



## Testimony

Before the Subcommittee on Oversight  
and Investigations, Committee on  
Energy and Commerce, House of  
Representatives

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# HEALTHCARE.GOV

## Contract Planning and Oversight Practices Were Ineffective Given the Challenges and Risks

Statement of William T. Woods  
Director, Acquisition & Sourcing Management

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Chairman Murphy, Ranking Member DeGette, and Members of the Subcommittee:

I am pleased to be here today as you examine implementation of the Patient Protection and Affordable Care Act (PPACA). A central provision of the Act required the establishment of state health insurance exchanges, now commonly referred to as marketplaces. Marketplaces permit individuals to compare and select private health insurance plans. For states that elected not to establish a marketplace, PPACA required the federal government to establish and operate a federal marketplace, which users access via the website Healthcare.gov. The Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services (HHS) was responsible for designing, developing, and implementing the information technology systems needed to support the federal marketplace. CMS largely relied on contractors to develop, build, and operate the necessary information technology systems. CMS's role includes acquisition planning, contract management, and oversight of the contractors. As of March 2014, CMS reported obligating \$840 million for the development of Healthcare.gov and its supporting systems.

When initial enrollment began on October 1, 2013, many users of the Healthcare.gov website experienced problems such as website failures, errors, and slow response times. Given the high degree of congressional interest in the development, launch, and other issues associated with the federal marketplace, GAO is conducting a body of work in this area. Our report on contracting for Healthcare.gov is being issued today.<sup>1</sup> That report and my testimony this morning focus on (1) CMS acquisition planning activities; (2) CMS oversight of cost, schedule, and system capability changes; and (3) actions taken by CMS to identify and address contractor performance issues.

For our review, we selected two task orders and one contract, which together accounted for more than 40 percent of the total CMS-reported obligations related to the development of Healthcare.gov and its supporting systems as of March 2014. We evaluated the task order issued to CGI Federal Inc. (CGI Federal) for the development of the federally facilitated marketplace (FFM)—a system that accepts and

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<sup>1</sup> GAO, *Healthcare.gov: Ineffective Planning and Oversight Practices Underscore the Need for Improved Contract Management*, [GAO-14-694](#) (Washington, D.C.: July 31, 2014).

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processes data entered through the website. The FFM was intended to provide three main functions: eligibility determination and enrollment, plan management, and financial management. We evaluated the task order issued to QSSI, Inc. (QSSI) for the development of the federal data services hub (data hub), which routes and verifies user information among the FFM and various external data sources, such as the Social Security Administration and the Department of Homeland Security. We also evaluated the contract awarded to Accenture Federal Services in January 2014 to continue FFM development and enhance existing functionality.

To conduct our work, we reviewed Federal Acquisition Regulation (FAR) and relevant HHS/CMS policies and guidance; analyzed contract modifications, contractor deliverables, and contractor monthly status reports; identified monitoring requirements; and analyzed contract file documentation. Finally, we interviewed CMS contracting officials, CMS program officials, and the contractors to obtain their perspectives. A more detailed description of the scope and methodology used for our study is provided in appendix I of our report. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found that CMS undertook the development of Healthcare.gov and its related systems without effective planning or oversight practices, despite facing a number of challenges that increased both the level of risk and the need for effective oversight. According to CMS program and contracting officials, the task of developing a first-of-its-kind federal marketplace was a complex effort that was exacerbated by compressed time frames and changing requirements. In an effort to be expedient, CMS issued task orders to develop the FFM and the data hub systems when key technical requirements were still unknown—including the number and composition of states to be supported and, importantly, the number of potential enrollees. CMS contracting officials explained that meeting project deadlines was a driving factor in a number of acquisition planning activities, such as the decision to proceed with the contract award process before requirements were stable and the selection of a type of cost reimbursement contract, known as a cost-plus-fixed-fee contract, for both the FFM and data hub task orders.

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This type of contract is considered high risk for the government because of the potential for cost escalation and because the government pays a contractor's allowable cost of performance regardless of whether the work is completed. While CMS's use of the cost-plus-fixed-fee contract type may have been a reasonable choice under the circumstances, the related risks increased the need for oversight. Despite these risks, CMS did not develop a required acquisition strategy to identify risks and document mitigation strategies and did not use available information, such as quality assurance surveillance plans, to monitor performance and inform oversight.

