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October 25, 2006

The Honorable Eliot Shapleigh
The Honorable Carlos I. Uresti
The Honorable Carter Casteel

Dear Senator Shapleigh, Chairman Uresti and Representative Casteel:

In May 2006, you requested my assistance in researching the Integrated Eligibility and Enrollment contract between the Health and Human Services Commission (HHSC) and Accenture LLP. I have completed this research.

At this writing, the project is behind schedule and $100 million over budget, without a revised plan to get the project back on course. Accenture has not met its performance requirements and has not been held accountable for its failure. Clients are still reporting delays and inaccuracies in processing their applications. HHSC has proven it cannot manage Accenture and the contract.

My conclusion is that this project has failed the state and the citizens it was designed to serve. The contract with Accenture must be ended. I recommend the Legislature pass emergency legislation that removes HHSC's direct management of the project and places the responsibility with a turnaround team composed of experts who can effectively manage state resources and stop the drain on tax dollars. And, most importantly, make sure children receive the health insurance for which they are eligible. In addition, the Legislature should review this administration's 27 major policy changes that have resulted in even more children losing health insurance.

Since Accenture began operations on December 1, 2005, CHIP enrollment has plunged by 8.5 percent or 27,567 children though August 2006. It seems unlikely that many of these children dropped from CHIP were transferred to Medicaid since enrollment in children's Medicaid also fell during this timeframe by 2.9 percent or 53,937 children. Evidence shows that some children were inaccurately denied benefits but were in fact eligible. In addition, I found that rather than saving money in this biennium, this contract will cost the state almost $100 million more than budgeted while fewer children and families receive the needed benefits.

The state's automated eligibility determination system, the Texas Integrated Eligibility Redesign System (TIERS), has cost taxpayers $279 million to date, and despite this expenditure, is being used in just four state offices in Travis and Hays counties after three years. Both HHSC and Accenture have hired hundreds of additional personnel to address a myriad of costly problems with TIERS.

As of August 31, 2006, HHSC has paid Accenture more than $123 million to process eligibility for a fraction of Texas' applicants, and the project that was intended to save the state's budget will end up costing the budget $100 million more. This project is over budget and under performing.

To understand the full range of HHSC's mismanagement and Accenture's substandard performance, one must address the complex, 6,000-plus page contract between HHSC and Accenture. Despite its length, the contract is vague and misdirected, leaving taxpayers to pay millions of dollars for inadequate work.

This is certainly not the impression received from the public statements of HHSC and Accenture. Taxpayers and legislators have been told that Accenture is subject to strong performance standards; that the state pays the company only when it performs well; and that the contract guarantees Texas will be reimbursed for Accenture's failures to date. These statements are unsupported by the evidence.

As you may recall, my office recommended in January 2003 to reduce HHSC's administrative costs for determining eligibility by implementing a call-center for children's Medicaid only. Unlike HHSC's plan, my recommendation did not include massive state worker layoffs, and it would have provided a proving ground for testing the new technologies and approaches that HHSC dived into with inadequate planning and little testing.

Contrary to my recommendation, HHSC expanded the scope of the project to include the Children's Health Insurance Program (CHIP) in the integration, maintenance of the state's eligibility technology system and HMO enrollment brokerage services. This major increase in scope created a project that could not be executed within HHSC's proposed timeline and budget.

Between November 2005 and January 2006, HHSC outsourced the eligibility determination process to a private vendor, Accenture LLP. HHSC estimated that this move would save the state $646 million in all funds by 2010, primarily through state staff reductions and office closures.

Since January 2006, however, the outsourcing experiment has come under intense criticism from parents, advocacy groups, legislators and the press, due to steep declines in the number of Texas children eligible for CHIP and Medicaid.

Furthermore, in case after case, eligible children are not getting enrolled in CHIP despite their parents' best attempts to navigate Accenture's call center and application process. Many cases show eligible children are losing health care coverage through no fault of their own, but due to mistakes and errors made by Accenture and its subcontractors.

This project has been mismanaged at virtually every turn. HHSC's lack of effective planning and contract management has drained scarce taxpayer resources. This controversy led 60 state representatives to ask HHSC to cancel the contract with Accenture.

To date, HHSC has not reported the number of applications Accenture has received or processed for CHIP, Medicaid, TANF and food stamps, nor has HHSC reported the percentage of these cases determined eligible for benefits. Because of this, the Legislature has no way to determine the cost of eligibility determination per applicant.

In the course of our study, we found that:

- the contract's performance standards are weak, and HHSC is not even monitoring contractor performance in some crucial areas.
- the contract forces the state to pay Accenture whether it performs well or not.
- the state most likely will never be fully compensated for Accenture's failures, given the contract's limitations on liability and HHSC's poor contract management.

Some of the key findings that my staff uncovered in their exhaustive review of the program include the following:

1. *HHSC estimated the cost of Accenture's contract to be $899 million in all funds over five years. This figure is understated and misleading.*

In addition to the publicly released cost estimate:

- HHSC has removed $94.7 million of expenses from Accenture's contract and will pay these on Accenture's behalf.
- HHSC has added $5.9 million in amendments for TIERS modifications to be made by Accenture and Deloitte Consulting, the previous TIERS vendor.
- HHSC hired Deloitte for an additional $2.3 million in 2005 to help transfer TIERS to Accenture.
- In April 2006, HHSC notified the federal Food and Nutrition Services (FNS) and the Centers for Medicare and Medicaid Services (CMS) that it may hire Deloitte for another year to work on TIERS, for an additional $39.1 million.

The General Appropriations Act assumed the state would save $140.9 million in all funds, including $65.1 million in general revenue, in fiscal 2006 and 2007. Instead, HHSC will spend that $65.1 million and an additional $34.8 million in general revenue on the project in those years. Therefore, the state will spend $99.9 million more than anticipated. Given its track record to date, it seems unlikely that HHSC will save the expected $646 million in all funds by 2010.

2. *The contract provides Accenture with perverse incentives to process applications inefficiently.*

- Accenture's payments are based on a complex combination of more than 70 prices for transactions processed per application. This payment structure gives Accenture the incentive to process as many paper-based "touches" to the client as possible, when the intention of the call center model is to make the process simpler, more customer-friendly and cost-effective.
- Accenture is paid when applications are completed and ready for the state's final determination. Accenture *also* is paid, however, when applications "time out" because clients have not submitted sufficient information for processing. These applications are sent to the state for denial, and Accenture is paid the same rate as for completed applications. This payment structure does not provide Accenture with any incentive to seek necessary information from clients before their applications time out.

- The contract specifies that Accenture is to be paid only for completed and "appropriate" transactions, but HHSC has not established any effective mechanism to determine whether transactions are appropriate before paying Accenture. It can only recoup inappropriate payments after the fact, not prevent them.

3. HHSC has failed to hold Accenture to the contract's limits on profit.

- From July 5 through December 2005, Accenture earned $23.5 million in profit on $75.8 million in revenues spent for transitioning from the old to the new eligibility programs. This greatly exceeded the contractual limit of $5.6 million for this service.
- Accenture earned $5.7 million in profit for the first four months of operations (January through April 2006), exceeding the contractual limit of $3.3 million.
- HHSC allows Accenture to retain a portion of the state's payments for future, unplanned capital expenditures. If Accenture does not spend the estimated $31.4 million it will accrue by the end of the contract, it will keep half of this amount, or $15.7 million, plus any interest accrued, as pure profit.
- Although the contract sets "limits" for Accenture's profit, it also allows the vendor to *keep* any of the excess profits it actually earns. Thus, these limits are pointless and ineffective. The contract allows HHSC to reduce Accenture's fees after two years if its actual profits are 20 percent higher than the contractual limits, but the new prices then counter-intuitively also increase Accenture's allowable profit limit by 20 percent.
- In addition, Accenture *overbilled* HHSC at least $327,000 for labor at rates above the agreed maximum rate for additional services.

4. The contract is a "cost reimbursement" model that attempts to limit Accenture's overhead expenses and profit through various complex requirements. In the end, though, these complexities will have little effect on the state's payments.

- HHSC has not monitored or audited Accenture's overhead expenses to determine whether the company has complied with the contract terms.
- The contract does not clearly establish whether Accenture is required to repay the state if its overhead expenses are higher than estimated or if its expenses fail to comply with the contract terms.
- Accenture charges profit on overhead expenses, and since Accenture is allowed to simply estimate its overhead, it can maximize its profit by overestimating overhead.

5. The contract pays Accenture for effort rather than performance.

- Payments are made on a regular monthly basis regardless of whether Accenture has performed well.
- Accenture has failed to deliver various required reports and services, and has well-known performance problems, but HHSC has not withheld any payments due to poor performance.
- Accenture has failed to meet some key performance requirements, but HHSC again has not assessed any liquidated damages. Liquidated damages are intended to recover damages or costs HHSC incurs as a result of Accenture's failure, and are specified in the contract.
- Accenture is being paid an additional $5.9 million to modify TIERS. This work is being paid at hourly labor rates, with no requirements for performance.

6. HHSC's contract relies upon 94 "Key Performance Requirements" or "KPRs" to ensure that Accenture performs well, but the agency has failed to define or enforce most of these requirements.

- Accenture measures and monitors *its own* performance on KPRs, with no meaningful HHSC oversight.
- Almost a year after the contract began, HHSC has made no effort to measure or track 36 percent of the KPRs.
- The contract's KPRs do not measure performance concerning the most serious problems clients report, such as inaccurate information and lengthy delays.
- Liquidated damages assigned to KPRs appear to be arbitrary and do not realistically represent the actual monetary damage the state might incur.
- HHSC allowed Accenture to set its own liquidated damage amounts based on what Accenture would be *willing* to pay, rather than on the potential damage to the state should Accenture fail to meet its performance requirements.
- In some cases, liquidated damage amounts are so low that it may be cheaper for Accenture to pay them rather than to fix the underlying problem.
- Liquidated damages do not address instances of grossly or consistently poor performance.
- "Earn backs" granted for superior performance allow Accenture to avoid liquidated damages. An "earn back" for an unrelated or lower-priority requirement can be used to offset a liquidated damage assessed for an unrelated but higher-priority requirement.
- KPRs are significant only when tied to HHSC's ability to assess liquidated damages. Yet HHSC has assessed none to date, despite repeated poor performance.

In addition, HHSC limited Accenture's total contract liability to $250 million, or just *27.8 percent* of the total contract value, when standard industry practice sets this limit as high as 100 percent or more.

HHSC's legislative testimony and quotes in the media seem intended to convince the public and Legislature that Accenture is responsible for *actual* damages the state has incurred from the company's failures during the introduction of integrated eligibility. Nothing could be further from the truth.

The reality is that the contract does not require Accenture to pay actual damages, only arbitrarily set and generally inadequate liquidated damages, which HHSC has not yet assessed against Accenture. To obtain actual damages, HHSC would have to sue.

Interestingly, HHSC has said that it expects to recover only about 30 percent of its actual costs caused by Accenture's failures, and part of this reimbursement could come in the form of additional services as well as payments.

7. HHSC has jeopardized federal funding to Texas.

- HHSC added food stamps to the IEE system without prior federal approval, losing about $6.9 million in federal funding for fiscal 2006 in consequence.
- HHSC risks losing $23.7 million annually in enhanced federal funding for food stamps because processing timelines for the integrated system do not meet federal standards.

- HHSC already has identified approximately $3 million in food stamp and Temporary Assistance to Needy Families (TANF) overpayments made through TIERS.

8. HHSC calls the TIERS-driven Integrated Eligibility and Enrollment system a "pilot," but it is not a pilot in the usual sense, because the agency did not test the system before causing major disruption to its existing programs.

HHSC relied on an unfinished and unproven software system, TIERS, to serve as the technological base of the integrated eligibility program.

- TIERS had been in development since 1997, and had been used only in a limited manner in four field offices since July 2003.
- TIERS was not and still is not ready to be deployed statewide. The system continues to be plagued with well-known problems.
- HHSC underestimated the magnitude of the modifications needed to make TIERS operate in a call center model.

HHSC did not allow enough time for Accenture to make the significant changes necessary for TIERS to operate in a call center model. This forced Accenture to integrate MAXIMUS' MAXe system with TIERS to provide the capabilities TIERS lacked.

These systems did not and still do not work properly, together or separately. Numerous clients report egregious problems which are described in the Problem Overview section in the Background Information attached. Despite HHSC or Accenture's corrective action plans, clients continue to provide consistent evidence that the problems haven't been fixed yet.

9. HHSC's implementation attempted to do too much at once.

- HHSC added CHIP eligibility processing, TIERS maintenance services and health maintenance organization enrollment brokerage to the RFP, compounding the problems inherent in implementing a complex new process.
- HHSC changed core contractors during the transition to integrated eligibility, losing valuable expertise at a critical moment.
- HHSC implemented 27 major policy changes to CHIP at the same time it was changing contractors, systems and business processes, causing many clients to unnecessarily lose their eligibility.

10. HHSC did not allow enough time for the vendor to prepare and introduce the system, jeopardizing CHIP and Medicaid coverage for Texas children.

- HHSC allowed only five months for the CHIP program to change contractors, systems and procedures during major policy changes.
- HHSC spent seven months in negotiating the final contract but gave Accenture just six months to assume responsibility for TIERS, modify it, introduce a new call center system and establish call centers with hundreds of employees. Accenture was not ready.

11. HHSC received clear indications from stakeholders that the integrated eligibility rollout should be delayed, but proceeded with it anyway.

- As early as December 23, 2005, Accenture assessed the risk of system failures as "red," or critical.
- HHSC ignored Food and Nutrition Service's (FNS) pleas for caution and overlooked its concerns.
- HHSC also ignored reports of serious problems provided both by its own Independent Verification and Validation vendor and one hired by FNS.

12. HHSC decided to proceed with the integrated eligibility rollout before standard acceptance testing was completed.

In other words, Accenture was not asked to prove it was ready before starting to process eligibility applications.

- Accenture scaled back its acceptance testing and completed it only *three days* before the call center rollout—and *17 days after* it began accepting children's Medicaid applications—leaving the contractor no time whatsoever to correct any problems it discovered.

HHSC was simply unprepared for the possibility that the IEE implementation wouldn't work, and had no meaningful contingency plan to minimize failure.

13. HHSC refuses to allow food stamp clients to apply for benefits by telephone, despite FNS' repeated urging.

- All this would require is a waiver submitted to FNS, which has already endorsed the proposal.

14. The rollout was plagued by staffing problems at all levels.

- HHSC notified its employees that they were being laid off before it established that Accenture was capable of taking on the work; many of these workers left before their positions were eliminated.
- HHSC thus had significant numbers of key positions vacant at critical times in the project.
- Accenture's call centers were understaffed and its agents were unprepared to answer policy and processing questions.

15. HHSC has not established effective accounting and auditing controls of the contract.

- For example, as of the end of August, HHSC had approved invoices for $22 million yet the invoices had not been sent to the Comptroller's office for payment.

16. HHSC's contract with Accenture was poorly executed and the agency has made limited effort to manage it effectively since its signing.

17. Mismanaged contractors, systems and policy changes made by HHSC took a human toll—from December 2005 to August 2006, 81,504 Texas children lost their CHIP or Medicaid health care coverage because of it.

- Since the beginning of the contract, CHIP enrollment has plunged by 8.5 percent or 27,567 children.
- It seems unlikely that many of these children dropped from CHIP were transferred to Medicaid. Enrollment in children's Medicaid also fell by 2.9 percent or 53,937 children.
- In addition, there is little evidence that these children's families gained enough income to become ineligible for CHIP or Medicaid. An analysis of other similar states' CHIP caseloads does not support the theory that economic conditions are significantly better for families.
- Sweeping changes to CHIP policies and procedures were implemented, causing many children to lose coverage unnecessarily.
- About 87 percent of the net CHIP enrollment decline occurred in service areas with more than one HMO plan option, far out of proportion to these areas' 56 percent of total CHIP enrollment in the state. Some evidence suggests that clients were deemed ineligible if they did not reselect their HMO plan at renewal, even though they were led to believe that they would be re-enrolled automatically, without needing to reselect the plan.
- HHSC has not required Accenture to meet any meaningful quality standards for CHIP application processing.
- Analysis of CHIP enrollment patterns and declines is extremely difficult because neither HHSC nor Accenture tracks or reports program statistics accurately.

State oversight mechanisms for this project, such as the state's Quality Assurance Team, which oversees major technology projects, were not sufficient to prevent failure or guide HHSC's contract management.

Solutions
Since the integrated eligibility project demands immediate attention and intervention, I recommend the following strategy:

1. To immediately address the problems, the 80th Legislature should pass emergency legislation to transfer authority and responsibility for the integrated eligibility project and the Accenture contract to a turnaround team led by a special master reporting directly to the Governor and Legislative Budget Board (LBB).

The integrated eligibility project can be put back on course only with new leadership. To achieve any savings for the state, the project and HHSC's plans to salvage the project must be subjected to an *independent* technical and financial assessment.

The integrated eligibility model fundamentally changed the way HHSC contracts with private vendors, but there was no accompanying change in the skills or abilities of the people assigned to manage the project.

The Legislature should appoint a turnaround team of experts, led by a special master, specializing in contract management, technology, finance, legal affairs and IT project management. This team should be charged with protecting scarce taxpayer dollars.

HHSC's commissioner and executive managers should report to the special master for this project only; all other health and human services would remain under the current lines of authority.

2. **The cost of the turnaround team should be funded by Accenture's $20.3 million in excess profits.**

3. **The first order of business for the turnaround team should be to end the contract and review the Integrated Eligibility program top to bottom. While the state has had to hire back state employees to do Accenture's job, Accenture has made $20.3 million in excess profit.**

HHSC mismanaged the contract from the very beginning by notifying staff in October 2005 that they were going to lose their jobs. This was three months prior to going live with an untested system and long before they knew if Accenture could handle the workload. Now they are having to hire back state employees to solve Accenture's problems. In addition, HHSC did not create an infrastructure of trained staff skilled in outsourcing to manage the project.

Accenture should be held accountable for its commitments through the transition period.

4. **To mitigate the risk of further wasteful spending and outsourcing failures, the Texas Legislature should create a new state office of Contract Management to establish and manage large contracts for programs and information technology services such as integrated eligibility, Medicaid claims processing and electronic benefits transfer.**

Contracting problems are not new to the Accenture contract or to HHSC. The State Auditor's Office (SAO) audits of HHSC and its departments in recent years show a pattern of poor contracting practices, inadequate contract terms and lax contract management. Indeed, numerous SAO audits of other state agencies have found significant and repeated problems in contract development and planning, procurement, management, and monitoring. Many of these problems have continued at the same agencies, despite SAO recommendations that could have been implemented in subsequent contracts or extensions of existing ones.

A Contract Management Office (CMO) could provide all Texas state agencies with the specific capabilities they need beyond their own program expertise. The CMO would allow the state to develop and centralize contract management expertise and make it available to state agencies for the life of each contract.

Expertise at the CMO should include:
- legal affairs
- large contract management
- technology contracting
- information technology project management
- finance and auditing

State agencies with large IT and outsourcing contracts should be required to use the CMO's expertise to:

- develop requests for proposals;
- evaluate proposals;
- negotiate contracts;
- manage contracts and vendor relations; and
- manage IT project development and implementation.

In conclusion, this project has failed the state and the citizens it was designed to serve. Change is needed—change is needed now. And the change must be significant if we are to uphold our promise to save tax dollars while improving customer service to our most vulnerable citizens.

Should you have any questions, please contact Ruthie Ford, my Special Assistant for Expenditure Analysis, by e-mail at ruthie.ford@cpa.state.tx.us or by phone at 463-4263, or you can call me directly at 463-4444.

Thanks for all that you do for our great state. Please do not hesitate to call on me if I can assist you in the future.

Sincerely,

Carole Keeton Strayhorn

Carole Keeton Strayhorn
Texas Comptroller

Enclosure

Accenture Financial Review Background Information

Overview

In May 2006, several Texas state and federal legislators contacted the Comptroller's office to express concerns about the inefficient use of state and federal funds by the Health and Human Services Commission (HHSC) and its contractor Accenture LLP in establishing an integrated eligibility and enrollment (IEE) system for public assistance programs.

The legislators asserted that:

- the system procurement and implementation lacked financial accountability;
- contract quality, management and performance were poor;
- HHSC had conducted little or no risk management or contingency planning;
- HHSC's implementation schedule, system integration and transition readiness plan were unrealistic;
- numerous state policy changes, implemented simultaneously in the new system, had contributed to poor overall performance; and
- the project was hurting client access and service.

For specific concerns raised by individual lawmakers, see **Appendix 1**.

Many of these concerns mirrored similar complaints made for years by the State Auditor's Office (SAO), which has repeatedly criticized HHSC's contract management and related business processes. A summary of SAO's findings concerning HHSC can be found in **Appendix 2**.

As the state's primary fiscal agent and steward of public funds, the Comptroller is statutorily charged with ensuring that state funds are used as efficiently and effectively as possible. The Comptroller began a financial review of the IEE system and the related Children's Health Insurance Program (CHIP) in June 2006, in response to the legislators' concerns.

Integrated Eligibility and Call Centers

The 2003 Legislature's House Bill (H.B.) 2292 established a "call-center approach" to eligibility determination and enrollment for Texas health and human services programs. The call center model allows potential clients to apply for program assistance over the telephone, via fax or through the Internet, rather than forcing them to visit a state office to apply.

H.B. 2292 directed HHSC to establish up to four call centers throughout the state to accept client applications if cost effective. HHSC was to determine whether state-run or vendor-run call centers would be most cost-effective. H.B. 2292 also established an Office of Eligibility Services (OES) within HHSC to determine eligibility for CHIP, Medicaid, Long Term Care, food stamps, Temporary Assistance for Needy Families (TANF) and other programs as appropriate.

Prior to H.B. 2292, HHSC began developing a system to replace the outdated technology used to determine eligibility in state field offices. The System of Application, Verification, Eligibility, Referral and Reporting (SAVERR), initially created in the 1970s, processes client eligibility applications and renewals for all Texas health and human services programs.

HHSC began developing its replacement system, the Texas Integrated Eligibility Redesign System (TIERS), in 1997. At the time HHSC was developing its Discovery Report and Business Case analysis for integrated eligibility call centers, TIERS had been in a limited pilot for more than a year in four state offices in Travis and Hays counties.

HHSC selected TIERS as its technology base for integrated eligibility, with the intention of replacing SAVERR statewide with TIERS prior to implementing integrated eligibility and call centers.

While the current IEE project is limited to Medicaid, TANF and food stamps, HHSC intends that the system eventually will be used for all health and human services, based on the underlying technology of the agency's TIERS System. At present, CHIP applications are being processed via Accenture's MAXe system, but HHSC plans to incorporate CHIP processing into TIERS in the future.

Request for Proposals

To determine whether the call-center operation should be outsourced, HHSC issued a request for proposals (RFP) in July 2004. For a timeline of the IEE contract activities, see **Appendix 3**.

In addition to integrated eligibility for Medicaid, TANF and food stamps, the RFP included three related processes: CHIP eligibility determination; development and maintenance of the TIERS system (formerly the responsibility of Deloitte Consulting); and health maintenance organization (HMO) enrollment brokerage; that is, the selection of appropriate HMOs for qualified Medicaid and CHIP clients.

HHSC required all bidders to incorporate both the current Texas 2-1-1 toll-free network and the TIERS system in their proposals. The 2-1-1 network would allow applicants simply to dial 2-1-1 to speak with state information specialists, who then would transfer the call to the vendor's call center. TIERS, at the time of the RFP, was still being developed by Deloitte in a limited pilot in Travis and Hays counties.

After reviewing the vendor responses, HHSC determined that outsourcing the call-center operation to a private vendor would be the most cost-effective approach. In late February 2005, HHSC awarded the contract to Accenture and its consortium of subcontractors, the Texas Access Alliance and on June 29, 2006 signed a contract. Before this project, Texas had never outsourced any portion of its eligibility services except for CHIP eligibility determination and HMO enrollment brokerage, which always have been administered by private vendors.

The new contract required HHSC to change its vendors for some services bundled into the RFP. Before Accenture's contract, Affiliated Computer Services, Inc. (ACS) administered CHIP, including the enrollment of CHIP children into HMOs; Deloitte Consulting performed TIERS development and maintenance; and MAXIMUS, a major vendor of government services, acted as the state's Medicaid HMO enrollment broker. After the contract, these services were shared between Accenture and MAXIMUS, with the latter acting as a subcontractor (**Exhibit 1**).

Furthermore, HHSC complicated the rollout by initiating significant changes in eligibility policies for CHIP during the transition to new contractors and call centers. These changes required Accenture to collect new and different information and HHSC to revise its eligibility guidelines.[1]

Exhibit 1

Vendor Changes Prompted by the Accenture Contract

Program	Responsibility Before HHSC Contract	Responsibility After Contract
Integrated Eligibility	HHSC	Accenture and MAXIMUS
CHIP Eligibility Determination	Affiliated Computer Services, Inc. (ACS)	MAXIMUS
TIERS Maintenance	Deloitte Consulting	Accenture
Medicaid HMO Enrollment Brokerage	MAXIMUS	MAXIMUS
CHIP HMO Enrollment Brokerage	ACS	MAXIMUS

Source: Health and Human Services Commission.

Savings Estimates and Assumptions

At the time of the contract signing in June 2005, HHSC estimated the state would save $646 million administrative costs in all funds over the first five years of the IEE project, with the majority of this amount to come from reductions in state staffing and field office closures.

On July 26, 2006, HHSC Executive Commissioner Albert Hawkins testified before the House Committee on Government Reform that savings could not be expected to begin until full implementation of the integrated eligibility model, after completion of the present rollout period, and that the $646 million savings target would be achieved by including savings on client *benefits* as well as savings on administration.

In its original (March 2004) Business Case for the IEE project, HHSC stated that it planned to close 217 out of 381 eligibility offices, but later decided to close only 99.[2] The Business Case also stated that HHSC would eliminate about 4,500 state jobs by May 2006, out of a total of more than 7,300; the agency later reduced the estimate of eliminated jobs to about 2,900 positions. In July 2006, HHSC stated that it had not eliminated any state jobs, but is reducing its work force through attrition.[3]

HHSC also planned to restructure its state positions into four categories to help support the new call-center approach. About 1,800 state workers and managers would remain in 164 local field offices; 600 state workers would work in "out-stationed" facilities (typically hospitals); 200 state employees would work in traveling units, shuttling between state field offices; and 250 state employees would work in call centers.

In Fall 2005, HHSC informed thousands of its eligibility workers that they would be laid off within a year. Given the many problems that occurred in the rollout of the new system, however, HHSC postponed the layoffs indefinitely in May 2006. By that time, though, many employees scheduled to be laid off had already begun leaving. To stop this exodus, HHSC received approval in May 2006 to transfer $85.9 million in general revenue to retain an additional 1,000 state workers and cover other costs. HHSC is also transferring an additional $14 million in general revenue as allowed by rider.

HHSC is paying retention bonuses to help keep other workers in place during the transition. HHSC was authorized to provide these bonuses and revised its plans regarding staff cuts to make them occur at a much slower rate. At present, HHSC plans to retain about 3,900 eligibility employees and had hired about 1,050 temporary workers by the end of May to help offices experiencing high turnover during the transition.[4]

The agency's recently submitted Legislative Appropriations Request also reflects the uncertainty regarding staffing levels. Integrated Eligibility projected staff positions total 6,700 in fiscal 2006 and 6,400 in fiscal 2007, then drop to 5,775 in fiscal 2008 and 2009. The review team has not been able to reconcile the different staffing totals given the data available at this time.

HHSC established an aggressive schedule for the call center rollout. The call centers and integrated eligibility process would be rolled out in phases throughout the state over just eight months, starting January 20, 2006 and ending on September 30, 2006.

Statewide Implementation

Each of the services in the contract was initiated at different times in different regions of the state (**Exhibit 2**). Accenture assumed maintenance responsibility for the TIERS system on November 1, 2005. MAXIMUS assumed all CHIP applications in work with the prior contractor, ACS, on November 16, 2005, and began determining CHIP eligibility for all clients statewide on December 1, 2005.

Implementation of the integrated eligibility program was the most complex by far. Accenture began accepting new applications for Children's Medicaid from clients statewide on January 1, 2006. (An application is considered "new"

Exhibit 2

IEE Rollout Schedule

Service	Initiated	Regions	Vendor
HMO Enrollment Brokerage, CHIP and Medicaid Clients	November 1, 2005	Statewide	MAXIMUS
TIERS Maintenance	November 1, 2005	State offices in Travis and Hays counties	Accenture
CHIP Eligibility Determination: Applications in work at prior contractor/ new applications	November 16, 2005	Statewide	MAXIMUS
CHIP Eligibility Determination Operations	December 1, 2005	Statewide	MAXIMUS
Integrated Eligibility Determination: Children's Medicaid, New Applications	January 1, 2006	Statewide	Accenture and MAXIMUS
Integrated Eligibility Determination: Medicaid, TANF and Food Stamps	January 20, 2006	Clients residing in Travis and Hays counties	Accenture and MAXIMUS
Integrated Eligibility Determination: Call Center Services	January 20, 2006	Statewide	Accenture and MAXIMUS

Source: Health and Human Services Commission.

if the child has never received Medicaid assistance in the past.) On January 20, 2006, Accenture began processing all eligibility applications (new as well as renewals) for Medicaid, TANF and food stamps for clients residing in Travis and Hays Counties, and opened its call center for clients.

A number of problems surfaced during this initial phase of the project. First, CHIP caseloads declined dramatically, followed by a surge of clients complaining their coverage had been dropped mistakenly. Clients also complained of exceedingly long hold times in waiting for a call center agent, and reported numerous instances in which eligibility was denied in error or applications were processed incorrectly.

Many clients complained that their applications had been "lost," even when they had provided Accenture with numerous copies. Others complained that Accenture's employees had provided incorrect information over the phone. HHSC staff members also expressed concerns with TIERS and Accenture's call center quality, accuracy and timeliness.

Accenture agreed to hire more staff to handle the call volume, and to retrain its staff to answer client questions correctly and guide them properly through the application process. Escalating complaints and continuing case backlogs, however, indicated that the problems continued to worsen despite the contractor's effort. In April 2006, HHSC was still reducing a backlog of overdue Medicaid applications in Austin.[5] In May 2006, Accenture was working on a corrective action plan to reduce its backlog of CHIP applications. As late as June 2006, FNS identified a significant backlog of food stamp applications, and requested HHSC provide a corrective action plan to eliminate overdue applications.[6]

In response, HHSC stopped sending adult Medicaid, TANF and food stamp cases to Accenture on May 10, 2006, and routed them back through the existing, face-to-face system conducted by state staff in local offices. This, in turn, increased the caseload for a rapidly shrinking work force.

In April 2006, HHSC announced that it would delay the introduction of further phases of the integrated eligibility system until Accenture takes corrective action and can demonstrate that it can handle the volume of calls. At this writing, the rollout is still on hold.

Contract Overview

Accenture, as HHSC's prime contractor, leads a consortium of subcontractors in delivering the services required under the contract. Contract fees are based on three major activities: integrated eligibility services, TIERS maintenance and HMO enrollment brokerage.

Integrated eligibility services include "integrating" the eligibility determination process for Medicaid, CHIP, TANF, food stamps and long term care programs. Accenture was hired to develop a system allowing clients to apply for these programs by phone, mail, fax, Internet or in person (through a state eligibility office or a community-based organization such as a nonprofit). *TIERS maintenance services* include technical support for the system developed by the prior vendor, Deloitte; modifications to TIERS allowing it to work in a call-center environment; and replacement of the current SAVERR eligibility system with TIERS across the state. *HMO enrollment brokerage* includes enrolling clients deemed eligible for either CHIP or Medicaid into HMOs.

Within each of these three components, the contract provides payment structures for three different types of services: transition, conversion and operations.

- *Transition* services are services required to move the service or program from the prior vendor or the state to Accenture. Examples include renting call-center facility space, hiring and training employees and modifying TIERS to work in a call-center environment.
- *Conversion* services are services required to convert client cases from SAVERR to the TIERS system.
- *Operations services* include the ongoing processing of client applications and HMO enrollments.

The state pays for transition and conversion services in fixed, monthly payments over a six-month period. The contract called for all transition services and payments to be completed before Accenture rolled out the system's first phase in January 2006, and Accenture apparently met this requirement. Accenture rolled out the first phase of integrated eligibility in Travis and Hays counties in January 2006. No further phases have been rolled out, despite the contract's optimistic deadlines.

Accenture is required to move client eligibility cases from the SAVERR system to TIERS as each county joins the integrated eligibility system. Since Travis and Hays counties have been using TIERS since 2003, none of their cases had to be converted for the first rollout. Conversion payments for other Texas counties are on hold until they are added to the IEE project. Some individual cases are being converted, however, as eligible clients move from other counties into Travis and Hays counties.

Accenture charges for operations in combinations of fixed and variable fees:

- *Integrated eligibility operations services* are charged both as a fixed monthly flat fee and a variable fee for each application or document processed;
- *TIERS maintenance services* are charged as fixed monthly flat fees; and
- *enrollment brokerage services* are charged as both a fixed monthly flat fee and a variable fee per eligible client per month.

Exhibit 3 summarizes the total estimated contract value to Accenture for the various pricing components.[7]
It is important to note that this estimated contract value *will* change, depending on the number of people who apply for benefits and the number of transactions needed to process their applications. HHSC's financial estimates are based on volume estimates that have not yet been proven. The cost also will rise as HHSC amends the contract to include additional work.

Exhibit 3

Accenture Contract:
Total Estimated Value Over Five Years

Transition	$75,819,035
Conversion	$23,238,816
Integrated Eligibility Operations (including CHIP)	$520,868,035
TIERS Maintenance Operations	$152,329,635
Enrollment Broker Operations	$126,684,353
Total Estimated Contract Value	**$898,939,874**

Source: Health and Human Services Commission.

Endnotes

[1] Interview with Aurora LeBrun, assistant deputy commissioner, Office of Eligibility Services, Health and Human Services Commission, Midland, Texas, June 5, 2006.

[2] Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis* (Austin, Texas, March 2004), p. 24.

[3] Testimony of Albert Hawkins, executive commissioner, Health and Human Services Commission, before the Texas House of Representatives, Committee on Government Reform, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285. (Last visited August 8, 2006.)

[4] Interviews with Health and Human Services Commission staff, Austin, Texas, June 22, 2006; Health and Human Services Commission, "HHSC Issues 30-Day Review of New Eligibility System," http://www.hhs.state.tx.us/news/release/050406_30day_review.shtml. (Last visited September 14, 2006.)

[5] Letter from Albert Hawkins, executive commissioner, Health and Human Services Commission, to the Honorable Elliot Shapleigh, state senator, March 30, 2006.

[6] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, June 5, 2006.

[7] Accenture, *Integrated Eligibility and Enrollment Services Proposal, Cost Submission 9* (Austin, Texas), Appendix A-3, Price Summary Sheet 6.

Problem Overview

Since Accenture assumed responsibility for eligibility application processing, HHSC's clients have experienced serious problems with the system—problems that left 81,504 Texas children without medical coverage between December 2005 and August 2006. Interviews and correspondence with HHSC clients and staff, community organizations, legislators and advocacy groups yielded some common themes. The sum total of client experiences point to three basic causes:

- system problems, both with HHSC's TIERS and Maximus' MAXe systems;
- inadequate and poorly trained staff;[1] and
- sweeping and poorly implemented policy changes.

One could debate which factor has had the greatest impact on declining CHIP and children's Medicaid caseloads, but since HHSC does not track complaints and appeals adequately, the reality is that neither the Comptroller's review team, the Legislature nor HHSC itself can know. It is apparent, however, that HHSC has been ineffective in preventing such problems from occurring again and again.

Among the problems repeatedly reported by clients and other stakeholders:

- **Accenture and its subcontractors have lost applications and then asked applicants to submit the same form again, often on multiple occasions.**

  Many applicants reported that they have been forced to submit the same information multiple times.[2] Several also reported finding it difficult to have information sent to a new address, despite having submitted the new address several times.[3]

  The most common theme among applicant complaints has been disenrollment due to their failure to provide required information in time during the application process.

