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United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-283815

October 5, 1999

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Subject: Reported Medicaid Year 2000 Readiness

At your request, we determined (1) what the Health Care Financing Administration (HCFA) was doing to ensure that the Year 2000 computing challenge does not adversely affect the delivery of Medicaid benefits and (2) the readiness of states[1] to successfully transition to year 2000 for Medicaid. On September 30, 1999, we briefed your offices on the results of our work. This report provides a high-level summary of information presented at that briefing. Our briefing slides are enclosed.

Background

In fiscal year 1998, Medicaid paid about $169 billion for medical services to millions of recipients. A joint federal-state program overseen by HCFA and administered by the states, Medicaid provides health coverage for about 33 million low-income people, which include children, the elderly, blind, and disabled individuals.

The federal government has a large vested interest, both programmatically and monetarily, in automated state systems that support the Medicaid program. Accordingly, it is essential that states successfully address the Year 2000 computing problem. Unless they do, beneficiaries could be denied critical medical services, incorrect eligibility decisions could be made, and payments could be made for the wrong amounts—or not at all.

HCFA's Actions Have Reduced the Risk of Year 2000-Induced Failures

HCFA has taken several actions that have significantly reduced the risk that the Medicaid program will encounter Year 2000 failures. In particular, it has adopted an approach that

[1]In the context of this report, the term state includes the District of Columbia, Puerto Rico, and the Virgin Islands.

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includes three rounds of on-site contractor reviews of states (performed in conjunction with HCFA regional and headquarters offices) using a standard methodology. Between November 1998 and April 1999, the contractor completed the initial round of on-site reviews in all 50 states and the District of Columbia. These reviews included assessments of states' integrated eligibility systems[2] and Medicaid management information systems (MMIS)[3] in areas such as project management and planning, remediation progress, testing, and contingency planning. After completing the on-site state review, the contractor (1) identified barriers to successful remediation; (2) made recommendations to address specific areas of concern; and (3) placed Medicaid integrated eligibility and management information systems into low, medium, or high risk categories based on the quality and completeness of project management/planning, progress in remediation, quality management, testing, and contingency planning.

Since May 1999, HCFA's contractor has (again, along with officials from HCFA regional and headquarters offices) conducted a second round of on-site reviews in 40 states—primarily those in which at least one system had been categorized as a high or medium risk during the initial visit. As in the first round, the state systems were placed in low, medium, or high risk categories. A system's risk level was determined based on the resolution of critical issues previously identified, progress in remediation, testing, and senior management support. During this round, HCFA's contractor also conducted follow-up telephone calls to four states not visited. HCFA's third and final round of contractor visits began during the last week of September. The list of states to undergo third-round visits has not been finalized, but among the criteria HCFA plans to use is visiting states with the highest risk systems and business continuity and contingency plans, as well as states with the largest number of Medicaid recipients. In addition, agency officials told us that all states will either be visited or undergo follow-up telephone calls.

To complement its system reviews, HCFA obtained another contractor to review state business continuity and contingency plans. Such plans are crucial. Without them, if unpredicted failures occur, an entity will not have well-defined responses and may not have enough time to develop and test alternatives. In June 1999, HCFA's contractor began reviewing the quality of state plans, based on either a desk audit or on both a desk audit and an on-site visit. After the contractor's review, each state's business continuity and contingency plan was placed into a high, medium, or low risk category based on the contractor's evaluation of the state's development process and the quality and completeness of its plan. In September 1999, HCFA headquarters officials also began reviewing state business continuity and contingency plans to determine whether any programmatic issues needed to be addressed.

In addition to evaluating state system remediation activities and business continuity and contingency plans, HCFA has provided assistance to states through the issuance of guidance and best practices documents. Moreover, at the behest of HCFA, its contractors provided three states with technical assistance on the development of business continuity and

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[2]Integrated eligibility systems determine whether an individual applying for Medicaid meets the eligibility criteria for participation. These systems are also often used to determine eligibility for other public assistance programs, such as Food Stamps.

[3]Medicaid management information systems process claims and deliver payments for services rendered.

contingency plans and intends to continue providing such assistance. States can also obtain technical assistance on testing and Day One strategies.[4]

Progress Made But Much Work Remains To Ensure the Continuity of State Medicaid Operations Into the Next Century

According to the system assessment contractor's completed round 2 reports of 37 states and the District of Columbia that had been visited during both rounds,[5] half of the state systems risk ratings improved, 45 percent stayed the same, and 5 percent declined. In summary, as of October 4, 1999,

- 4 eligibility systems and 5 MMISs were assessed at high risk,
- 13 eligibility systems and 8 MMISs were assessed at medium risk, and
- 36 eligibility systems and 40 MMISs were assessed at low risk.[6]

While state risk ratings have generally improved, many issues continue to be unresolved. Examples of open issues are testing in a future-date-compliant environment, which some states have not scheduled until late in the year, and the lack of top management involvement.

HCFA's business continuity and contingency plan contractor found problems in state efforts as well. In particular, of the 33 states and two territories that have been reviewed,[7] 11 were considered high risk, 11 medium risk, and 13 low risk. In addition, many states were reported to have open issues, such as insufficient plan details, inadequate project documentation, and incomplete plans.

