, procedure manuals, or other required documents. This is untrue. CSC suggests that the Auditor General utilize more precise language when stating that CSC has or has not delivered acceptable plans, procedure manuals, and other required documents.
2. In the scope and methodology section of this report, the Auditor General identifies that the primary objective of this phase of monitoring is to review the transition to the new Medi-Cal Fiscal Intermediary contract. In the introduction to the Auditor General report, there is an

indication that the report will discuss CSC's failure to comply with requirements of the new Fiscal Intermediary contract. The stated purpose of the Auditor General's sixth report is the transition to the new Fiscal Intermediary contract for Medi-Cal services. Not specifically CSC's performance relating thereto.

3. In the Medi-Cal history portion of the report (page two), the Auditor General indicates that this contract became effective on October 1, 1983. The Auditor General omits any discussion of the protest proceedings which delayed contract signing until October 19, 1983 even though the contract carried an effective date of October 1, 1983. The Auditor General should present a more complete factual basis in providing the Medi-Cal history for this contract.
4. The Auditor General indicates that CSC has submitted deliverables that violate the State mandated terms and conditions of the Fiscal Intermediary contract. As no references are provided, CSC believes that the term violate is at least excessive. (9)
5. On page eight of the report, there is a reference to an Appendix A which lists the deliverables which are overdue. The Auditor General states that most of these (which are CSC revisions) are now more than three weeks overdue. If in fact this report was written as of December 21, 1983, only two of the deliverables listed in Appendix A were more than three weeks overdue. (10)
6. Also in Appendix A the Auditor General lists the Takeover Work Plan as one of the disapproved deliverables. In fact the November 21, 1983 letter from FIMD to CSC requests clarification of several items prior to approval of the deliverable. However, the letter contains no discussion of the deliverable being disapproved pending these clarifications.

## AUDITOR GENERAL'S COMMENTS

Although the Health and Welfare Agency agreed with our report, we are commenting on the Computer Sciences Corporation's analysis of the report in order to provide clarity and perspective to its exceptions.

- ① The CSC's conclusion that its deliverables were submitted "timely" is incorrect. As of December 21, 1983, 43 percent of the CSC's deliverables were either late or overdue. In addition, the State had disapproved 67 percent of these deliverables. Furthermore, as of January 11, 1984, 77 percent have been disapproved.
- ② The seven "work plans," or deliverables, are fully described on page 8 of our report.
- ③ We held two meetings to discuss the Auditor General's concerns over the CSC's failure to comply with contractual requirements and the possibility of a delay in the transition schedule. The first meeting was held with the CSC's Takeover Director on December 20, 1983. The second meeting was held with the Vice President of the CSC on January 4, 1984.
- ④ The CSC's statement that we "did not fully develop the audit" is incorrect. The Fiscal Intermediary Management Division (FIMD) evaluators used the RFP as the basis for their evaluation, as noted in the disapproval letter sent to the CSC. The evaluation is not a matter of interpretation: either the deliverable meets RFP requirements or it does not.
- ⑤ The CSC states that we did not correctly interpret the contents of its Records Retention Procedures Manual. The CSC's manual proposed that the CSC would respond on a quarterly basis to the State's request for claims information. However, the RFP requires that the CSC respond to the State's requests within 10 days. We believe that the CSC's manual significantly extends the CSC's time for responding to requests for claims information. As we reported in our Letter Report P-317, significant Medi-Cal recoveries cannot be made by the State because the CSC has been unwilling to provide necessary claims information under the current contract.
- ⑥ The CSC claims that our "perception" of the deficiencies in the State Access Methods Plans is "incorrect." The State's disapproval letter clearly shows that the CSC's proposal does not meet contractual requirements and could limit the State's access to the CSC's operations.
- ⑦ On page 9 of our report, we included comments on transition resources from the Vice President of the CSC. Our observations on the CSC's resources are based on meetings with the CSC and on correspondence between the CSC and the State.

- ⑧ We conclude that the transition schedule might be delayed because of the large number of unacceptable deliverables and because the CSC has failed to meet submission requirements.
- ⑨ The CSC indicates that we do not provide specific examples of the CSC's deliverables violating state-mandated terms and conditions of the contract. Pages 6 and 7 of our report present specific examples of such violations.
- ⑩ Text of final report changed. It should be noted, however, that as of January 11, 1984, eight deliverable revisions were overdue. Moreover, some of the revisions that the CSC has submitted were more than one month late.

APPENDIX A

DUE DATES FOR THE COMPUTER SCIENCES CORPORATION'S  
REVISIONS TO DISAPPROVED DELIVERABLES  
AS OF DECEMBER 21, 1983

<u>Disapproved Deliverable</u>	<u>Date Disapproved</u>	<u>Date Revision Due</u>
Takeover Workplan	11/21/83	11/28/83
Records Retention Plan	11/23/83	12/02/83
Personnel Acquisition Plan	11/29/83	12/05/83
Takeover Organization Plan	11/29/83	12/05/83
Expert Witness Plan	11/23/83	12/06/83
Provider Services Plan	11/29/83	12/07/83
Surveillance and Utilization Review Subsystem Training Plan	12/01/83	12/09/83
California Medicaid Management Information System (CAMMIS) Training Plan	12/05/83	12/15/83
Updated CAMMIS Manual Procedures Plan	12/05/83	12/15/83
Takeover Progress Reports	11/29/83	12/19/83

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
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