  As part of its new CHIP policies, HHSC began requiring families to submit detailed income and asset documentation, such as pay stubs and bank account statements, at renewal times beginning in January 2006. According to HHSC, there has been a significant increase in incomplete renewal packets since January 2006.[4]

- **Accenture has made multiple data requests of applicants, sometimes asking for the same information, sometimes asking for more information after each response.**

  Repeated information requests can discourage applicants and spur them to drop out of the process. In CHIP renewals, moreover, these endless data requests can cause applicants to run out of time and lose coverage.[5]

  As one father explained, "I have been trying to get Medicaid for my daughter…. They initially received my application on Feb. 23, 2006. I have been told for the past few months that I have missing information…over and over and over. It's the same information I have given them time and again."[6]

  One mother of a ten year old girl with rapidly progressing scoliosis was told to provide missing information three times in March and April 2006. Each time she was asked to provide *different* missing information. Each time she spoke with a different operator who had no knowledge of her case. She faxed her pay check on the same page as her husband's, but was told that the contractor had received her pay stub, but not her husband's.

  Later, she was told to obtain a letter from her husband's employer verifying his place of employment, even though she had already submitted his latest pay stub as required. Then she was instructed to provide notification in writing that the family did not receive child support or alimony payments. As a result of these delays, she was

forced to cancel an appointment with a specialist for her daughter on May 23, because her CHIP coverage had not been renewed.[7]

- **Accenture has sent clients letters demanding information or enrollment fees by a date set *before* the date of the letter.**

  One person applying for children's Medicaid received a letter from Accenture dated May 8, 2006 that required information to be returned by *April 15, 2006*.[8] Another applicant received a letter dated May 3, 2006 that required information to be returned by *March 26, 2006*.[9] **Appendix 7** contains copies of these letters.

- **Accenture has assessed eligibility inaccurately.**

  One CHIP applicant seeking renewal provided Accenture with self-employment documentation, including his 2005 federal tax return form 1040 and Schedule C-EZ. He did not have a Schedule C because the IRS requires a Schedule C-EZ instead of the Schedule C if business expenses are $5,000 or less. Even so, Accenture notified the applicant that it would not accept the Schedule C-EZ—even though that is what the IRS requires.[10]

  Another CHIP applicant complained that an inaccuracy in how Accenture calculated her income would "leave her children without insurance for a couple weeks, maybe months, for a calculation error they committed." The mother repeatedly appealed for review of her application but Accenture told her it might take months to reinstate her children, even though the company was at fault.[11]

- **Accenture has provided clients with inaccurate, contradictory, confusing or incomplete instructions.**

  One father trying to enroll his daughter in CHIP received a letter citing an inaccurate payment deadline, two weeks later than the actual deadline. Although the father sent in a check that was cashed, Accenture considered the payment late and dropped his daughter from CHIP. The father fought for two months to get his daughter reinstated. During this time, his daughter suffered a second-degree burn and could not return to school without a note from her doctor—which was not available until her coverage was restored.[12]

- **HHSC has failed to clearly communicate major CHIP policy changes to enrolled families and the community-based organizations that assist them with CHIP applications and renewals.**

  Many families and community groups were not aware that HHSC had reinstated CHIP enrollment fees and required additional verifications for renewals.[13]

- **Many clients who contact the call center have been left on hold for lengthy periods, encouraging them to abandon their attempts to obtain service.**

  The Accenture contract requires that fewer than 5 percent of the call center's clients should abandon their calls before receiving assistance. Beginning in January 2006, one month after Accenture took over CHIP processing, the call center's abandonment rate rose to 6 percent. By February the abandonment rate nearly doubled, to 11.7 percent; by April, it nearly doubled again, to 22.6 percent.

  The contract also stipulates that callers should not be put on hold for more than two minutes. According to Accenture's Key Performance Report for April 2006, hold times average more than five minutes in February and more than 11 minutes in March.[14] By April, shortly before the Comptroller was asked to review the contract, CHIP applicants were reporting hold times of 30 minutes or longer.[15]

- **The call center has provided incorrect or confusing information.**

  Staff from the U.S. Department of Agriculture (USDA), the federal department that administers the food stamp program, listened to 20 recordings of actual calls received at the call center and reported that vendor personnel of the integrated eligibility program often provided incorrect or confusing information; sent clients to the wrong certification office; failed to provide information on the complaint process; and garbled information about appointments.[16]

  After months of trying to have her children's CHIP coverage renewed, one mother reported receiving three letters from Accenture on May 5. One letter, dated May 1, informed her that her children's coverage had been cancelled because she had not completed the renewal paperwork. A second letter, dated May 2, provided for continuation of coverage as of June 1, stating that her renewal information had been received but that her coverage would lapse for one full month. The third letter, also dated May 2, contained an initial enrollment packet and form, as if her children had never had coverage before.[17]

- **Accenture and HHSC have failed to notify CHIP parents of their loss of coverage.**

  One mother completed her renewal application and sent it in on January 4, 2006, to renew CHIP eligibility for March 3, 2006. Accenture marked her case as pending because she owed an enrollment fee of $25, but did not notify her of this. The mother called Accenture on March 3, 2006, to find out why she had not received an enrollment packet and learned that the case was still pending.[18]

  Some CHIP parents reported that they did not know that their children had lost their coverage until a doctor or pharmacist told them. This meant that parents with chronically ill children often found that they did not have the coverage they needed to pay for ongoing care. HHSC has responded to this common problem by implying that its clients must have received notification and must be mistaken.[19]

- **Lapses in CHIP health insurance coverage caused by vendor error cause renewals to be treated as new applications, which could deprive the child of health care coverage for at least 90 days.**

  If CHIP health insurance coverage is not renewed promptly, the 90-day introductory period for "new" coverage can cause gaps in medication and health care services. One mother reported that she struggled from February 7, 2006 to May 2, 2006 to renew her diabetic son's CHIP coverage. After numerous attempts to have her child enrolled and repeated requests for different "missing information," she received a letter on May 2 denying eligibility. She filed an appeal, but was then told her application had been accepted.

  Its effective date, however, was August 8, 2006, so her son would not have coverage for three months. She called and was told that there is a three-month waiting period on all new applications. As she explains, "I inquired as to the appeal and was told that when the application was accepted, the appeal was then terminated. No one had EVER told me that."[20]

  Another applicant changed jobs and enrolled her daughter in CHIP but kept her son on Medicaid. Although this woman knew that, in her new job, she made too much money to keep her son on Medicaid, Accenture would not transfer him to CHIP until they released her son from Medicaid enrollment. This delay caused her to miss the CHIP enrollment deadline; her son was without coverage for six months.

  In an interview with the review team, she said, "My children's drug bill is over $300 a month. I am caught in the company's confusion and the result was my son was without health insurance. I had to give my children their medication every other day to stretch it out because I couldn't afford it."[21]

- **Accenture and HHSC have been unable to resolve applicant problems promptly.**

  One mother of an asthmatic son had to send her son's CHIP forms several times while her son and his medications remained without coverage. She said, "I asked a number of times to talk to a supervisor or to talk to someone in the department that could help me but nobody could do anything, and they all said that they were sorry, but nothing could be done. I was frustrated, mad and utterly disgusted by the fact they cared more about paperwork than my son's health. At no point was anyone at CHIP concerned with the fact that my child was ill and now running out of his medicine."[22]

  A grandfather, Richard Uhr, testified at a recent legislative hearing that it took more than six months to obtain CHIP coverage for his grandson.[23] At the time of his testimony, he believed his grandson was finally on CHIP, but after the hearing he received a letter from Accenture indicating that the family still needed to provide some missing information, or his grandson would not be enrolled. According to newspaper reports, state officials said the grandson would continue getting CHIP insurance coverage, and attributed the mistake to the contractor.

- **Accenture and HHSC have made it difficult for applicants to complain.**

  One parent was instructed by a supervisor she needed to speak to a "higher up" to resolve her appeal and reinstate her children in CHIP but was denied the opportunity because they were "in meetings." The supervisor offered to e-mail the information and said someone higher up would call the parent back. It never happened. When the parent called back to ask again if she could talk with a "higher up," she was told that they were again "in meetings." [24] As one father stated, "I can't get past the phone reps to talk to a supervisor. They have refused to let me speak with anyone higher up. I would like to know what is going on with my daughter's application. I'm desperate to get her insured."[25]

  Another parent began the CHIP renewal process for her son in December 2005, to ensure that her son's coverage would continue for the next period that began on April 1, 2006. Despite repeated calls and correspondence, and meeting all fee and documentation requirements, her son was denied CHIP benefits. This woman told the review team, "I called the CHIP 1-800 number and did not get anywhere or get any information by doing this. I couldn't reach anyone after I asked to talk with a supervisor and no one would call me back. I was told to call my legislators. I called them both and one called me right back." After her legislator became involved, her son's CHIP benefits were restored retroactively, but she was not reimbursed for out-of-pocket expenses she incurred in the meantime.[26]

Appendix 4 provides examples of letters Accenture has sent to clients.

Endnotes

1 Health and Human Services Commission, "Presentation to the House Appropriations Subcommittee on Health & Human Services," Austin, Texas, April 17, 2006, pp. 15, 17; and Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, April 5, 2006.

2 Letter from a caseworker at Safe Place to the Health and Human Services Commission, April 28, 2006.

3 Letter from a CHIP applicant to the Health and Human Services Commission, Children's Health Insurance Program, May 24, 2006.

4 Memorandum from Albert Hawkins, executive director, Health and Human Services Commission, to the members of the House Appropriations Committee, Subcommittee on Health and Human Services, April 21, 2006, p. 5.

5 Children's Defense Fund, "The Children's Health Insurance Program," Washington, D.C., July 25, 2006. (Informational pamphlet.)

6 Email from Medicaid applicant to Health and Human Services Commission, May 2, 2006.

7 Children's Defense Fund of Texas, "Case Study: Abigail Espinosa, Mission, Texas, Ten Year Old Girl with Rapidly Progressing Scoliosis," Austin, Texas, June 2006.

CASE STUDY
"Stuck" between CHIP and Medicaid

One mother had a three-year-old enrolled in CHIP and a one-year-old receiving Medicaid coverage. The three-year-old is asthmatic and on medication and needs additional medical treatment for sporadic breathing problems.

The mother received the CHIP renewal packet and returned it on January 15, 2006, so that her older son's coverage could renew in March 2006. At the end of February, she received a letter from Accenture stating that the program had not received her application. Upon contacting the call center, a representative told her that the program had in fact received her application on January 3, that it was complete and that it would be sent to the work queue. The customer service representative advised her to call back in a week.

She called back after another week and spoke with another representative who told her to write a letter of appeal, because by that time her March 2006 renewal was about to lapse. She was told that an appeal would take two more weeks. When she called back, two weeks later, she was told no one had received her faxed appeal. In the meantime, her older son's coverage had ended and he had become sick. She faxed *another* letter of appeal.

After several more weeks, the mother received a phone call informing her that she was "stuck" between CHIP and Medicaid due to a computer problem; it seemed her income was too low to qualify for CHIP, so the program sent her application to Medicaid. Accenture and HHSC then decided that she had too many assets to qualify for Medicaid, but that her children did qualify for CHIP after all. She was told, however, that the system would not recognize this decision, so Accenture staff would have to override it manually to make sure her son was covered.

Accenture sent her a new enrollment packet that was due April 22; she received it on April 23. She filled it out and faxed it in anyway. Upon making a follow-up call, she was told that the information had been received and that Medicaid was sending information about her younger son so that his CHIP coverage could start in May. (Medicaid coverage for many newborns ends after they are a year old.)

About a week later, at the end of April, she received a letter from Accenture saying that both boys' CHIP insurance would start on May 1, 2006, and that she could use the letter at the doctor's office and pharmacy until their insurance cards came in the mail.

On May 2, 2006, she took her asthmatic son to the doctor, where she learned that the boy *still* did not have insurance. She called Accenture and was told that her older son did not have CHIP coverage because she had not filled in a portion of the CHIP HMO enrollment form identifying her *younger* son's plan provider and primary care provider, and that she should have filled out her younger son's information when she sent in her older son's enrollment packet—even though he was still covered by Medicaid at the time.

[8] Letter from the Health and Human Services Commission to a benefits applicant, May 8, 2006.

[9] Letter from the Health and Human Services Commission to a benefits applicant, May 3, 2006.

[10] Interview with CHIP applicant, August 22, 2006.

[11] Letter from a CHIP applicant, April 26, 2006.

[12] Letter from State Senator Eliot Shapleigh, May 10, 2006, p. 4.

[13] Children's Defense Fund of Texas, "Immediate State Action Requested to Address CHIP Enrollment Loss," http://www.cdftexas.org. (Last visited on August 18, 2006) (Petition.)

[14] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, May 19, 2006.), p. 33.

[15] Letter from a CHIP participant's mother, May 15, 2006.

[16] Letter from William Ludwig, Food and Nutrition Service, to Albert Hawkins, Health and Human Services Commission, April 5, 2006.

[17] Letter from a CHIP participant's mother, May 15, 2006.

[18] Texas Access Alliance, "Complaint Case File," Austin, Texas, March 9, 2006. (Computer printout.)

[19] Testimony of Anne Heiligenstein, deputy executive commissioner, Health and Human Services Commission, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285. (Last visited August 8, 2006.)

[20] Letter from a CHIP applicant's mother, May 12, 2006.

[21] Interview with a CHIP applicant's mother, August 23, 2006.

[22] Letter of complaint reported to the Center for Public Policy Priorities, May 2006.

[23] Testimony of Richard Uhr before the Texas House of Representatives, Committee on Government Reform (Austin, Texas, July 26, 2006), http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285 (Last visited August 8, 2006).

[24] Letter of complaint reported to the Center for Public Policy Priorities, April 26, 2006.

[25] Email from Medicaid applicant to Health and Human Services Commission, May 2, 2006.

[26] Interview with a CHIP applicant's mother, August 22, 2006.

1. The Health and Human Services Commission (HHSC) has substantially understated the state's costs for Integrated Eligibility and Enrollment (IEE) system.

In a June 30, 2005 news release, HHSC estimated the IEE contract would cost the state $899 million over five years. This figure is both understated and misleading. In addition to the $899 million cost of the base contract, other costs will bring the total five-year price of the IEE project to more than *$1 billion* (**Exhibit 4**).

Exhibit 4

Current Estimated Costs for the IEE Project over Five Years

Estimated Total Contract Value	$898,939,874
Pass-Through Expenses Outside Contract	$94,740,361
Accenture Amendment 1 (additional technology services for TIERS)	$5,883,425
Deloitte Amendment 16 (TIERS enhancement and transitional assistance)	$2,261,076
Deloitte One Year Extension 10/31/05-10/31/06	$39,112,000
Total Estimated Cost	**$1,040,936,736**

Source: Health and Human Services Commission.

While the contract was being negotiated, HHSC removed certain "pass-through" expense items from the RFP; Accenture estimated the value of these items at an *additional $95 million* over five years. These expenses, which HHSC will pay directly on Accenture's behalf, include costs for postage, printing and hardware and software maintenance.[1] The review team could not determine why HHSC removed these costs from Accenture's contract during negotiations, since these costs were clearly included in the RFP for all bidders. The outcome of this change was to understate the total cost for Accenture to perform IEE services.

In December 2005, HHSC amended the contract to add additional technology services for modifying TIERS. This amendment pays Accenture an *additional $5.9 million* for Accenture and Deloitte staff hours (with Deloitte, the previous prime contractor for TIERS, acting as subcontractor to Accenture). At roughly the same time, HHSC added nearly *$2.3 million* to its contract with Deloitte Consulting, to hire Deloitte to make additional enhancements to TIERS and provide technical and training teams for the shifting of the system to Accenture. This cost came in addition to the $29.8 million HHSC paid to Accenture for the TIERS transition.

Within the same Deloitte amendment, HHSC reserved the right to extend Deloitte's services for another year for *an additional $39,112,000*. In March 2006, HHSC notified the federal Food and Nutrition Services (FNS) that the cost of the one-year extension would be incurred "if and when fully exercised," and sought funding approval from FNS for the $39 million.[2]

In an April 2006 letter to FNS, HHSC said that "since we do not believe there will be a need to exercise this one-year extension, we are not requesting that the baseline budget be increased by that cost."[3] Nevertheless, the contract amendment states that "HHSC elects to renew the contract with Deloitte Consulting for an additional period of up to one year."[4] **Appendix 5** provides Accenture's price summary for the total contract.

Endnotes

[1] Accenture, *Integrated Eligibility and Enrollment Services Proposal, Cost Submission 9* (Austin, Texas, September 30, 2004), Appendix A-3, Price Summary Sheet 6.

[2] Health and Human Services Commission, "TIERS Implementation Advance Planning Document Update As Needed: TIERS/IE 2006-02," Austin, Texas, March 2006.

[3] Letter from Gary Gumbert, chief information officer, Health and Human Services Commission, to William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, and Harvey Heyman, U.S. Department of Health and Human Services, Centers for Medicaid and Medicare Services, April 5, 2006; and Health and Human Services Commission, "TIERS Implementation Advance Planning Document Update As Needed: TIERS/IE 2006-02," Austin, Texas, March 2006.

[4] Letter from Gary Gumbert, Health and Human Services Commission, to William Ludwig, Food and Nutrition Service, and Harvey Heyman, Centers for Medicaid and Medicare Services, April 5, 2006; and TIERS IAPDU As Needed, March 2006.

2. Due to unanticipated costs, the state will spend an additional $99.9 million in general revenue on the Integrated Eligibility and Enrollment program.

H.B. 2292 of the 78th Legislature required HHSC to establish call centers as part of the integrated eligibility model, if doing so would prove to be cost-effective. In March 2004, HHSC released a report, *Integrated Eligibility Determination—Phase II: Business Case Analysis*, which concluded that implementing the proposed integrated eligibility model would save the state $388.8 million over five years.[1]

HHSC expanded the original vision of the call center model to include other services and determined that outsourcing integrated eligibility would result in greater savings. HHSC expected this new model, as developed and managed by Accenture, would save the state $646 million in all funds over five years. HHSC calculated the savings by comparing the new model's costs with the state's costs for eligibility determination before the call center changes required by H.B. 2292. HHSC, however, has not released the data it used to support this and other savings estimates, even after numerous Comptroller requests.

The cost of the contract to the state originally was estimated at $899 million over five years. As noted in **Finding 1**, however, the total cost of the contract is actually over $1 billion. Should transaction volumes for the program exceed projected amounts, the variable payments based on these transactions also will increase, driving the total cost even higher. The program's costs also are increasing due to the delayed rollout and staffing changes at HHSC. The state's decision to retain 1,043 positions that had been scheduled for elimination—half of the total—will add to the state's cost every year.

HHSC has incurred other costs during the rollout delay. The agency filled an additional 1,050 temporary staff positions as of the end of May to help with the rollout delay. The agency also absorbed costs for duties such as training and quality assurance. The duration and amount of these costs is not known. Staff bonuses awarded in July and scheduled again for December 2006 also will add to the cost.

State Budget Impact

The budget adopted by the 2005 Legislature for the IEE program totaled just over $1 billion from all funding sources for fiscal 2006 and 2007.[2] HHSC Rider 51, however, reduced this amount by $65.1 million in general revenue funds and $140.9 million in all funds amounts.[3] Another provision in the HHSC budget, Rider 9c, authorized the agency to transfer $14 million in general revenue into the program.[4] The agency chose to make this transfer, indicating that the funds would be used to pay field office staffing costs.

Following its decision to put staffing reductions on hold, HHSC needed even more funding. HHSC received approval to transfer $85.9 million in general revenue from Medicaid to IEE for staffing and other program needs (**Exhibit 5**). HHSC sent the Governor's Office and Legislative Budget Board a letter dated May 30, 2006 detailing the transfer and the costs to be addressed.

The General Appropriations Act assumed that state would save $140.9 million in all funds, including $65.1 million in general revenue, in fiscal 2006 and 2007. Instead, HHSC will spend that $65.1 million and an additional $34.8 million in general revenue on the project in those years. Therefore, the state will spend $99.9 million more than anticipated.

Exhibit 5

Additional General Revenue Costs Attributable to IEE Fiscal 2006 and 2007 (in millions)

	Originally Expected Savings	Currently Added Costs
Appropriation Reduction (Rider 51)	$65.1	-
Approved Transfer from Medicaid	-	-$85.9
Additional Transfer (Rider 9c)	-	-$14.0
Total Costs		**-$99.9**

Sources: Texas S.B. 1, 79th Leg. Reg. Sess. (2005) and Health and Human Services Commission.

Cost Effectiveness

In 2004, HHSC determined that the integrated eligibility call center model was cost-effective, and estimated that it would save the state $388.8 million in all funds over five years. HHSC also was required to determine whether it would be more cost-effective to outsource the model rather than to implement it within the state agency. In its news releases, HHSC announced that the contract with Accenture would save the state $210 million more in all funds over five years than would a state-run model.

Ongoing and significant project delays and increased costs raise the obvious question of whether the outsourced model is in fact the most cost-effective alternative. HHSC has not provided the review team with sufficient information to make that determination.

At this point, costs for the project have been understated by at least $100 million. The expected $65.1 million in general revenue savings will not be realized in the current biennium, and that the project in fact will cost $99.9 million more in general revenue than anticipated in this biennium alone.

No one knows how much more the project will cost given the delays and changes from the original business case. HHSC has not provided any updated projections of future costs. The agency's Legislative Appropriations Request to the 2007 Legislature confirms that new savings estimates "cannot be made until details and dates of new rollouts are determined."[5] Thus, the review team cannot establish just how HHSC came to the conclusion that outsourcing would be more-cost effective.

Endnotes

1 Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis* (Austin, Texas, March 2004), p. 24.

2 Texas S.B. 1, 79th Leg., Reg. Sess. (2005), II-69. (General Appropriations Act.).

3 Texas S.B. 1, 79th Leg., Reg. Sess. (2005), II-86, Rider 51. (General Appropriations Act.)

4 Texas S.B. 1, 79th Leg., Reg. Sess. (2005), II-74, Rider 9(c). (General Appropriations Act.)

5 Health and Human Services Commission, *Legislative Appropriations Request for the 2008-2009 Biennium Volume 1* (Austin, Texas, August 30, 2006), Administrator's Statement p 2.

3. HHSC's contract with Accenture contains perverse incentives that encourage the contractor to process applications inefficiently.

The Accenture contract provides for payments to the contractor based on a complex combination of more than 70 different prices. Accenture can receive different payments to process an application depending on the method the client uses to submit it (i.e. Internet, mail, fax, telephone or a visit to a state office or community-based organization). For example, Accenture bills the state $17.62 for each application initiated by telephone and $14.14 for applications initiated by mail. Other prices are billed for the handling of inbound or outbound documents, such as letters to a client or income documentation received from a client.

Each time Accenture receives a client's income documentation in the mail, for example, HHSC pays the company $2.38. If a client must mail information several times during the course of his or her application for benefits, Accenture receives $2.38 for each submission. Similarly, each time Accenture sends a letter notifying clients of missing income information, HHSC pays the company 12 cents (and pays for the postage and printing involved). These prices are hardly insignificant, since Accenture estimated it would receive $10.7 million in the first year of operations (January-December 2006) for processing inbound documents.

HHSC does not pay Accenture a separate price for every phone call Accenture receives about applications it is processing. It does, however, pay Accenture $2.60 for each telephone call it takes from a client whose application is being processed at a state office or community-based organization. HHSC also pays Accenture $14.32 for each complaint or appeal received on an application that was processed by a state office or community-based organization.

For every case referred to HHSC's Office of the Inspector General (OIG) for possible fraud, HHSC pays Accenture $3.78. FNS criticized this payment structure, stating that "we are concerned that vendor incentive payments and penalties in this area will clearly entice the vendor to refer questionable applications to the OIG."[1] FNS suggested that payment be made, instead, for cases that lead to convictions or penalties.

Essentially, the contract does not provide Accenture with incentives to provide services efficiently, but rather to *process as many transactions as possible*. Furthermore, since Accenture is compensated separately for receiving mail, but not for phone calls, it is in the company's best interests to limit or minimize phone calls and increase the use of mailed or faxed documents and letters.

Accenture also is paid separately for applications in which the client fails to return all requested information (within 30 days for food stamps and 45 days for Medicaid and TANF). In other words, for all client cases, there is a time limit after which the contractor is paid regardless of whether the application is completed or not. This encourages Accenture to send incomplete applications to the state for denial, rather than to contact the client to complete the case.

In July 26, 2006, testimony before the House Committee on Government Reform, HHSC stated that Accenture is paid more when it accumulates all the documents and information needed to complete an application. According to the contract, however, incomplete cases are sent to HHSC for denial at the end of the time limit and Accenture receives the same fee as it would to process an application with completed information. *Therefore, Accenture's incentive is to process applications with as many paper-based "touches" to the client as possible, rather than to provide eligibility quickly and efficiently.*

HHSC has recognized this as a perverse incentive, describing it as "churning," referring to the possibility that Accenture could notify clients only of portions of missing information at a time, thus generating multiple cycles of sending clients letters requesting information and receiving client documents.[2] The more letters generated and documents received per case, the more money the vendor receives.

Clients and community organizations claim this churning process is occurring regularly. The Children's Defense Fund, as well as individual families, testified before the House Committee on Government Reform hearing on July 26, 2006, that they are being asked to provide different information each time they contact the call center and that they are asked multiple times for the same information.[3]

Similarly, a case might be incorrectly denied and resubmitted repeatedly without appropriate final resolution—and Accenture would be paid for each denial and resubmission.

The contract does specify that Accenture will be paid only for completed and "appropriate" transactions. Neither the contract nor HHSC's contract management practices, however, supply an effective means for determining whether a billed transaction has been completed appropriately.

In its July 26, 2006 testimony, HHSC said that Accenture is not paid if it fails to process an application correctly, and that the company isn't paid for reprocessing an application to fix errors. When questioned about this, HHSC described a "pay and chase" system of recouping payments from Accenture after an audit. No payments had been recouped as of the hearing.

In addition, it is important to note that the contract also pays Accenture for applications that are denied. Therefore, the state's cost to provide eligibility includes the costs for processing denied cases as well as the potential addi-

CASE STUDY
Endless delays

One Austin small business owner in financial difficulty applied for emergency food stamps. She called to learn what documents she would need and went to an HHSC office, where she filled out an application on February 7, 2006. The caseworker told her to call the Accenture call center on the 10th or 13th to check the status of her application. She did so on February 13 and was told that her application had not made it into the system.

In her words, "When I told her [the call center operator] I had applied for emergency food stamps, she got confused and said that they should have given me my stamps on the 7th." And so the woman returned to the office to see what had happened.

On February 14, she was told that she had been denied emergency food stamps on the 7th; that the regular application for food stamps would take up to 30 days to process; and that she should call the help line every day. The employee told her that her request for emergency food stamps had been denied because she was working and had an income, although the HHSC Web site stipulates that working people can be eligible for emergency food stamps based on their income and expenses.

When the woman called the help line, she was told it was not necessary to call every day and that she would receive "something" in the mail.

Upon calling again in March, a call center operator told her that she had been told in a previous conversation that her application had missing documents, and that she had been told to fax these to Accenture, but had not done so by the deadline, and so her application had expired. She told the call center staff that no such conversation had occurred, and then was told to fax the documents she had brought to the office for her original application (birth certificate, paycheck stubs for the last three months and copies of utility bills, car payment and insurance payments).

She called Accenture the next day to ask if they had received everything they needed; an employee said yes, but added that it would take up to 30 days to process her application.

On April 28, she received a letter from HHSC, sent April 26, which had her name and address and a case number on the front; on the back, a time and date—"April 28 2006 2 pm"—appeared, with no instructions or other information. Later, an Accenture employee told her that she was supposed to understand from this that she would receive a call at 2 p.m. on April 28; since she was at work when the mail came, there was no way for her to know about the appointment. She called again and learned that, because she had not responded to the phone call, she had been denied food stamps.

She concludes: "I have not yet received the letter of denial. If I appeal the denial my guess is that it will take up to 30 days to process the appeal, unless they can trip it up and drag it out for longer. Then I will re-apply for food stamps, and THAT process will take up to 30 days unless they can foul it up.

"It appears that this new private company has a policy to not pay out benefits in Texas, that food stamps are virtually unavailable in Texas, and that this corporation has created a maze of gerbil wheels to keep people from figuring out that the heads of this private corporation are scamming the taxpayers and needy of Texas."[4]

tional costs from "churning" applications in the system. According to HHSC, they have not developed a means to identify or monitor instances of churning.[5]

Finally, the complexity of this pricing system, by its very nature, places a significant administrative burden on HHSC to manage the contract and payments. The variable pricing model in the contract is so complex that it can create management and accountability problems. Based on projected billings of about $328 million to the state over five years for these eligibility-related transactions, if even 1 percent of Accenture's billings are in error, the state could overpay by $3.3 million.

Endnotes

1 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service to Albert Hawkins, executive commissioner, Health and Human Services Commission, September 26, 2005.

2 Interviews with Health and Human Services Commission staff, June 22, 2006.

3 Testimony of Barbara Best, executive director, Children's Defense Fund, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285. (Last visited August 8, 2006.)

4 E-mail complaint to Health and Human Services Commission, May 4, 2006.

5 Interviews with Health and Human Services Commission staff, June 22, 2006.

CASE STUDY
Best Case Scenario
Variable Fee Payments to Accenture

In the best case, when all systems and procedures are working correctly, HHSC's variable fee payments to Accenture would resemble the following example. These variable fees are paid monthly, and are in addition to the monthly fixed payments for processing eligibility applications.

Client's Action	Accenture's Action	HHSC's Payment to Accenture
Mrs. Jones calls Accenture to apply for health care coverage for her children.	Mails application.	$0.12
Mrs. Jones mails application.	Images document.	$2.38
Mrs. Jones calls Accenture to ask the status of her application.	Tells Ms. Jones the application is being processed.	$0
	Completes processing of the application and sends the case to the state for final determination.	$17.62
	Mails a letter to the client with the approval or denial decision.	$0.12
	Total	**$20.24**

CASE STUDY
Lost CHIP Applications Scenario
Resulting Variable Fee Payments to Accenture

In many cases, clients report their applications have been "lost" in Accenture's system. In these situations, HHSC pays Accenture for unnecessary re-submissions of clients' applications.

Client's Action	Accenture's Action	HHSC's Payment to Accenture
Ms. Smith calls Accenture to apply for health care coverage for her children.	Mails application.	$0.12
Ms. Smith mails CHIP application.	Images document	$2.38
Ms. Smith calls Accenture to ask the status of her application.	Tells Ms. Smith it does not have an application (although Accenture actually does have the application.)	$0
Ms. Smith mails second CHIP application.	Images document.	$2.38
Ms. Smith calls Accenture.	Tells Ms. Smith it does not have an application.	$0
Ms. Smith mails third CHIP application.	Images document.	$2.38
	Sends letter requiring additional income documentation.	$0.12
Ms. Smith mails additional documentation.	Images document.	$2.38
Ms. Smith calls Accenture.	Tells Ms. Smith the application is being processed.	$0
	Completes processing of the application and sends the case to the state for final determination.	$17.62
	Mails a letter to the client with the approval or denial decision.	$0.12
	Total	**$27.50**

CASE STUDY
Missing Information Cycles or "Churning" Scenario
Resulting Variable Fee Payments to Accenture

In many cases, clients report Accenture requires missing information multiple times throughout the processing of their applications. In these cases, HHSC pays Accenture for excessive contacts with the client, which HHSC terms as an application that is "churning" in the system.

Client's Action	Accenture's Action	HHSC's Payment to Accenture
Ms. Brown mails in application for children's health coverage.	Images document.	$2.38
	Mails letter requiring income verification documents.	$0.12
Ms. Brown mails income verification documents.	Images documents	$2.38
	Mails letter requiring Ms. Brown to provide proof of child support payments.	$0.12
Ms. Brown mails child support information.	Images documents.	$2.38
	Mails letter requiring asset verification documents.	$0.12
Ms. Brown mails asset verification information.	Images documents.	$2.38
Ms. Brown calls Accenture to find status of application.		$0
	Completes processing and sends the case to the state for final determination.	$14.14
	Mails letter to the client with the approval or denial decision.	$0.12
	Total	**$24.14**

4. HHSC's contract defines "profit" in an unusual manner and attempts, unsuccessfully, to limit the amount of profit Accenture may earn.

Accenture earned a total of $29,268,964 in profits for transition services rendered between July and December 2005, and for operations services rendered between January and April 2006, far above the amount of profit considered "allowable" in the contract.

Profit typically is considered to be the difference between what a company receives in revenue and what it spends to deliver its goods and services. Profit percentages usually represent the amount of revenue the contractor retains as profit divided by gross revenue. HHSC's contract with Accenture, however, defines profit as a fee equal to a percentage of certain types of expenditures. The contract specifies that Accenture may retain a percentage of "non-pass-through" expenses as profit.

All of Accenture's expenses are defined either as "pass-through" or "non-pass-through," depending on whether HHSC intends the expense to be "passed through" to the state. These pass-through expenses defined within Accenture's contract are separate from and in addition to the $95 million in pass-through expenses HHSC will pay outside of the contract.

The contract limits the percentage of non-pass-through expenses Accenture may retain as profit to no more than 11.95 percent. Any amount beyond this is regarded as excess profit. For the total $899 million contract, Accenture is allowed $84.1 million in profit over five years (**Exhibit 6**). So far, Accenture has earned $20.3 million in *excess profit*, as defined by the contract.

Excess Profits

The contract, however, *does not return* excess profits to the state. It only attempts to reduce future profits Accenture may earn.

In January 2008, after the first two operational years, the contract requires a "Prospective Price Redetermination Review" to analyze actual billings and calculate profit. Should the actual profit exceed the 11.95 percent limit by more than 20 percent (or, in other words, more than 14.34 percent of non-pass-through expenses), the contract allows HHSC to lower future billing rates to reduce future profits to a 14.34 percent maximum for the remaining three years of the contract.

In short, should Accenture exceed the contract limit on total profits, HHSC then can simply raise the limit by 20 percent for future years. Excess profits realized during the first two years of operation, or in any future years, furthermore, *are not* to be repaid to the state.

Exhibit 6

Total Contract Allowable Profit

Type of Program	Transition Services: Accenture's Allowable Profit	Conversion Services: Accenture's Allowable Profit	Operations Services: Accenture's Allowable Profit	Total Allowable Profit Over 5 Years
	11.95% of Non-Pass Through Expenses	*11.95% of Non-Pass Through Expenses*	*11.95% of Non-Pass Through Expenses*	*11.95% of Non-Pass Through Expenses*
Integrated Eligibility	$4,222,548	$1,752,760	$47,391,397	$53,366,705
TIERS Maintenance	$2,929,184	$727,846	$14,495,921	$18,152,951
Enrollment Broker	$221,653	$0	$12,363,394	$12,585,047
Total	**$7,373,385**	**$2,480,606**	**$74,250,712**	**$84,104,703**

Source: Accenture's Cost Submission 9, Appendices A-1 and A-2.

The 20 percent rise in the contract limit could equate to an additional $14.8 million in profit (**Exhibit 7**).

Additional Profit Source

The contract also creates a "Capital Asset Accrual" account at Accenture to receive money that may be spent in later years on capital assets. Capital assets are real or personal property, such as major computer equipment, that have an estimated life of greater than one year. The contract assigns a portion of certain fees paid each month for integrated eligibility and enrollment brokerage to this account. Accenture must retain these fees until such time as it determines that it must purchase additional capital assets not anticipated at the time of its response to the RFP.

Based on the projected volume of transactions, this account will accrue about $31.4 million over the five-year life of the contract. If Accenture does not spend this money by the end of the contract period, it may retain half of the money, or $15.7 million, as profit. In addition, the entire sum is being held outside of the state Treasury, in Accenture's bank accounts, and the company may retain the interest the entire $31.4 million generates over the contract period.

The review team asked HHSC staff why they needed to pay Accenture in advance for unplanned capital purchases. They explained the agency felt it would simply be easier in the future to have money set aside to buy equipment whenever the need arises, without seeking funding and approval from the Legislature.[1]

The practice appears deceptive at best, since taxpayers' dollars are being set aside for purposes to be determined at a later date by a private vendor. Furthermore, since all interest passes to Accenture, the Legislature in effect has appropriated state funds for a private company to invest for its own benefit.