States that are in a particularly difficult position are those that have a high-risk system as well as a high risk business continuity and contingency plan. Currently, two states fall into this situation. Also in a difficult position are the six states with at least one medium-risk Medicaid system and a high-risk business continuity and contingency plan.

Scope and Methodology

To determine what HCFA was doing to ensure that the Year 2000 challenge does not adversely affect the delivery of Medicaid benefits, we reviewed key documents such as the agency's Year 2000 guidance and best practices. We also assessed HCFA contractors' system readiness and business continuity and contingency planning methodologies, and interviewed HCFA and contractor officials about these methodologies.

To ascertain the readiness of states to successfully transition to year 2000 for Medicaid, we analyzed the assessment and business continuity and contingency planning contractors' final

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[4]A Day One strategy (also known as a day zero strategy) comprises a comprehensive set of actions to be executed by a entity during the last days of 1999 and the first days of 2000.

[5]As of October 4, 1999, 23 final and 17 draft reports for second-round visits were completed. Two of the draft reports were for Puerto Rico and the Virgin Islands, which were not visited in the first round.

[6]Thirteen state ratings in the low-risk category are based on the results of first-round visits because they were not visited during the second round.

[7]As of October 1, 1999, 15 state and the District of Columbia's business continuity and contingency plans had not been reviewed, and 2 states had not provided their plans to HCFA.

and draft reports. In addition, we accompanied the system assessment contractor on its second round of on-site visits to Delaware, New Hampshire, New York, North Dakota, Ohio, South Carolina, Tennessee, and Vermont. We also interviewed state officials on their Year 2000 status. Further, we reviewed business continuity and contingency plans for five states considered to be models by HCFA.

Prior to briefing your offices, we supplied copies of our briefing materials to HCFA officials for comment, who agreed with the information provided. In addition, we subsequently updated the information on our briefing slides to reflect the most current state data. We conducted our review from June through October 4, 1999, in accordance with generally accepted government auditing standards. Our work was done at HCFA's headquarters in Baltimore, MD, the assessment contractor's headquarters in Columbia, MD, and in the eight states we visited.

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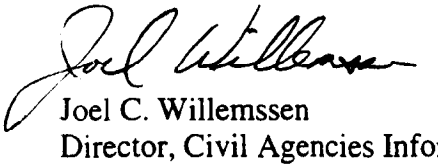
As agreed with your offices, unless you publicly announce the contents of this correspondence earlier, we will not distribute it until 5 days from the date of this letter. At that time, we will provide copies to Senators Robert F. Bennett, Chairman, and Christopher J. Dodd, Vice-Chairman, Senate Special Committee on the Year 2000 Technology Problem; Representatives Stephen Horn, Chairman, and Jim Turner, Ranking Minority Member, Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform; Representatives Constance A. Morella, Chairwoman, and James A. Barcia, Ranking Minority Member, Subcommittee on Technology, House Committee on Science; and Representatives Bill Archer, Chairman, and Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means. We are also sending copies to the Honorable Donna Shalala, the Secretary of Health and Human Services; Mr. Michael Hash, Deputy Administrator, Health Care Financing Administration; the Honorable Jacob Lew, Director, Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

If you have any questions on matters discussed in this letter, please contact me at (202) 512-6253 or by email me at willemssenj.aimd@gao.gov or Linda Lambert, Assistant Director, at (202) 512-9556 or by email at lambertl.aimd@gao.gov. Key contributors to this assignment were Norman Heyl, John Mollet, and John Snavely.



Joel C. Willemssen
Director, Civil Agencies Information Systems

Enclosure

(511801)

GAO

Year 2000 (Y2K) Computing Challenge

Y2K Readiness of State Medicaid Systems

Briefing for the Committee on Finance, United States Senate

September 30, 1999*

*Information in the slides was updated as of October 4, 1999.

GAO Overview

- Objectives
- Scope and Methodology
- Health Care Financing Administration (HCFA) Monitoring and Oversight
- Reported Status of States' Systems Readiness[a]
- Reported Status of States' Business Continuity and Contingency Plans
- Overall Observations

[a]In the context of this briefing, states can include the District of Columbia, Puerto Rico, and the Virgin Islands.

GAO Objectives

- Determine what HCFA is doing to ensure that the Year 2000 challenge does not adversely affect the delivery of Medicaid benefits
- Determine the readiness of states to successfully transition to year 2000 for Medicaid

GAO Scope and Methodology

- Assessed HCFA contractors' system readiness and business continuity and contingency planning methodologies
- Accompanied HCFA and its contractors on eight site visits
- Reviewed and analyzed key documents and available site visit reports
- Reviewed business continuity and contingency plans for five states considered to be models by HCFA

GAO Scope and Methodology (cont'd)

- Interviewed agency, contractor, and selected state officials on assessment and business continuity and contingency plan methodologies and states' Y2K status.

- Our work was performed from June through October 4, 1999, in accordance with generally accepted government auditing standards.