CMS incurred significant cost increases, schedule slips, and delayed system functionality for the FFM and data hub systems due primarily to changing requirements that were exacerbated by inconsistent oversight. From September 2011 to February 2014, estimated costs for developing the FFM increased from an initial obligation of \$56 million to more than \$209 million; similarly, data hub costs increased from an obligation of \$30 million to almost \$85 million. New and changing requirements drove cost increases during the first year of development, while the complexity of the system and rework resulting from changing CMS decisions added to FFM costs in the second year. Moreover, CMS delayed key governance reviews, moving an assessment of FFM readiness from March to September 2013—just weeks before the launch—and CMS did not receive required governance approvals. As a result, CMS launched Healthcare.gov without verification that it met performance requirements.

Furthermore, because of inconsistent contractor oversight within the program office and unclear roles and responsibilities, there was confusion about who had the authority to approve contractor requests to expend funds for additional work. Our review identified approximately 40 instances during FFM development in which CMS program staff inappropriately authorized contractors to expend funds, totaling over \$30 million. This is not to say the work was not necessary; however, the work was not approved properly.

As the October 1, 2013 deadline for establishing enrollment through the website neared, CMS identified significant performance issues involving the FFM contractor, but the agency took only limited steps to hold the contractor accountable. In April and November 2013, CMS provided written concerns to CGI Federal regarding its responsiveness to CMS's direction and FFM product quality issues. In November 2013, CGI Federal responded in writing, stating that it disagreed with CMS's assertion that CGI Federal had not met the requirements in the FFM

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statement of work and that delays in CMS's establishment and finalization of requirements influenced the time available for development and testing of the FFM.

CMS was prepared to take action in August 2013 that could have resulted in withholding fee from the contractor; however, CMS ultimately decided to work with CGI Federal to meet the deadline. In September 2013, CMS program officials became so concerned about the contractor's performance that they moved their operations to the FFM contractor's offices to provide on-site direction. Ultimately, CMS declined to pay about \$267,000 in requested fees. This represents about 2 percent of the \$12.5 million in fees paid to the FFM contractor. CMS contracting and program officials stated that the contract limited them to withholding fee only as a result of rework. By the end of the task order's development period, only the FFM's plan management module was complete. Some of the elements of the eligibility and enrollment module had not been provided, and the financial management module—which includes the services necessary to accomplish financial interactions with issuers—remained unfinished.

In January 2014, CMS awarded a new contract to another firm, Accenture Federal Services, with an estimated value of \$91 million to continue FFM development. This work also has experienced cost increases due to ongoing changes such as new requirements and other enhancements. As of June 5, 2014, costs on the Accenture Federal Services contract had increased to over \$175 million, while key FFM capabilities—including the financial management module—remained unavailable. Financial management module functionality is currently scheduled to be implemented in increments through December 2014. CMS needs a mitigation plan to address these issues. Unless CMS improves contract management and adheres to a structured governance process, significant risks remain that upcoming open enrollment periods could encounter challenges.

The report we are releasing today makes five recommendations to the Administrator of the Centers for Medicare & Medicaid Services to better manage the ongoing effort to develop the federal marketplace and improve future contracting efforts. Specifically, we recommended that CMS

- take immediate steps to assess the causes of continued FFM cost growth and delayed system functionality and develop a mitigation plan designed to ensure timely and successful system performance;

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- ensure that quality assurance surveillance plans and other oversight documents are collected and used to monitor contractor performance;
  - formalize existing guidance on the roles and responsibilities of contracting officer representatives and other personnel assigned contract oversight duties, and specifically indicate the limits of those responsibilities in terms of providing direction to contractors;
  - provide direction to program and contracting staff about the requirement to create acquisition strategies, and develop a process to ensure that acquisition strategies are completed when required and address factors such as requirements, contract type, and acquisition risks; and
  - ensure that information technology projects adhere to requirements for governance board approvals before proceeding with development.

After reviewing our draft report, CMS concurred with four of GAO's recommendations and partially concurred with one. CMS's comments, along with our evaluation of them, are provided in full in our report.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or other members of the subcommittee may have.

For questions regarding this statement, please contact William T. Woods at (202) 512-4841 or woodsw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. W. William Russell, Assistant Director; Jennifer Dougherty; Elizabeth Gregory-Hosler; Andrea Yohe; Susan Ditto; Julia Kennon; John Krump; Ken Patton; and Roxanna Sun made key contributions to this statement.

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