Operations Profits

The Comptroller's review team compared all invoiced billings and payments to date with Accenture's self-reported monthly financial expenditures for the first four months of the contract's operations services period, January through April 2006.[2]

Based on these reports and the actual invoiced payments, Accenture earned $5,701,204 in profit for the first four months of operations services. Of that, $3,332,128 could be considered "allowable" by the contract's 11.95 percent profit limit, leaving $2,369,076 in excess profit (**Exhibit 8**). In addition to this excess profit, the state still owes Accenture additional revenue for services performed during these months.

Exhibit 7

Profit Margins: Accenture Contract
Total Operations: Five Year Base Contract

Type of Program	Projected Operations Revenue	Non-Pass Through Expenses	All Expenses (Both Pass Through and Non Pass Through)	Allowable Profit Percentage of Non-Pass Through Expenses	Allowable Profit at 11.95% of non-pass through expenses
Integrated Eligibility	$577,604,163	$396,580,726	$530,212,766	11.95%	$47,391,397
TIERS Maintenance	$162,687,734	$121,304,780	$148,191,813	11.95%	$14,495,921
Enrollment Broker	$151,665,206	$103,459,365	$139,301,812	11.95%	$12,363,394
Total	$891,957,103	$621,344,871	$817,706,391	**11.95%**	**$74,250,712**
			Allowable Operations Profit @ 20% over 11.95%	14.34%	**$89,100,855**
				Difference	**$14,850,143**

Source: Health and Human Services Commission.

As of August 2006, Accenture had not billed HHSC for any of the variable fees associated with integrated eligibility transactions since the January 20, 2006 start of operations, although it already has reported all of its expenses associated with these fees, as documented above. The review team could find no documentation explaining why these payments have not been requested, since Accenture did perform the work for Travis and Hays counties and for children's Medicaid applications statewide until May 10, 2006. Therefore, Accenture's profit could and most likely *will* grow even more once it invoices HHSC for the variable IEE fees.

These estimates of profit also could fall significantly if Accenture's expenses for future months of operations begin to exceed its revenue. HHSC did not provide any estimates of Accenture's future costs that would allow the review team to analyze this possibility.

Transition Profits

For the period running from the contract start date (June 29, 2005) through the start of operations (January 2006), HHSC pays Accenture for transition services through separate fixed payments totaling $75.8 million. If Accenture incurs any transition expenses after the start of operations, it cannot count those expenses as operations expenses in the Prospective Price Redetermination.

The total amount billed for transition services from August 2005 through January 2006 was $75,819,035. Accenture reported expenses of $52,251,275, leaving the company with $23,567,760 in profit. According to the contract's profit limit, Accenture's allowable profit should only be 11.95 percent of its $47,211,106 non-pass through expenses, which is $5,641,727. This allowable profit is less than Accenture bid in the contract for transition services, as shown in Exhibit 6, because Accenture spent less than it proposed. The contract defines allowable profit based on actual, not estimated, expenses.[3] The excess profit in this case is *nearly $18 million*.

HHSC, however, has withheld two transition invoices for $22,069,035 (see **Finding 21**, concerning accounting practices). Even without these payments, Accenture still earned a profit of $1,498,725. As of August 31, 2006, Accenture had been paid $123,543,388.[4] **Exhibit 9** shows Accenture's total profits for transition services with and without the two unpaid invoices.

Exhibit 8

Profits on Operations Services
January through April 2006

Type of Program	Revenue	Expenses	Accenture's Allowable Profit Percentage	Accenture's Allowable Profit	Actual Profit Accenture Received	Actual Profit Percentage	Excess Profit Accenture Received
Operations	*January through April 2006*	*Non Pass Through Expenses as defined by HHSC*	*Percentage of Non Pass Through Expenses*	*11.95% of Non-Pass Through Expenses*	*Revenue - Capital Asset Balance - All Expenses*	*Actual Profit/ Non-Pass Through Expenses*	*Actual Profit minus Allowable Profit*
Integrated Eligibility	$19,977,247	$11,687,268	11.95%	$1,396,629	$4,396,443	37.6%	$2,999,814
TIERS Maintenance	$11,185,060	$8,941,575	11.95%	$1,068,518	$886,755	9.9%	$(181,763)
Enrollment Broker	$8,261,268	$7,255,074	11.95%	$866,981	$418,006	5.8%	$(448,975)
Total	**$39,423,575**	**$27,883,917**	**11.95%**	**$3,332,128**	**$5,701,204**	**20.4%**	**$2,369,076**

Source: Health and Human Services Commission.

Subcontractor Profit

The contract does not specifically limit the profit Accenture pays to its subcontractors, and the subcontractors' profits are not reported to HHSC. Thus, the $29 million in profit Accenture has earned to date does not represent the total amount of profit earned by all private vendors on the IEE contract.

Roughly 47 percent of the total contract price represents subcontractor expenses. Of the $899 million total, Accenture expects $426 million will go toward subcontractor expenses. MAXIMUS was to receive the majority of subcontractor payments, for a total of $367.8 million or 86 percent of all subcontractor expenses.[5] Recent press releases from MAXIMUS, however, announced that it has renegotiated its contract with Accenture, which reduced its expected revenue from the contract to an estimated $320 million. MAXIMUS recorded a $34.3 million loss in the third fiscal quarter of 2006 on the IEE project.[6]

Limiting profits

In all, HHSC's attempts to limit profits seem pointless, due to the agency's willingness to allow Accenture to retain excess profits earned. The only vehicle the contract offers to limit or lower future years' operations fees is the Prospective Price Redetermination Review. This process, however, will be completed only once during the life of the five-year contract, and *does not require Accenture to return any excess profit earned*, regardless of the magnitude of the excess.

It should be noted, moreover, that the $5.9 million in spending called for in Amendment 1 (for additional technology services for TIERS) is not subject to the price redetermination process, and is not a fixed price arrangement but reimbursement for hours worked. Accenture is not required to report actual financial expenses for this amendment, nor is it required to return any excess profits.

Endnotes

1 Interviews with Health and Human Services Commission staff, June 22, 2006.

2 Texas Access Alliance, *Financial Reporting Package* (Austin, Texas, January to April, 2006).

3 Texas Access Alliance, "Transition Expense Summary as of December 31, 2005," Austin, Texas, December 31, 2005. (Computer printout.)

4 Texas Comptroller of Public Accounts, Uniform Statewide Accounting System, list of payments to Accenture through August 31, 2006. (Computer printout.)

Exhibit 9

Accenture Profits for Transition Services
June through December 2005

Type of Program	Accenture's Revenue	Accenture's Expenses Eligible for Profit	Accenture's Allowable Profit Percentage	Accenture's Allowable Profit	Accenture's Total Expenses	Actual Profit Accenture Received	Actual Profit Percentage	Excess Profit Accenture Received
Transition	*Services performed July through December 2005*	*Non Pass Through Expenses as defined by HHSC*	*Percentage of Non Pass Through Expenses*	*11.95% of Non-Pass Through Expenses*	*Pass Through, Non-Pass Through and Overhead*	*Revenue minus Total Expenses*	*Actual Profit/ Non-Pass Through Expenses*	*Actual Profit minus Allowable Profit*
Transition: All Invoices	$75,819,035	$47,211,106	11.95%	$5,641,727	$52,251,275	$23,567,760	49.9%	$17,926,033
Transition: Only Invoices Paid to Date	$53,750,000	$47,211,106	11.95%	$5,641,727	$52,251,275	$1,498,725	3.2%	$0

Comments: Invoices paid to date do not include the September and October 2005 invoices.
Source: Accenture's "Transition/Conversion Expenses Summary as of December 31, 2005."

[5] Accenture, *Integrated Eligibility and Enrollment Services Proposal, Cost Submission 9, Appendix A-1.*

[6] MAXIMUS, "Third Quarter 2006 Earnings," Reston, Virginia, August 2, 2006, http://phx.corporate-ir.net/phoenix.zhtml?c=88279&p=irol-newsArticle&t=Regular&id=891206&. (Last visited August 16, 2006)

5. Accenture billed HHSC hourly labor rates far higher than those allowed by contract terms, and failed to disclose the rate being billed to HHSC.

On December 8, 2005, HHSC amended the Accenture contract to include additional work needed to modify the TIERS system, including preexisting TIERS problems as well as issues needing resolution before the statewide rollout of integrated eligibility. Accenture hired Deloitte, the original contractor, to assist it with the modifications. According to this amendment, Contract Amendment 1, pricing for the additional work was to be based on "all inclusive hourly labor rates" specified in the amendment and ranging from $45 to $200 per hour.

In the course of performing the work called for in the amendment, however, Accenture invoiced HHSC for services provided by Deloitte employees at hourly rates greatly exceeding those allowed. One Deloitte employee was invoiced at *$386 an hour*. Four invoices submitted over a three-month period overcharged the state in excess of $327,000 for hourly charges above the maximum $200 hourly rate.[1]

The review team calculated these hourly rates by dividing the total billing for each Deloitte employee by the total hours worked. The invoices Accenture sent to HHSC report hourly rates for all of Accenture's employees but did not disclose positions or hourly rates for Deloitte staff. **Exhibit 10** estimates the overpayments made to Accenture for these Deloitte employees.

Exhibit 10

Overpayments Attributable to Deloitte Employees for Work Connected with Contract Amendment 1

Deloitte Employee	# of Hours Billed	Hourly Rate	Invoice Amount	If Billed at Max $200 Hrly Rate	Difference: Overcharge
Employee 1	232	$263.22	$61,067.05	$46,400.00	$14,667.05
Employee 2	17.5	263.22	4,606.38	3,500.00	1,106.38
Employee 3	347	233.98	81,191.06	69,400.00	11,791.06
Employee 4	33	263.22	8,686.29	6,600.00	2,086.29
Employee 5	916.5	386.06	353,824.04	183,300.00	170,524.04
Employee 6	120	233.98	28,077.60	24,000.00	4,077.60
Employee 7	202	263.22	53,170.60	40,400.00	12,770.60
Employee 8	656	233.98	153,490.39	131,200.00	22,290.39
Employee 9	193	233.98	45,157.97	38,600.00	6,557.97
Employee 10	23	263.22	6,054.06	4,600.00	1,454.06
Employee 11	913	233.98	213,623.22	182,600.00	31,023.22
Employee 12	13.5	233.98	3,158.70	2,700.00	458.70
Employee 13	732.5	263.22	192,808.95	146,500.00	46,308.95
Employee 14	56	233.98	13,102.73	11,200.00	1,902.73
		Grand Total	**$1,218,019**	**$891,000**	**$327,019**

Sources: Health and Human Services Commission and Texas Comptroller of Public Accounts.

Endnote

[1] Accenture, "Invoice 1000068023," Austin, Texas, March 2, 2006; "Invoice 1000071962," Austin, Texas, March 16, 2006; and "Invoice 1000075779," Austin, Texas, April 13, 2006.

6. HHSC's contract focuses on Accenture's expenses and profits rather than the contractor's performance.

HHSC's contract with Accenture incorporates a "cost-plus fixed fee" reimbursement model, a contract type often used by government agencies that reimburses the vendor for its costs plus a fixed fee, defined as a percentage of those costs, which may be retained as profit.

Accenture was required to provide documentation in its response to the RFP that identified all costs included in its prices, to show that profit and overhead would be charged only on certain types of non-pass-through expenses. The RFP and contract further require Accenture to report actual financial expenses incurred monthly throughout the contract. The contract also requires the company to abide by federal Cost Accounting Standards, as defined in the Federal Acquisition Regulations, for all its expenses. These regulations define which expenses can be considered allowable; the contract also specifies certain additional expenses that are considered unallowable.

Overhead Expenses

Accenture charges and accounts for two types of overhead, or indirect expenses: "overhead," calculated as a percentage of labor salaries, and a "general and administrative" overhead, calculated as a percentage of overall expenses.

Accenture's monthly financial reporting projects overhead costs at 64.18 percent of salary charges. Fringe benefits are not included in 64.18 percent overhead, but are listed as a separate, additional expense. In addition, another 4.5 percent in general and administrative overhead is applied to total direct labor, overhead and non-pass-through expenses. In all, these indirect overhead expenses represent 6.1 percent of the revenue Accenture expects to earn from the contract.

Limitations on overhead generally are intended to ensure that expenses are reasonable and appropriate. To verify and validate overhead expenses, federal accounting standards typically require contractors to report actual overhead expenses at the end of each year. HHSC's contract, however, requires Accenture to report its actual financial expenses monthly throughout the contract period; this appears to be HHSC's attempt to monitor these expenses. The overhead expenses Accenture reports each month, however, are simply a fixed percentage of actual expenses incurred. Thus, the overhead reported is an *estimate* in a financial report apparently designed to identify *actual* costs. Since the reported overhead is only an estimate, Accenture has the incentive to overstate its estimate of overhead expenses to maximize its profits.

In addition, the contract does not clarify whether Accenture should repay the state if actual overhead costs incurred are less than the amount the state has paid. Section 9.05 of the contract allows HHSC to audit contractor fees and to determine the amount of any "overcharges." However, the contract does not define the term "overcharges," so it is unclear whether overhead payments in excess of actual expenses are subject to repayment. HHSC could identify excess overhead charges only by auditing Accenture's overhead expenses. The contract, however, contains no clear requirements for HHSC to audit Accenture routinely, and HHSC staff stated that they expected to perform such audits less frequently than annually.[1]

Endnote

[1] Interview with Steve Aragon, chief legal counsel, Health and Human Services Commission, Austin, Texas, August 14, 2006.

7. HHSC's contract pays Accenture for its effort rather than for specific, desired results.

Effort vs. Results

HHSC's stated intent in its RFP was to "contract for results."[1] The actual contract, however, pays primarily for *effort* rather than results. In this, it more closely resembles a standard governmental cost-reimbursed contract than a performance-based agreement.

Performance-based contracts typically pay a fixed price upon successful completion of "deliverables" and the attainment of satisfactory performance. Deliverables usually are defined as whatever product or service the customer expects to receive. Deliverables for the IEE project include items such as specific reports, technology and processing services.

Contracts are considered "performance-based" if the vendor receives a payment only when the deliverable is provided to the customer accurately and on time. If the vendor does not provide the deliverable as agreed, the customer does not make the payment. In addition, the customer may assess "liquidated damages" to recover damages or costs incurred as a result of the vendor's failure. Liquidated damages provide additional motivation for the contractor to perform as agreed.

HHSC staff stated that no payments to Accenture have been withheld for missed deliverables or poor performance, further confirming that the contract is not based on performance.[2]

Payment Structures

Accenture's payments for *transition and conversion* services consist of a $75.8 million fixed payment for transition services to be paid out over six months, and a $23.2 million fixed payment for conversion services to be paid in nine monthly installments. The contract requires Accenture to provide certain deliverables and HHSC to review them, but in practice there seems to be no tie between deliverables and payments.

The review team documented instances in which Accenture's deliverables in this area were late or unacceptable to HHSC, and in which Accenture's work clearly did not meet required standards. Yet HHSC did not assess damages in these instances. **Appendix 6** provides detail on all of the contract's Key Performance Requirements (KPRs).

Accenture's payments for *processing eligibility applications* for Medicaid, TANF, food stamps and CHIP are based on a monthly fixed payment of $3,920,281 plus 30 additional variable payments for processing screenings, applications, recertifications, changes, inbound and outbound documents, fraud and abuse referrals to HHSC's Office of Inspector General, and telephone calls, complaints and appeals related to community-based organization (CBO) and state office transactions.

As noted previously, these payments vary depending on the channel the client uses to initiate contact with Accenture (the Internet, mail, fax, phone or a CBO or state office). The variable payments make up about 63 percent of Accenture's total payments for integrated eligibility operations, with the fixed monthly payment accounting for the remaining 37 percent. Again, the contract specifies payment for the number of completed and "appropriate" transactions.[3]

Thirty-one of the contract's KPRs concern integrated eligibility timeliness, accuracy and call center customer service. Of these, Accenture and HHSC measure and monitor only eight. All eight have fallen below the performance standards, yet HHSC again failed to assess damages (**Appendix 6**).

Accenture is compensated for *TIERS maintenance services* through a fixed monthly payment of $2,796,265. Seventeen KPRs are related to TIERS. Of these, Accenture and HHSC measure 10; Accenture states that it disputes the remaining seven and does not measure or monitor these (**Appendix 6**).

Accenture is compensated for *enrolling eligible Medicaid and CHIP clients into HMOs* through a fixed monthly payment of $672,605 plus eight additional variable payments per client, per month. The variable payments are based on the total number of clients eligible for and enrolled in four managed care programs: Medicaid Managed Care, STAR+Plus, NorthSTAR and CHIP. Nineteen KPRs concern enrollment brokerage (see **Appendix 6**). Accenture and HHSC monitor 18 of these.

Finally, the contract requires Accenture to charge for additional services or changes to the contract based on hourly labor rates established in the contract and its amendments. The one amendment made to the Accenture contract to date provides up to $5.9 million for TIERS modifications at the hourly labor rates. The amendment specifies:

> …this change order is not based on fixed price. After successful release of the planned modifications and percentage of completion for modifications in certain stages of the process, Accenture will bill for actual hours incurred for the previous month.[4]

Clearly, such amendments are not "results-based," or subject to any performance requirements or deliverables. For any amendment work, the state pays for actual hours worked, regardless of whether Accenture exceeds its estimated hours, and pays a flat hourly rate, without regard to actual expenses Accenture incurs. Again, the state is paying for Accenture's efforts rather than its outcomes.

According to HHSC's contract, most payments are made on a regular monthly schedule, regardless of whether deliverables are received or performance meets expectations. Much of the contract is intended to monitor and regulate the contractor's costs, as is typically the case with cost-reimbursed contracts. Under this contractual arrangement, *the state is liable to pay for whatever effort the company expends, regardless of whether the work is done efficiently and accurately*.

As part of its IEE contract review, the Comptroller's office hired International Computer Negotiations Inc. (ICN) to review the contract and other IEE-related documents. In general, ICN found that:

> There are many indications that the State tried to execute a results-based contract, making the vendor responsible for the project management and outcome…[but] the actual arrangement appears to be for resources, whereby the State is responsible for the project management and outcomes.[5]

"Financial Protection" for the State?

In its testimony to the House Government Reform Committee Hearing on July 26, 2006, HHSC stated that the state has "financial protection" within the fixed and variable payment structure of the contract. The payment structure does provide protection in the sense that the state does not pay Accenture for "work not performed," as stated in HHSC's testimony before the House Committee on Government Reform.[6] The payment structure does not, however, protect the state from paying for inaccurate or inefficient work.

Mis-Aligned Goals and Incentives

According to the payment structure in the contract, Accenture is not paid for superior performance, nor is it given any financial incentive to process applications quickly or efficiently. In other words, Accenture is paid fixed fees regardless of whether it performs well.

Indeed, the variable fee structures encourage Accenture to process applications with as many repetitive requests for information from clients as possible, stretching out the processing timeframe as long as possible. The state's ultimate goal—to ensure that all deserving, eligible Texans receive benefits—is not Accenture's ultimate goal. Accenture's incentive is to send as many applications as possible to the state for final determination, regardless of whether the client has submitted sufficient information to receive a fair decision.

Endnotes

[1] Health and Human Services Commission, *Request for Proposals for Integrated Eligibility and Enrollment Services* (Austin, Texas, July 22, 2004), p. 1-7.

[2] Interview with Steve Aragon, chief legal counsel, Heath and Human Services Commission, Austin, Texas, August 14, 2006.

[3] Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP* (Austin, Texas, June 29, 2005), Schedule 8.

[4] Health and Human Services Commission, *IEE Contract Number 529-04-0000334A, Amendment 1, Exhibit A, Accenture LLP Change Order Proposal to Conduct TIERS Modifications* (Austin, Texas, November 2005), p. 6.

[5] Texas Comptroller of Public Accounts, *Document Assessment Report*, by International Computer Negotiations, Inc. (Austin, Texas, July 7, 2006), p. 7. (Consultant's report.)

[6] Health and Human Services Commission, "House Government Reform Committee Hearing," Austin, Texas, July 26, 2006. P. 51. (Presentation report.)

8. The contract's Key Performance Requirements and associated liquidated damages do not protect the state from poor vendor performance.

In the absence of financial payments or incentives tied to specific deliverables, the contract with Accenture relies instead upon the threat of liquidated damages to ensure appropriate performance from Accenture.

These damages are linked to 94 Key Performance Requirements (KPRs). In theory, HHSC can assess liquidated damages against Accenture whenever it fails to meet a KPR. Most of these requirements are stated in terms of monthly activity, so HHSC could assess damages at least monthly. **Appendix 6** summarizes the KPRs and their associated amounts of liquidated damages.

The review team found that neither the KPRs nor the associated liquidated damages are being used to manage Accenture's performance in any meaningful way.

Self-Monitoring

Perhaps the single greatest flaw in the Accenture contract is the fact that HHSC structured the agreement so that the vendor *self-monitors* its performance against the KPRs and assesses its own liquidated damages, creating a "fox guarding the henhouse" arrangement.

The review team found that Accenture's self-monitoring reports are sometimes inaccurate and incomplete. More importantly, HHSC has yet to formally "accept" any of these reports, which would allow it to assess liquidated damages, and has not made or arranged for *any* independent assessment of the vendor.

A review of Accenture's self-monitoring reports issued for August 2005 through April 2006 found a number of apparent inconsistencies. The April report was particularly flawed. When asked for a corrected report, HHSC staff explained that after they review the reports, they indicate to Accenture what adjustments should be made, but do not require the company to issue a revised report. Instead, HHSC expects Accenture to incorporate the revisions into the following month's report. This makes it impossible to tell from the "monitoring" reports what adjustments have been made to correct previous errors and omissions.

To determine whether HHSC provides sufficient oversight for the IEE project, the review team requested copies of all monitoring tools and reports HHSC uses to manage the contract. As it happens, *Accenture creates the only reports HHSC uses to monitor the company*. These reports, moreover, often fail to provide a clear summary of progress on critical issues.[1]

The Comptroller asked ICN to conduct an independent assessment of Accenture's reporting tools. ICN concluded that these reports are poorly organized, misleading and difficult to follow.[2] While contracts often require a vendor to self-report performance against benchmarks, it is *not* standard practice to rely solely upon the vendor's judgment of its own performance. And it is certainly not standard practice to operate a large, complex and expensive services contract for any period of time without firmly defined and accurately measured performance objectives.

Inactive KPRs

Almost a year after the contract start date, 36 percent of the KPRs remain "inactive," are not being assessed or are in dispute. Accenture, rather than HHSC decides whether a particular requirement is "active" or "inactive." Inactive requirements are defined as any that are not being measured and monitored, for whatever reason. Inactive requirements include those that HHSC or Accenture have not mutually agreed to yet, such as ones that Accenture has disputed for a variety of reasons. The end result is that neither HHSC nor Accenture measures the requirements deemed inactive, even though performance in these areas may clearly be substandard.

Some of the inactive KPRs involve critical areas of performance, such as error rates for food stamp and Medicaid eligibility. For example, the contract says the Medicaid eligibility error rate, KPR 2, is to be determined annually.[3] In the meantime, neither HHSC nor Accenture is tracking this measure, which is far too important to be left until the end of the year.

Of the 94 KPRs for transition, conversion and operations, only 60 were active as of April 2006. The remaining 34 were "not yet active"; in dispute; or active, but with the associated measure still "to be determined" (TBD) almost a year after the contract signing.

Beginning in February 2006, the current month performance threshold summary in Accenture's KPR 68 Monthly Monitoring Report indicates that numerous KPRs fall into the TBD category. Unless HHSC monitors these reports closely month by month, ICN believes, "the TBD category grants the vendor carte blanche to delay reporting performance results (or to hide results)."[4]

Serious Problems Unmeasured

The only KPR that measures the quality and accuracy of the call center is KPR 61, which requires the production of a Monthly Quality Audit Report. HHSC would not disclose to the Comptroller's review team the report's criteria for "quality," however the only stipulation for HHSC's acceptance of this report is that it be submitted in a timely fashion, which Accenture has done.

The Monthly Quality Audit Report for February 2006, however, indicates that the integrated eligibility call center quality rate for phone calls was only 38 percent. Whatever constitutes "quality," it evidently was not being supplied. The phone call quality rate for CHIP was 50.1 percent, while the rate for enrollment brokerage was 74 percent.

Beginning in the following month, the report combined quality rates for all three programs, which had the effect of disguising the worst rates and producing an overall quality rate of 55.1 percent for March and 57 percent for April. During this time period, Accenture and HHSC received an increasing number of complaints concerning the quality and accuracy of Accenture's call center responses.

Of the most common complaints about Accenture's service, only two are actively measured in a KPR: long phone waits and abandonment rates. The KPRs do not measure other, equally important factors, such as inaccurate information, contradictory or missing instructions, lost applications and the dropping of coverage without advance notice.

Appendix 7 identifies all of HHSC's KPRs concerning the timeliness and accuracy of its processing of Medicaid, TANF and food stamp applications. Of the 20 requirements, HHSC only actively measures and monitors three, one of which is the delivery of Monthly Quality Audit Report discussed above. Accenture did not meet any of the "active" performance standards for timely or accurate processing of integrated eligibility transactions in the first four months of operations, January through April 2006. KPRs should not simply measure the most easily gathered data. They should reflect what clients really care about, so that Accenture's performance can be improved.[5]

The FNS criticized Accenture's performance in April 2006, stating that, "Vendor performance is questionable as evidenced by the high percentage of cases that are returned to the vendor because of missing information and errors."[6] Yet the contract does not have a single KPR that measures the quality of cases Accenture sends to the state for final determination, or even the percentage of cases returned.

Form, not Substance

About 44 percent of the active KPRs measure the timeliness of a report, plan or letter, rather than the quality or accuracy of its contents, the results of the vendor's service or quality of the vendor's performance. Some requirements do measure quality, but the associated liquidated damage can be assessed only if the report is late, not if the quality standard described in the report has failed to meet some minimum standard.

In addition, most of the critical quality and accuracy requirements in the KPRs are inactive. These include the requirements associated with integrated eligibility for Medicaid, food stamps and TANF, which will not become active until Accenture is responsible for processing all of these applications statewide.

While it is unreasonable to expect Accenture to be responsible for the quality of all applications statewide before they have authority to process them, it is *also* unreasonable to allow Accenture to process any applications in the pilot areas without meeting the same federal quality standards HHSC must meet when it performs this task.

HHSC has not established quality standards for the applications Accenture processes during the statewide rollout. This carries a serious risk of degrading the state's overall federal quality rating. Yet none of the existing KPRs would provide liquidated damages to cover the state's loss of enhanced federal funding, should Accenture's performance cause the state to lose it during the rollout years.

Inadequate Damage Amounts

Liquidated damages are not intended to "punish" the vendor, but to reimburse the state for *actual* damages caused by the vendor's failure to perform. Liquidated damages also provides a fiscal incentive for the vendor to correct the problem. The values assigned to these requirements, then, should directly represent the damage suffered by the state.

In general, the Accenture contract's liquidated damage amounts appear to be arbitrary and do not realistically represent the actual monetary damages that could be incurred by the state should the KPRs not be met. A good example of an arbitrarily set damage amount is tied to the telephone abandonment rate maximum of 5 percent for integrated eligibility phone calls. The maximum liquidated damage that can be assessed for failure in this area is $56,000 per month. This amount appears entirely inadequate to compensate the state for the additional drain on state office resources and the complaints and appeals that will result if a substantial number of clients cannot initiate applications for assistance through Accenture's call center.

Understanding how HHSC established the liquidated damages illustrates how these remarkably low limits were determined. In the RFP, HHSC provided a list of KPRs and asked the *bidders* to assign liquidated damage values to each. The usual business practice in such cases is for the *state* to establish its potential costs and damages, since it is, after all, best positioned to assess them.

In response to the RFP, Accenture proposed total maximum liquidated damage values for the KPRs of about $31 million per month. During contract negotiations, however, this number was reduced to *$3.8 million*, a fraction of what Accenture initially proposed (**Exhibit 11**). In other words, if Accenture missed every single KPR in a month, and was assessed the maximum penalty associated with each KPR, *Accenture's total liability would be $3.8 million, just 0.4 percent of the total contract value.* In settling for this figure, HHSC imposed a substantially increased financial risk on the state.

Some of the liquidated damages amounts appear too low to provide any incentive for good performance. For example, one KPR stipulates that 95 percent of eligible clients must be enrolled within specified timeframes or the vendor must pay the state a minimum of $2,000 up to a maximum of $14,000 per month. Given the size of the contract, Accenture might well find it cheaper to pay this amount than to hire the personnel needed to meet the requirement.

Exhibit 11

Maximum Liquidated Damages Initial Proposal vs. Final Contract

Accenture's Proposed Maximum Liquidated Damages	Agreed-Upon Maximum Liquidated Damages	Difference
$31,168,056	$3,819,000	$27,349,056

Source: Health and Human Services Commission.

Just as seriously, the KPRs contain no special mechanism for addressing *continuous* poor performance. Liquidated damages do not rise beyond the monthly amount even if a KPR is not met for years. Thus the contract does not provide the vendor with any financial disincentive to eliminate problems quickly.

This is a concern because Accenture's performance on some KPRs has *repeatedly* fallen far below the standard. For example, the company has consistently failed to meet the call abandonment rate requirement. When clients contact the call center, Accenture is required to answer 95 percent of the calls before the caller hangs up (a 5 percent abandonment rate). Accenture had call abandonment rates for integrated eligibility of 14 percent in January, 27 percent in February and 36 percent in March 2006.[7]

"Earn-Backs"

The contract allows for "earn-backs" to provide incentives for superior performance. Accenture can use earn-backs it receives for one KPR to offset liquidated damages due to poor performance regarding another. The KPRs also involve four different earn-back categories—A+, A, B and C. Category A+ requirements are the highest priority, the most critical requirements, while category C requirements are the lowest. **Exhibit 12** shows how earn-backs can be applied by category.

To serve their purpose, ICN states that earn-back credits should be allowed only in instances in which the state will "receive a positive benefit as a result of the vendor's performance (as defined by the KPRs)."[8] According to ICN's best practices, earn-back credits should be used sparingly, saying "Superior performance for the sake of superior performance is insufficient."[9] For instance, does the state receive a positive benefit if the vendor submits a report three days early? If not, an earn-back credit should not be available for that requirement.

For example, Accenture is eligible for earn-backs of $2,000 for each day before the due date that the KPR 68 Monthly Monitoring Report is turned in.[10] By the end of April 2006, Accenture reported that they were eligible for $20,000 in earn-backs based on the timeliness of their submissions of this one monthly report.[11] Yet the state receives no meaningful benefit from receiving this report early. Note also that the earn-back only addresses timeliness, not the *accuracy* of the report.[12] As of May 2006, HHSC had not officially accepted these reports.

A more egregious example of the use of earn-backs occurred in March 2006, when Accenture's abandonment rate for the integrated eligibility call center was 36.23 percent, well over the 5 percent threshold established in KPR 22. HHSC could have levied the maximum allowable liquidated damage for that requirement of $56,000.

In the same month, however, Accenture exceeded a lower-category requirement, to reply to HHSC memo requests in a timely manner. Accenture responded to eight memos a total of 31 days early. For that, Accenture awarded itself $1,000 per early day, thus "earning back" $31,000 of assessed liquidated damages. Interestingly, one of the memos for which Accenture "earned back" $6,000 was an early response to an HHSC letter concerning sexual misconduct complaints against one of Accenture's subcontractors.[13]

Exhibit 12

Earn Back Transferability

Credits earned for superior performance in the…	…can be used to offset liquidated damages due to poor performance in…
A+ category	Category A, B or C
A category	Category A, B or C
B category	Category A, B or C
C category	Category B or C

Source: Health and Human Services Commission.

Typically, if earn-back credits are used, they are accrued and available for use only with respect to the *specific* requirement being measured (i.e., a superior abandonment rate can be used only to offset a poor abandonment rate). Allowing earn-back credits to apply to other categories of performance provides the state with a lower level of both protection and performance.

The contract's current earn-back provisions, in sum, provide Accenture with too many opportunities to avoid the impact of liquidated damages for poor performance. The company can focus its resources on less important areas to mitigate the financial impact of poor performance in more important ones. Furthermore, if the state becomes subject to any federal penalties imposed as a result of Accenture's poor performance, earn-back credits could be used to reduce Accenture's liability.

No Damages Yet

The only power the KPRs can have lies in the state's ability to assess liquidated damages. Despite acknowledged performance problems, HHSC has yet to require Accenture to pay *any* liquidated damages. HHSC could not articulate any substantive reason for this failure to act. One staff member commented that HHSC needs a good relationship with Accenture, since they are going to have to "live with them" for years.[14]

Section 12.02 (f) of the contract indicates that HHSC will consider the reasons for vendor failures and any mitigating factors before assessing liquidated damages. According to ICN, this is "not a normal contract provision with respect to service level agreements, key performance requirements or other obligations."[15]

Disparities

With only 64 percent of all KPRs actively being monitored, it is not possible for HHSC either to identify problems clients are experiencing or to ensure Accenture is performing as expected. Plus, HHSC's ability to assess liquidated damages—essentially its only incentive to Accenture to perform—is reduced to slightly more than half of the total liquidated damages available under the contract. In addition, those requirements that have highest priority to HHSC have the fewest number of active KPRs. **Exhibit 13** illustrates the disparities between HHSC's KPR plan and the reality of what is being monitored.

Endnotes

[1] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TAA Monthly Status Report (TMO-158/TMO-166) Reporting Period 3/01/06 through 3/31/06*, (Austin, Texas), p. 25; and Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TAA Monthly Status Report (TMO-158/TMO-166) Reporting Period 4/01/06 through 4/30/06* (Austin, Texas), p. 35.

Exhibit 13

Key Performance Requirements Summary by Earn Back Category/Priority

Earn Back Category (Priority)	Number of Requirements Not Active	Percentage Not Active	Not Active Maximum Liquidated Damages	Number of Requirements Active	Percentage Active	Active Maximum Liquidated Damages	Total Number of Requirements	Total Maximum Liquidated Damages
A+	8	61.5%	$560,000	5	38.5%	$322,000	13	$882,000
A	16	50.0%	$798,000	16	50.0%	$595,000	32	$1,393,000
B	10	32.3%	$448,000	21	67.7%	$781,000	31	$1,229,000
C	0	0.0%	$0	18	100.0%	$315,000	18	$315,000
Total	**34**	**36.2%**	**$1,806,000**	**60**	**63.8%**	**$2,013,000**	**94**	**$3,819,000**

Source: Health and Human Services Commission.

[2] Texas Comptroller of Public Accounts, *Document Assessment Report*, by International Computer Negotiations, Inc. (Austin, Texas, July 7, 2006), p. 10 (Consultant's Report.)

[3] Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP*, (Austin, Texas, June 29, 2005), Schedule 3, p. 2-3.

[4] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 43.

[5] Sara Cullen and Leslie P. Willcocks, *Intelligent IT Outsourcing: Eight Building Blocks to Success* (Burlington: Butterworth-Heinemann, 2003), pp. 77-78.

[6] Letter from William Ludwig, regional director, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, April 5, 2006.

[7] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68 Monthly Monitoring Report* for January, February and March 2006 (Austin, Texas), p. 22.

[8] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 40.

[9] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 40.

[10] Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP*, Schedule 3.

[11] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, May 19, 2006.)

[12] Interviews with Health and Human Services Commission staff, June 22, 2006.

[13] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, April 21, 2006), p. 5, 38.

[14] Interviews with Health and Human Services Commission staff, June 22, 2006.

[15] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 19.

9. The contract limits Accenture's ultimate liability to a fraction of the contract's total value.

HHSC's contract with Accenture requires the contractor to provide comprehensive indemnification of the state. "Indemnification" means that the contractor must compensate the state for any loss, harm or lawsuit that could arise as a result of the contract. This indemnity applies both to wrongful and negligent acts and the infringement of intellectual property rights.

The final negotiated contract, however, also contains a limitation of liability in favor of Accenture. This provision limits Accenture's risk to an "initial liability limit" of $250 million. The limit is to be updated annually based on a formula that is intended to increase the limit if the total value of the contract increases. The liability limit is reduced whenever any liquidated damages are paid, in effect ensuring that the total liability will never exceed $250 million over the entire contract term. In short, Accenture will never have to pay any more than $250 million over the contract term, regardless of how many liquidated damages are assessed.