GAO HCFA Monitoring and Oversight

- HCFA has:
  - Obtained a contractor to perform comprehensive Y2K readiness assessments of states' Medicaid systems.
  - Obtained another contractor to perform comprehensive reviews of states' business continuity and contingency plans.
  - Provided states with Y2K guidance and best practices examples.
  - Provided three states with technical assistance on the development of business continuity and contingency plans. Technical assistance is also available in other areas, such as testing.

GAO Reported Status of State Readiness: Systems Risk Assessments

- HCFA intends that its assessment contractor will conduct three rounds of site visits. During these site visits, the contractor assesses states' Eligibility and Medicaid Management Information Systems (MMIS).[a]
- HCFA round 1 (November 1998 through April 1999)
  - During round 1, HCFA's assessment contractor (accompanied by HCFA personnel) conducted comprehensive onsite assessments of all 50 states and the District of Columbia.

[a] Some state integrated eligibility systems determine eligibility for the Medicaid program as well as other state-administered public assistance programs, such as Food Stamps. MMIS process Medicaid claims and include beneficiary and provider information. Each state's eligibility and MMIS systems are unique due to the differences in state Medicaid programs.

GAO Reported Status of State Readiness: Systems Risk Assessments (cont'd)

- HCFA round 1 (cont'd)
  - Each state system was placed into a low, medium, or high risk category based on the quality and completeness of project management/planning, remediation process, quality management, testing, and contingency planning.
  - Reports to the states included issues (items that were considered to be "show stoppers") and recommendations (items that, if completed, would improve the quality of the state's Year 2000 program).

GAO Reported Status of State Readiness: Systems Risk Assessments (cont'd)

- During round 1 site visits, some states requested additional HCFA actions. In response, HCFA
  - issued guidance on interface agreements with Medicaid data exchange partners,
  - issued a Business Continuity Handbook,
  - issued seven issue papers on Y2K best practices,
  - is developing other Y2K issue papers on topics such as validating business continuity and contingency plans and emergency procedures, and
  - delayed changes to Medicaid dual eligibility reporting requirements until spring 2000.

GAO Reported Status of State Readiness: Systems Risk Assessments (cont'd)

- HCFA round 2 (May through September 1999)
  - HCFA's assessment contractor (accompanied by HCFA personnel) conducted comprehensive onsite assessments of 37 states and the District of Columbia, each of which had at least one high or medium risk system, to follow up on critical Y2K issues and barriers. Onsite assessments of Puerto Rico and the Virgin Islands, which were not covered in round 1, were also conducted.
  - HCFA's contractor conducted follow-up telephone calls to four states not visited.

GAO Reported Status of State Readiness: Systems Risk Assessments (cont'd)

- Round 2 (cont'd)
  - Each state system assessed was placed into low, medium, or high risk category, based on
    - resolution of critical issues previously noted
    - remediation progress, testing, and senior management support
  - Reports to the states included whether prior issues and recommendations were addressed by the states as well as any new issues or recommendations.

GAO Reported Status of State Readiness: Systems Risk Assessments (cont'd)

- HCFA round 3 (September through December 1999)
  - began in the last week of September
  - the list of states to undergo visits has not been finalized but among the criteria HCFA plans to use are to visit states with the highest risk systems and business continuity and contingency plans as well as states with the greatest number of Medicaid recipients
  - followup phone calls are to be made to other states
  - additional emphasis will be placed on areas such as day one planning, managed care organizations, and county eligibility determination