"Earn-backs," however, are not applied to the liability limit. Therefore, while liquidated damages can reduce Accenture's liability limit, earn-backs do not raise it. This may be an oversight in the contract, but nonetheless it inappropriately lowers Accenture's total liability. More importantly, the initial liability limit of $250 million equates to just 27.8 percent of the total contract value. The industry best practice with regard to contracts such as this is to set the liability amount as high as *100 percent or more* of the total contract value.[1] Finally, the contract allows HHSC to waive liquidated damage assessments against Accenture if the agency determines that there are "mitigating circumstances."

HHSC testified before the House Committee on Government Reform hearing on July 26, 2006 that it set the liquidated damage amounts by asking Accenture what level of damages it would be willing to accept.[2] As noted previously, however, HHSC is in a far better position than Accenture to determine the potential costs to the state of vendor failures. Allowing the vendor to do so may give the company free rein to set amounts too low to provide incentives to perform well.

Several news accounts have quoted HHSC officials as stating that Accenture will be billed for the costs the state has incurred as a result of the rollout delay caused by the company's poor performance. The contract, however, reveals that HHSC's right to bill Accenture for these costs will be determined by its ability either to negotiate an agreement with Accenture or to prove damages in a court of law.

Section 12.06.c of the contract, relating to damages, states:

> The Liquidated Damages…are not intended to be in the nature of a penalty, but are intended to be reasonable estimates of HHSC's projected financial loss and damage resulting from the Contractor's nonperformance, including financial loss as a result of project delays. Accordingly, in the event contractor fails to perform in accordance with the Agreement, HHSC may assess Liquidated Damages as provided in this Agreement. *HHSC will also be entitled to collect other damages in excess of or in lieu of Liquidated Damages, in accordance with Texas Law*." [emphasis added]

HHSC plans to negotiate with Accenture to seek compensation for its actual and consequential damages, and does not intend to recover the total cost to the state for the rollout delay. HHSC staff expect Accenture will repay the state without litigation, even though the contract does not specify compensation due beyond the liquidated damages.[3]

Endnotes

[1] Interview with Phil Bode, International Computer Negotiations, Inc. (Austin, Texas, June 23, 2006.)

[2] Testimony of Steve Aragon, chief legal counsel, Health and Human Services Commission, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285. (Last visited August 8, 2006.)

[3] Interview with Steve Aragon, chief legal counsel, Health and Human Services Commission, Austin, Texas, August 14, 2006.

10. HHSC's handling of the Accenture contract has put several significant federal funding sources at risk.

The Food and Nutrition Service (FNS), a part of the U.S. Department of Agriculture, oversees the spending of federal food stamp funds. The bulk of these funds flow through to clients as benefits, but states retain a portion of the money to defray their cost for administering the program. Part of the FNS mission is to ensure that clients receive appropriate food stamp benefits quickly and efficiently. FNS reviews state administrative processes and technological systems for the food stamp program on an ongoing basis. Changes or innovations to these processes require FNS approval to ensure that they meet the program's core service requirements and use federal funds as effectively as possible.

The contract with Accenture forced changes in the way HHSC processes client applications and in the technological systems (TIERS) used to support the program. Changes such as these require three layers of FNS approval. First, state agencies must obtain prior written approval from FNS to receive federal funding to develop automated systems. Secondly, FNS must approve the request for proposals (RFPs) for such systems before their release to the vendor community. Finally, FNS must approve the resulting contract before the state makes its contract award. All of these FNS approvals must be obtained in advance; together they constitute authorization for spending FNS federal funds for the projects.

FNS began warning as early as June 7, 2004 HHSC that it needed to seek federal approval for the RFP and contract. HHSC sent FNS the RFP on July 13, 2004, and then released the RFP to bidders on July 22, 2004, without FNS approval. On July 26, 2004, FNS warned HHSC that they were proceeding at their own risk.

HHSC provided FNS with a copy of the signed contract with Accenture on June 29, 2005. On July 14, 2005, FNS informed HHSC that since the contract was signed without FNS approval, any funds spent prior to its approval would not be reimbursed. HHSC proceeded to spend state funds on transition without this approval.

Despite repeated requests from FNS, HHSC did not submit a required Implementation Advance Planning Document Update (IAPDU) until July 27, 2005, nearly a month after the contract was signed and eight months after the document was due (in October 2004—see **Appendix 8**). On November 7, 2005, FNS granted its conditional approval of the IAPDU and the Accenture contract, providing funding from the date of approval through the rollout of the first phase. In addition, a series of FNS letters over the course of 2004 and 2005 document the federal agency's continuing concerns with the RFP, the contract, HHSC's processes and the project's risks. (**Appendix 8** contains a condensed timeline of FNS and HHSC correspondence, actions and decisions.)

Due to federal regulations, federal funding cannot be made available until FNS approves the state contract. FNS granted funding approval only from the date of its conditional approval (November 7, 2005) through the end of the first phase of the rollout. Federal funding for future rollouts has not been approved and FNS will "provide incremental funding contingent upon the demonstrated success of key project phases."[1]

FNS informed HHSC on July 14, 2005 and again on November 7, 2005 that the agency would not approve any retroactive federal funding for the project. In a letter to HHSC, FNS noted that "Since the contract was signed before obtaining our approval, the funds that are expended now must be State funds and may not be reimbursed by FNS."[2] To date, HHSC has made only one vendor payment that could involve retroactive FNS funding, an August 2005 payment of $17 million for transition services, $3 million of which represented the estimated federal share.

Accenture has submitted additional invoices for September and October 2005 transition services, but HHSC has, without documented explanation, withheld payment for these invoices so far. Invoices for later months have been paid. The September and October invoices themselves are marked as "approved to pay," but as of August 31, 2006 have not been submitted to the Comptroller for payment. Nevertheless, these September and October payments will have to be made at some point, and HHSC will have to use state funds to replace the lost federal share.

If the FNS share of these payments is the same as in the August billing, lost FNS funding for these two invoices would be an additional $3.9 million. Combined with the August payment, the lost federal funding would total about *$6.9 million*. State funds will replace these lost federal funds.

Enhanced Funding

Enhanced federal FNS funding for the timely and accurate processing of food stamp benefits may be affected as well. Since 1999, HHSC has received an average *$23.7 million* annually in enhanced federal funding for its performance in this area.

The four TIERS-based state offices in Travis and Hays counties, however, were unable to process no more than about 3,000 food stamp applications in a timely manner each month from February through April 2006. IEE/TIERS performance fell significantly below that of SAVERR cases processed outside the rollout area.

For clients who qualify for expedited food stamp benefits, the application process is designed to permit quick approval of initial client benefits. The processing of expedited applications in the IEE/TIERS counties moved more quickly, but at the expense of other applications. About 91.5 percent of their expedited applications were timely in May 2006, but *regular* application timeliness slid to 51.5 percent (1,498 of 2,909).

Enhanced funding is based on a state quality control review, subject to federal audit, of both expedited and normal cases. The drop in timeliness experienced in the two-county rollout area could endanger the state's chances for enhanced funding when the project is rolled out across the state.

Food Stamp Overpayments

Accenture and HHSC have issued more than *$3 million* in overpayments for food stamps and TANF to clients serviced by the TIERS system. Again, TIERS maintains eligibility for clients who reside in Travis and Hays counties, a service area containing about 2 to 3 percent of all eligible client records.

HHSC system modification documents state that the two TIERS counties had issued more than $3 million in erroneous food stamp and TANF payments as of May 1, 2006.[3] The main cause of these overpayments was attributed to "end user errors," caused primarily by a lack of edits and controls within TIERS to catch worker errors, as well as inadequate training for state and Accenture workers.

In correspondence with HHSC regarding these overpayments, FNS noted that the potential overpayments have been occurring for some time, and expressed concern that the problem had not been corrected more quickly. If these overpayments are substantiated, the state will be responsible for them.

Endnotes

[1] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, November 7, 2005.

[2] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, July 14, 2005.

[3] Health and Human Services Commission, "Mercury IT Governance Service Request #48818," Austin, Texas, May 1, 2006.

11. HHSC's initial rollout of the Integrated Eligibility and Enrollment system carried none of the protections of a true pilot program—and all of the risks a pilot is designed to avoid.

According to HHSC, the January 20, 2006 "phase 0" rollout of the Integrated Eligibility and Enrollment (IEE) system was a "pilot project," and one in which HHSC expected to encounter problems. This is a misrepresentation of the facts. By definition, a pilot program identifies concerns and weaknesses in a *controlled* environment, to prevent major disruptions, system failures and other catastrophes during the implementation phase. HHSC's rollout was not a pilot in this sense.

The word "pilot" does not occur within the pages of HHSC's massive RFP, other than in a few definitions and references to previous projects.[1] In November 2005, an FNS official wrote:

> *Given that the state is not conducting a pilot of IEES*, we want to see that the project rollout is paced in accordance with prudent management. This is in accordance with the State's assurances that the phased-in approach is being used to ensure protection of client services and access. [Emphasis added][2]

In fact, HHSC did not apply the term "pilot" to the rollout until it began responding to a growing number of complaints and questions from clients, legislators and reporters. Based on the terms the agency commonly employed—"January 20 rollout" or "Phase 0 rollout"—it appears that what HHSC calls a pilot more nearly resembles a phased implementation. Implementations, as opposed to pilots, involve "going live." All system testing, including pilot programs, modular integration and full system integration, already should have been completed successfully. Known deficiencies either must be corrected or "worked around"; all required processes should be in place, with personnel fully trained, documentation and help facilities complete and so forth.

In short, implementation usually means that all components of the project are in place, fully tested and ready for production using actual, "live" data.[3] Phased implementations, such as HHSC developed for the IEE contract, usually are based upon some logical series of steps, such as phasing a program in over several geographic locations or over an extended time period.

HHSC's plan was introduced both in a limited geographic location (integrated eligibility call centers for Texas Works programs in Travis and Hays counties) *and* for statewide populations (integrated eligibility applications for CHIP and children's Medicaid). In addition, not all of the technical tools needed for IEE were fully developed, so the rollout included a temporary software solution, MAXe, to support the system.

The agreement, however, required Accenture to provide all system functions by January 20, 2006, even if only for a portion of the client population. Rather than processing test cases for a representative sample of cases, as in a true pilot project, workers in Travis and Hays counties were performing real work for *all* applicants appearing in or calling at those offices.

During the January rollout, it quickly became clear that the workers and the system were being overwhelmed, as reflected by Accenture's performance reports and reported by applicants and workers in subsequent weeks and months. And, in the absence of an effective contingency plan (**Finding 18**), HHSC could not reverse the implementation once it was clear Accenture could not manage the volume, accuracy or timeliness requirements.

Again, HHSC has called the initial rollout of IEE a "pilot," but the agency's approach carried none of the protections of a pilot program, and all of the risks a pilot is designed to avoid. No system should be implemented before it is fully tested and ready, regardless of whether it is implemented as a pilot.

Endnotes

[1] Health and Human Services Commission, *Request for Proposals for Integrated Eligibility and Enrollment Services* (Austin, Texas, July 22, 2004) pp. 6-125; and Accenture, *Integrated Eligibility and Enrollment Services Proposal* (Austin, Texas, September 30, 2004), vol. 5, part 6.3, pp. 10,18, 43, 47, 54 and 56.

[2] Letter from William Ludwig (signed by Esther Phillips), regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, November 22, 2005.

[3] Texas Comptroller of Public Accounts, *Document Assessment Report*, by International Computer Negotiations, Inc. (Austin, Texas, July 7, 2006), p. 11. (Consultant's report.)

12. HHSC relied on an unfinished and unproven software system, TIERS, to serve as the technological base of the Integrated Eligibility and Enrollment program.

HHSC built the foundation of its new model on an unproven base—a software system that had been in development for nearly a decade but was still used only in a limited way in four state offices.

The heart of the integrated eligibility concept lies in the ability of the technology to handle applications coming in from many different sources—phone calls, mail, fax, internet, state offices—and being touched by many different people—call-center agents and data entry and eligibility workers. Thus, the choice of technology was perhaps the most critical to the success of the IEE project. Yet HHSC chose TIERS for Medicaid, TANF and food stamps, despite knowing that the system was and is plagued with problems. In addition, HHSC chose MAXIMUS' proprietary system, MAXe, to process eligibility applications for CHIP, completely separate from the TIERS system. One of the "guiding principles" of the business case is the "plan for TIERS…to be the core of the integrated eligibility system."[1] At that time, TIERS had been in development for years and was being used only in Travis and Hays counties.

The history of the system dates back to June 1997, with the initial creation and development of the Texas Integrated Enrollment System, later renamed the Texas Integrated Eligibility Redesign System (TIERS). TIERS first was deployed in mid-2003 in state offices in Travis and Hays counties for eligibility determinations and the enrollment of Texas citizens needing Medicaid, TANF and food stamp assistance. At that time, state workers used TIERS in a face-to-face environment while interviewing clients.

The 2003 Legislature authorized a call-center approach to eligibility determination. By Spring 2004, HHSC decided to base the integrated eligibility process on TIERS, given the state's already significant investment in the software. HHSC would have been aware of the considerable modifications that would be needed to adapt TIERS to the call-center environment, and to prepare the system for statewide use. Yet the agency generated remarkably little in the way of plans or schedules to accomplish this extraordinary task.

TIERS has cost the state $279 million to date[2]—not including the $2.7 million per month that HHSC is paying Accenture for TIERS maintenance[3]—and the system is still undergoing testing.

While the review team did not engage in a technical review of TIERS, a significant number of problems discovered in the contract review seem to stem from TIERS, indicating its functionality and suitability should be assessed thoroughly. The system's problems were common knowledge among HHSC staff as well as legislators. On April 14, 2005, one state eligibility worker testified before the House Committee on Human Services that TIERS should not be rolled out statewide because of critical problems experienced in Travis and Hays counties.[4] Among other problems, TIERS failed to process dates correctly, and could not distinguish between eligible and ineligible members of a single household. TIERS also failed to determine clients' residency status accurately and could not recognize fraud when applicants filed multiple times under the same name.

Concerns over the system's abilities prompted a bill in the 2005 Legislature requiring HHSC to suspend all activities related to establishing call centers until it had fully developed and tested TIERS.[5] *There is a reason TIERS was being used in only two counties for such a long time: it was not ready to be deployed statewide.* The bill was left pending in committee, however, and HHSC continued preparing for the introduction of the new system.

HHSC did not allow Accenture enough time to modify TIERS for the call-center environment. TIERS needed significant additional capabilities, including the ability to image and track documents electronically; track phone calls regarding applications; track the status of applications and the identity of workers who had handled them; accept information in the order that clients submit it through various channels; and share application formats with CHIP. All of these modifications as well as other changes were needed to make TIERS ready for statewide use.

Because Accenture recognized TIERS could not realistically be modified within this timeframe, it proposed to use a proprietary system, MAXe, as an interim solution until it could modify TIERS. The plan was for Accenture to validate information put into MAXe against business rules in TIERS to ensure accuracy and prevent duplication. Data then would be stored in TIERS for building client eligibility records. Meanwhile, over an 18-month period, Accenture planned to complete adapting TIERS to the integrated system.[6]

The achievement of these interim and longer-term solutions was further complicated by additional factors. Deloitte previously was responsible for TIERS and was making changes to it when Accenture began taking over the contract.[7] Furthermore, at the time of its proposal, Accenture lacked the TIERS system documentation needed to support its system design.[8] Therefore, Accenture assumed TIERS would interface with MAXe, and learned otherwise only after the rollout began.

Another cause for concern is that HHSC has requested approval from FNS for another contract with Deloitte for an estimated $39 million to work alongside Accenture on TIERS, which will bring TIERS' total development cost to $318.4 million—so far.[9] HHSC's plans lack sufficient detail to determine whether money is being spent wisely on TIERS and whether the agency has a realistic, effective technology strategy in place.

HHSC's vision and Accenture's promises were complex, unproven and risky. At a minimum, both HHSC and Accenture should have done a better job of identifying, mitigating and managing the project's risks.

Endnotes

1 Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis* (Austin, Texas, March 2004), p. 4.

2 Health and Human Services Commission, "TIERS Implementation Advance Planning Document Update As Needed: TIERS/IE 2006-02," Austin, Texas, March, 2006, p. 6.

3 Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP*, (Austin, Texas, June 29, 2005), Schedule 8.

4 Kimberly Reeves, "Million-Hour Madness," *Houston Chronicle* (April 28, 2005); and "Texas State Lawmakers Move Cautiously on Welfare," *National Journal's Technology Daily* (April 18, 2005.)

5 Texas H.B. 1674, 79th Leg., Reg. Sess. (2005).

6 Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP* (Austin, Texas, June 29, 2005), attachment B.

7 Texas Access Alliance, "Transition Committee Meeting Minutes," Austin, Texas, September 9, 2005, p. 3.

8 Health and Human Services Commission, *Request for Proposals for Integrated Eligibility and Enrollment Services: Q&A Answers to RFP*, (Austin, Texas, July 22, 2004) p. 26.

9 Health and Human Services Commission, "TIERS Implementation Advance Planning Document Update As Needed: TIERS/IE 2006-02," Austin, Texas, March, 2006, p. 6.

13. Both HHSC and Accenture went forward with the IEE rollout on the assumption that the company's MAXe system could be integrated with the TIERS system—a dangerous assumption that proved to be incorrect.

Accenture acknowledged in its proposal that the company could not make TIERS ready for a call-center environment in the time HHSC allowed in its RFP schedule.[1] Instead, Accenture proposed to rely temporarily on a proprietary system it had used in other states—MAXe—to handle the call center and document tracking functions.

At present, Accenture does not process CHIP applications in HHSC's TIERS system, only in MAXe. The company processes all other applications for Medicaid, TANF and food stamps through a combination of TIERS and MAXe. Thus, CHIP and children's Medicaid applications are processed in two entirely separate systems.

In its proposal, Accenture indicated that the two systems would be seamlessly integrated for all programs, as depicted in **Exhibit 14**, which Accenture provided in the proposal.[2] Accenture then promised in its proposal to adapt TIERS for these call-center capabilities within the first 18 months of the contract. Until then, it assumed it could make MAXe and TIERS "talk" to one other and share data.

In the end, however, the two systems could not be integrated, causing a host of problems for Accenture and clients alike. Data keyed into one system would not automatically update the other. Applications tracked in one system did not automatically or easily track in the other system. Call-center agents might look for a document in one system when the application was in the other, and give clients inaccurate information in consequence—which explains in part the many reports of "missing" documents.

Accenture has promised to replace MAXe with TIERS by January 2007.[3] It is not clear whether Accenture is on schedule to do so, although the shift is urgent given MAXe's inability to easily share data with TIERS. The incompatibility of

EXHIBIT 14

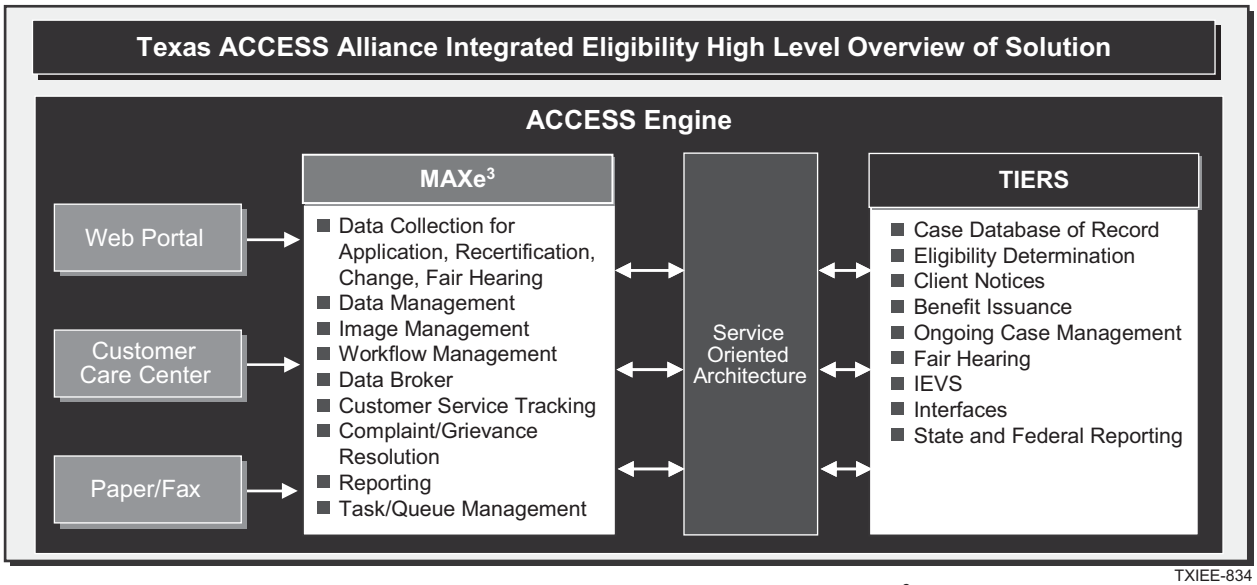


Figure 6.3-9. The ACCESS Engine closely integrates TIERS and MAXe[3] to provide eligibility and enrollment processing support to the Texas IEES program

Source: Integrated Eligibility and Enrollment (IEE) Services Proposal, September 30, 2004.

the two systems not only has caused applications to be "lost," but also has delayed application processing, since Accenture must manually key data into both systems.[4]

HHSC hired Science Applications International Corporation (SAIC) to provide an "Independent Verification and Validation" of Accenture's performance. In March 2006, SAIC reported that Accenture's plan to phase out MAXe may not fully address HHSC's requirements and may be delayed due to a number of unresolved issues. Furthermore, SAIC stated, "It does not appear that significant progress has been made toward addressing these concerns."[5] In April, SAIC increased its assessment of the risk of failure in this area from medium to high.

HHSC did not publicly acknowledge the problem with MAXe and TIERS until the end of March 2006, when it came under significant pressure to identify the causes of the escalating client complaints and declining CHIP caseloads. In a March 30, 2006 letter to State Senator Leticia Van de Putte, HHSC Commissioner Albert Hawkins stated, "Before we made the decision to proceed with the January pilot rollout, we conducted an assessment of all core functions…. These assessments began in December and continued throughout the date of implementation. We identified that the communication path between the data collection system, MAXe, and TIERS was not operating at our requirement level."[6]

The federal Food and Nutrition Service (FNS) was concerned about the incompatibility of MAXe and TIERS, and warned HHSC to be aware that significant problems could result. In an attachment to a letter dated April 5, 2006, FNS noted that the vendor software must interface with TIERS to keep case files updated and accurate, and that, "Our historical experience shows that major problems arise when very slow system response forces workers to perform manual computations, workarounds or attempt to enter written data at a later time."[7]

Quite simply, the combination of MAXe and TIERS has failed for Medicaid, TANF and food stamp applications. CHIP applications, processed solely in MAXe, also have had problems, with numerous client complaints indicating the system and Accenture staff are not determining eligibility accurately or promptly.

Accenture's proposal indicated that MAXe was being used in California to determine CHIP eligibility in much the same way as it would be used in Texas. In addition, Accenture stated that it had "extensive working knowledge of TIERS gained through the Texas Broker Enrollment Project: 1997 inception" and that the "state does not have to train ACCESS Alliance on TIERS system."[8] Despite these representations, Accenture and MAXIMUS employees told Comptroller staff that the failure of the MAXe/TIERS integration was "unanticipated"—a classic case of a vendor over-promising and under-delivering.[9]

System problems and Accenture's backlogs appear to be causing letters to be generated late, past the deadlines, and no one is catching these errors—except the clients.[10] It appears that nothing is being done to ensure that these clients' coverage is not affected by system and vendor problems beyond their control. The only hope these clients have is to appeal through HHSC, a lengthy and often frustrating process.

Endnotes

1 Accenture, *Integrated Eligibility and Enrollment Services Proposal* (Austin, Texas, September 30, 2004), pp. 6.3-34 – 35.

2 Accenture LLP, *Integrated Eligibility and Enrollment Services Proposal, Part 6 IEE: Overview and Description of Services* (Austin, Texas, September 30, 2004), Volume 5, p. 6.3-18.

3 Letter from Aurora LeBrun, associate commissioner, Health and Human Services Commission to Douglas Doerr, partner, Accenture, February 11, 2006.

4 Health and Human Services Commission, "Presentation to the House Appropriations Subcommittee on Health & Human Services," Austin, Texas, April 17, 2006.

5 Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report,* by Science Applications International Corporation (Austin, Texas, March 29, 2006), pp. 11-12.

6 Letter from Albert Hawkins, executive commissioner, Health and Human Services Commission, to Texas State Senator Leticia Van de Putte, Austin, Texas, March 30, 2006.

[7] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, April 5, 2006.

[8] Accenture LLP, *Integrated Eligibility and Enrollment Services Proposal*, p. 6.3-158.

[9] Site visit to TAA Call Center in San Antonio, Texas, and interviews with Accenture and MAXIMUS staff, June 6, 2006.

[10] Testimony of Albert Hawkins, executive commissioner, Health and Human Services Commission, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&committeeCode=285. (Last visited October 25, 2006.)

14. HHSC's rollout of the integrated eligibility/call-center process attempted to incorporate far too many drastic changes simultaneously.

What started out as a fairly simple concept—adding a call center option for children's Medicaid applicants—escalated into a conglomeration of some of the most complex human service programs in Texas coupled with massive changes to technology, business processes, policies and vendors. Any one of these changes would have been a significant undertaking. Multiplying the changes and the number of affected programs geometrically increased the inherent risks of failure. In sum, then, HHSC made sweeping changes to the state's four largest and most sensitive human services programs—CHIP, Medicaid, TANF and food stamps—without regard for potentially serious disruptions in vital services provided to Texas' neediest citizens.

HHSC's initial business case called only for a limited integrated eligibility/call-center process for the Medicaid, TANF and food-stamp programs. The RFP and eventual contract, however, expanded the scope of the proposed system dramatically by requiring bidders to include CHIP in the integration, maintain the TIERS system and provide enrollment brokerage services.[1] This major increase in scope constituted a project that could not be executed within the timeline in the initial business case. Despite this, HHSC told the review team that it did not update its business case to determine the effect the expansion had on the schedule and risk.[2]

While HHSC was implementing these massive system and business process changes, it also changed several major contractors. Accenture assumed responsibility from Deloitte for TIERS, with no expertise in the new system, and then immediately attempted to make significant modifications to it.

CHIP changes

HHSC not only shifted the program to MAXIMUS, but also implemented a new eligibility process and policy rules that integrated it with children's Medicaid. The result was quickly apparent; CHIP caseloads declined dramatically. HHSC also changed its CHIP contractor, from ACS to Accenture's subcontractor, MAXIMUS.

Only HMO enrollment brokerage remained with the same contractor, MAXIMUS. Even with this prior expertise, MAXIMUS experienced problems with enrollment for the new system. Many clients complained that they never received HMO enrollment packets, or that they had been enrolled into the wrong HMO.

HHSC also stated that the enrollment files MAXIMUS sent to HMOs featured duplicate clients, ineligible clients and clients assigned to the wrong levels of service.[3] Furthermore, HHSC added to the already complex mix of policy changes, contractor changes and procedural eligibility difficulties by adopting additional rule changes. In general, these changes reduced CHIP eligibility, dropped contractor performance requirements and increased the eligibility "burden of proof" for CHIP applicants. These moves as well as the system problems reduced the number of families receiving CHIP.

Endnotes

1 Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis* (Austin, Texas, March 2004), p. 7.

2 Interview with Health and Human Services Commission staff, Austin, Texas, May 23, 2006.

3 Interview with Health and Human Services Commission staff, Austin, Texas, July 10, 2006.

15. HHSC attempted to implement the new integrated eligibility and CHIP systems far too quickly, resulting in a chaotic and unsuccessful rollout.

In a letter to HHSC on October 28, 2004, the FNS noted, "We continue to have concerns about the seemingly unrealistic timeframes for implementation of the State's plan, and urge you to provide sufficient time for pilot testing the new system."[1] This concern was justified. HHSC attempted to implement the IEE and CHIP initiatives too quickly, resulting in significant problems that could have been avoided and that will be difficult to fix under the existing work plan and timeline.

Negotiation of the contract agreement between HHSC and Accenture took *seven months*. After the contract was signed, however, HHSC gave Accenture *just over six months*—from June 29, 2005 until January 20, 2006—to plan, develop and implement the first phase of the system, which included developing new processes, shifting state staff functions, assuming responsibility for CHIP, TIERS and enrollment brokerage, developing supporting business processes, creating documentation and procedures for the new system, modifying and fixing problems in TIERS, educating clients and training hundreds of new staff on the new system and new processes.

The February 2004 Discovery Report recommended a two- to three-year timeline for the initial, substantially less ambitious project.[2] HHSC had some idea of what normal timelines for such projects should be. As HHSC developed its Discovery Report in 2004, it researched comparable efforts in nine other states. One of HHSC's findings from this research initiative included, "One factor consistent with all integrated eligibility related systems is that *this is a multi-year, expensive* endeavor."[3] [emphasis added]

According to the Discovery Report, Nebraska spent *five years* (1991-1996) building its integrated eligibility system. Once the system was operational, the state spent six months training personnel before rolling out the system. Nebraska allowed 18 months just for the conversion of data from the old system to the new one. Arkansas began rolling out an integrated eligibility system in September 2000 and did not complete the process until September 2003. One of the survey questions HHSC asked, "What are the project pitfalls to avoid?" Arkansas replied, "Recognize that the timeline will take longer than what you plan."[4]

In its proposal, Accenture professed knowledge of the scope and magnitude of a project such as HHSC's, since the company had completed a similar project for the Ontario Ministry of Community and Social Services. Accenture cited the Ontario project, noting that "it demonstrates our ability to innovate by creating operational efficiencies …"[5] The Ontario project started in January 1997 and did not begin rolling out until May 2001. Even in 2002, according to an Ontario Works Auditor's report, "the new system had been inadequately tested, and that it was essentially still a work in progress."[6]

Similar observations have been made about the IEE project in Texas. HHSC was aware as early as April 2004 that its implementation plan was too fast. Public comments made at HHSC's Public Hearings on Call Center Rules and Eligibility Call Center Model held between April 30 and May 15, 2004, and posted to HHSC's Web site states: "The timeline for implementation is too aggressive."[7]

Given the wealth of feedback from other states, the review team can find no logical reason for HHSC's choice of a seemingly impossible implementation schedule. HHSC should have recognized that if simply *negotiating the contract* took seven months, the vendor and agency could not fulfill the requirements of that contract in even less time.

Endnotes

[1] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, October 28, 2004, p. 3.

[2] Health and Human Services Commission, *Integrated Eligibility Determination: Discovery Report* (Austin, Texas, February 2004), p. 6.

[3] Health and Human Services Commission, *Integrated Eligibility Determination Discovery Report* (Austin, Texas, February 2004), pp. 23-25.

[4] Health and Human Services Commission, *Integrated Eligibility Determination: Discovery Report*, p. 65.

[5] Accenture, *Integrated Eligibility and Enrollment Services Proposal* (Austin, Texas, September 30, 2004), pp. 2.17 - 2-62.

[6] Office of the Provincial Auditor of Ontario, *2002 Annual Report* (Ontario, Canada, 2003), pp. 26-27.

[7] Health and Human Services Commission, "Public Hearings on Call Center Rules and Eligibility Call Center Model," http://www.hhs.state.tx.us/consolidation/IE/PH_CCRules_Comments.shtml. (Last visited September 1, 2006.)

16. HHSC ignored repeated warnings from stakeholders about flaws in its project approach.

HHSC moved forward on the IEE project without federal approval, and ignored the FNS' repeated calls for caution.

On August 13, 2004, FNS expressed conditional support for the IEE, as long as HHSC implemented it with full consideration of the need to maintain or improve client access and program integrity.[1] This letter listed several issues related to the RFP that HHSC would have to address before FNS would grant final approval. FNS suggested HHSC slow down and scale back the IEE project.

In October 2004, as the RFP responses were being evaluated, FNS raised several concerns about the IEE project.[2] FNS wondered how HHSC would manage the workload, given the state's plan to "significantly" reduce staffing levels and close benefit offices. FNS also found HHSC's timeframes unrealistic, and was not satisfied with HHSC's interpretation of provisions for federal funding.

FNS was concerned enough about the HHSC's plans and Accenture's progress to have its own Independent Verification and Validation (IV&V) vendor, Booz Allen, review the project in 2005. Just eight days before HHSC rolled out integrated eligibility, USDA sent a letter to HHSC that stated, "Our concern is that the project not expand in the face of major problems which jeopardize access, integrity and warrant immediate correction."[3]

The federal government was not the only witness concerned with HHSC's approach. The agency's own IV&V contractor, SAIC, documented high risks to the project as early as July 2005.[4] In August 2005, SAIC reported, "The TAA cut-over approach may not adequately prepare service components for Day 1 operations (January 20, 2006)."[5] SAIC initially assessed this as a medium risk in August 2005 but elevated it to a high risk by December 2005, one month before the new system went live.

As of December 28, 2005, SAIC had identified 73 risks and 49 "issues" (risks involving a significant choice between at least two alternatives) affecting the January 20 start date. The report states, "It is unclear if these items have been reviewed to identify potential 'No Go' concerns for cutover."[6]

These examples provide ample proof that HHSC was aware of the magnitude of the system's potential problems—and chose to proceed anyway.

Endnotes

1 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, August 13, 2004.

2 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, October 28, 2004.

3 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, January 12, 2006.

4 Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report*, by Science Applications International Corporation (Austin, Texas, July 27, 2005), p. 6. (Consultant's report.)

5 Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report*, by Science Applications International Corporation (Austin, Texas, August 26, 2005), p. 10.

6 Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report*, by Science Applications International Corporation (Austin, Texas, December 30, 2005), pp. 10-11.

17. HHSC rolled out the Integrated Eligibility and Enrollment system without testing it first.

Accenture did not complete acceptance testing on the IEE system—including pilot programs, modular integration, full system integration and all the essential components of a planned implementation—before the January 20, 2006 rollout.

HHSC pushed to meet the January 20 date, reducing the amount of testing Accenture was required to perform and making the "Go/No Go" decision four days *before* the company's Readiness Assessment Testing even began.[1] No form of acceptance testing began until January 17, only three days before implementation.[2] This was simply not enough time to test and troubleshoot a system of this size. This fact is documented both by SAIC, HHSC's Independent Validation and Verification contractor, as well as Accenture's own reports.

Acceptance testing is intended to prove that the contractor is ready to assume full responsibility for the system and programs; HHSC's decision to move forward without full testing put the state and HHSC clients at great risk. A December 30 report prepared by SAIC noted that, "It does not appear that an IE Readiness Assessment Test Plan has been prepared by TAA [Accenture and its subcontractors]. As such, HHSC has not reviewed and approved the planned readiness testing."[3] At the time of this report, the rollout was scheduled to take place in less than three weeks. What testing that did take place was "scaled back"; an April 2006 Accenture report noted, "Due to significant delays in testing for the IE rollout coupled with a decision to go live on January 20, 2006 without regard to actual results of the Readiness Assessment Test, TAA and HHSC agreed to a scaled back Readiness Assessment Test that would only test critical technical components."[4] When it became clear that Accenture was behind schedule, HHSC proposed that testing be reduced.

Though the integration of MAXe and TIERS was central to the success of the interim solution rolled out on January 20th, there is no evidence that HHSC required Accenture to prove the concept. Instead, actual clients "tested" the system with their own applications.

Endnotes

[1] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TR-065 Readiness Assessment Report – IE* (Austin, Texas, January 2006, revised April 18, 2006), p. 5; and Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report*, by Science Applications International Corporation (Austin, Texas, January 24, 2006), pp. 10-11. (Consultant's report.)

[2] Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report* (Austin, Texas, January 24, 2006), pp. 9-10.

[3] Health and Human Services Commission, *Independent Verification and Validation Monthly Status Report* (Austin, Texas, December 30, 2005), pp. 10-11.

[4] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TR-065 Readiness Assessment Report – IE*, p. 5.