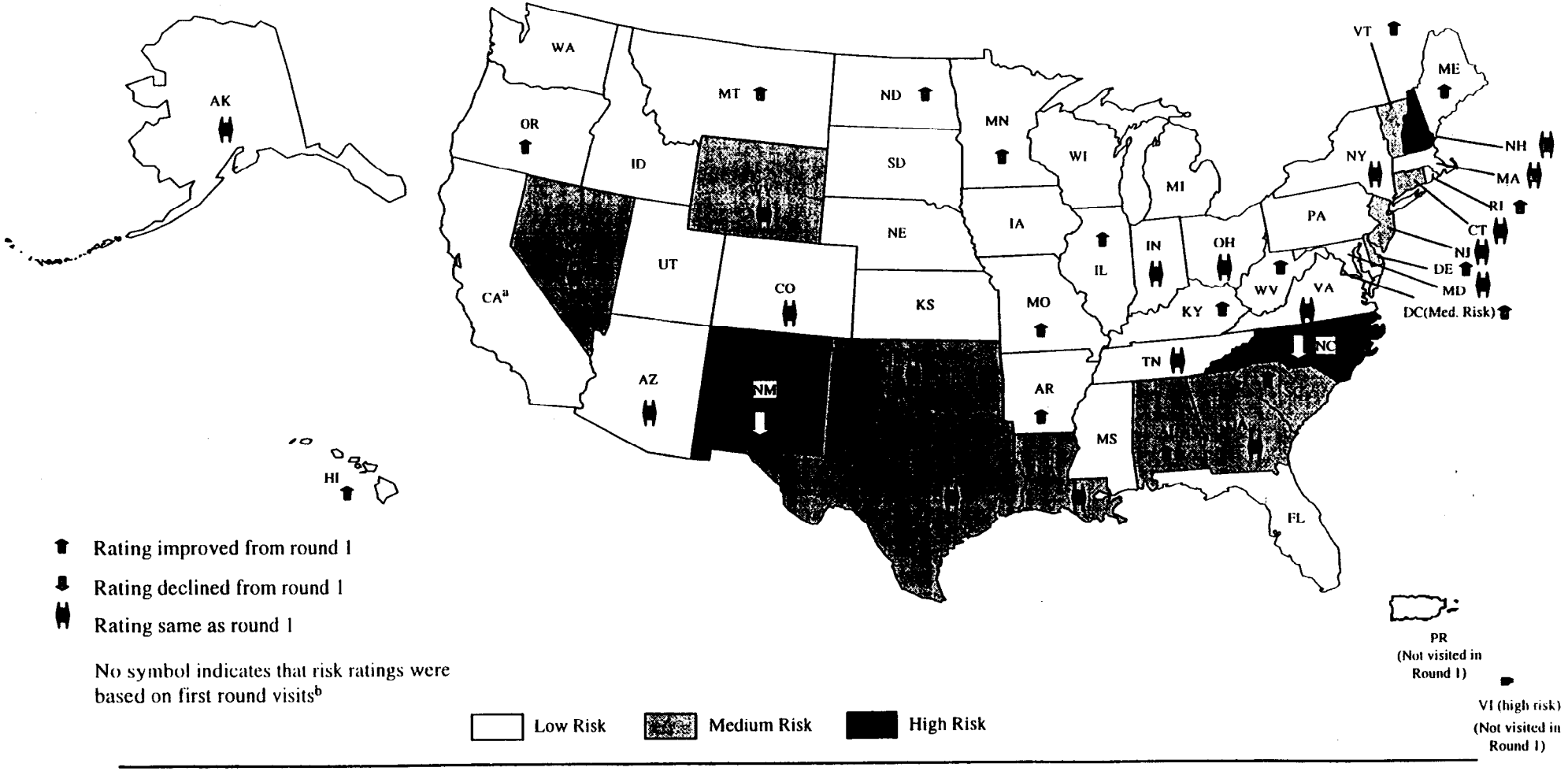
GAO Reported Status of State Readiness: Changes to System Risk Assessments

Round One	Round Two[a]
• Eligibility systems	Eligibility systems*
• 8 high (16%)	4 high (10%)
• 20 medium (39%)	13 medium (33%)
• 23 low (45%)	23 low (58%)
• MMIS	MMIS*
• 11 high (22%)	5 high (13%)
• 15 medium (29%)	8 medium (20%)
• 25 low (49%)	27 low (68%)

*Percentages do not add to 100% due to rounding

[a]Based on HCFA's 23 final and 17 draft reports for second round site visits, conducted May-September 1999 and does not include 13 states that were not visited in the second round.

GAO Reported Status of State Readiness: Eligibility Systems as of October 4, 1999

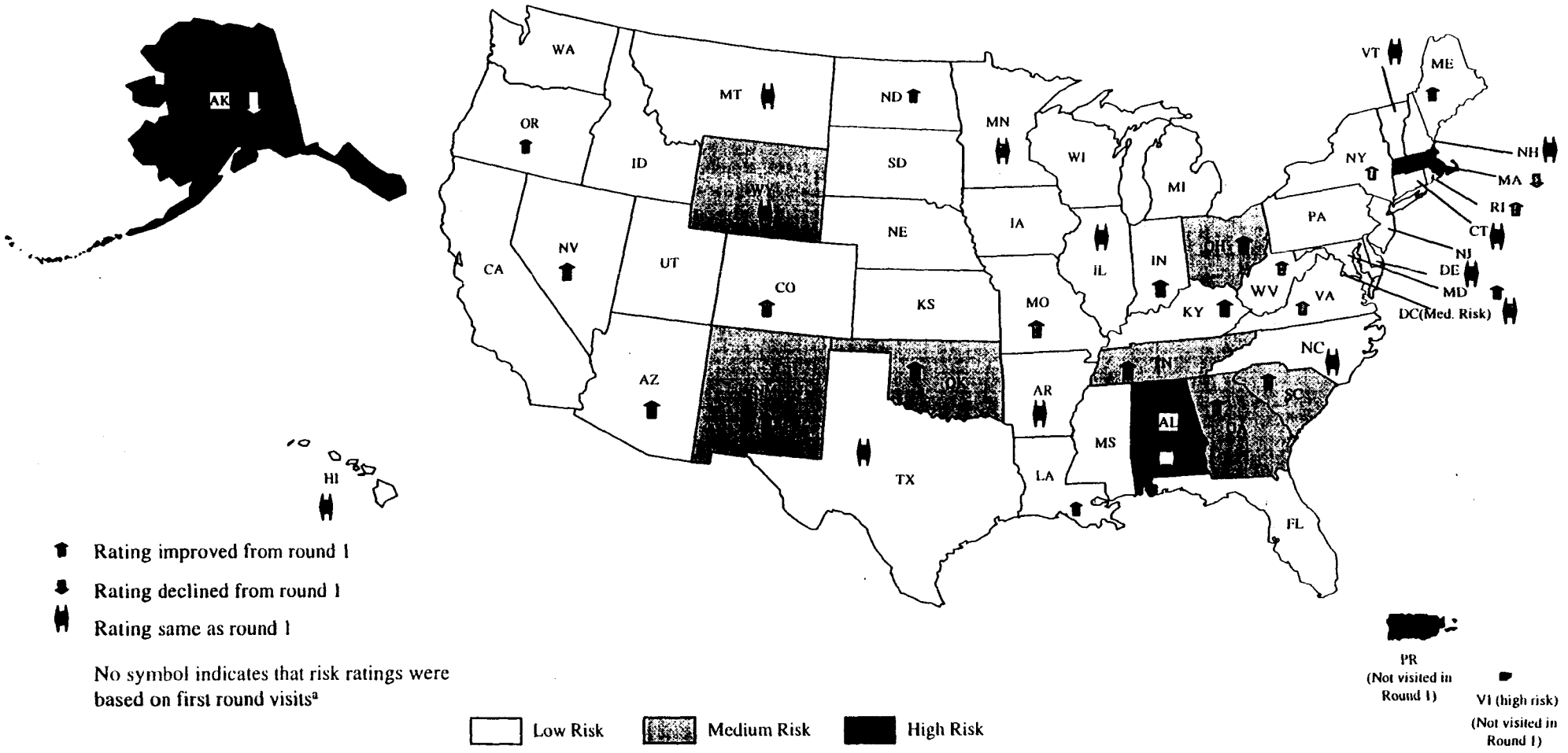


Source: HCFA/contractor site visits. Because some of these the state visits took place months ago, their status may have changed.

[a]HCFA assessed California's Medicaid eligibility database, but not its many county systems that perform eligibility determination.

[b]Except for Puerto Rico and the Virgin Islands which were not visited in the first round. Thirteen states were not visited during the second round.

GAO Reported Status of State Readiness: MMIS Systems as of October 4, 1999



Source: HCFA/contractor site visits. Because some of these the state visits took place months ago, their status may have changed.

[a]Except for Puerto Rico and the Virgin Islands which were not visited in the first round. Thirteen states were not visited during the second round.

GAO Barriers to Successful Remediation: Resolution of Round 1 Eligibility Issues

Resolution of round 1 eligibility issues for 40 states and the District of Columbia (a state may have more than one issue)[a]

Issues	Number of Issues	Closed			Unresolved
		Action Taken	Partial Action Taken	No Longer Applicable	
Testing	49	30	2	1	16
Project Mgmt./Planning	31	22	0	1	8
Contingency Planning	23	11	3	1	8
Archiving	11	8	2	0	1
Other	11	6	1	2	2

[a]Based on the completed round 2 visits for 37 states and the District of Columbia and completed telephone updates for 3 states. This information was not yet available for 10 states as of October 4, 1999 and Puerto Rico and the Virgin Islands were not visited in the first round.

GAO Barriers to Successful Remediation: Resolution of Round 1 MMIS Issues

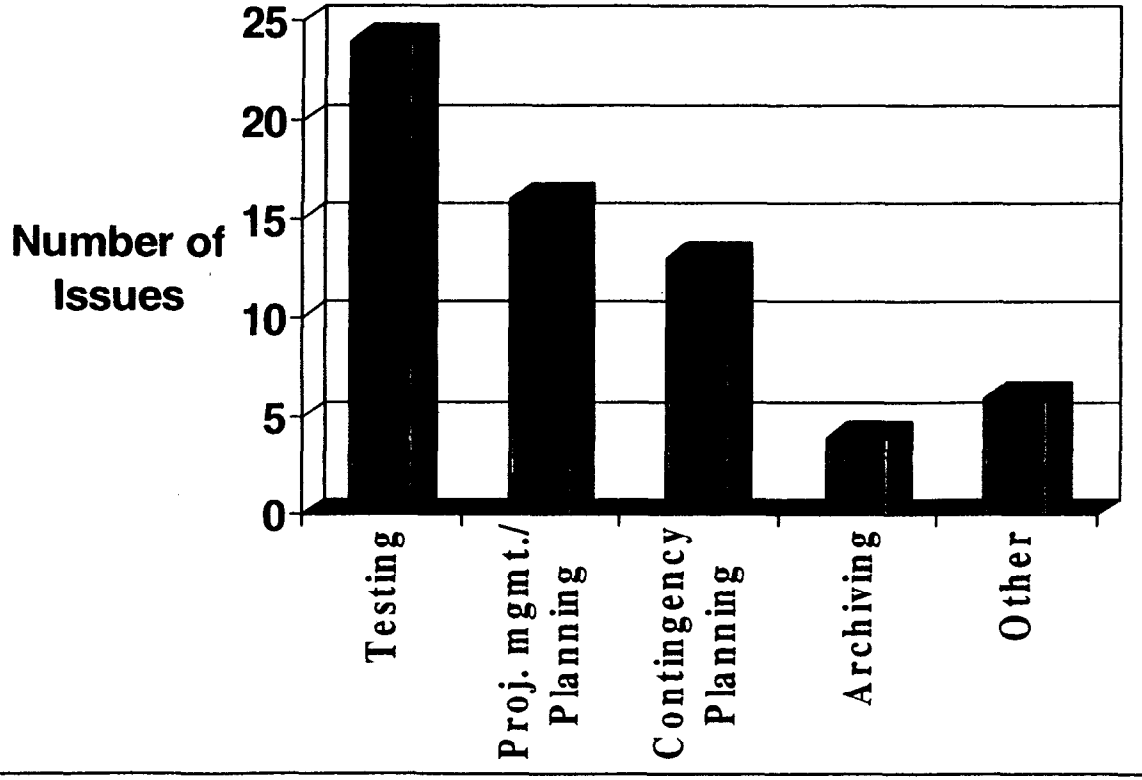
Resolution of round 1 eligibility issues for 40 states and the District of Columbia (a state may have more than one issue)[a]