18. HHSC had no real contingency plan for failures during the IEE rollout.

Stakeholders' warnings had made it clear to HHSC that its plans were extremely risky, and yet the agency did not plan to mitigate these risks. HHSC's contingency plan was employed too late and was designed for use only if a "catastrophic failure were to occur," making it more of a disaster recovery plan than a contingency plan.[1]

Contingency plans are intended to prepare the state to continue operations in the event the vendor is unable to implement the program as planned. In theory, the state should recognize *in advance of the implementation* that the vendor is not ready, and invoke the contingency plan to delay the process until the vendor is ready. HHSC did not begin making contingency arrangements until April 2006, long after integrated eligibility had been rolled out.

HHSC's contingency plan included:

- Retaining state staff longer than planned, and continuing to process clients through face-to-face contacts in field offices. By the time HHSC returned processing from Accenture to the field offices, state staffing was already declining rapidly, and the remaining employees were unable to process applications as quickly as in the past.
- Deploying a "SWAT" team of workers to travel around the state assisting local offices, which increased travel costs for HHSC.
- Delaying deployment of the TIERS/IEE model (the call center) as needed.

But HHSC did *not* delay the deployment, despite clear warnings and indications that the vendor was not ready to assume operations.[2] Once Accenture went live, HHSC could not or chose not to reverse the implementation when it was clear Accenture could not manage its volume, accuracy or timeliness requirements.

Endnotes

[1] Health and Human Services Commission, *TIERS Implementation Advance Planning Document Update As Needed*, (Austin, Texas, July 2005) pp. 5-6.

[2] Health and Human Services Commission, *TIERS APDU As Needed* (Austin, Texas, July 2005) pp. 5-6.

19. HHSC refuses to allow its food stamp clients to apply via telephone, as recommended repeatedly by the federal government.

In October 2004, after reviewing the RFP, the FNS noted that it supported HHSC's call-center eligibility process for food stamp clients, but had concerns with the application process. HHSC's proposal did not meet federal provisions requiring food stamp applications to bear a client's physical signature, which obviously would not be possible through a phone call.

FNS supported the notion of telephone filing, though, and in November 2005 asked HHSC to apply for a waiver from the regulation so that clients could initiate applications by phone. FNS told HHSC that this waiver would ensure that the call-center operation could be approved for five years, the duration of the contract.[1] Instead of applying for this waiver, however, HHSC simply revised its business process, "…to remove the telephone filing of Food Stamp applications and relegate it to a paper-based process for applicants whose first contact with a food stamp office is via telephone…"[2]

FNS encouraged HHSC on three occasions to apply for the recommended waiver, even going so far as to fill it out for the agency, promising a three-day turnaround on approval and a five-year waiver grant.[3]

To date, HHSC still has not applied for this waiver. Texas food stamp applicants must apply for benefits either in person at a local office or by mail or fax. HHSC has not explained the reasons for its refusal, and the review team cannot find any compelling reason to justify it. By excluding the use of telephone filing for food stamps, HHSC is ensuring that it will need to retain a larger local office staff, further eroding its plans for savings.

Endnotes

1 Letter from William Ludwig (signed by Esther Phillips), regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, November 22, 2005.

2 Letter from Albert Hawkins, executive commissioner, Health and Human Services Commission, to William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, November 10, 2005.

3 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, January 4, 2006.

20. Both HHSC and its vendors underestimated the numbers of employees they would need for the IEE project.

Even with perfectly functioning computer systems, "automated" eligibility determination requires an adequate number of trained employees. Staffing needs both for Accenture's call center and for HHSC's offices were underestimated from the start, and proved inadequate to support the rollout.[1]

Accenture Staffing

HHSC reported that Accenture's call centers were inadequately staffed and insufficiently trained, factors which contributed to the agency's decision to delay further rollouts of the integrated eligibility model for adult Medicaid, TANF and food stamp applications.[2]

For CHIP applications, HHSC stated Accenture staff did not handle phone calls promptly or accurately, and did not have an adequate process for resolving complex cases. In addition, Accenture made unnecessary requests to clients for missing information, did not process applications promptly, and did not allow sufficient time for clients to pay enrollment fees.[3]

In the case of integrated eligibility applications for Medicaid, TANF and food stamps, HHSC again stated that vendor employees did not handle phone calls promptly or accurately, and that Accenture's customer service representatives lacked the requisite skill and knowledge. In addition, HHSC again noted that applications were not being processed promptly.

FNS reported call-center wait times of 45 minutes or longer in March 2006. The call center reported a call abandonment rate of 43.93 percent as of March 26, 2006, compared to the requirement of 5 percent or less. FNS has concluded that most of these problems are due to the overall lack of training and inexperience of contractor employees.[4]

One of the key reasons HHSC delayed further rollout of the integrated eligibility model is the need to provide further training for vendor employees. In response to these deficiencies, HHSC required Accenture to provide additional training for its call center employees.[5] This additional training, however, forced Accenture to pull call-center agents off the phones, once again driving up abandonment rates and hold times.

These staffing problems could have been prompted by the inadequate time allowed in HHSC's schedule to hire and fully train call center representatives. Another cause could be the quality and timeliness of the vendor's training plans. Accenture also is struggling to create temporary processing solutions to work around problems identified after implementation.[6] A backlog of applications piled up at the San Antonio call center because MAXe was not fully operational.[7]

Accenture was required to submit three training plans to HHSC. Two of the plans were submitted a month late. HHSC approved all three plans only conditionally at first, and two plans were not fully approved until December 7, 2005, just six weeks before all the staff had to be in place, trained and working. The final training plan for TIERS was not fully approved even on January 20, 2006, the first day of operations.

Another cause of controversy has been the salary Accenture pays its call center agents. Some stakeholders question whether the company can hire competent call center representatives at $8 per hour. On July 26, 2006, Accenture testified before the House Committee on Government Reform that it had raised the hourly wage for call center agents to $8.75. HHSC's business case, by contrast, assumed call center agents would be paid $15 per hour.[8]

HHSC Project Management Staffing

A review of HHSC's organizational chart for its Office of Eligibility Services, which manages the Accenture contract, shows that the agency appeared to have a significant number of key positions vacant at critical times during the project.

More importantly, HHSC proposed state and contractor staffing levels for the IEE system based on information collected from older processes, *before* TIERS was implemented.[9] The models HHSC used to estimate the labor to be spent on each eligibility activity were based on pre-TIERS work measurement studies. Since TIERS was to be the core of the new system and had been in limited use since June 2003, it is unclear why HHSC chose to use the old data.

As noted previously, TIERS has been plagued by numerous glitches and errors. During a site visit to a TIERS pilot office, employees commented that TIERS also is a *slow* program. It takes a long time to load each screen, and to move from one screen to another.[10] Neither the Discovery Report nor the Business Case provided time estimates for business processes performed with TIERS. Simply put, HHSC based its staffing estimates for the call center on a system it knew it would not be using.

HHSC Field Office Employee Exodus

HHSC increased the project's risks significantly by notifying eligibility workers in October 2005 that they would lose their jobs. This weakened the agency and crippled its ability to continue operations in the event of problems with the transition.

HHSC reports that its total work force has been falling since 1995. In 2001, caseloads began to rise while staffing levels continued to decline. By October 2005, the HHSC work force had declined by 46.4 percent since 1995, and worker caseloads had nearly doubled. The average caseload in 1995 was 437 cases per worker; in 2005 it was 815.[11] HHSC understood the importance of maintaining a trained and stable work force, but chose to alienate its employees by warning them that they would lose their jobs in the near future. Understandably, many left before they had a chance to be fired—and before HHSC realized it still needed them.

HHSC since has hired more than a thousand temporary workers, most of whom lack the experience of the permanent eligibility workers. These temporary employees need more time to determine eligibility than the permanent staff, slowing down an already troubled process and creating a need for even more employees than before to accomplish the same amount of work.

It appears that HHSC focused more on reducing its staff quickly than it did on planning and preparing its staff to support the new integrated eligibility model. The Booz Allen review commissioned by FNS cited, "…risks associated with closing local offices and reducing State staff, based on the assumption that the majority of applicants will choose the new business model of applying for benefits primarily over the Internet or by telephone….. *[T]his risk would be exacerbated by high levels of attrition and turnover by State and vendor employees*. [emphasis added] If applicants do not rapidly adopt the new model, this could impact timeliness, customer service, quality and client satisfaction."[12]

Endnotes

1 Health and Human Services Commission, "Presentation to the House Appropriations Subcommittee on Health & Human Services," Austin, Texas, April 17, 2006, pp. 29-34.

2 HHSC, "Presentation to the House Appropriations Subcommittee on Health & Human Services," p. 35.

3 Health and Human Services Commission, "House Government Reform Committee Hearing," Austin, Texas, July 26, 2006. p. 25. (Presentation report.)

4 Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, April 5, 2006.

5 HHSC, "House Government Reform Committee Hearing," p. 40. (Presentation report.)

6 Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TR018 Weekly Transition Status Report* (Austin, Texas, January 13, 2006), p. 3; and Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services TAA Monthly Status Report* (TMO-158/TMO-166) Reporting Period 3/01/06 through 3/31/06 (Austin, Texas), pp. 4-6.

7 Interviews with Texas Access Alliance and Health and Human Services Commission staff, San Antonio, Texas, June 6, 2006.

8 Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis*, (Austin, Texas, March 2004) p. 44, footnote 5.

[9] Health and Human Services Commission, *Integrated Eligibility Determination Phase II: Business Case Analysis* (Austin, Texas, March 2004) p. 29.

[10] Site visit to Health and Human Services Commission Benefits Issuance Center (Eligibility Office), Austin, Texas, June 21, 2006.

[11] HHSC, "House Government Reform Committee Hearing," pp. 6, 58-61. (Presentation report.)

[12] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, January 12, 2006.

21. HHSC's arrangement with Accenture lacks the accounting controls needed to protect public funds.

From an accounting perspective, the arrangement between HHSC and its vendors lacks clear and comprehensive internal controls, including the definitions and reports needed for smooth financial operations.

An HHSC Senior Financial Analyst wrote in a July 18, 2006 e-mail that "Accenture and MAXIMUS have been implementing additional internal reviews and internal controls related to variable IE activity performed since January."[1] Such controls should have been in place from the start. For example, Accenture has not billed HHSC for adult Medicaid, food stamps and TANF eligibility transactions since operations began, because the company has not created a method to report these transactions.[2]

A CHIP invoice billing dated March 8, 2006 includes a footnote to "Changes – Call Center" transactions, stating that, "Address changes were not included in this invoice *pending final resolution of the definition surrounding these changes*. [emphasis added] As soon as the definition of a billable address change is agreed to by HHSC and TAA, TAA will perform a look back and Accenture will submit a supplemental invoice for any true up."[3]

Such definitions, too, should have been in place before rollout.

Late Payments

HHSC also may have failed to ensure that it pays Accenture for certain billed services in accordance with Chapter 2251 of the state's "prompt payment law"; the state could owe interest on these items.[4] HHSC documented its approval for $22 million in transition services payments to Accenture on two outstanding invoices dating from September and October 2005. As of August 31, 2006, HHSC still has not submitted these invoices to the Comptroller's office for payment. These two payments were part of six monthly payments for transition services scheduled for payment from August 2005 through January 2006.

The prompt payment law requires state agencies to pay vendors no later than 30 days after the vendor provides a good or service or after the agency receives an invoice, whichever occurs last. The agency must notify the vendor within 21 days of a dispute over the invoice.[5] The Comptroller's office asked for documentation from HHSC to determine if it had disputed the September and October 2005 invoices, and whether Accenture had been appropriately notified of the reason for their being withheld. HHSC provided no documentation despite repeated requests.

The review team asked HHSC why these two approved transition invoices had not been paid. HHSC replied that the invoices were "tied to federal approval," and that the agency was waiting for this approval for various technology changes before it would pay Accenture.[6] The Comptroller team discovered, however, that *FNS has denied approval of the federal share of these transition expenditures three times*. Because HHSC signed its contract with Accenture without prior approval, as required, any expenses HHSC incurred for transition prior to FNS' November 7, 2005 approval are the agency's full responsibility.[7]

HHSC has appealed this decision twice—once in December 2005 and again in March 2006—but FNS denied both requests.[8] Now the state may be liable for interest even if a dispute occurred and as of August 1, 2006, the amount of interest potentially due on these payments was *$1,216,759*.

Endnotes

1 E-mail from Larry Fisher, deputy director of Financial Operations, Health and Human Services Commission, July 12, 2006.

2 E-mail from Larry Fisher.

3 Accenture, "Invoice #1000071260," Austin, Texas, March 8, 2006.

4 Tex. Gov't Code Ann. 2251.021.

5 Tex. Gov't Code Ann. 2251.021.

[6] Meeting with HHSC financial staff, Austin, Texas, June 29, 2006.

[7] Letter from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, November 7, 2005.

[8] Letters from Albert Hawkins, executive commissioner, Health and Human Services Commission, to William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, December 21, 2005 and March 31, 2006; and letters from William Ludwig, regional administrator, U.S. Department of Agriculture, Food and Nutrition Service, to Albert Hawkins, executive commissioner, Health and Human Services Commission, January 4, 2006 and April 27, 2006.

22. HHSC's contract with Accenture was poorly executed and the agency has made limited effort to manage it effectively since its signing.

HHSC's contract with Accenture is lengthy, bureaucratic, vague and difficult to interpret. According to ICN, managing such a contract will be a "difficult and daunting task."[1] It is a task, moreover, for which HHSC has made little effort to date.

Major Contractual Issues

Among the contract's greatest weaknesses is its inadequate focus on performance measurement and accountability. HHSC and Accenture agree in the contract to settle later on important issues such as how KPRs should be measured.[2] Crucial KPRs such as TIERS performance benchmarks were not established before the contract was signed and have been under dispute since.[3]

According to strategic information technology advisors Gordon & Glickson, the single most important factor in a successful outsourcing arrangement is a "tight, rigorous outsourcing agreement."[4] One of the prime factors in creating a tight agreement, in turn, is avoiding "'to-be-determined' issues—do not sign incomplete agreements."[5]

In this contract, however, HHSC "agrees to agree" later on about how key performance requirements will be measured and decided, thus giving Accenture effective veto power over to the agency's own vehicle for ensuring that Accenture performs. The contract's warranty section is extremely limited, and the few warranties listed do not adequately protect the state from risks common to this type of contract. In addition, the agreement lacks sufficient financial and non-financial remedies to provide the vendor with an incentive to comply with its terms and conditions.[6] And, as noted previously, Accenture's payments are based largely on fixed monthly payments rather than specific deliverables or performance standards. In accepting this agreement, HHSC has accepted the financial risk of nonperformance by its vendor. A genuine results or performance-based contract would put this financial risk on the vendor.

Lax monitoring

HHSC is responsible for monitoring Accenture's deliverables and performance, yet this oversight has been lax at best. HHSC hired Science Applications International Corporation (SAIC) to provide an "Independent Verification and Validation" of Accenture's performance. From June 2005 through June 2006, the first year of Accenture's contract, HHSC paid SAIC almost $1 million.[7] SAIC's monitoring reports show repeated warnings and concerns—and no evidence that HHSC was addressing the issues.

Many of the critical requirements for Accenture's performance, as defined by the KPRs, were not decided at implementation, and many remain undefined as of this writing.[8] Since these benchmarks for success or failure were undetermined, HHSC has had no way of objectively gauging the project's progress.

As of May 2006, according to Accenture's self-monitoring reports, the company could be assessed a total of $418,000 in liquidated damages, largely wiped out by $332,000 in earn-backs accrued. The reports, however, are riddled with errors that make it difficult to determine the correct amounts. Even a cursory review of the summary reveals that the year-to-date totals do not calculate accurately from month to month. The summary in the April 2006 report is particularly jumbled and obviously flawed.[9]

Of course, in a sense this is a moot issue. HHSC has not sought any damages or paid any earn-backs to date.

Best practices dictate that the agency should provide real oversight, and the vendor should not have sole discretion over the measurement and reporting of its performance. At the very least, the agency should review the raw data generated by its vendor and verify the calculations.[10]

Conflicts of Interest

Legislators specifically asked the Comptroller's office to find out whether former HHSC senior staff member Greg Phillip's relationships with MAXIMUS and Accenture constitute a conflict of interest. While there have been allegations of unfair competitive advantage for Accenture due to its relationship with Phillips, this review was unable to substantiate or confirm an actual conflict of interest in this situation.

Comptroller staff did attempt to substantiate whether HHSC staff members are actively monitoring or managing any potential contract breaches that could result in a conflict of interest for Accenture, but found no evidence of any monitoring sufficiently robust to identify a conflict of interest should one arise.

There are two additional types of situations that could present potential conflicts of interest for Accenture in its work under the HHSC contract. First, a conflict of interest could arise regarding the administration of Medicaid enrollment brokerage, if Accenture has any direct or indirect financial interest in managed care organizations, as prohibited in federal regulations 42 CFR.438.810(b)(2)(i) and 42 U.S.C.1396b(b)(4) (concerning enrollment broker services). Because Accenture is responsible for enrollment brokerage services for Medicaid, for which it has subcontracted with MAXIMUS, Accenture was required in the RFP to disclose whether it held any direct or indirect financial interest in managed care organizations.

In Accenture's transmittal letter attached to its proposal, the company stated that, although it provides services to such entities, it does not have a direct or indirect financial interest in any of them.[11] It would be prudent for HHSC to determine what services Accenture or its subcontractors provide to managed care entities and to monitor the contract to ensure that no conflict of interest could arise.

Accenture disclosed a second potential conflict of interest in its proposal transmittal letter concerning its subcontract with ACS State Healthcare LLC to execute the Texas Medicaid Claims/Primary Care Case Management Administrative Services contract. In this disclosure, Accenture stated that it does not believe this contractual arrangement constitutes a conflict of interest because none of its fees from the Medicaid contract are influenced by changes in client volumes, which could be affected by Accenture's performance under the IEE contract. Furthermore, in the IEE contract, Accenture agrees to allow liquidated damages to be increased if HHSC determines it has breached its contractual responsibilities in a way that provided it with "unauthorized, improper, illegal or excessive vender financial benefit."[12]

Business Processes

HHSC has not demonstrated the understanding of Accenture's business processes and technology it needs to manage problems as they arise. For example, HHSC staff stated in a May 11, 2006, HHSC Desktop Users Forum that a significant number of clients complained that Accenture had lost their applications. HHSC said that it had reviewed Accenture's mailroom and mail handling processes and determined that no applications were being lost. Weeks later, HHSC admitted the applications were in fact lost between the TIERS and MAXe systems. The documents had been received in Accenture's mailroom, but their electronic images either were placed in the wrong system or were attached to the wrong client records. Accenture's call-center agents told such clients that their applications had been lost.[13]

Similarly, in July 26, 2006 testimony before the House Committee on Government Reform Hearing, HHSC stated that it had performed an exhaustive study of the mail vendor, in response to client complaints about enrollment packets not received, and determined the packets delivered to the mail vendor were in fact put in the mail. Therefore, the agency assumed that the clients were mistaken. HHSC did not, however, examine Accenture's eligibility and enrollment systems to ensure that they were indeed generating enrollment documents appropriately.

In this testimony, HHSC stated that it had no evidence that *any* of the more than 3 million calls made to the call center had been handled incorrectly. Yet it also admitted, in the same hearing, that Accenture's call center employees should be retrained because they were providing clients with inaccurate information.[14]

HHSC cannot control what it does not understand. It is a mistake to assume HHSC program employees can manage an outsourcing agreement with the same knowledge, skills and abilities they use to manage in-house eligibility determination programs.

The End Result

Successful outsourcing relies on two things: well-written contracts that base payment on the contractor's good performance, and strong contract management practices to oversee the contractor's work. The Accenture arrangement has neither of these. HHSC's lack of proper contracting practices has led directly to project delays, cost overruns and failed service to Texans.

Endnotes

[1] Texas Comptroller of Public Accounts, *Document Assessment Report*, by International Computer Negotiations, Inc. (Austin, Texas, July 7, 2006), p. 5. (Consultant's report.)

[2] Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture LLP* (Austin, Texas, June 29, 2005), Schedule 3, p. 19.

[3] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, January through May 2006).

[4] Gordon & Glickson, *Information Technology Outsourcing, Second Edition: A Handbook for Government*, 2005, pp. 18-19.

[5] Mary C. Lacity and Rudy Hirschheim, "The Information Systems Outsourcing Bandwagon," Sloan Management Review, Fall 1993; Mary C. Lacity, Leslie P. Willcocks, and David F. Feeny, "IT Outsourcing: Maximize Flexibility and Control," Harvard Business Review, May-June 1995.

[6] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 6.

[7] Comptroller payments to SAIC from June 2005 through June 2006 totaled $941,767.41.

[8] Health and Human Services Commission, *Integrated Eligibility and Enrollment Services Agreement between Health and Human Services and Accenture LLP* (Austin, Texas, June 29, 2005), Schedule 3.

[9] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, May 19, 2006), pp. 29-36.

[10] Texas Comptroller of Public Accounts, *Document Assessment Report*, p. 43.

[11] Letter from Douglas Doerr, partner, Accenture LLP, to Carol Kelly, assistant procurement manager, Health and Human Services Commission, September 30, 2004.

[12] Health and Human Services Commission, *IEES Agreement between HHSC and Accenture LLP*, p.173.

[13] Letter from Albert Hawkins, executive commissioner, Health and Human Services Commission, to Texas State Senator Leticia Van de Putte, Austin, Texas, March 30, 2006.

[14] Testimony of Albert Hawkins, executive commissioner, Health and Human Services Commission before the Texas House of Representatives, House Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&cmte=285. (Last visited August 8, 2006.)

23. Since the beginning of HHSC's contract with Accenture, thousands of Texas children have lost their health insurance coverage.

Since Accenture began operations on December 1, 2005, the total number of children enrolled in CHIP and children's Medicaid has fallen by 3.8 percent. This decline translates into *nearly 81,500 children* who have lost public insurance from December 1, 2005 to August 1, 2006. The decline was much more drastic from December 1, 2005 to June 1, 2006. During this six-month period, the CHIP and children's Medicaid rolls fell by 5 percent. Nearly *109,000 children* lost their insurance benefits.

The tide turned in June 2006, after HHSC began a public awareness marketing campaign and conducted town hall meetings to get the CHIP and children's Medicaid programs back on track. Further improvement most likely resulted from HHSC's significant changes to CHIP and children's Medicaid eligibility determination procedures and from HHSC's decision to transfer some of the workload back to the state staff, giving Accenture time to work through its large backlog of children's Medicaid applications and renewals. The effects could be seen in July and August, when children's Medicaid enrollment increased by 25,000 and the CHIP caseload plunge began to level out.

Plunging Enrollment

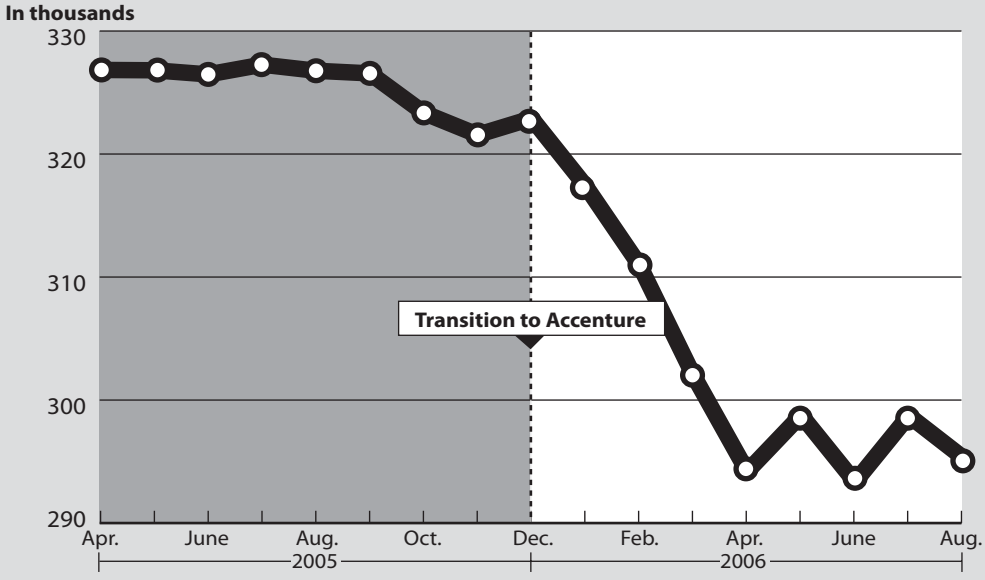
Texas CHIP enrollment has been declining for several years, but plunged after Accenture began processing statewide CHIP applications and renewals on December 1, 2005 (**Exhibit 15**).

From December 2005 to August 2006, statewide CHIP enrollment fell by 27,567 children or 8.5 percent. This is the largest eight-month caseload drop since a 9.1 percent decline from August 2004 to April 2005, when program enrollment was still feeling the after-effects of tighter eligibility guidelines and reduced benefits imposed by the 2003 Legislature.[1] By contrast, during the eight months from April 2005 to December 2005, Texas CHIP enrollment fell by only 1.2 percent (**Exhibit 16**).

Recent CHIP caseload losses largely are due to a significant increase in the number of recipients leaving the program—"disenrollment." Historically, total CHIP enrollment levels stabilize when new enrollment is proportionate to disenrollment.

EXHIBIT 15

Texas CHIP Caseload



Source: Health and Human Services Commission.

Between December 2005 and August 2006, 202,409 children were disenrolled from CHIP (**Exhibit 16**). This was a 26.9 percent increase over the previous eight-month disenrollment figure of 159,487 children.

Most of the disenrollments from December 2005 through August 2006 were due to *a more than 75 percent increase in nonrenewals*—children who were not reenrolled in the program because their applications were not returned or were deemed to have missing information. This event was unprecedented in the CHIP program.

Twenty-seven major changes were made to the CHIP rules at the same time the vendor and underlying technology were changing. These factors introduced new levels of complexity in the CHIP application and renewal processes and created confusion for current participants and new applicants. Parents attempting to renew their children's CHIP coverage found themselves being disenrolled for failure to provide income data and information that had not been required before. When Accenture took over the CHIP program, disenrollments due to missing information instantly became much more significant than the voluntary disenrollment rate (**Exhibit 17**). Participants were being disenrolled through no fault of their own, but as a result of Accenture's staff and systems mistakes. Interviews and correspondence with HHSC clients and staff, community organizations, legislators and advocacy groups confirmed these findings, and the inadequate and poorly trained Accenture staff exacerbated the situation.

The results on CHIP caseloads were dramatic. Before Accenture took over the CHIP program, 83 percent of current participants attempted renewal. After the transition to Accenture, only 61 percent of current CHIP participants attempted to re-enroll.

New enrollments between December 1, 2005 and August 1, 2006 totaled 178,574, 14.8 percent more than the previous eight-month enrollment of 155,617. However, while new enrollment increased by 22,957, disenrollment also increased by 42,922. Therefore, for every additional child enrolled, two were losing coverage (**Exhibit 16**).

Exhibit 16

Texas CHIP Enrollment, New Enrollment and Disenrollment
April 2005 to August 2006

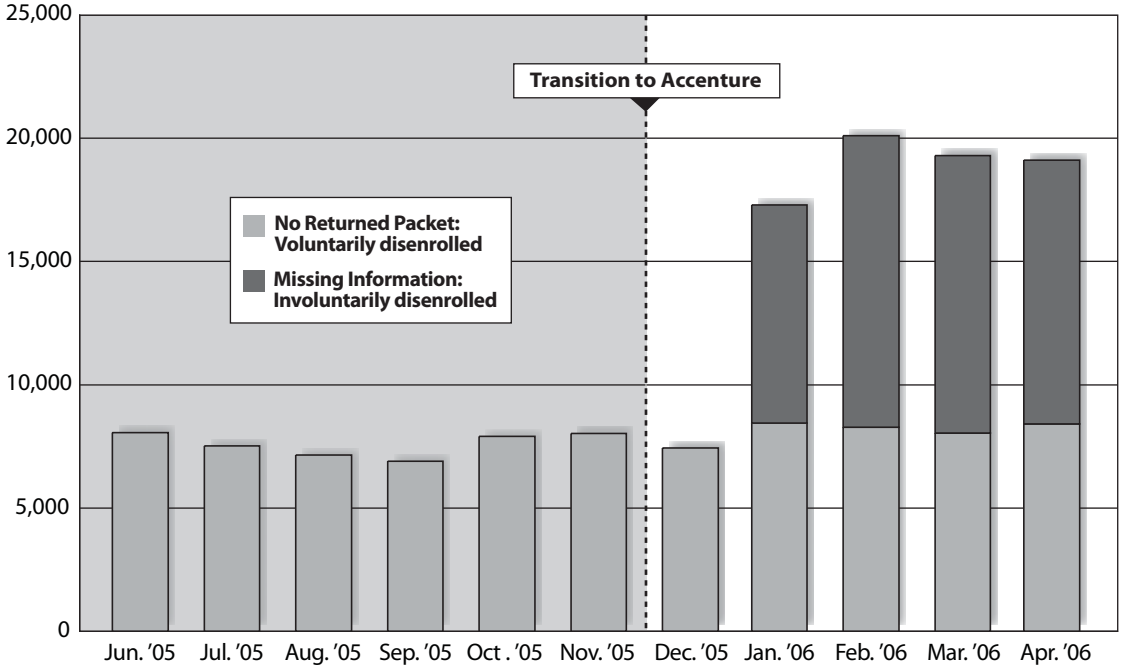
	April 2005 – December 2005	December 2005 – August 2006*	Difference	% Difference
CHIP Recipients	-3,938	-27,567	-23,629	
% Change	-1.2%	-8.5%	-7.3%	
New Enrollment	155,617	178,574	22,957	14.8%
Disenrollment	159,487	202,409	42,922	26.9%
Non-Renewals	61,066	109,190	48,124	78.8%
Ineligible for Renewal	51,645	64,356	12,711	24.6%
Other Disenrollment	46,776	28,863	-17,913	-38.3%
Renewals	296,553	165,296	-131,257	-44.3%
Performance Rates				
New Enrollment	6.0%	7.4%	1.4%	
Disenrollment	6.1%	8.4%	2.3%	
Attempted Renewal	85.1%	68.2%	-16.9%	
Actual Renewal	82.9%	61.2%	-21.7%	
Ineligible for Renewal	14.8%	27.3%	12.5%	

Source: Health and Human Services Commission

EXHIBIT 17

Disenrollment: Non-Renewals

January to March missing information numbers were extrapolated from the CHIP disenrollment statistics for April 2006, provided by Albert Hawkins to the members of the House Committee on Appropriations on April 21, 2006.



Note: Missing information only became a significant factor for failure to re-enroll after transition.
Source: Health and Human Services Commission.

The new enrollment total is complicated, however, by the fact that it includes an inherited workload of 56,000 applications that Accenture's subcontractor, MAXIMUS, received from Affiliated Computer Systems, the previous CHIP contractor.[2] Another factor affecting the numbers is that Accenture now counts *previously enrolled* CHIP participants who are disenrolled due to missing information and then reinstated as "new enrollments." A more appropriate way to identify this group would be to categorize them as "re-instated" or to count them as renewals. Both of these factors have inflated the new enrollment numbers.

One could debate which factor has had the greatest impact on new enrollments and declining CHIP caseloads, but since HHSC does not track enrollment activities adequately, the reality is that neither the Comptroller's review team nor the agency itself can know. It is apparent, however, that recent CHIP caseload losses are due largely to a significant increase in non-renewals and a decline in actual new enrollment.

Endnotes

[1] Changes imposed by H.B. 2292, 2003 Legislature affecting CHIP enrollment included: 1) imposing an assets test for families at or above 150 percent of poverty; 2) eliminating income disregards for child support payments and child care costs; 3) establishing a 90-day waiting period for program enrollment; 4) reducing the period of continuous eligibility for existing CHIP families from 12 to six months; and 5) increasing CHIP premiums and cost-sharing requirements. See Center for Public Policy Priorities, "Legislature's CHIP Policy Changes Have Already Reduced Children Covered by 49,000" Austin, Texas, November 9, 2003, http://www.cppp.org/research.php?aid=42&cid=3&scid=4. (Last visited August 18, 2006.)

[2] Interview with Texas Access Alliance and Health and Human Services Commission staff, Austin, Texas, June 7, 2006.

24. In the past, Children's Medicaid may have come to the aid of some children who lost CHIP coverage, but now its enrollment is falling as well.

From September 2003 to May 2005, statewide CHIP enrollment dropped by 180,450, while enrollment in children's Medicaid *rose* by 175,840. This helps to substantiate claims that children's Medicaid generally picks up the children leaving the CHIP program. Since Accenture started running the CHIP program in December 2005, however, *both* the CHIP and children's Medicaid rolls have been declining.

From December 1, 2005 through August 1, 2006, Texas' number of CHIP recipients fell by 8.5 percent or 27,567 children, while enrollment in the children's Medicaid program declined by 2.9 percent or 53,937 children (**Exhibit 18**).

Exhibit 18

Comparison of Changes in Texas CHIP vs. Children's Medicaid Enrollment December 2005 to August 2006

Program	Dec-05	Aug-06	Change	% Change
Children's Health Insurance	322,898	295,331	-27,567	-8.5%
Children's Medicaid	1,838,239	1,784,302	-53,937	-2.9%
Combined Children's Programs	2,161,137	2,079,633	-81,504	-3.8%

Source: Health and Human Services Commission.

The numbers were much worse before HHSC's outreach effort and Accenture's backlog cleanup took effect. From December 1, 2005 through June 1, 2006, CHIP rolls fell by 9.2 percent, while children's Medicaid enrollment declined by 4.3 percent. According to HHSC, in the past six months, about half of all children who completed the renewal process but were no longer eligible for CHIP had family incomes low enough to qualify for Medicaid.[1]

Accenture does not track the number of CHIP recipients moving from CHIP to children's Medicaid on a monthly basis. HHSC cannot, therefore, know whether children denied CHIP but eligible for children's Medicaid actually *receive* Medicaid coverage. HHSC could not provide any data to support its assumption that the children falling off of CHIP were moving into children's Medicaid. The fact that the children's Medicaid and CHIP rolls are falling concurrently argues against the agency's claims that Medicaid has come to the rescue of the thousands of children disenrolled by CHIP since Accenture took over.

Endnote

[1] Health and Human Services Commission, "House Government Reform Committee Hearing," Austin, Texas, July 26, 2006, p. 24. (Presentation report.)

25. Sweeping changes to CHIP policies and procedures contributed to the fall in enrollment.

HHSC published new CHIP rules on December 23, 2005.[1] These rules contained 27 major changes that effectively reduced CHIP eligibility, imposed new fees and increased administrative and paperwork burdens on CHIP applicants. The multiple policy and procedural changes HHSC imposed on CHIP during the transition to the new system had a significant impact on its caseloads, adding to the troubles caused by vendor and system problems.

Elimination of the "EZ" Form

In the six months prior to Accenture assuming CHIP operations, from July to December 2005, 14.2 to 15.6 percent of all CHIP clients who completed the renewal process were declared ineligible for continued benefits. In 2006, this figure began to climb sharply, ranging as high as 36.3 percent in May (**Exhibit 19**).

Exhibit 19

Share of Renewals Deemed Ineligible for Continued Benefits July 2005 – Jun 2006

Month/Year	Ineligible Renewal Share*
Jul-05	15.6%
Aug-05	14.6%
Sep-05	14.3%
Oct-05	16.0%
Nov-05	14.2%
Dec-05	14.2%
Jan-06	6.2%
Feb-06	14.8%
Mar-06	34.7%
Apr-06	32.9%
May-06	36.3%
Jun-06	28.8%

*(Ineligible Renewals)/(Ineligible Renewals + Renewals)
Source: Health and Human Services Commission.

According to HHSC figures for April 2006, 56 percent of the children disenrolled from CHIP for failure to re-enroll submitted renewal packages with missing information; the remaining 44 percent did not return a renewal packet.[2]

While HHSC is still compiling data for earlier and later months, conversations with HHSC staff indicate that, before Accenture began operating the system, the share of renewal packets submitted with "missing information" was relatively low. Based on HHSC's previous experience and feedback from clients and community-based organizations, it appears that much of the drop in renewals during Accenture's tenure can be traced to missing information.

The elimination of the EZ form meant that CHIP members no longer had an easy way to renew their coverage. In addition, the EZ form allowed members to request information on other health plans, but otherwise allowed them to be automatically continued in the same plan.