Issues	Number of Issues	Closed			Unresolved
		Action Taken	Partial Action Taken	No Longer Applicable	
Testing	38	20	7	1	10
Project Mgmt./Planning	44	35	1	0	8
Contingency Planning	18	12	0	0	6
Archiving	8	6	1	0	1
Other	6	3	0	1	2

[a]Based on the completed round 2 visits for 37 states and the District of Columbia and completed telephone updates for 3 states. This information was not yet available for 10 states as of October 4, 1999 and Puerto Rico and the Virgin Islands were not visited in the first round.

GAO Barriers to Successful Remediation: Round 2 Eligibility Issues

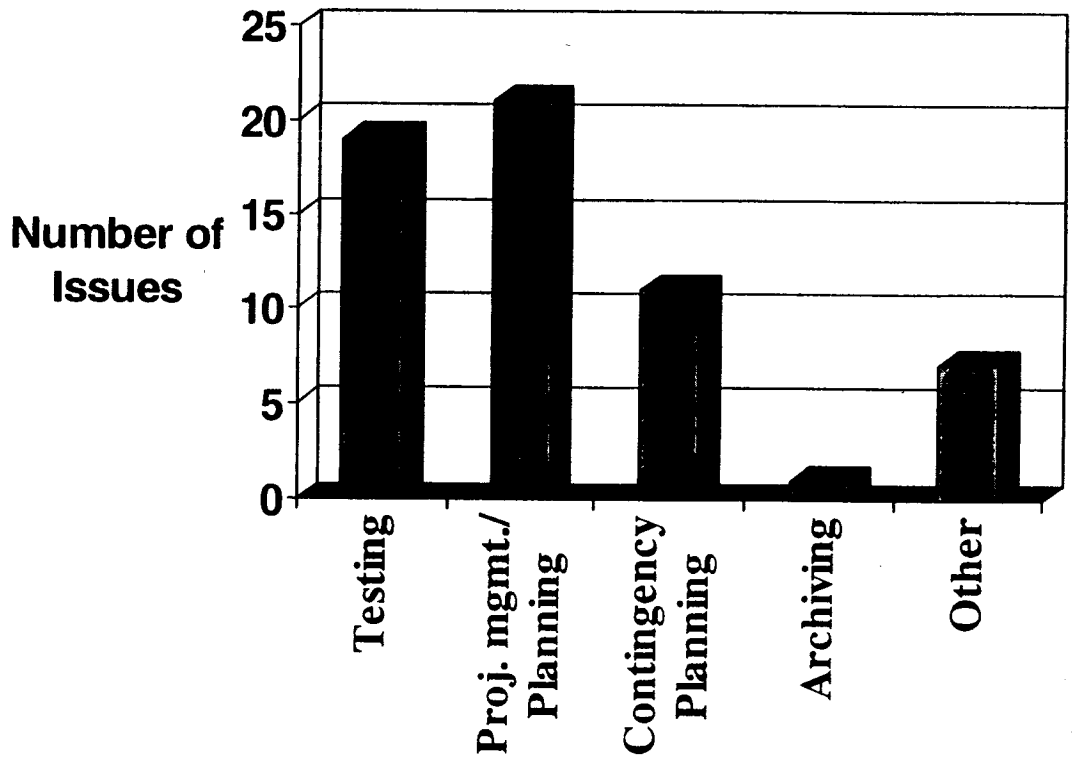
Open issues for 40 states, the District of Columbia, Puerto Rico and the Virgin Islands at the end of round 2 (a state may have more than one issue)[a]



[a]Based on the completed round 2 visits for 37 states, the District of Columbia, Puerto Rico and the Virgin Islands and completed telephone updates for 3 states. This information was not yet available for 10 states as of October 4, 1999. Also, some round 2 issues include unresolved round 1 issues.