This process changed when Accenture replaced the previous CHIP vendor. Members in areas with more than one health plan began receiving enrollment packets with a renewal application at every other six-month renewal period.[3]

These packets included a health plan enrollment form, a comparison of health plans and provider directories. The cover letter stated that members who want to change health plans should fill out and return the enrollment form—thereby giving the impression that enrollment in the same plan would continue if the form was not returned.

HHSC has stated that it did not require CHIP members to return the form to stay enrolled, and that it ceased sending the enrollment packets to members at every other six-month renewal period in May 2006.[4] The data, however, indicate that some aspects of this change caused significant disruptions, either by generating system errors or by prompting confusion among members. For whatever reason, the transition to Accenture caused *significant enrollment declines* in areas in which members have a choice of health plan.

CHIP service areas (CSAs) with more than one HMO experienced over 85 percent of the net enrollment decline from December 2005 to August 2006, even though they accounted for just 56.2 percent of all enrollments in December 2005 (**Exhibit 20**). From April 2005 to December 2005, enrollment in areas with two health plans fell by just 1.3 percent, and in the Houston area's Harris CSA, the only area with three health plans, enrollment actually rose by 0.6 percent (**Exhibit 21**).

This link between declining CHIP caseloads and the presence of multiple HMOs makes it apparent that a major factor driving declining enrollment since December 2005 has to do with procedural changes involving plan selection for renewing members. Beginning in September 2006, new HMOs are being introduced into several CHIP service areas. The Nueces, Tarrant and Travis CSAs, which previously offered only one HMO, will offer two or more. Bexar and Dallas will offer three plans and Harris CSA will offer five plans.[5] Given the recent history of areas with more than one plan, the addition of new plans is quite likely to result in additional declines in enrollment.

Exhibit 20

CHIP Enrollment by Number of Health Plans December 2005 – August 2006

Plan Enrollment	Dec 2005 Enrollment	Aug 2006 Enrollment	Net Loss	Percent Change
One Health Plan	141,319	138,277	-3,042	-2.2%
Two Health Plans	87,813	76,955	-10,858	-12.4%
Three Health Plans*	93,766	80,099	-13,667	-14.6%
Total	**322,898**	**295,331**	**-27,567**	**-8.5%**

*The only CSA with three health plans is the Harris CSA.
Note: Driscoll Health Plan in the Webb CSA was discontinued January 2006; Webb CSA is treated for this analysis as having one health plan.
Sources: Health and Human Services Commission and Texas Comptroller of Public Accounts.

Exhibit 21

CHIP Enrollment by Number of Health Plans April 2005 – December 2005

Plan Enrollment	Apr 2005 Enrollment	Dec 2005 Enrollment	Change	Percent Change
One Health Plan	144,648	141,319	-3,329	-2.3%
Two Health Plans	88,956	87,813	-1,143	-1.3%
Three Health Plans*	93,232	93,766	534	0.6%
Total	**326,836**	**322,898**	**-3,938**	**-1.2%**

*The only CSA with three health plans is the Harris CSA.
Note: Driscoll Health Plan in the Webb CSA was discontinued January 2006; Webb CSA is treated for this analysis as having one health plan.
Sources: Health and Human Services Commission and Texas Comptroller of Public Accounts.

Policies May Conflict with State Law

Some of HHSC's policies regarding CHIP and children's Medicaid applications may be in conflict with state law. HHSC now requires CHIP and Medicaid families to verify their income level at the time they renew their eligibility, with documents that validate family income.

In 2005, HHSC changed these CHIP application policies to match Medicaid's policies for children, even though Medicaid generally has more stringent eligibility provisions. HHSC cites the CHIP statute, Chapter 62 of the Health and Safety Code, as the basis for making these changes.[6] The statute reads:

> Sec. 62.103. APPLICATION FORM AND PROCEDURES. (a) The commission, or the Texas Department of Human Services at the direction of and in consultation with the commission, shall adopt an application form and application procedures for requesting child health plan coverage under this chapter. (b) The form and procedures must be coordinated with forms and procedures under the Medicaid program to ensure that there is a single consolidated application to seek assistance under this chapter or the Medicaid program.

This provision was implemented when CHIP was first created in 1999. The Texas Legislature's goal was to allow the CHIP program to be more flexible than Children's Medicaid, while still able to coordinate with that program. The Texas Legislature specifically rejected an option offered under federal law to implement CHIP by making it part of the Medicaid program, with all the procedures and rules required by Medicaid. Instead, the Legislature decided to make CHIP a separate program, with different, more flexible rules, eligibility and procedures.[7]

Later, the Texas Legislature in 2001 instructed HHSC to harmonize the Medicaid enrollment process with CHIP, and for the process to be no more stringent than what was in place for CHIP on January 1, 2001—that is, the relatively lenient rules introduced in 1999. Part of S.B. 43, 77th Texas Legislature, Regular Session, 2001 – the "Medicaid simplification" bill – remains in effect today. Section 32.026, Human Resources Code reads:

> Sec. 32.026. CERTIFICATION OF ELIGIBILITY AND NEED FOR MEDICAL ASSISTANCE. (d) In adopting rules under this section, the department shall ensure, to the extent allowed by federal law, that documentation and verification procedures used in determining and certifying the eligibility and need for medical assistance of a child under 19 years of age, including the documentation and verification procedures used to evaluate the assets and resources of the child, the child's parents, or the child's other caretaker for that purpose, are the same as the documentation and verification procedures used to determine and certify a child's eligibility for coverage under Chapter 62, Health and Safety Code, except that *the documentation and verification procedures adopted in accordance with this subsection may not be more stringent than the documentation and verification procedures existing on January 1, 2001, for determination and certification of a child's eligibility for coverage under Chapter 62, Health and Safety Code.* (Emphasis added.)[8]

Yet, in apparent conflict with this law, HHSC adopted more stringent Medicaid income verification procedures in 2003, and then, in 2005, changed CHIP procedures to match the more stringent Medicaid ones.[9]

HHSC, moreover, adopted income verification changes for Medicaid, without enacting state rules, which appears to contradict state law requirements. The changes were put into effect by policy and practice, but not through the official state rule-making process with its accompanying opportunities for public input. HHSC asserts that verification and documentation processes are not included in rules, and no rules to implement these changes were adopted.[10] **Appendix 9** contains a timeline of CHIP policy changes.

Section 32.026 of the Human Resources Code clearly states: "Sec. 32.026. CERTIFICATION OF ELIGIBILITY AND NEED FOR MEDICAL ASSISTANCE. (a) The department shall promulgate rules for determining and certifying a person's eligibility and need for medical assistance."

Additional Paperwork

One of the 2005 rule changes requires CHIP applicants to submit additional proof of age for their children. Still another requires proof of the child's U.S. citizenship and Texas residency.[11] HHSC's new policies also require CHIP renewals to be accompanied by documents that validate family income.

But HHSC also deleted a provision allowing a copy of a divorce decree to provide sufficient proof of child support payments.[12] The Comptroller's office heard from one CHIP applicant who was required to ask for a letter from her ex-husband to document the amount of child support she received. Accenture ruled that the divorce decree was insufficient documentation.[13]

Restricting Eligibility

Another of the recent changes affected the definition of family members in determining CHIP eligibility.[14] Families who have a child older than 18 living at home and attending school can no longer count that child as a member of the family for the purposes of CHIP eligibility, meaning that such families now must have a lower income to continue qualifying for CHIP.

A family of four with one child over 18 attending school and living at home, for instance, would have its CHIP income threshold reduced from $40,000 to $33,200 by this policy change (**Exhibit 22**). Advocacy groups told the review team that this rule change might have knocked many families off the CHIP rolls when they tried to renew their eligibility.[15]

Another change that affected the income threshold and contributed to disenrollments was an HHSC decision to include interest income as a part of unearned income in calculating CHIP eligibility.[16] Still another change was required by 2003's H.B. 2292 but was implemented by HHSC during the most recent round of changes in 2005.[17] This rule eliminated the deduction for business expenses from self-employment income.[18] This makes it extremely difficult for small business owners, who often have problems affording insurance, to qualify for CHIP coverage for their children.

For instance, if a small business owner receives $50,000 in gross receipts, but has business expenses of $20,000, his or her actual income would only be $30,000. Under the old rules, this person would qualify for CHIP. Under the new policy, however, the owner could not claim the business expenses, and the $50,000 in gross receipts would disqualify him or her from CHIP.

Fee Increases

When the CHIP program first began, participant families were asked to pay a small monthly premium. The 2003 Legislature, however, raised this premium to the maximum allowable under federal law, ranging from zero to $25 per month according to income level. HHSC found that, after the increase, children started falling off the CHIP rolls, and so stopped collecting the premium in November 2004.[19]

In January 2006, HHSC, under legislative direction, reintroduced CHIP fees, this time in the form of an enrollment fee levied at initial enrollment and upon renewal. The new fee also varies by income level, ranging from zero to $50 for each six-month coverage period.[20] The new fee had its first big impact on March renewals. In

Exhibit 22

Current Income Guidelines for CHIP

Family Members	Annual Family Income
1	$19,600
2	$26,400
3	$33,200
4	$40,000
5	$46,800
6	$53,600
7	$60,400
8	$67,200

Source: Health and Human Services Commission, July 2006.

April, of 6,763 children leaving CHIP for reasons other than non-renewal and ineligibility, two-thirds, or 4,407, were taken off the rolls for failure to pay this fee.[21]

In response to the surge in disenrollment, in late April HHSC extended CHIP coverage for families who needed more time to pay the fee or provide additional income information; this extension gave them 30 additional days to pay the fee.[22] The impact of this action was immediate. The number of children disenrolled from CHIP for failure to meet cost-sharing obligations dropped from 4,407 in April to fewer than 267 children in May.[23]

As of this writing, HHSC has not announced a rule change to adjust the timeline for the enrollment fee. It is, therefore, uncertain if the 30-day extension is temporary or permanent.

Tighter Timelines

HHSC's 2005 changes to timelines in the CHIP application and renewal processes make it more difficult for families to complete them. These changes reduced the time allowed for CHIP applicants to provide additional information (from 90 to 60 days), while *increasing* the time allowed for Accenture to determine CHIP eligibility (from 30 to 45 days).[24] *The timing change benefits the vendor, and not the children.*

In July 26, 2006 testimony before the House Committee on Government Reform, Barbara Best, executive director of the Children Defense Fund, stated that:

> "We should work to make this contractor meet the enrollment standards of the old contractor because the system worked well and families learned within three weeks whether or not their children were eligible and now it is taking five or six months to complete the process."

Furthermore, the 45-day time frame conflicts with Chapter 62 of the Health and Safety Code, Subsection 62.104 (f), which states:

> (f) A determination of whether a child is eligible for child health plan coverage under the program and the enrollment of an eligible child with a health plan provider must be completed, and information on the family's available choice of health plan providers must be provided, in a timely manner, as determined by the commission. *The commission must require that the determination be made and the information be provided not later than the 30th day after the date a complete application is submitted on behalf of the child*, unless the child is referred for Medicaid application under this section.[25] [emphasis added]

The tighter timelines for CHIP applicants are made more burdensome by the fact that Accenture's system often generates late correspondence. Numerous CHIP families reported that they received letters stating deadlines for the submission of information either *after* the deadline or so close to it that it proved impossible to respond in time.

One San Antonio family, for instance, was honored in early May for maintaining their CHIP eligibility for more than six years. The breakfast for Tim and Judy Zulewski was held on a Friday; on the same day, they received a letter from Accenture stating that their CHIP coverage for their two children would expire on that *Sunday* unless they could show proof of income and appeal the decision. In other words, they were given three days, two of them on a weekend, to save their children's coverage. Luckily for the family, state officials intervened to prevent their benefits from being stopped.[26]

Legislative Intent

It is important to note that HHSC embarked upon these multiple changes in policy and procedures largely on its own initiative. The Texas Legislature required only a few policy changes, and HHSC has not implemented one of the new programs created by the Legislature.

Small Business Owners have Kids, Too

On July 26, 2006, Angie Lane, a mother of three, testified before the Texas House of Representatives' Committee on Government Reform about how hard it is for self-employed business owners to obtain health insurance coverage for their children. For many owners, insurance is unaffordable even for their own families. "Because you're self-employed, [insurance] is twice as high because you're not [in] a big group. And you're stuck with preexisting [conditions]. You're in a Catch-22."

Her children have been bounced between Medicaid and CHIP, and ended up without health care coverage. She testified that it would cost her $2000 out of pocket to pay for three months' worth of medications her sons need. "We don't have insurance, but we want our kids to.... Basically, the only thing I want for my kids is insurance. Period. Tell me what I need to do and where I need to be."

The 2005 Legislature took a number of actions to restore cuts in CHIP benefits and eligibility. These changes included replacing the CHIP monthly premium with an enrollment fee; establishing a new CHIP program with 12-month eligibility for pregnant women and newborn children; and restoring dental, vision, mental health and hospice benefits for CHIP clients.[27] To date, however, HHSC has not yet implemented the 12-month eligibility program for pregnant women and newborns, and did not restore the CHIP dental benefits until April 1, 2006.[28] **Appendix 9** contains a timeline of changes to CHIP eligibility, procedures and contractor requirements.

Complexity and Confusion

The changes discussed in this chapter introduced a new level of complexity in the CHIP application and renewal processes, and created confusion for clients without preparing them for the new demands. Clients and community organizations alike were unaware and uninformed of HHSC's multiple changes that included 27 major changes to existing policy and their implications for clients. Only two policy changes were legislative directives. Because many of the policies were implemented concurrently, it is impossible to determine which policy change has had the biggest effect on children's lost coverage.

These problems could have been reduced if HHSC had worked closely with community organizations to ensure their understanding of all of the policy changes; published the rules with more lead time and not during the holiday season; given Accenture time to stabilize CHIP operations before implementing major policy changes; and followed the public rulemaking process.

Some of these policy changes will reduce the number of children eligible for CHIP and children's Medicaid. Identifying ineligible recipients is simply prudent, of course, but denying children *who* are eligible, even according to these new, stricter policies, is not.

HHSC usually does not know of a specific problem with Accenture's performance until someone complains. Even so, HHSC testified in July at the House Committee on Government Reform hearing that it is aware that children were denied health insurance due to Accenture's mistakes and the numerous policy changes the agency instituted. Correcting these mistakes, however, will take weeks or months. In the meantime, numerous families still find themselves without the healthcare coverage they need.

Endnotes

[1] 30 Tex. Reg. 6526-6541, October 14, 2005, and 30 Tex. Reg. 8666-8674, December 23, 2005.

[2] Memorandum from Albert Hawkins, executive commissioner, Health and Human Services Commission, to the House Appropriations Committee, Subcommittee on Health and Human Services, April 21, 2006, p. 5.

[3] Texas Access Alliance, *Integrated Eligibility and Enrollment Services CHIP and Children's Medicaid Policies, Procedures and Business Rules* (June 20, 2006), pp. 101-102.

[4] Interview with Aurora LaBrun, deputy commissioner, Health and Human Services Commission, August 30, 2006.

[5] Health and Human Services Commission, "CHIP Health Plans—Core Service Areas and Optional Counties Served, Effective September 1, 2006," Austin, Texas, http://www.hhsc.state.tx.us/chip/CHIP_HMOs_by_County_Cov_090106.pdf; and "CHIP Health Plans—Core Service Areas and Optional Counties Served, Effective until August 31, 2005," Austin, Texas, http://www.hhsc.state.tx.us/chip/CHIP_HMOs_by_County_of_Coverage_until_083106.pdf. (Last visited August 22, 2006.)

[6] Memorandum from Albert Hawkins to the House Appropriations Committee, Attachment C.

[7] Senate Interim Committee on Children's Health Insurance, Report to the Seventy-Sixth Texas Legislature, December 1, 1998, pp. 8-9.

[8] Tex. Hum. Res. Code Ann. Title 2, §32.

[9] Memorandum from Albert Hawkins to the House Appropriations Committee, Attachment C.

[10] E-mail from HHSC staff, August 9, 2006.

[11] Texas Access Alliance, *IEES CHIP and Children's Medicaid Policies, Procedures and Business Rules*, pp. 101-102.

[12] 30 Tex. Reg. 6526-6541, October 14, 2005.

[13] Children's Defense Fund of Texas, " Case study: Abigail Espinosa, Mission, Texas, Ten Year Old Girl with Rapidly Progressing Scoliosis," Austin, Texas, June 2006.

[14] 1 Tex. Admin. Code §370.4.

[15] Children's Defense Fund, "The Children's Health Insurance Program," July 25, 2006. (Informational pamphlet.)

[16] 1 Tex. Admin. Code §370.44.

[17] 28 Tex. Reg. 4748-4757, June 27, 2003; and 28 Tex. Reg. 7337-7343, August 29, 2003.

[18] Tex. Health & Safety Code Ann. Title 2, §62.002.

[19] Health and Human Services Commission, "CHIP Cost Sharing," http://www.hhsc.state.tx.us/News/post78/CHIP_CostSharingTable.html. (Last visited August 17, 2006.)

[20] Health and Human Services Commission, "CHIP Cost Sharing," http://www.hhsc.state.tx.us/medicaid/UMCM/Chp6/6.3.pdf. (Last visited August 17, 2006.)

[21] Health and Human Services Commission, "Caseload Analysis of CHIP 0706," Austin, Texas, July 2006. (Computer printout.)

[22] Health and Human Services Commission, "State Gives CHIP Families More Time to Submit Fee, Information," June 2, 2006 (News release.)

[23] Health and Human Services Commission, "Caseload Analysis of CHIP 0706."

[24] 1 Tex. Admin. Code §370.25.

[25] Tex. Health & Safety Code Ann. Title 2, §62.104 (f).

[26] Nicole Foy, "Insurance Problems Hit Home for Family," *San Antonio Express-News* (May 4, 2006.)

[27] Legislative Budget Board, *Summary of Conference Committee Report on Senate Bill 1 for the 2006-2007 Biennium* (Austin, Texas, May 2005), p. 39; and Tex. S.B. 1, 79th Leg., Reg. Sess. (2001), p. II-87.

[28] Health and Human Services Commission, "Children's Health Insurance Program Dental Benefits," http://www.hhsc.state.tx.us/chip/chip_dental.htm (Last visited August 21, 2006.)

[29] Health and Human Services Commission, *New Eligibility System* (Austin, Texas, March 24, 2006), p. 5; and Health and Human Services Commission, *Presentation to the House Appropriations Subcommittee on Health and Human Services: Medicaid and CHIP Caseloads* (Austin, Texas, April 17, 2006), p. 13.

26. Some of HHSC's most significant changes to its policy and application procedures have circumvented the state's normal rulemaking process.

Background

Some of HHSC's most significant recent changes to its policies and application procedures have circumvented the state's normal rulemaking process. These changes include the elimination of the EZ form, and the accompanying requirement that CHIP applicants submit documents validating family income on renewals; as well as the addition of new data broker checks—that is, a check of income and other information conducted daily by an independent firm contracting directly with HHSC—on all new CHIP applications and renewals.[1]

Adopting these measures outside of the state rule-making process allowed HHSC to bypass any public comment—comment that would have allowed advocacy groups and other stakeholders to identify the problems that could, and *did*, affect the client population.

Screening CHIP for Children's Medicaid

Along with these policy changes, HHSC also changed the process for determining CHIP and children's Medicaid eligibility. This modification caused more children to be dropped from CHIP rolls or to be turned down for CHIP insurance.

Prior to the 2005 changes, HHSC instructed the previous CHIP vendor to screen a family's income and assets first, to determine whether the application should be processed for CHIP or sent to state eligibility workers as an application for children's Medicaid.

Starting in January 2006, HHSC instructed Accenture to first determine if the child was eligible for Medicaid. The net effect of this apparently simple change was that families applying for CHIP were asked to provide documents needed for children's Medicaid, but not needed for CHIP. If they failed to provide the documents, their application for health insurance, whether from CHIP or children's Medicaid, was denied.

This screening change was outlined in official state rules, and included in the contractor's CHIP business rules. HHSC, however, told the Comptroller review team that this process has been reversed. HHSC said it had instructed the contractor in May 2006 to return to the earlier, simpler CHIP process, in which applicants were asked to provide only those documents needed to determine CHIP eligibility.

HHSC has failed to provide any written documentation of the reversal. According to the agency, the CHIP business rules earlier provided to the Comptroller's office were "draft" rules and, once again, no new state rules have been proposed to alter the rules that went into effect January 1, 2006.[2]

These events highlight two significant issues:

- Problems arise when HHSC institutes major policy or procedural changes without properly publishing new rules in the *Texas Register*. The Legislature and other stakeholders cannot determine actual agency practice without official documentation. Moreover, the public, CHIP families and community advocates cannot have meaningful input into these decisions. This practice circumvents Texas' policy of "government in the sunshine," and allows state agencies to operate independently of legislative and public oversight.

- When changes to policy and procedures are not properly executed, children and their families suffer. Although HHSC reversed its procedures, the current official state rules still require that families provide documentation for children's Medicaid as well as for CHIP. At some point, HHSC may decide to reintroduce the previous process, and CHIP families will once again be denied health care coverage unnecessarily.

Endnotes

[1] Health and Human Services Commission, *New Eligibility System* (Austin, Texas, March 24, 2006), p. 5; and Health and Human Services Commission, *Presentation to the House Appropriations Subcommittee on Health and Human Services: Medicaid and CHIP Caseloads* (Austin, Texas, April 17, 2006), p. 13.

[2] Interview with Aurora LeBrun, associate commissioner, Office of Eligibility Services, Health and Human Services, August 30, 2006.

27. HHSC does not track or enforce Accenture's timeliness and accuracy in processing CHIP eligibility applications, renewals and appeals.

A common complaint among CHIP clients is that Accenture is taking months to process applications, as compared to the prior contractor's usual three weeks or less.[1] Some clients have complained that they never received any answer from Accenture at all, until their pediatricians told them that their children had lost CHIP coverage. And an increasing number of clients have found that their applications have been processed incorrectly.

A review of the KPRs intended to monitor the quality and timeliness of the CHIP application, renewal and appeal processes indicates that HHSC has not required Accenture to meet any meaningful quality standards at all. **Appendix 10** identifies all eight key performance requirements intended to measure Accenture's quality and timeliness for CHIP eligibility. Of these eight, only three are being measured and monitored, and none of their performance standards are being met.[2]

As of April 2006, in the most recent report HHSC provided to the Comptroller, the status of the eight applicable measures is as follows:

- **CHIP Error Rate: Prevent or minimize dual enrollment with Medicaid.**

  Accenture reports the performance threshold of this requirement "to be determined." Accenture states "TAA will request a meeting with the State to identify and agree upon a performance standard for evaluating CHIP error rate."

- **Standards for processing applications, renewals and letters.**

  Accenture reports that this standard is inactive, noting the "intent of this KPR is under review. Measurement is to be determined."

- **Monthly Quality Audits.**

  Accenture makes monthly reports on its "quality audits," but these reports measure process details such as the accuracy of data entry, not the timeliness and accuracy of CHIP application processing as a whole. In addition, the only requirement for Accenture under this KPR is to deliver the reports on time.

- **CHIP eligibility determination to be made within 50 working days of receiving the application.**

  Accenture reports this standard as not active and "suspended/no assessment." This *50 working day* requirement conflicts with federal requirements to process CHIP applications within *45 calendar days*. The discrepancy is critical and should have been corrected long before HHSC signed the contract with Accenture.

- **Notice of eligibility determination to be mailed within three working days.**

  Accenture reports this standard as not active and "being finalized."

- **CHIP renewals to be completed within three working days from receiving a completed application.**

  Accenture reports this requirement as "not active: performance threshold to be determined." HHSC's standard in the contract, however, is to complete 99 percent within three days. Accenture reported the highest percentage achieved between January and April 2006 at 43 percent; the lowest achieved was 1 percent, in both February and March 2006. No liquidated damages were accrued because, again, Accenture is allowed to self-monitor itself and it indicated the requirement is inactive.

- **Clients to receive information needed to file an appeal within one day of inquiry.**

  This measure is active. Accenture failed to meet it between January and April 2006. Accenture is required to mail clients the information necessary for appeals within one day of an inquiry 98 percent of the time. The highest percentage achieved in the four-month period was only 8 percent.

- **Process client appeals and send client notification within 12 days.**

  This measure is active, but Accenture never met the 100 percent standard between January and April 2006. The company achieved its highest percentage in January with 98 percent, but steadily declined each month, ending with just 4.4 percent in April 2006.

With so many KPRs being inactive or unmeasured, HHSC cannot pinpoint problems with Accenture's performance easily. But based on the client complaints as well as the limited information Accenture does report on the KPRs, it seems clear that appeals and renewals are not being processed in a timely and efficient way.

During a site visit to the Midland call center, Accenture and HHSC officials told the review team that they did not have the staffing needed to support CHIP and were hiring additional employees. Officials also stated that the training for their staff was insufficient and that they were providing further training for their employees.[3] Accenture also reported having more CHIP applications to process than they could handle.[4]

Accenture's inability to process CHIP eligibility within acceptable timeframes is causing some clients to receive letters requiring information or enrollment fees due weeks before the letters are written.[5] Others are losing CHIP eligibility without notice.

Endnotes

[1] Testimony of Barbara Best, executive director, Children's Defense Fund, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&committeeCode=285. (Last visited October 25, 2006.)

[2] Texas Access Alliance, *Texas Integrated Eligibility and Enrollment Services KPR 68-Monthly Monitoring Report* (Austin, Texas, May 19, 2006), pp. 4-6, 15.

[3] Interviews with Texas Access Alliance and Health and Human Services Commission staff, Midland, Texas, June 5, 2006.

[4] Interviews with Texas Access Alliance and Health and Human Services Commission staff, San Antonio, Texas, June 6, 2006.

[5] Testimony of Albert Hawkins, executive commissioner, Health and Human Services Commission, before the Texas House of Representatives, Committee on Government Reform, Austin, Texas, July 26, 2006, http://www.house.state.tx.us/committees/broadcasts.php?session=79&committeeCode=285. (Last visited October 25, 2006.)

28. CHIP is plagued by inadequate data that make it difficult to track the program's success.

HHSC has never required its CHIP vendors to supply monthly data on the number of new applications received; the number of clients found eligible; the number denied benefits and the reasons for denial; or the number of those denied that were previously enrolled in CHIP. As noted previously, neither Accenture nor HHSC regularly tracks the number of CHIP recipients moving from CHIP into children's Medicaid.

Without this data, it is impossible for management or the Legislature to evaluate basic elements of the CHIP program. Critical measures, such as the cost of processing applications, the impact of various policy or procedural changes and the success of client outreach efforts will be hidden from those who should be accountable and responsible for making these programs run well.

Before the transition to Accenture, HHSC tracked new enrollments as "never enrolled" and those who had a gap in CHIP of some duration as "previously enrolled." Accenture, however, counts anyone new to its system as "lifetime new." According to HHSC staff, Accenture places previously disenrolled CHIP applicants into the "lifetime new" category. This makes it more difficult to analyze CHIP trends.

Further complicating matters is the fact that Accenture categorizes CHIP applicants who have tried to renew but been disenrolled due to missing information in a "failure to re-enroll" category.[1] After Accenture receives the missing information and the client is re-enrolled in CHIP, these individuals are subsequently recategorized as "lifetime new" (new enrollments) rather than as renewals. This practice masks the problem of frequent disenrollment and creates an artificial growth in new enrollment.

Endnote

[1] Interview with Health and Human Services Commission staff, July 12, 2006.

29. Accenture and HHSC policy changes have significantly increased the decline of Texas CHIP enrollment relative to that in other states.

One could speculate whether the decline in CHIP enrollment is due to an improving economy; families are richer and therefore are no longer eligible for CHIP coverage. CHIP caseload trends in other states, however, do not support this assumption.

The transition to Accenture and the HHSC policy changes appear to have significantly increased the decline of Texas CHIP enrollment relative to that in other states. In Texas, the decline in CHIP enrollment increased eight-fold, from -1.1 percent for June through December 2005 to -9.2 percent for December 2005 through June 2006 (**Exhibit 23**). This was by far the biggest decline among the states with the five largest CHIP enrollments. Texas' percent decline for December 2005 through June 2006 was more than twice as high as New York's, the only other state experiencing decline. The other three states experienced enrollment increases over the same time period.

The Accenture transition and Texas-specific policy changes are clearly having a significant impact on Texas CHIP caseloads.

Exhibit 23

Changes in CHIP Enrollment in 5 Largest Enrolling States
June 2005 to June 2006

	CHIP Enrollment			Change		% Change	
State	Jun-05	Dec-05	Jun-06	June 05-Dec 05	Dec 05-Jun 06	Jun 05-Dec 05	Dec 05-Jun 06
California	747,733	742,325	766,878	-5,408	24,553	-0.7%	3.3%
New York	424,957	401,441	384,802	-23,516	-16,639	-5.5%	-4.1%
Texas	326,473	322,898	293,342	-3,575	-29,556	-1.1%	-9.2%
Georgia	227,075	246,701	257,212	19,626	10,511	8.6%	4.3%
Florida	202,433	186,080	195,869	-16,353	9,789	-8.1%	5.3%
Total	1,928,671	1,899,445	1,898,103	-29,226	-1,342	-1.5%	-0.01%

Sources: California, New York, Georgia and Florida CHIP Administering Agencies and Health and Human Services Commission.

30. Texas does not have sufficient oversight mechanisms to prevent or minimize the sorts of project failures experienced with integrated eligibility and enrollment.

The integrated eligibility project and resulting $899 million contract escaped any oversight designed to monitor the quality and effectiveness of state expenditures.

Texas has a Quality Assurance Team (QAT) comprising the heads of the Legislative Budget Board (LBB), State Auditor's Office (SAO) and Department of Information Resources (DIR). This team's responsibilities include "establishing rules and guidelines to govern the quality assurance process and review of major information resources projects" and "provid[ing] oversight and assistance necessary to support successful completion of major information resource projects."[1]

The QAT is not, however, intended to be a contract monitor. Rather, QAT has the authority to review agency information technology projects and recommend best practices for future projects. QAT reviewed 31 projects in 2005, yet its report for that year *makes no mention* of the integrated eligibility project and Accenture's $899 million contract. QAT reviewed only the TIERS technology, and identified it as "high risk" for the second year in a row.

In fact, TIERS technology development costs *alone* are expected to cost the state $298.7 million, according to the most recent QAT review, and that sum is in addition to the $899 million contract with Accenture.[2] Of the 19 "high risk" projects being monitored by QAT in 2005, TIERS represented 46.6 percent of the associated expenditures.

QAT can recommend major information resources projects to DIR for oversight. As part of this oversight, DIR must provide risk management, quality assurance services, independent project monitoring and project management.[3] The review team could find no evidence that DIR provided any of these services for either integrated eligibility or TIERS.

For two consecutive years, 2004 and 2005, QAT identified the same two issues common to all agencies:

- "Many agencies and universities do not routinely practice quality assurance (QA) as a component of their management of technology projects."[4] QAT defines evidence of appropriate quality assurance as projects that are "successfully completed on time and within budget."[5]
- "Several projects are considered high-risk due to the lack of an effective contract that clearly delineates expected vendor performance."[6] QAT reported in both 2004 and 2005 that DIR was developing enhanced contract management guidelines and a specific technology contracting addendum for the contract management guide. These guidelines might have helped HHSC with the Accenture contract.

Both of these findings continue to apply to the integrated eligibility project today.

Without meaningful state oversight, IE project failures were allowed to escalate until service to clients was disrupted significantly enough to catch the attention of the Legislature and media.

Endnotes

1 Quality Assurance Team: Legislative Budget Board, State Auditor's Office, Department of Information Resources, *2005 Quality Assurance Team (QAT) Annual Report* (Austin, Texas, December 21, 2005), cover letter and p. 8.

2 Quality Assurance Team, *2005 Quality Assurance Team (QAT) Annual Report*, p. 12.

3 Tex. Gov. Code Ann. Ch. 2054.1181.

4 Quality Assurance Team, *2005 Quality Assurance Team (QAT) Annual Report*, pp. 3-4; and Quality Assurance Team: Legislative Budget Board, State Auditor's Office, Department of Information Resources, *2004 Quality Assurance Team (QAT) Annual Report* (Austin, Texas, December 1, 2004), p. 5.

5 State Auditor's Office, *A Review of State Entities' Quality Assurance Procedures* (Austin, Texas, February 2002), cover letter.

6 Quality Assurance Team, *2005 Quality Assurance Team (QAT) Annual Report*, p. 4; and Quality Assurance Team, *2004 Quality Assurance Team (QAT) Annual Report*, pp. 5-6.

Lessons Learned

The Accenture contract is one of the nation's largest and most complex government outsourcing arrangements. As such, it carried significant risks from the beginning. It simply was not reasonable to assume that a project of this magnitude could be accomplished within six short months, yet HHSC attempted to do so anyway, increasing its inherent risks exponentially.

Key Mistakes

While this report has identified numerous problems, the review team believes that four key mistakes caused the project to fail.

The first mistake was to assume that any savings from such a large undertaking could be achieved within a two-year period. The requirement to show savings seems to have compelled HHSC to accelerate the implementation unreasonably. Technology improvements and program outsourcing can indeed provide savings to the state, but only after a prudent investment of time and startup expenditures. HHSC was, in effect, expected to save $140.9 million within the first biennium—while it also needed to invest in software development, training and transition costs. The drive for immediate savings may well cost Texas more in the end, due to project delays resulting in unexpected, unbudgeted expenses.

The second mistake was to attempt to change far too much, far too quickly. A series of decisions about what to outsource and when to implement the transitions had a snowball effect; each decision expanded the project's complexity and scope, and pushed it further out of control.

The third mistake was to create a contract that paid Accenture for effort rather than good performance; provided Accenture with financial incentives to process applications as labor-intensively as possible; and limited Accenture's liability beyond its relative responsibility.

The fourth and final major mistake was for HHSC to assume it could manage a $1 billion contract without specifically trained, experienced and competent contract management staff and documented, proven contract management practices. With an appropriately skilled management staff, HHSC could have avoided or minimized the failures resulting from the first three mistakes.

Effective contract management requires a different set of skills and experience than were possessed by the staff members who managed the eligibility programs prior to outsourcing. As a *Harvard Business Review* article put it:

> Contract-management teams require people with deep knowledge of the hired providers, the users, and the contracts. Accordingly, they must include individuals with extensive contract-management skills, technical people with a thorough understanding of the company's IT requirements, and a systems integrator to ensure that all IT systems provided by external and in-house suppliers work together without gaps or unnecessary overlaps…. [T]he companies that got the most out of their contracts were usually those that had assigned a manager with experience in administering leasing or licensing arrangements, some IT knowledge, and a proven ability to manage complex relationships.[1]

Expensive Hindsight

The lessons learned from this project can and should be applied to Texas' future information technology and outsourcing contracts. At minimum, the state should recognize billion-dollar contracts cannot be managed in the same manner and with the same resources that small contracts are.

Texas cannot afford to allow another project of this magnitude to go awry. The Accenture contract is the state's largest outsourcing contract ever, and the TIERS technology is the most expensive system the state government has ever developed. The cost overruns from these two projects are wasteful and unnecessary; they were also avoidable.

Endnote

[1] Mary C. Lacity, Leslie P. Willcocks and David F. Feeny, "IT Outsourcing: Maximize Flexibility and Control," *Harvard Business Review* (May-June 1995), pp. 1 and 8.

Solutions

The volume and severity of the findings presented in this report clearly indicate that integrated eligibility cannot be put on a successful track with just a few simple changes.

The integrated eligibility model fundamentally changed the way HHSC contracts with private vendors, but there was no accompanying change in the skills or abilities of the people assigned to manage the project. To succeed in a large-scale outsourcing project such as this, the state must develop the leadership, expertise and competence needed to select and manage large vendors and programs.

The following recommendations are common management practices in the private sector. The outsourcing of HHSC responsibilities to the private sector requires actions that are appropriate to this arena—application of private-sector models to privatization efforts.

Since the integrated eligibility project demands immediate attention and intervention, the Comptroller's office recommends the following strategies:

1. **To immediately address the problems, the 80th Legislature should pass emergency legislation to transfer authority and responsibility for the integrated eligibility project and the Accenture contract to a turnaround team led by a special master reporting directly to the Governor and Legislative Budget Board (LBB).**

The integrated eligibility project can be put back on course only with new leadership. To achieve any savings for the state, the project and HHSC's plans to salvage the project must be subjected to an *independent* technical and financial assessment.