GAO Barriers to Successful Remediation: Round 2 MMIS Issues

Open issues for 40 states, the District of Columbia, Puerto Rico and the Virgin Islands at the end of round 2 (a state may have more than one issue)[a]



[a]Based on the completed round 2 visits for 37 states, the District of Columbia, Puerto Rico and the Virgin Islands and completed telephone updates for 3 states. This information was not yet available for 10 states as of October 4, 1999. Also, some round 2 issues include unresolved round 1 issues.

GAO Barriers to Successful Remediation: Examples of Open Issues

- Testing
  - Future-date-compliant environment not planned or scheduled late in year
  - End-to-end testing not planned or scheduled late in year
- Project Management/Planning
  - No overall project plan
  - Lack of top management involvement

GAO Remaining Barriers to Successful Remediation: HCFA Reported Examples

- Contingency Planning
  - Contingency plan not completed
  - No hot site for disaster recovery
- Archiving of Y2K Program Data
  - No archiving policies
  - No archiving procedures
- Other
  - Risk of county office failures
  - Insufficient outreach to providers or beneficiaries

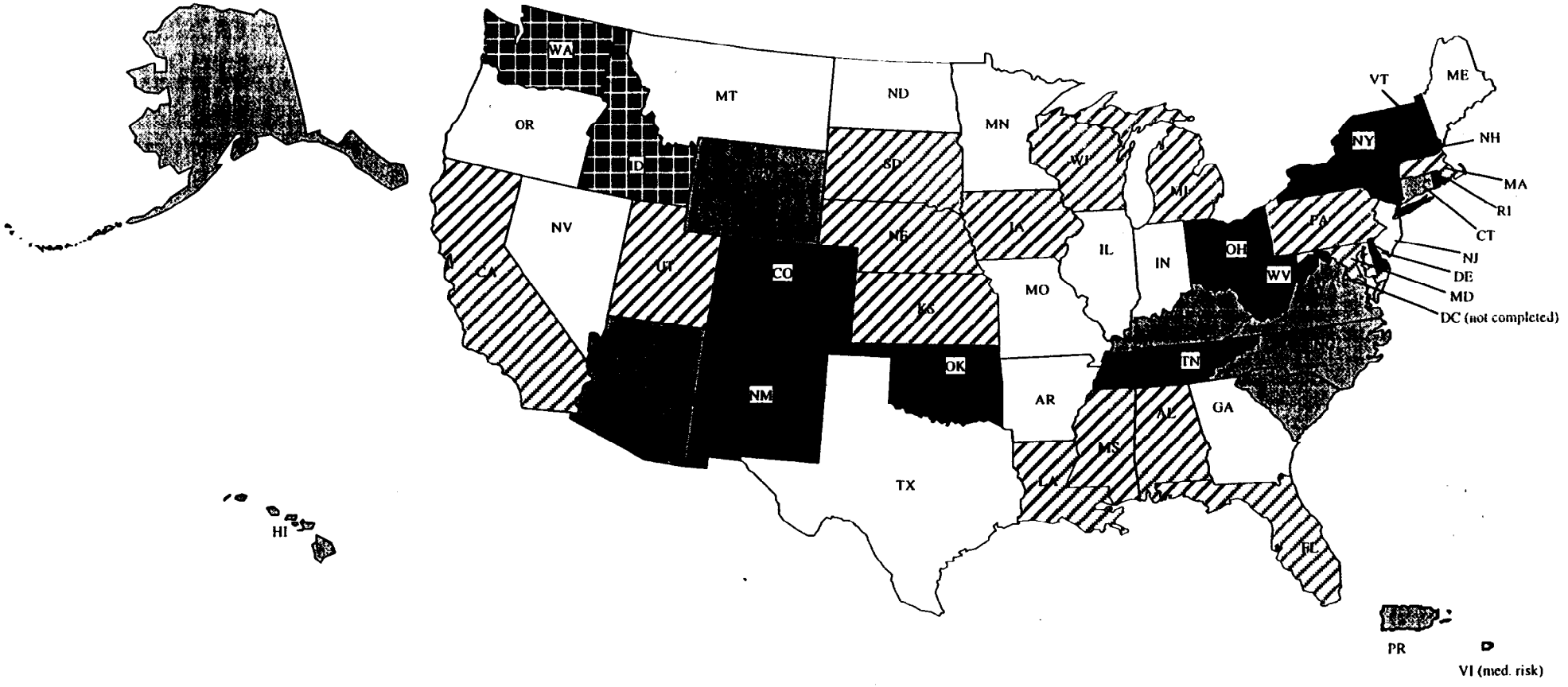
GAO Reported Status of States' Business Continuity and Contingency Plans

- HCFA's business continuity and contingency planning contractor began reviewing the quality of state plans in June 1999.
- Some of these plans were reviewed through both a desk audit and an onsite visit while other plans underwent just a desk audit.

GAO Reported Status of States' Business Continuity and Contingency Plans

- After the contractor's review, each state's business continuity and contingency plan was placed into a low, medium, or high risk category, based on the evaluation of its
  - development process--including management oversight, risk analysis, assessment of alternative strategies, and testing of plans, and
  - quality and completeness--including having a well-documented mission statement and the identification of critical business processes, minimum levels of service, triggers, and recovery mechanisms.