The Legislature should appoint a turnaround team of experts, led by a special master, specializing in contract management, technology, finance, legal affairs and IT project management. This team should be charged with protecting scarce taxpayer dollars.

Special masters can be used in a variety of ways. Courts can appoint special masters to investigate situations and carry out directions on their behalf, as in the federal Microsoft case, in which the judge appointed a special master to advise the court on technical issues and investigate certain claims. State education agencies also may appoint special masters to assume leadership of failing school districts.

In the case of integrated eligibility, a special master should be authorized to re-estimate the project's costs and change its direction as needed to restore customer service; ensure adequate and stable technological resources; and achieve savings for the state. HHSC's commissioner and executive managers should report to the special master for this project only; all other health and human services would remain under the current lines of authority.

2. **The cost of the turnaround team should be funded by Accenture's $20.3 million in excess profits.**

3. **The first order of business for the turnaround team should be to end the contract and review the Integrated Eligibility program top to bottom. While the state has had to hire back state employees to do Accenture's job, Accenture has made $20.3 million in excess profit.**

HHSC mismanaged the contract from the very beginning by notifying staff in October 2005 that they were going to lose their jobs. This was three months prior to going live with an untested system and long before they knew if Accenture could handle the workload. Now they are having to hire back state employees to solve Accenture's problems. In addition, HHSC did not create an infrastructure of trained staff skilled in outsourcing to manage the project.

The special master, with assistance and advice from the turnaround team of experts, should report directly to the Governor and LBB and should be made responsible for:

- re-evaluating the integrated eligibility business case, given its delays and increased costs, and determining the most cost-effective and feasible way to provide services for eligibility determination.
- assessing the TIERS and MAXe systems and their continuing viability. This should involve estimating the costs involved in repairing or replacing defective system components and recommending an overarching technological strategy for the project.
- revising the integrated eligibility rollout strategy based on Accenture's demonstrated performance and capabilities.
- providing the Governor's Budget Office, the LBB and the Comptroller's office a report with a revised implementation schedule and realistic cost and savings expectations.
- overseeing the implementation of the revised business case and technology strategy.
- ensuring that the state pays for the company's services only when it meets objective performance standards and achieves its goals.
- evaluating the cost effectiveness of the current solution to hire back state employees to perform functions that were outsourced to Accenture, while Accenture continued to earn profits that exceed contract limits.
- providing contract oversight and assessing liquidated damages as appropriate.
- determining the expertise HHSC will require to manage integrated eligibility and enrollment after the special master and turnaround team are dissolved.

Accenture should be held accountable for its commitments through the transition period.

4. To mitigate the risk of further wasteful spending and outsourcing failures, the Texas Legislature should create a new state Office of Contract Management to establish and manage large contracts for programs and information technology services such as integrated eligibility, Medicaid claims processing and electronic benefits transfer.

State and local government spending on health and human services information technology (IT) nationally is expected to rise from $7.6 billion in 2006 to $12.2 billion by 2011, according to a recent report released by INPUT, a government market intelligence firm.[1] Current trends to outsource administrative functions and services will continue as governments seek to achieve the savings and quality improvements private vendors can offer.

Fiscal constraints will encourage states to modernize and consolidate human services systems. These projects inevitably will be large—what the private sector calls "mega deals." Contracts termed "mega deals" exceed $250 million in value.

Texas is the first state to attempt to outsource eligibility determination to this degree. Other states are watching to see whether Texas will succeed with the integrated eligibility and enrollment (IEE) initiative, calling it a "groundbreaking" project.[2]

"Texas is the first state to go with the big-bang approach," according to Amy Santenello, senior research analyst for government strategies with market research firm Meta Group, now part of Gartner Group.[3] Several states are considering similar options as a way to update antiquated systems and eliminate redundant enrollment processes.

To date, however, no other state has attempted to outsource as much technology and services as Texas in health and human services.[4]

Many states have suffered through the same contract management failures Texas is experiencing now.

Unfortunately, the success rate of large IT outsourcing arrangements is extremely low. Some states never get past the contracting phase before they cancel the project. Those that are implemented often prove to be riddled with problems.

The fundamental problem behind these failures is a lack of expertise in contracting and contract management. According to Tom Davies, senior vice president at Current Analysis, Inc.:

> Although most large commercial enterprises and the federal government have invested considerable resources and training in developing this expertise, such competency is woefully neglected in the states. The purchasing offices generally are unfamiliar with the sourcing and contracting requirements of large, complex business services arrangements that the mega deals often entail.[5]

The common reasons for failure in other states are now at work in Texas; HHSC lacks:

- appropriate training for workers and system users;
- project management and contract management skills; and
- clear authority for decision-making.[6]

If Texas is to continue pursuing outsourcing contracts, it must develop the contract management expertise needed for success.

Given our state's size, it is reasonable to expect that it will continue to enter into large, "mega deal" contracts similar to the one with Accenture. Texas, therefore, must build its capabilities to manage large outsourced services and IT contracts. At present, however, state agencies must manage such contracts largely without the skills and capabilities needed to do so.

State Auditor's Findings

Contracting problems are not new to the Accenture contract, nor are they confined to only this state agency. The State Auditor's Office (SAO) has conducted numerous audits related to contracting mismanagement on the Department of Information Resources, the Commission on Environmental Quality, the Department of Transportation, Texas Education Agency and Texas Worker's Compensation System, in addition to HHSC. These audits have found significant and repeated problems in contract development and planning, procurement, management and monitoring. Many of these problems have continued at the same agencies, despite SAO recommendations that could have been implemented in subsequent contracts or extensions of existing ones.

SAO's audit recommendations address problems found at each stage of the contracting cycle, from initial development to implementation or delivery of the final product and services. Generally, SAO often finds evidence that agencies did not thoroughly research and plan for contractual arrangements, or involve key staff people who best knew the agency functions that were being outsourced.

Such problems lead to significant contract mismanagement, such as failure to obtain independent verification of contractor's test results; implementation of new systems with known defects; and cost overruns and unjustified fee increases. In addition, some contracts fail to include a range of sanctions other than termination for nonperformance.

Common SAO recommendations for improving contract management include:

- key agency staff should be involved in the development of and planning for the contract's scope and statement of work.
- contractors should provide appropriate documentation (signed and dated as appropriate) including time sheets, status reports and invoices with detailed information regarding tasks performed.

SAO also recommends that contracts include:

- formal deliverables, expected services, timelines and products;
- significant deliverables tied to the payment schedule;
- monitoring mechanisms, such as a schedule for status reports and a list of persons or positions to receive them;
- a range of sanctions, including fines and termination, for nonperformance;
- a designated contact person, manager or department;
- a procedure to amend the terms of or cancel the contract;
- a mechanism to resolve disputes and disagreements; and
- a closeout procedure that verifies that all of the provisions of the contract have been completed satisfactorily before the agency makes arrangements for a final payment.

A Contract Management Office

A Contract Management Office (CMO) could provide all Texas state agencies with the specific capabilities they need beyond their own program expertise. The office would allow the state to develop and centralize contract management expertise and make it available to state agencies for the life of each contract.

Rather than centralizing the contract management function, the Comptroller recommends centralizing *expertise*, as a "center of excellence" model commonly used in the private sector. Under this model, the agency executing the contract would retain authority for it, and the CMO contract manager would report to the agency head while on assignment. The CMO would be responsible for hiring, training and coordinating contract managers and providing advice and support for managers on assignment.

Guidelines should be developed to determine when an agency would be required to assign a contract manager to lead a procurement. The Comptroller recommends contracts with the following characteristics should have trained, capable contract managers:

- total contract value greater than $5 million;
- outsourced services to citizens or agency business process included in the contract; and
- information technology services involved.

State agencies should be required to use this expertise to:

- develop requests for proposals;
- evaluate proposals;
- negotiate contracts;
- manage contracts and vendor relations; and
- manage IT project development and implementation.

Expertise at the CMO should include:

- legal affairs;
- large contract management;
- technology contracting;
- information technology project management; and
- finance and auditing.

Endnotes

[1] INPUT, "Sate & Local Health Care and Welfare IT Market Expected to Surpass $12 Billion by FY11," www.input.com/corp/press/detail.cfm?news=1266 (Last visited September 5, 2006.)

[2] William Welsh, "All Eyes on Texas," *Washington Technology* (April 4, 2005.)

[3] Welsh, "All Eyes on Texas."

[4] Interview with staff at INPUT, Inc., August 14, 2006.

[5] Welsh, "All Eyes on Texas."

[6] Interview with INPUT.

Appendices

Appendix 1
Legislators' Letters

Appendix 1
Letter from Senator Eliot Shapleigh (page 1)

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EXEC. ADMIN.
CORRESPONDENCE

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Veterans Affairs & Military Installations
Subcommittee on Base Realignment and Closure - Chair
International Relations and Trade - Vice Chair
Infrastructure Development and Security

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May 10, 2006

The Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts
State of Texas
P.O. Box 13528
Austin, Texas 78711-3528

VIA HAND DELIVERY

Re: Request for Investigation into the Texas Access Alliance's Operation of State's Eligibility System for Public Benefits

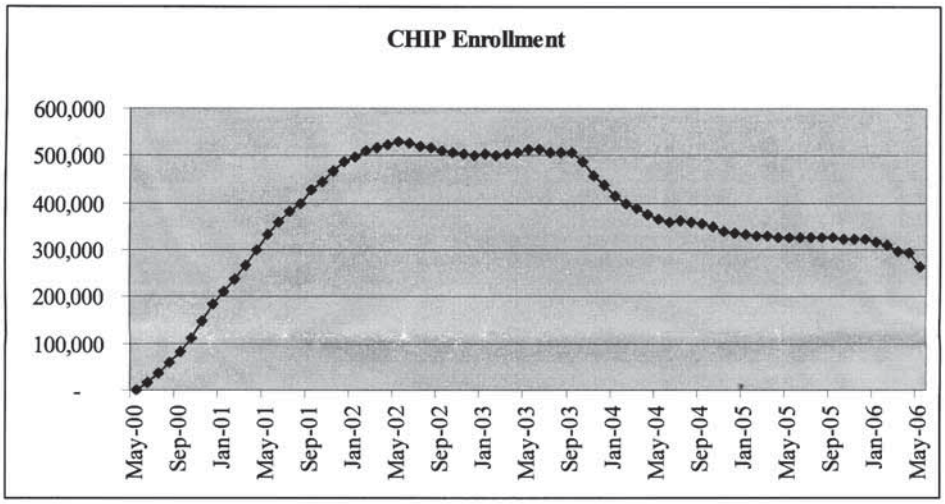
Dear Comptroller Strayhorn:

I am writing to request that you conduct an investigation into the Texas Access Alliance's (TAA) operation of the state's eligibility system for public benefits.

Last November, TAA, a consortium of companies led by the Bermuda-based Accenture LLP, began processing statewide applications for Children's Health Insurance Program (CHIP) and Children's Medicaid. In January, TAA began processing local applications in Travis and Hays Counties for other key programs such as food stamps and Temporary Assistance for Needy Families (TANF). These dates correspond with the beginning of significant decreases in both CHIP and Children's Medicaid enrollment and huge backlogs of applications for food stamps and TANF in Travis and Hays Counties.

Since November, almost 30,000 children have been dropped from the CHIP rolls. In April, enrollment dropped by nearly 10,000 children, bringing the total enrollment to 292,681 - the lowest point in five years. Now, astoundingly, the preliminary enrollment numbers for May 2006 indicate over a 28,000 client decline in just one month. HHSC responded to this alarming drop in enrollment by granting a reprieve to the more than 28,000 children that would have lost coverage in May. This is a temporary solution to what seems to be a permanent problem. Here is what CHIP enrollment looks like from May 2000 from May 2006:

Appendix 1
Letter from Senator Eliot Shapleigh (page 2)



In my own community of El Paso, almost 2,000 children have been disenrolled from CHIP since November. I have also received a report from a local community based organization that over 2,700 more CHIP accounts in El Paso would have been disenrolled as of April 30, 2006 had HHSC not intervened. In El Paso, which is the most uninsured large city in the nation, this is especially intolerable. Attached as Appendix A, please find the story of one family who has been impacted by TAA's appalling operation of CHIP eligibility and enrollment.

In addition, because CHIP applications and renewal processes also constitute an important pathway to enrollment in Medicaid, it appears the problems with this transition have also resulted in an unprecedented decline in coverage of children in Children's Medicaid. Between November and February, children covered dropped by 78,655, despite consistent steady growth since 2000.

I am concerned that TAA may not be living up to the contractual obligations contained in their $899 million contract with the state. Through conversations with constituents and community-based organizations, I fear that TAA may not be adhering to the policies and procedures in place regarding the enrollment and renewal processes for these programs.

Further, multiple news reports have cataloged the numerous problems. For example, Accenture workers do not have adequate training, especially given the complex nature of the policy questions they often receive from applicants. Additionally, computer software incompatibility is resulting in the repeated loss of submitted documents, lack of timeliness, and even inappropriate denials.

I hope that a comprehensive audit and performance review by your office can shed some light on the ongoing problems that are negatively affecting tens of thousands of Texans.

Appendix 1
Letter from Senator Eliot Shapleigh (page 3)

Very truly yours,

Eliot Shapleigh

Eliot Shapleigh

ES/de

Enclosure: Appendix A

CC: Lieutenant Governor David Dewhurst; Senator Jane Nelson

Appendix 1
Letter from Senator Eliot Shapleigh (page 4)

APPENDIX A

Our office was recently contacted by a constituent who followed all guidelines and rules issued by HHSC, whose child was found to be eligible for CHIP, but who was still unable to navigate the system successfully. The constituent not only turned in all of the information by the appropriate deadlines, but saved all written correspondence and kept a chronicle of the dates, times, and names pertinent to his case. He followed the rules, and here is his story.

After not being able to get his daughter's prescription filled, the constituent contacted the CHIP call center for an explanation. Initially, he was told that there was no record of the payment of his enrollment fee. When the constituent stated that he had the cancelled check showing that the check had been cashed, the call center operator said that she would personally walk his check to the finance department so they could remove the incorrect payment deficiency. The operator also stated that the constituent should call back to make sure that everything was taken care of.

He later called back and spoke to Elsa Martinez, the manager of the Midland call center. She stated that the payment deadline was actually two weeks earlier than the one stated in his letter. However, that would mean that the deadline was a mere two days after the date the letter was sent. Therefore, although his check was received and cashed, it was considered late, and thus his daughter was not enrolled. Thereafter, Ms. Martinez failed to return any of the constituent's phone calls. His child was dropped from CHIP because Accenture and TAA dropped the ball and gave him the wrong deadline.

Lapsed coverage is serious business for a young family. During the nearly two months that his children's coverage lapsed, the father had to cross the Border into Mexico in order to get their prescriptions filled. Additionally, his daughter recently suffered a second-degree burn, after which her school refused to accept her without a note from her doctor. However, he could not get it until his coverage was reinstated. Cases like this are a nightmare, and I fear that other families across the state are suffering through similar indignities.

Had the constituent not tried to use the CHIP services, he would never have known that his children were not enrolled. Many other families undoubtedly have and will find themselves in similar situations. How many families will think to call our office so that their case may be escalated through the HHSC chain of command? How many of them will have a perfect paper trail after saving all of the documentation? After the system fails these families, many will simply give up and not seek services or, without anywhere else to go, will end up in our already crowded emergency rooms at local taxpayers expense.

Appendix 1
Letter from Representative Carlos I. Uresti (page 1)

HOUSE OF REPRESENTATIVES

RECEIVED
MAY 10 2006
EXEC. ADMIN.
CORRESPONDENCE

7

CAPITOL ADDRESS:
P.O. BOX 2910, E1.306
AUSTIN, TEXAS 78768-2910
TELEPHONE: (512) 463-0714
FACSIMILIE (512) 463-1448

DISTRICT ADDRESS:
1114 SW MILITARY DRIVE, SUITE 103
SAN ANTONIO, TEXAS 78221
TELEPHONE: (210) 932-2568
FACSIMILIE (210) 932-2572

CARLOS I. URESTI
DISTRICT 118

May 10, 2006

Carole Keeton Strayhorn
Texas Comptroller
Post Office Box 13528, Capitol Station
Austin, Texas 78711-3528

Dear Comptroller Strayhorn:

We write to request your office's investigation of several issues related to the expenditure of taxpayer funds for the ongoing changes of Texas' human services eligibility determination program.

As you know, the Health and Human Services Commission (HHSC) has begun its transition to an "integrated eligibility" system that will consume hundreds of millions of dollars in state and federal funds, and make a deep impact on a human services network of critical importance to millions of Texans. The plan also will result in the closure of many local eligibility offices throughout the State, replacing them with contractor-operated call centers that provide no opportunity for face-to-face contact between clients and eligibility determination staff.

HHSC's problematic integrated eligibility plan already has experienced numerous, publicized delays and quality problems. Consequently, we are deeply concerned about the viability of the agency's plans as they are currently conceived. In particular, we respectfully request that your office examine the following:

1. Whether HHSC is now and has been exercising due diligence in negotiating, monitoring, and managing the Accenture/TAA contract. More specifically:

A. Which of the contractor's deliverables are due or overdue, and which payments have been made to the contractor for these deliverables?

Example: We understand that a significant payment was scheduled for transition-related services, to include hardware/software systems for interface between contractor systems and State of Texas systems, and training of contractor staff in

COMMITTEES:
CHAIR-GOVERNMENT REFORM
LOCAL GOVERNMENT WAYS AND MEANS

Appendix 1
Letter from Representative Carlos I. Uresti (page 2)

program requirements and implementation. Was the deliverable received by the State on time and as promised?

B. Is the contractor providing services as anticipated in the roll-out pilot areas?

C. Are there "hidden costs" in the HHSC plan that are not evident to the Legislature?

Example: We understand that the contractor will charge the State a per-page fee for document processing to bring existing case files into the TIERS system. If true, is it provided for in the Accenture/TAA contract? What is the expected cost to the state for this case file conversion?

2. Which State of Texas resources – staff time, travel and housing expenditures, and others – are being allocated to support the IEE/TAA conversion? Are all such resources included in calculations of savings and expenses for the project?

Examples:

- *State employees have been temporarily reassigned from their home offices to the Midland call center/document center, and to Austin locations, to support the new system;*
- *Large numbers of cases have been transferred electronically from the roll-out pilot area to other parts of the state for processing; and*
- *HHSC has announced that it will launch a $3 million public outreach campaign in an attempt to slow the decline in CHIP participation. Many observers believe that the TAA conversion is at least partly to blame for the decline. Will this $3 million be counted as an expense associated with the new system roll-out?*

3. Are there any documented current savings in state funds resulting from HHSC's conversion? Are these savings materializing as projected? What reasonable expectations of future savings can we have?

4. Has HHSC made plans to assure the continuity of eligibility services during the transition? Are these plans adequate to prevent the need for expensive remedial action if delays continue, or if the call center plan proves to be unworkable?

5. What are the implications for local communities of the planned changes resulting from the TAA/IEE conversion, including the effects of reduced participation in benefit programs, on hospital districts, other local government entities, and local businesses?

Appendix 1
Letter from Representative Carlos I. Uresti (page 3)

Page 3/3

Comptroller Strayhorn, we believe the people of Texas deserve a closer look at the HHSC integrated eligibility plan. Hundreds of millions of taxpayer dollars are funding a problem-plagued plan that threatens the health and safety of our citizens. We hope you will undertake an investigation to determine the true status of HHSC's transition plans. Our taxpayers and vulnerable citizens deserve to know how they will be affected by these questionable policy changes.

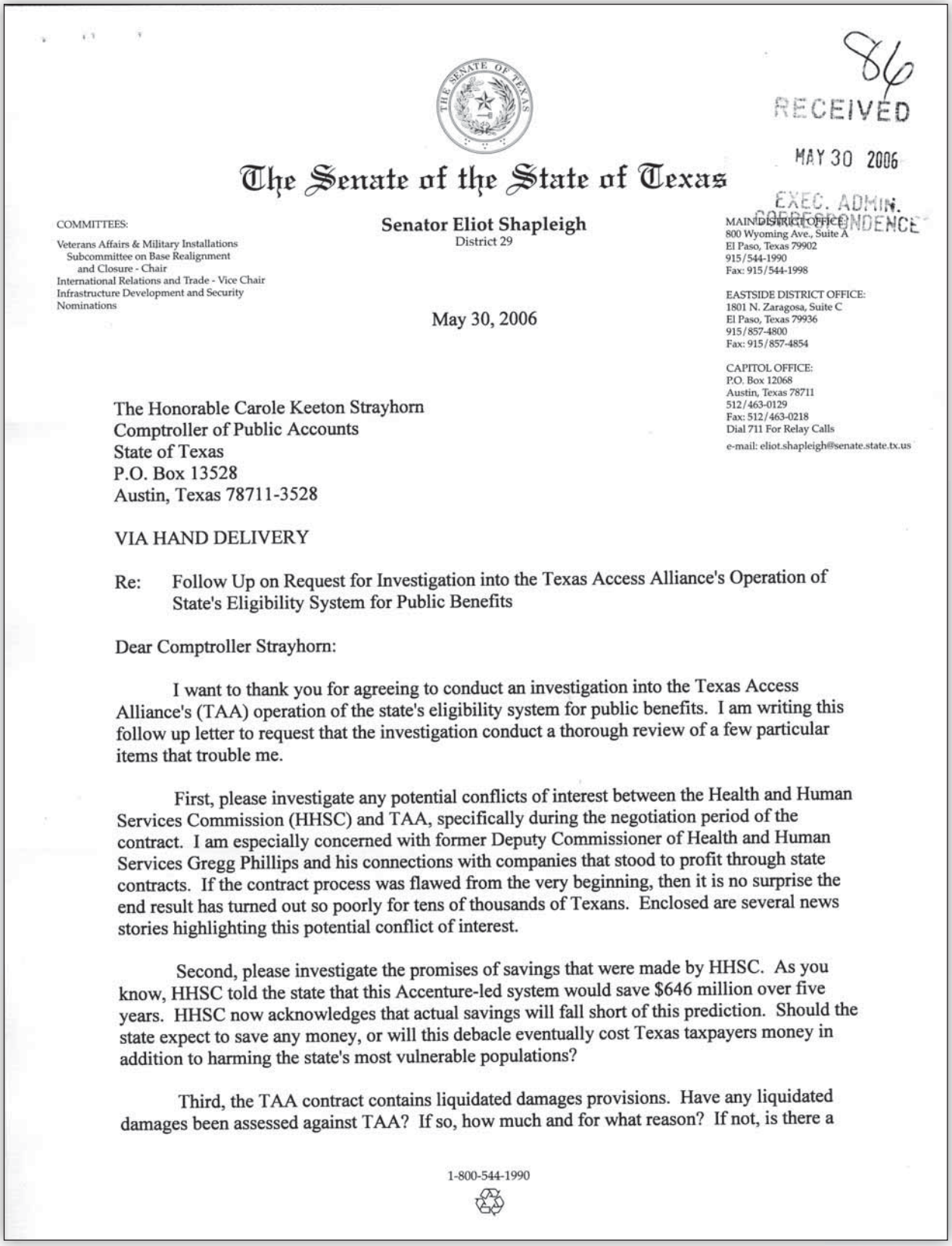
As always, we remain

Very truly yours,

CARLOS I. URESTI CARTER CASTEEL

cc: The Honorable Rick Perry
The Honorable David Dewhurst
Texas Senate
Texas House of Representatives
The Honorable Albert Hawkins

Appendix 1
Letter from Senator Eliot Shapleigh (page 1)



RECEIVED
MAY 30 2006
EXEC. ADMIN. CORRESPONDENCE

The Senate of the State of Texas

COMMITTEES:
Veterans Affairs & Military Installations
Subcommittee on Base Realignment and Closure - Chair
International Relations and Trade - Vice Chair
Infrastructure Development and Security
Nominations

Senator Eliot Shapleigh
District 29

MAIN DISTRICT OFFICE:
800 Wyoming Ave., Suite A
El Paso, Texas 79902
915/544-1990
Fax: 915/544-1998

EASTSIDE DISTRICT OFFICE:
1801 N. Zaragosa, Suite C
El Paso, Texas 79936
915/857-4800
Fax: 915/857-4854

CAPITOL OFFICE:
P.O. Box 12068
Austin, Texas 78711
512/463-0129
Fax: 512/463-0218
Dial 711 For Relay Calls
e-mail: eliot.shapleigh@senate.state.tx.us

May 30, 2006

The Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts
State of Texas
P.O. Box 13528
Austin, Texas 78711-3528

VIA HAND DELIVERY

Re: Follow Up on Request for Investigation into the Texas Access Alliance's Operation of State's Eligibility System for Public Benefits

Dear Comptroller Strayhorn:

I want to thank you for agreeing to conduct an investigation into the Texas Access Alliance's (TAA) operation of the state's eligibility system for public benefits. I am writing this follow up letter to request that the investigation conduct a thorough review of a few particular items that trouble me.

First, please investigate any potential conflicts of interest between the Health and Human Services Commission (HHSC) and TAA, specifically during the negotiation period of the contract. I am especially concerned with former Deputy Commissioner of Health and Human Services Gregg Phillips and his connections with companies that stood to profit through state contracts. If the contract process was flawed from the very beginning, then it is no surprise the end result has turned out so poorly for tens of thousands of Texans. Enclosed are several news stories highlighting this potential conflict of interest.

Second, please investigate the promises of savings that were made by HHSC. As you know, HHSC told the state that this Accenture-led system would save $646 million over five years. HHSC now acknowledges that actual savings will fall short of this prediction. Should the state expect to save any money, or will this debacle eventually cost Texas taxpayers money in addition to harming the state's most vulnerable populations?

Third, the TAA contract contains liquidated damages provisions. Have any liquidated damages been assessed against TAA? If so, how much and for what reason? If not, is there a

1-800-544-1990

Appendix 1
Letter from Senator Eliot Shapleigh (page 2)

reasonable explanation as to why liquidated damages have not been assessed for the numerous untimely deliverables that TAA has failed to produce? The contract also provides TAA with the ability to acquire "earnbacks" that offset any liquidated damages assessed against TAA. Is this arrangement common, especially in contracts involving such large amounts of money and the delivery of vital services? Has this earnback provision been used? If so, were the earnbacks gained due to extra work by TAA, and what was the extra work?

Fourth, I received a report that, during contract negotiations, TAA requested that they be indemnified by the state for the work they do in conjunction with this contract. Is the state indemnifying TAA in any manner?

Finally, please investigate whether the contract or any other agreements have provisions that reward the vendor for reducing enrollment levels. In other words, does the state reward vendors for kicking Texas children out of CHIP or Children's Medicaid?

As you know, a lot of unanswered questions surround HHSC's contract with TAA and TAA's implementation and operation of the state's eligibility system for public benefits. I know that your investigation will help the state's most vulnerable citizens to access the services upon which they depend and allow taxpayers to find out where their money has gone.

Very truly yours,

Eliot Shapleigh

Eliot Shapleigh

ES/de

Enclosures

CC: Lieutenant Governor David Dewhurst; Senator Jane Nelson

Appendix 1
Letter from U.S. Representative Charles A. Gonzalez (page 1)

Congress of the United States
House of Representatives
Washington, DC 20515

May 24, 2006

The Honorable Rick Perry
Governor of Texas
P.O. Box 12428
Austin, Texas 78711-0001

Dear Governor Perry:

As you know, the Texas Health and Human Services Commission announced recently that state employees would immediately replace Accenture in processing applications for Food Stamps, Medicaid and Temporary Assistance for Needy Families. This decision came after persistent and troubling reports that Accenture was not providing the same level of service that state employees did. The number of children enrolled in the Children's Health Insurance Program (CHIP) and Medicaid has decreased immensely.

We are concerned that the quality of service constituents Accenture has been providing falls far short of the service a staffed office would provide. Many times, a resident may need a face-to-face interview, especially with the elderly and those who might have language or other communication barriers. In addition, the navigation of call centers can be very difficult – a fact which has unfortunately played out with the decreased number of enrollees for these assistance programs since Accenture has taken over.

We believe assisting families with nutrition and healthcare is not an expense; it is an investment in our community. The face-to-face assistance provided by state employees cannot be substituted with an internet transaction or a phone call. Moreover, staffed locations have well trained eligibility employees who are knowledgeable in other resources that might help those seeking assistance.

It is important to note that employees working with the food stamp office have received enhanced funding bonuses from the federal government for the years 1998-2004 totaling $152 million. These bonuses were for better than 95% accuracy and timeliness on the Food Stamp program.

A recent Center for Public Policy Priorities study reported some disturbing findings:

- Children enrolled in Medicaid, which had grown steadily since 2000, dropped by nearly 79,000 from November to February, and parents covered declined by about 10,000. Children in CHIP dropped by another 21,000 from December through March.

Appendix 1
Letter from U.S. Representative Charles A. Gonzalez (page 1)

- Weekly status reports from the contractor show high call abandonment rates and long wait times at the call center. As of March 26, 39% of calls were dropped, and callers were on hold an average of 22 minutes.

- The interface between the contractor's computer system (Max-e3) and the state's computer system (TIERS) is not working, which means that all data must be entered twice rather than being transferred automatically between systems, increasing both the time it takes to process an application and the risk for error.

- State staffing shortages and technical problems have caused a backlog of thousands of applications in the pilot area, which delayed the approval of benefits for some clients and improperly terminated benefits for others.
- Insufficient training of private call center staff has led to errors, delays, and an inability to resolve clients' problems. (Statement on HHSC's Decision to Put Social Service Call Centers on Hold http://www.cppp.org/files/3/statement_IE%20rollout%20Apr_06.pdf)

In light of these facts, and the poor performance of Accenture, we urge the State of Texas to abandon its plan of privatizing eligibility for its social services and return to its state run system that has the best qualified and trained employees already in place.

Thank you for giving these comments the utmost consideration. We look forward to your reply.

Sincerely,

Charles A. Gonzalez
Member of Congress

Lloyd Doggett
Member of Congress

Al Green
Member of Congress

Chet Edwards
Member of Congress

Cc: Comptroller Carole Keeton Strayhorn and Texas Health and Human Services Executive Commissioner Albert Hawkins

Appendix 2
SAO Audit History of HHSC

Appendix 2
State Auditor's Office: History of HHSC Poor Contract Agreements and Inadequate Contract Management

The State Auditor's Office audits of HHSC and its departments in recent years show a pattern of poor contracting practices, poor subcontract monitoring and inadequate contract management.

In particular, in the SAO's May 2004 partial audit[1] of HHSC, SAO found that changes to TIERS prevented the auditors from completing their 2003 audit plan. The auditors noted that their preliminary work identified potential issues and risks in all phases of contract administration.[2] SAO further noted that TIERS is Texas' largest information technology project currently in development.

HHSC's contracting performance, as documented by SAO, demonstrates a number of problems briefly summarized below:

- **HHSC's contracts do not protect the state's best interests.**

  June 2002 audit: DHS contracts do not require providers to report performance information to DHS.

  June 2002 audit: MHMR failed to collect $2.4 million from community centers for not meeting contractual service targets.

  July 2004 audit: HHSC's decision to self-insure the CHIP Exclusive Provider Organization (EPO) fundamentally altered the nature of the EPO financial obligation. Instead of re-procuring the EPO's services, however, HHSC made this change through a contract amendment, resulting in a "noncompetitive procurement." HHSC's extensive use of retroactive contract amendments to make other changes "significantly undercut the competitive natures of its contracting practices."

  July 2004 audit: Inadequate contract terms did not prohibit the CHIP EPO, Clarendon, from inappropriately using $15.96 million of CHIP funds for its corporate use.

  July 2005 audit: HHSC has not substantially changed its approach to CHIP drug rebates since the 2003 audit. HHSC is still relying on drug manufacturers to voluntarily agree to pay rebates. Also, even though HHSC was required by H.B. 2292 to create a preferred drug list (PDL) for CHIP by March 1, 2004, HHSC has not done so. Because drugs listed on a PDL are much more likely to be purchased and dispensed, drug manufacturers would have a significant incentive to be listed on a CHIP PDL, which would require them to pay the state rebates.

- **HHSC has a history of inadequately managing contracts and inadequately monitoring enforcement.**

  June 2002 audit: DHS procedures for monitoring client service contracts do not provide reasonable assurance that contractors provide agreed-upon services at contractually specified prices.

  June 2002 audit: MHMR procedures for monitoring client service contracts do not provide reasonable assurance that contractors spend funds according to state and federal requirements.

  November 2003 audit: HHSC has not established adequate systems and controls to monitor Medicaid and CHIP contracts.

  November 2003 audit[3]: HHSC is not actively attempting to collect or recoup $13 million in funds due to state.

July 2004 audit report[4] on HHSC's administration of the CHIP Exclusive Provider Organization (EPO) Contract: HHSC's issuance of approximately $20 million in unnecessary or excessive payments combined with HHSC's serious deficiencies in contracting practices and contract monitoring constitute an abuse of the commission's fiduciary responsibility to appropriately oversee and manage the EPO contract and associated CHIP funds.

July 2004 audit: HHSC failed to detect that Clarendon inappropriately retained $1.79 million of the $3.36 million in CHIP funds it transferred to its accounts to pay for reinsurance.

July 2004 audit: After reaching an impasse in negotiating a rate increase with Clarendon, HHSC decided to self-insure the cost of medical claims but continued to pay Clarendon unnecessary insurance-related fees.

July 2004 audit: Despite being aware of problems in Clarendon's and its subcontractors' financial controls, HHSC has not audited or obtained an audit of Clarendon.

July 2005 audit: HHSC has not strengthened its CHIP contracts by adding provisions SAO recommended in March 2003, nor has the commission sufficiently monitored the cost-effectiveness of the CHIP drug benefit.

January 2006 report on HHSC's consolidation of administrative support services[5]: HHSC needs to improve its oversight of its human resources and payroll services contractor and improve its oversight of this contractor's performance and compliance with other contractual obligations.

- **There is a history of poor business practices at HHSC.**

June 2002 audit: HHSC has not fully complied with state rules to develop purchasing guidelines and contract management processes for health and human service agencies.

March 2003 audit[6]: HHSC opted not to implement 2001 Legislature recommendations for Medicaid cost containment targeted to attain $14 million in rebates. Instead HHSC chose to implement a drug rebate program that was proposed by the Pharmaceutical Research and Manufacturers of America. As of December 2002, the state's share of fiscal 2003 collected revenue from the CHIP drug rebate totaled $148,414.

July 2004 audit: HHSC continuously renegotiated Clarendon's obligations while simultaneously paying them at least $123.26 million. The payments were not necessarily inappropriate, but HHSC's practice of retroactively amending its contracts created uncertainty regarding the state's financial obligation and put the commission in the potentially disadvantageous position of negotiating payments it had already made.

July 2004 audit: HHSC did not ensure that Clarendon had written and executed contracts with its subcontractors, and readiness reviews performed for Clarendon were neither comprehensive nor timely.

Partial audit January 2005[7]: HHSC did not have a comprehensive plan to monitor ACS State Healthcare LLC (ACS), the state's present Medicaid administrator, for the first nine months of ACS's operations. Effective monitoring is critical, not only because of the size of the contract and the volume of Medicaid claims, but also because serious issues were identified regarding HHSC's previous Medicaid administrator.

February 2005 follow up audit report: HHSC has made an effort to correct weaknesses in administration of CHIP managed care contracts but has not fully implemented the majority of recommendations made in three prior State Auditor's Office reports.

February 2005 audit: Only one of 32 managed care contracts or amendments executed between July 1 and November 9, 2004, was processed entirely using HHSC's standardized contracting process for administering its

contracts. HHSC processed the remaining contracts using its prior contracting processes or without following standardized processes. Executive management also has authorized two contractual-type documents that are not included in the standardized contracting process.

July 2005 follow up audit report on HHSC's administration of CHIP: HHSC has made only limited progress in implementing recommendations from the March 2003 SAO report, 03-022.

September 2005 audit: HHSC lacks sufficient documentation to demonstrate compliance with statutes regarding its best-value decision in awarding the human resources and payroll services management contract.

September 2005 audit: HHSC needs to establish better performance measures for purchasing to help address significant delays in ordering and receiving goods and services using the consolidated and purchasing and payment process. HHSC also needs to establish performance measures that assess the overall efficiency and effectiveness of purchasing and payments.