GAO Reported Status of States' Business Continuity and Contingency Plans

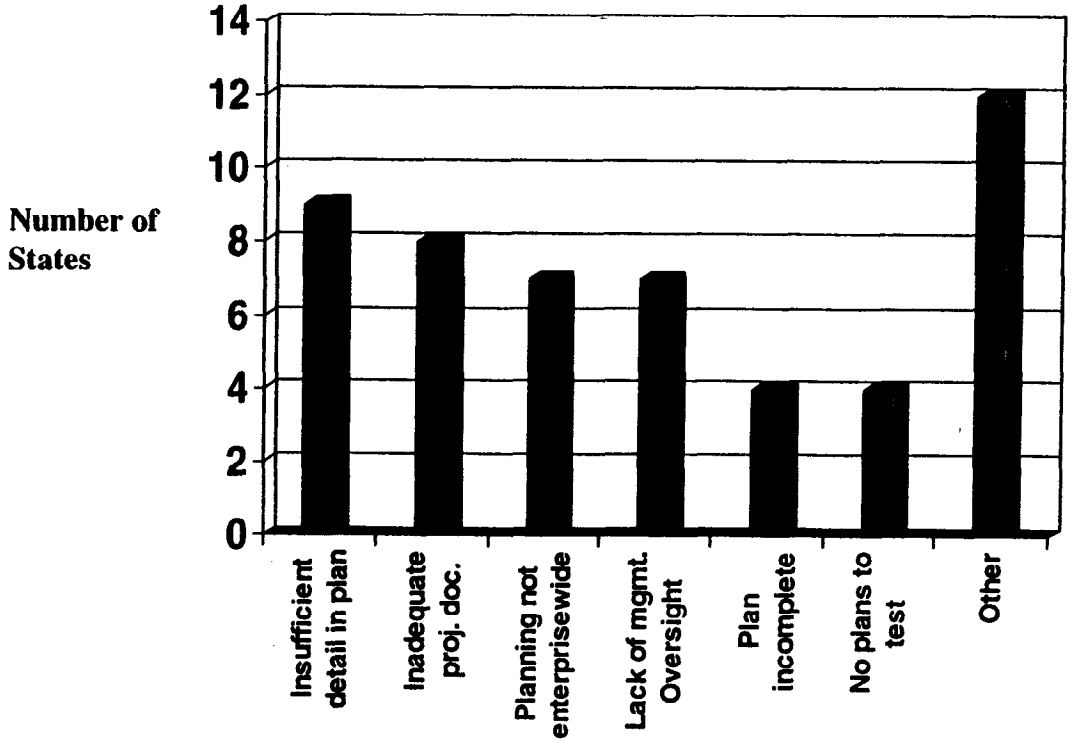


Low Risk | Medium Risk | High Risk | Risk rating not yet completed | State did not provide plan to HCFA

Source: HCFA, based on contractor reviews conducted between June and October 1, 1999.

GAO Business Continuity and Contingency Planning Issues

Business continuity and contingency plan issues for 31 states and 2 territories (a state may have more than one issue)[a]



The "other" category includes areas such as the lack of a training program or standard methodology

[a]Based on 16 final reports and 17 draft reports of HCFA's business continuity and contingency plan contractor. Reports were not available as of October 1, 1999 for the other 2 state business continuity and contingency plans reviewed.

GAO Business Continuity and Contingency Planning: HCFA Reviews

- In September 1999, HCFA headquarter personnel began reviewing state business continuity and contingency plans to determine whether any programmatic issues needed to be addressed.

GAO Business Continuity and Contingency Planning: HCFA Reviews

- HCFA is considering policies that could affect state business continuity and contingency planning.
  - States sending interim payments to providers. HCFA has drafted a policy paper on this issue which is undergoing internal review.
  - States approving presumptive eligibility (approving applicants without completing the normal eligibility determination process). HCFA is considering this issue and plans to issue a policy paper.

GAO Overall Observations

- HCFA's efforts in monitoring states' Medicaid Y2K actions have identified critical issues and have significantly reduced the risk of Y2K disruptions
- Half of the states' systems reported risk ratings improved after second round visits but reported risk ratings worsened in the following cases
  - Alaska (MMIS)
  - Massachusetts (MMIS)
  - North Carolina (Eligibility)
  - New Mexico (Eligibility)

GAO Overall Observations

- Much work remains on business continuity and contingency planning
  - 2 states have not provided HCFA their plans
  - 11 states were reported to have high risk ratings
  - HCFA's contractor has not reviewed the plans of 15 states and the District of Columbia
- States at the highest risk are those which have a reported high risk system and a reported high risk business continuity and contingency plan
  - New Hampshire (Eligibility)
  - New Mexico (Eligibility)

GAO Overall Observations

- States at significant risk are those with a reported medium risk system(s) and a reported high risk business continuity and contingency plans
  - Delaware (Eligibility)
  - New Mexico (MMIS)
  - Ohio (MMIS)
  - Oklahoma (Eligibility and MMIS)
  - Tennessee (MMIS)
  - Vermont (Eligibility)