January 2006 report on HHSC's consolidation of administrative support services: HHSC did not ensure that changes in contract terms were adequately documented or that the executed contract was amended.

- **HHSC has a history of developing poor revenue projections based on erroneous assumptions and inadequate analysis.**

  March 2003 audit: HHSC overestimated the revenue from the CHIP rebate program it initiated. As a result of erroneous assumptions and inadequate analysis, HHSC projections of CHIP drug revenue rebate decreased from $9.6 million to $4.5 million for the 2002-03 biennium.

  March 2003 audit: Early data produced by HHSC indicates that its anticipated cost savings from the drug rebate program may not be realized.

  September 2005 audit: HHSC's decision to outsource human resources and payroll services was not based on accurate cost data. Because of significant errors and omissions in cost data for both the outsourced and optimized in-house models, auditors were not able to determine whether the decision to outsource human resources and payroll services was cost effective.

  September 2005 audit: As of August 2005, HHSC reported that it had not yet achieved any cost savings from outsourcing human resources and payroll services.

Endnotes

[1] Texas State Auditor's Office, *An Audit Report on The Children's Health Insurance Program at the Health and Human Services Commission* (Austin, Texas, March 2003), p. i.

[2] Texas State Auditor's Office noted that their preliminary work has not been subjected to all the tests and verifications of an audit.

[3] Texas State Auditor's Office *The Health and Human Services Commission's Monitoring of Managed Care Contracts* (Austin, Texas, November 2003), p. i.

[4] Texas State Auditor's Office *The Health and Human Services Commission's Administration* (Austin, Texas, July 2004), p. i-iv.

[5] Texas State Auditor's Office, *The Health and Human Services Commission's Consolidation of Administrative Support Services*, (Austin, Texas, January 2005), p. i.

[6] Texas State Auditor's Office, *An Audit Report on The Children's Health Insurance Program at the Health and Human Services Commission* (Austin, Texas, March 2003), p. i.

[7] Texas State Auditor's Office, *The Health and Human Services Commission's Monitoring of Its Contracted Medicaid Administrator* (Austin, Texas, January 2005), p. i.

Appendix 3
RFP/Contract Timeline

Appendix 3
Timeline HHSC Accenture IEES Project

Date	Event	Comments
June 10, 2003	H.B. 2292 signed into law	Establishes an eligibility services division within the HHSC. "The commission by rule, shall establish at least one but not more than four call centers for the purposes of determining and certifying or recertifying a person's eligibility and need for services related to the programs listed under Section 531.008, if cost effective."
June 2003	TIERS is implemented in four pilot offices in Travis and Hays counties	
February 2004	Discovery Report produced	Discovery report says that call centers are feasible and recommends moving forward with a business case model and cost analysis.
March 2004	Business Case Analysis produced	Report says it is financially feasible to Texas to operate a call center, it is operationally feasible to support eligibility determination through a call center, and it is not known if outsourcing is cost-effective. Recommend producing a Request for Proposals to determine if outsourcing call centers is cost effective.
April 30 - May 15, 2004	Public Hearings on call center rules and eligibility call center model	Public comments "The timeline for implementation is too aggressive."
June 8, 2004	HHSC released a draft request for proposals regarding the implementation and operation of call centers	
July 22, 2004	Final release of RFP	
September 30, 2004	Vendor proposals due	
February 25, 2005	HHSC announces tentative awarding of contract	
June 29, 2005	HHSC signs contract with Accenture	Accenture leads a consolidated group of vendors known as TAA
November 1, 2005	Accenture's subcontractor Maximus takes over Enrollment broker operations for CHIP and Medicaid	CHIP HMO enrollment services were previously managed by ACS. Medicaid HMO enrollment was managed by Maximus.
November 1, 2005	Accenture takes over TIERS maintenance from Deloitte	
November 16, 2005	Accenture's subcontractor Maximus takes over CHIP vendor operations from ACS	Maximus takes over applications in work from ACS and begins processing on December 1, 2005.
January 1, 2006	Accenture begins receiving new Childrens Medicaid applications statewide	Call center and processing don't begin until January 20th. HHSC rescinded this work on May 10, 2006.
January 20, 2006	Accenture opens call center and begins processing eligibility applications for Medicaid, TANF and Food Stamps for Travis and Hays Counties.	HHSC termed this date as the "Phase 0 roll out."
April 2006	HHSC announces that it would delay further IEES rollouts.	Hill Country counties were originally scheduled for roll out in February 2006, delayed first to April 30, 2006 and then finally put on hold indefinitely.
May 10, 2006	All adult Medicaid, TANF and food stamp applications in Travis and Hays counties are directed back to state staff in the local state offices.	New children's Medicaid applications statewide continue to be processed by Accenture

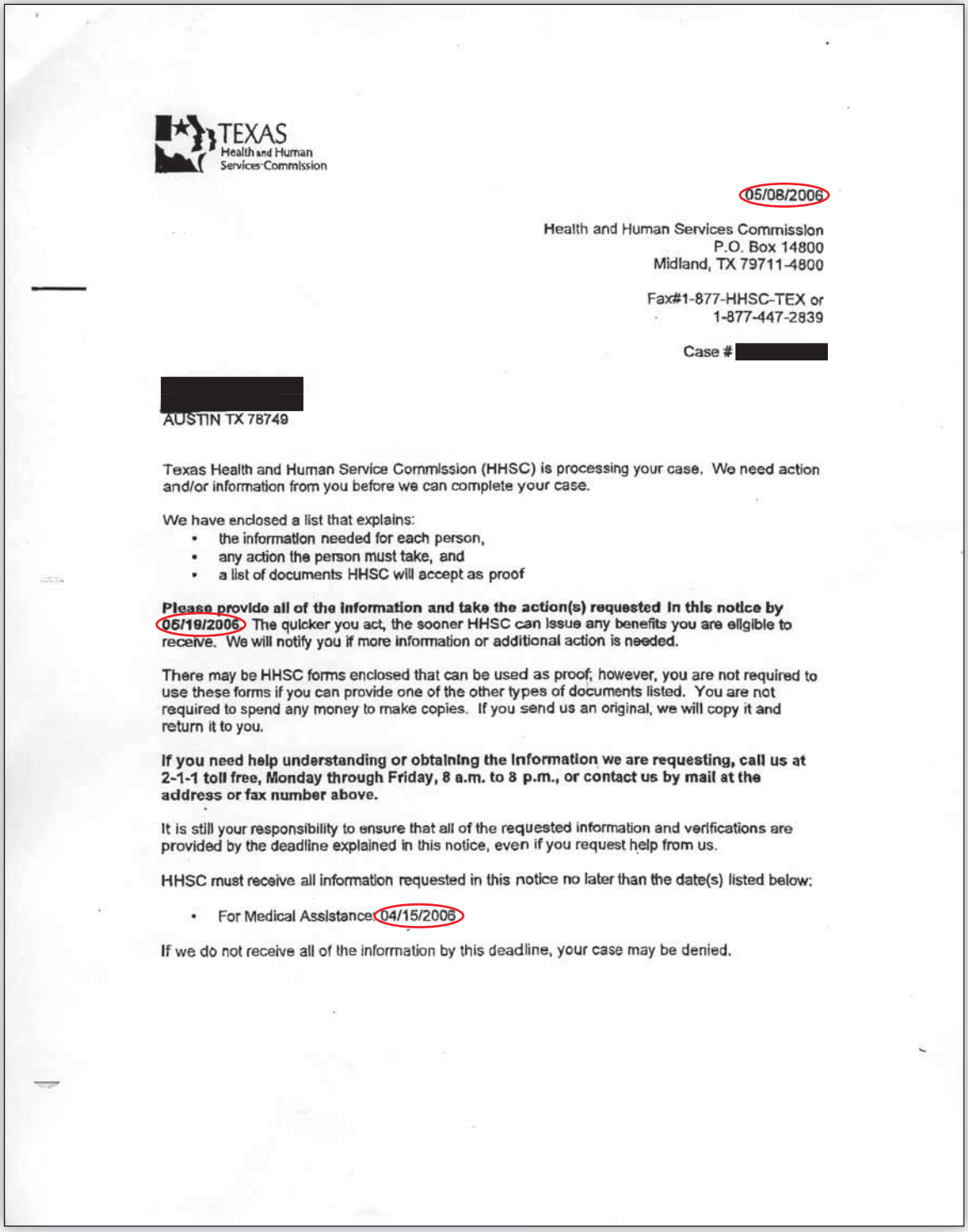
Appendix 4
Letters from Accenture to Clients

Example 1: Accenture's response to Children's Medicaid application
- The letter gives two different dates as deadlines to receive the required information.
- The letter is dated May 8, 2006, yet it requires information to be returned by April 15, 2006.
- The letter includes an attachment grid of required information that is unnecessary to the application process and confusing.

Example 2: Accenture's response to Children's Medicaid application
- The letter gives two different dates as deadlines to receive the required information.
- The letter is dated May 3, 2006, yet it requires information to be returned by March 26, 2006.
- The letter includes an attachment grid requiring excessive information.

Example 3: Accenture's response to CHIP application
- The letter is dated April 13, 2006, and requires the parent to pay an enrollment fee only three days later, by April 16, 2006. Even if the letter had been received on the day it was written, three days is insufficient time for the client to mail in a check and Accenture to process it before eligibility would be lost.
- The parent received the letter in the mail on April 19, 2006, thus missing the deadline, and lost CHIP coverage.
- Following the letter is the client's chronological documentation of the problems she experienced.

Appendix 4 – Example 1 (letter)
Accenture's response to Children's Medicaid application



TEXAS
Health and Human
Services Commission

05/08/2006

Health and Human Services Commission
P.O. Box 14800
Midland, TX 79711-4800

Fax#1-877-HHSC-TEX or
1-877-447-2839

Case # [redacted]

[redacted]
AUSTIN TX 78749

Texas Health and Human Service Commission (HHSC) is processing your case. We need action and/or information from you before we can complete your case.

We have enclosed a list that explains:

- the information needed for each person,
- any action the person must take, and
- a list of documents HHSC will accept as proof

Please provide all of the information and take the action(s) requested in this notice by 05/19/2006. The quicker you act, the sooner HHSC can issue any benefits you are eligible to receive. We will notify you if more information or additional action is needed.

There may be HHSC forms enclosed that can be used as proof; however, you are not required to use these forms if you can provide one of the other types of documents listed. You are not required to spend any money to make copies. If you send us an original, we will copy it and return it to you.

If you need help understanding or obtaining the information we are requesting, call us at 2-1-1 toll free, Monday through Friday, 8 a.m. to 8 p.m., or contact us by mail at the address or fax number above.

It is still your responsibility to ensure that all of the requested information and verifications are provided by the deadline explained in this notice, even if you request help from us.

HHSC must receive all information requested in this notice no later than the date(s) listed below:

- For Medical Assistance: 04/15/2006

If we do not receive all of the information by this deadline, your case may be denied.

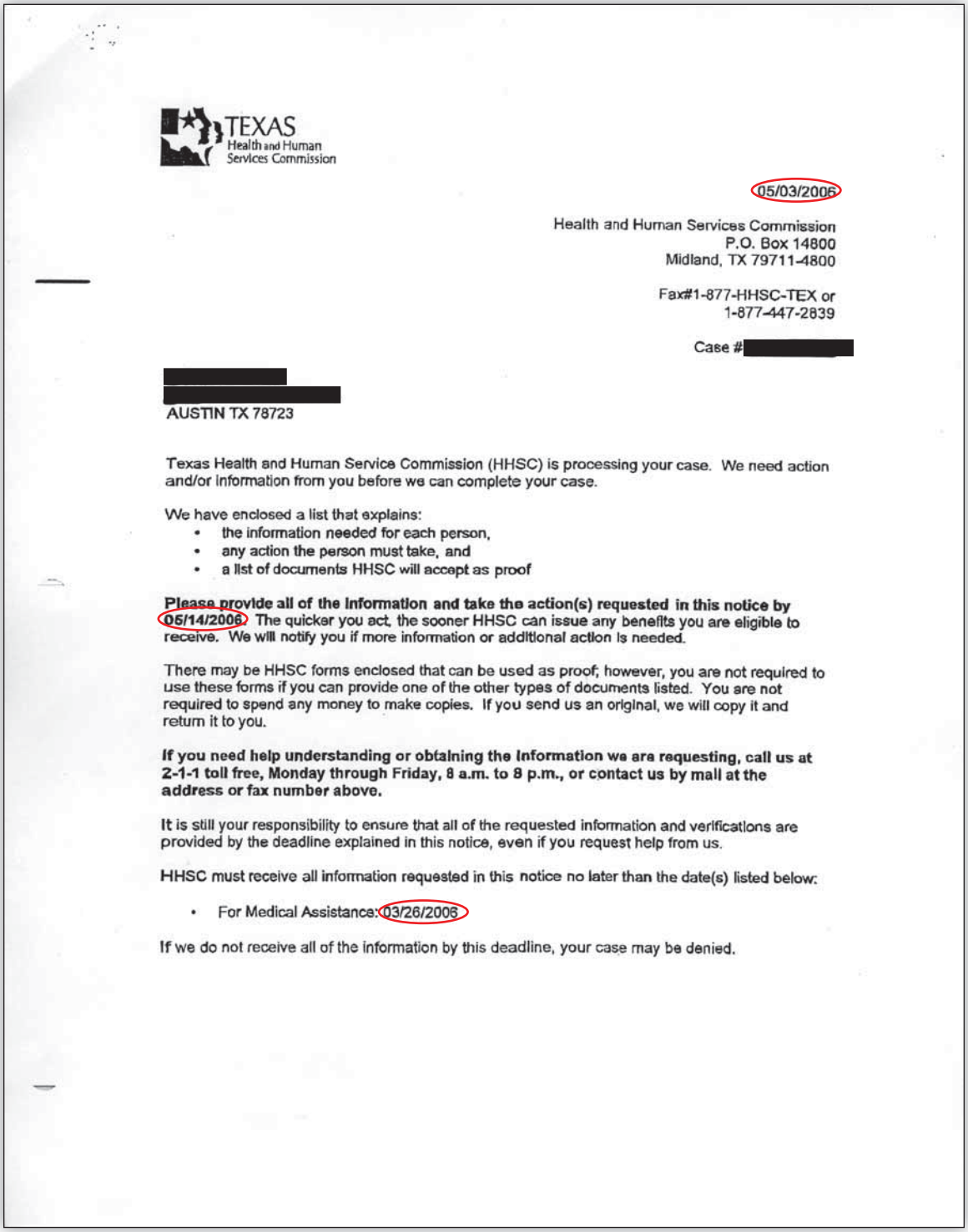
Appendix 4 – Example 1 (grid)
Accenture's response to Children's Medicaid application

Form H1020A
1/2006

LIST OF INFORMATION NEEDED AND/OR ACTION REQUIRED:

Name(s)[1]	Program(s)[2]	Information/Action Requested[3]	Acceptable Verification/Proof[4]
[redacted]	Medicaid	For anyone in the household who has or expects to have shelter expenses, provide one of the items listed on this notice.	Rent: FS Statement from landlord or property manager; Receipt; Lease contract; Copy of checks Mortgage: FS Receipt; Statement from mortgage company or bank; Closing papers; Copy of checks Home Insurance: FS/ME/MC/CC Receipt; Copy of checks; Statement from insurance company Property Tax: FS/ME/MC/CC Receipt; Statement from mortgage company or bank; Copy of checks; Tax records; Home Maintenance: NF, ICFMR, State School, Institutions for Mental Disease Form 1280 Statement of Residence Maintenance Needs
[redacted]	Medicaid	Provide age verification.	MA/TF: Adoption records or papers, Paternity records, Birth certificate, Census records, Church or baptismal records, Child support order, Child welfare records, Family Bible records, Hospital, Indian census records, INS, Insurance policy, Court records or other legal document, Social service agency, School or day care records, SOLQ/WTPY Government record, Doctor or clergy, Non-relative, U.S. passport, Government record
[redacted]	Medicaid	Expenses are greater than income. Please provide information as to how you are paying your bills.	All Programs: You must provide verification of how you are meeting your expenses or proof your expenses are not paid

Appendix 4 – Example 2 (letter)
Accenture's response to Children's Medicaid application



TEXAS
Health and Human
Services Commission

05/03/2006

Health and Human Services Commission
P.O. Box 14800
Midland, TX 79711-4800

Fax#1-877-HHSC-TEX or
1-877-447-2839

Case #[redacted]

[redacted]
AUSTIN TX 78723

Texas Health and Human Service Commission (HHSC) is processing your case. We need action and/or information from you before we can complete your case.

We have enclosed a list that explains:

- the information needed for each person,
- any action the person must take, and
- a list of documents HHSC will accept as proof

Please provide all of the information and take the action(s) requested in this notice by 05/14/2006. The quicker you act, the sooner HHSC can issue any benefits you are eligible to receive. We will notify you if more information or additional action is needed.

There may be HHSC forms enclosed that can be used as proof; however, you are not required to use these forms if you can provide one of the other types of documents listed. You are not required to spend any money to make copies. If you send us an original, we will copy it and return it to you.

If you need help understanding or obtaining the information we are requesting, call us at 2-1-1 toll free, Monday through Friday, 8 a.m. to 8 p.m., or contact us by mail at the address or fax number above.

It is still your responsibility to ensure that all of the requested information and verifications are provided by the deadline explained in this notice, even if you request help from us.

HHSC must receive all information requested in this notice no later than the date(s) listed below:

- For Medical Assistance: 03/26/2006

If we do not receive all of the information by this deadline, your case may be denied.

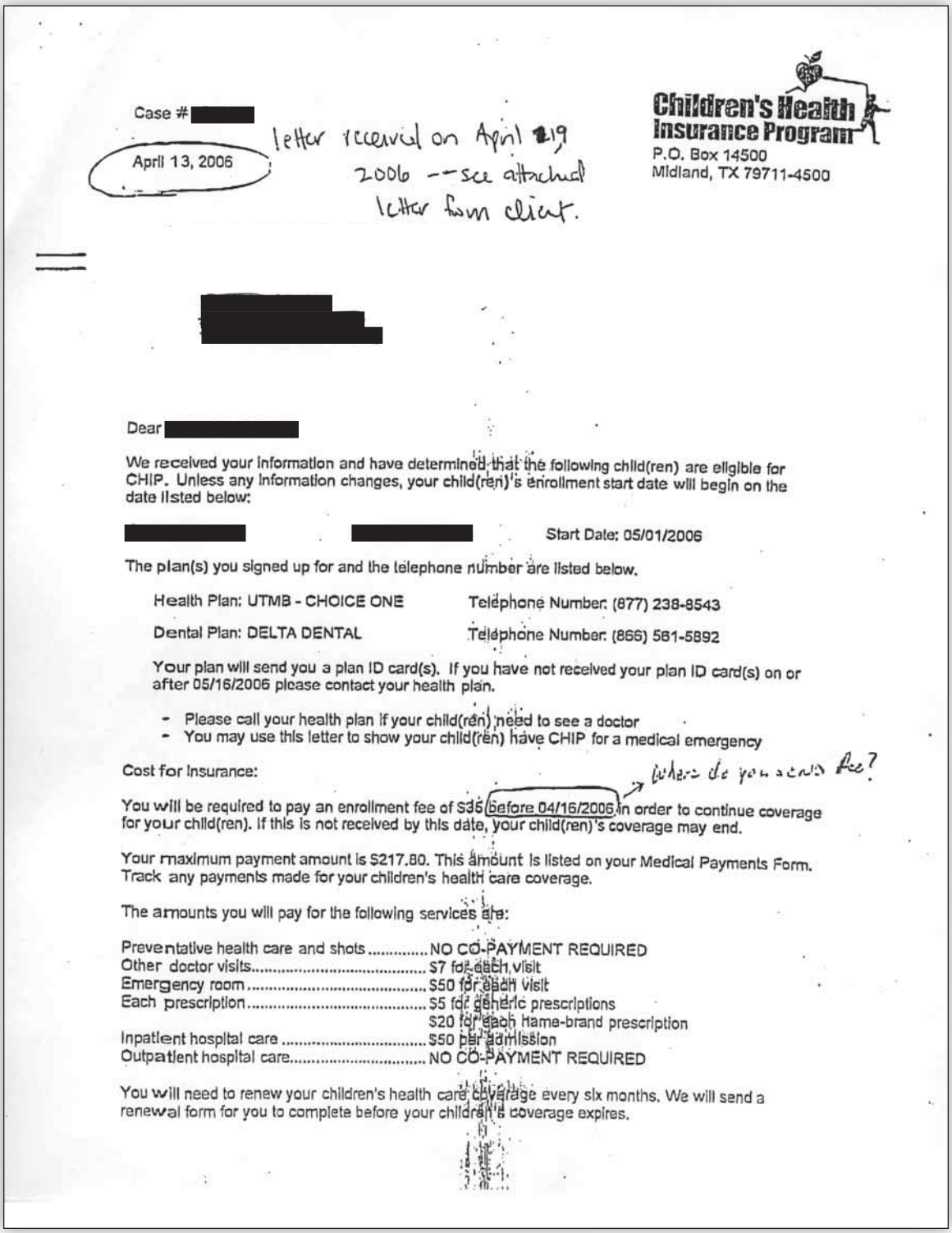
Appendix 4 – Example 2 (grid)
Accenture's response to Children's Medicaid application

LIST OF INFORMATION NEEDED AND/OR ACTION REQUIRED:

Form H1020A
1/2008

Name(s)[1]	Program(s)[2]	Information/Action Requested[3]	Acceptable Verification/Proof[4]
[redacted]		For anyone in the household who is employed or has been employed in the last 60 days, provide one of the items listed on this notice.	All Programs: Copy of checks, stubs, or earnings statements; Form 1028 Employment Verification; Statement from Employer
[redacted]		For anyone in the household who has a liquid resource, such as cash, checking or savings account, certificate of deposit, trusts, stocks or bonds, provide one of the items listed on this notice for that type of resource.	All Programs: Annuity: Annuity contract or agreement; If applying for Medical Assistance for the Elderly and Disabled provide quotes from two competing annuity companies (check with Center for Health Literacy) Bank: Bank statement; Form 1239 - Verification of Bank Accounts, Bond: Bond certificate; Statement from bank, brokerage or securities firm; Statement from issuing company/agency/organization Cash on hand: Client statement Mineral Rights: Tax appraisal/collector office; Form 1242 - Verification of Mineral Rights; Lease; Royalty statement; Statement from oil or gas company representative Patient Trust fund: Form 1278 - Request for Patient Trust Fund Verification; Statement from facility Promissory Notes: Promissory notes; Amortization schedule; Stocks: Statement from brokerage, securities firm or issuing company/agency/organization; Stock certificate; Cash from sale of Homestead: Statement from issuing company/agency/organization; Check or check stub;Closing documents; Purchaser/note holder statement; Amortization schedule; Statement from bank or financial institution IDA: Bank statement; Form 1239 - Verification of Bank Account EIC: Employer statement; Tax return or IRS form Texas Fund: Fund statement; Form 1239 - Verification of Bank Account; Retirement accounts, IRAs and Keoghs: Statement from issuing company/agency/organization; Award letter; Check stub; Death Benefit: Statement from payment provider company/agency/organization; Award letter; Form 1238 - Verification of Insurance Policies; Court record or other legal document;
[redacted]		For anyone in the household who has a dependent care expense, provide one of the items listed on this notice.	All Programs: TF/FS/TANF-related Medicaid: Provider statement or bill; Receipts; Copy of check/check stub

Appendix 4 – Example 3 (letter)
Accenture's response to CHIP application



Case # [redacted]

April 13, 2006

letter received on April 19 2006 -- see attached letter from client.

Children's Health Insurance Program
P.O. Box 14500
Midland, TX 79711-4500

[redacted]

Dear [redacted]

We received your information and have determined that the following child(ren) are eligible for CHIP. Unless any information changes, your child(ren)'s enrollment start date will begin on the date listed below:

[redacted] [redacted] Start Date: 05/01/2006

The plan(s) you signed up for and the telephone number are listed below.

Health Plan: UTMB - CHOICE ONE Telephone Number: (877) 238-8543

Dental Plan: DELTA DENTAL Telephone Number: (866) 581-5892

Your plan will send you a plan ID card(s). If you have not received your plan ID card(s) on or after 05/16/2006 please contact your health plan.

- Please call your health plan if your child(ren) need to see a doctor
- You may use this letter to show your child(ren) have CHIP for a medical emergency

Cost for Insurance:

where do you send fee?

You will be required to pay an enrollment fee of $35 before 04/16/2006 in order to continue coverage for your child(ren). If this is not received by this date, your child(ren)'s coverage may end.

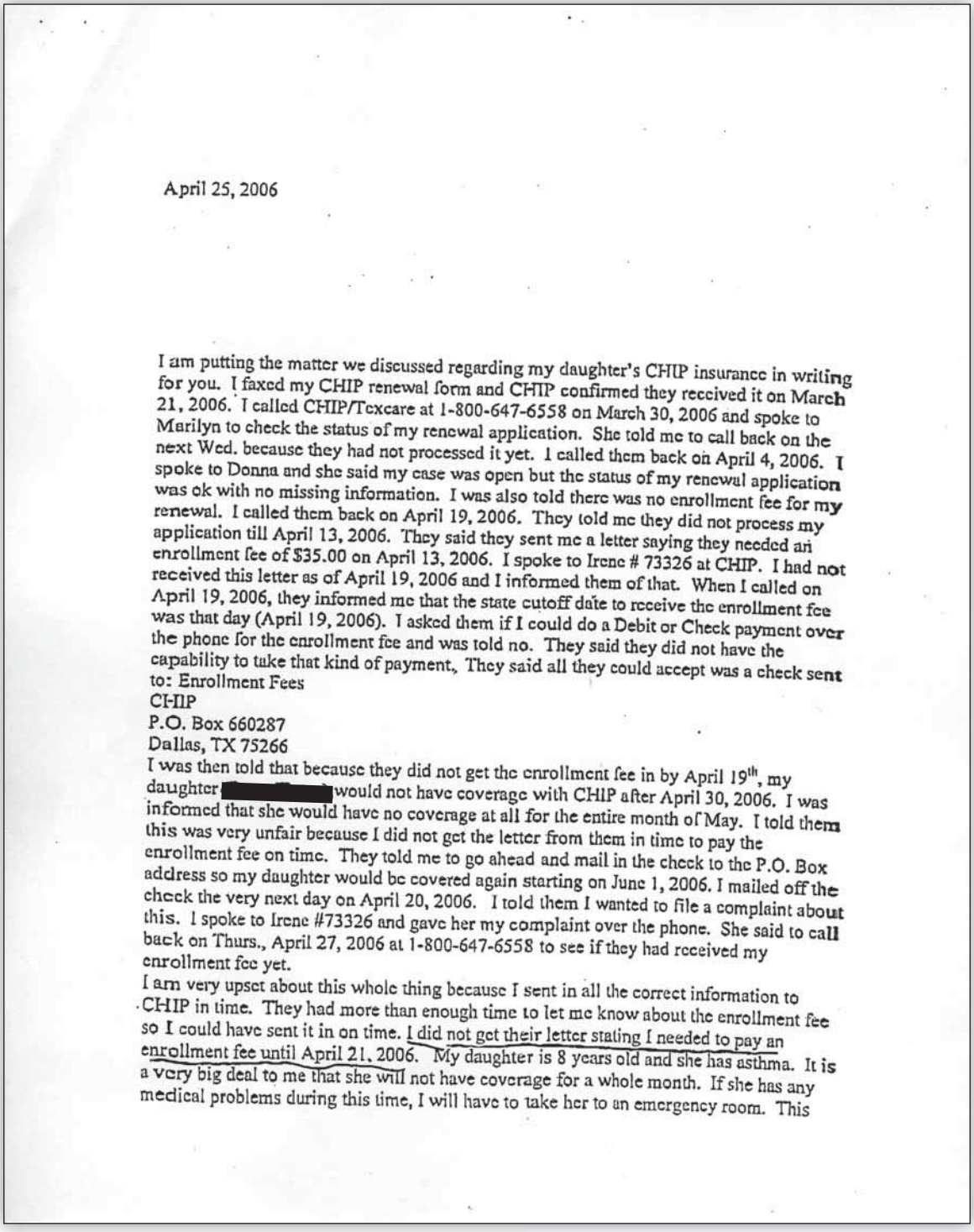
Your maximum payment amount is $217.80. This amount is listed on your Medical Payments Form. Track any payments made for your children's health care coverage.

The amounts you will pay for the following services are:

Preventative health care and shots	NO CO-PAYMENT REQUIRED
Other doctor visits	$7 for each visit
Emergency room	$50 for each visit
Each prescription	$5 for generic prescriptions $20 for each name-brand prescription
Inpatient hospital care	$50 per admission
Outpatient hospital care	NO CO-PAYMENT REQUIRED

You will need to renew your children's health care coverage every six months. We will send a renewal form for you to complete before your children's coverage expires.

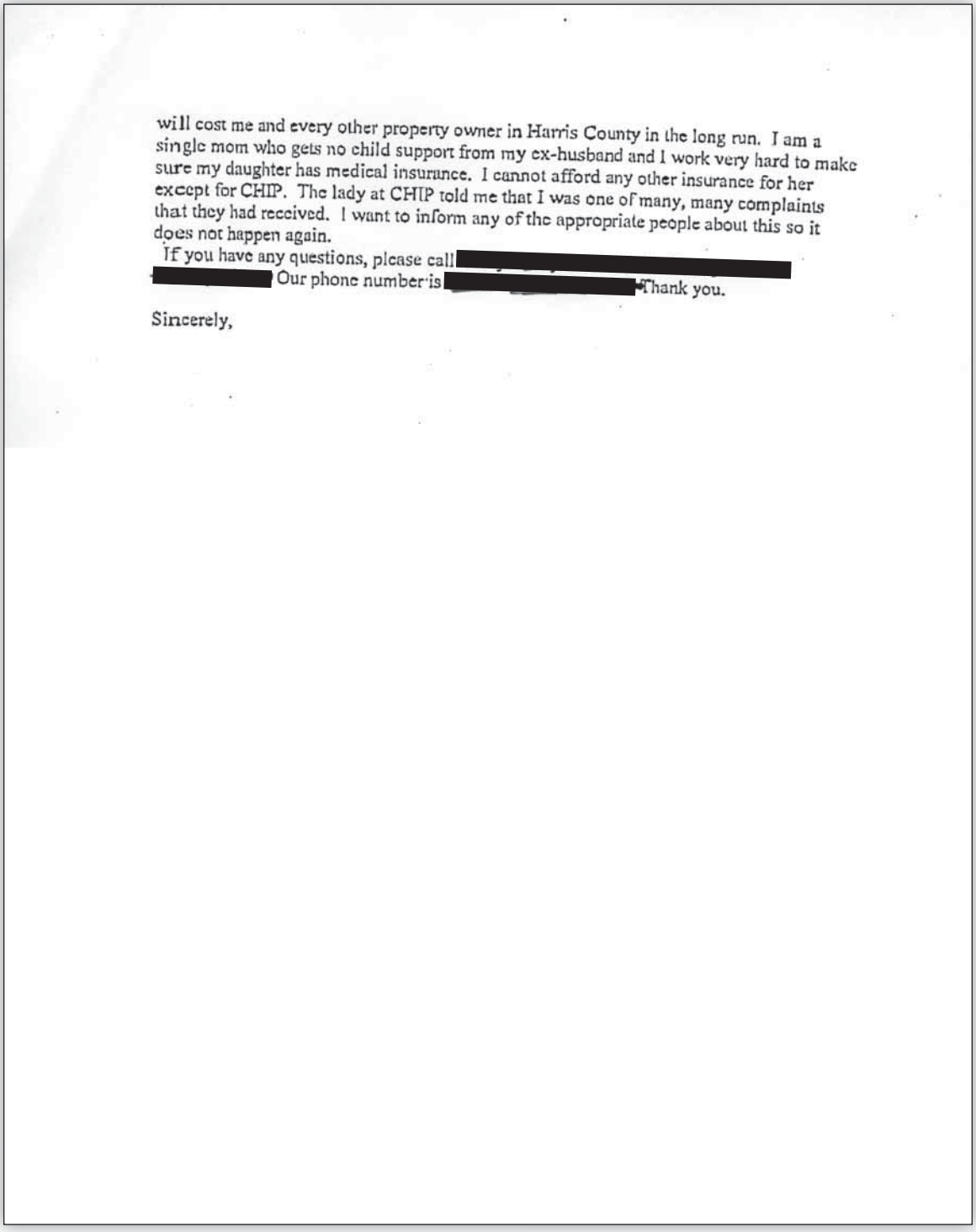
Appendix 4 – Example 3 (letter from client)
Accenture's response to Children's Medicaid application



April 25, 2006

I am putting the matter we discussed regarding my daughter's CHIP insurance in writing for you. I faxed my CHIP renewal form and CHIP confirmed they received it on March 21, 2006. I called CHIP/Texcare at 1-800-647-6558 on March 30, 2006 and spoke to Marilyn to check the status of my renewal application. She told me to call back on the next Wed. because they had not processed it yet. I called them back on April 4, 2006. I spoke to Donna and she said my case was open but the status of my renewal application was ok with no missing information. I was also told there was no enrollment fee for my renewal. I called them back on April 19, 2006. They told me they did not process my application till April 13, 2006. They said they sent me a letter saying they needed an enrollment fee of $35.00 on April 13, 2006. I spoke to Irene # 73326 at CHIP. I had not received this letter as of April 19, 2006 and I informed them of that. When I called on April 19, 2006, they informed me that the state cutoff date to receive the enrollment fee was that day (April 19, 2006). I asked them if I could do a Debit or Check payment over the phone for the enrollment fee and was told no. They said they did not have the capability to take that kind of payment. They said all they could accept was a check sent to: Enrollment Fees
CHIP
P.O. Box 660287
Dallas, TX 75266
I was then told that because they did not get the enrollment fee in by April 19th, my daughter [redacted] would not have coverage with CHIP after April 30, 2006. I was informed that she would have no coverage at all for the entire month of May. I told them this was very unfair because I did not get the letter from them in time to pay the enrollment fee on time. They told me to go ahead and mail in the check to the P.O. Box address so my daughter would be covered again starting on June 1, 2006. I mailed off the check the very next day on April 20, 2006. I told them I wanted to file a complaint about this. I spoke to Irene #73326 and gave her my complaint over the phone. She said to call back on Thurs., April 27, 2006 at 1-800-647-6558 to see if they had received my enrollment fee yet.
I am very upset about this whole thing because I sent in all the correct information to CHIP in time. They had more than enough time to let me know about the enrollment fee so I could have sent it in on time. I did not get their letter stating I needed to pay an enrollment fee until April 21, 2006. My daughter is 8 years old and she has asthma. It is a very big deal to me that she will not have coverage for a whole month. If she has any medical problems during this time, I will have to take her to an emergency room. This

Appendix 4 – Example 3 (letter)
Accenture's response to CHIP application



will cost me and every other property owner in Harris County in the long run. I am a single mom who gets no child support from my ex-husband and I work very hard to make sure my daughter has medical insurance. I cannot afford any other insurance for her except for CHIP. The lady at CHIP told me that I was one of many, many complaints that they had received. I want to inform any of the appropriate people about this so it does not happen again.

If you have any questions, please call [redacted] Our phone number is [redacted] Thank you.

Sincerely,

Appendix 5
Accenture's Pricing Summary

Vendor's Company Name: ACCENTURE LLP

Appendix A-3
Price Summary Sheet 6
Projected Contract Price Summary

A summary of the overall projected contract value, including fixed and estimated variable administrative fees and HHSC retained pass through costs. Fixed administrative fees should tie to Appendix A-3, Schedules 1a and 1b for transition and conversion/ramp-up, and to Appendix A-3, Schedule 2 for operations. Variable administrative fees for each component should tie to the applicable unit rates bid in Appendix A-3, Schedules 3, 4a and 4b. Retained pass through costs should tie to the associated costs identified in the Appendix A-1 and A-2 pricing schedules.

			Operational Contract Years[1]					
Category of Service	Transition	Conversion/ Ramp-up	Year 1	Year 2	Year 3	Year 4	Year 5	Total Contract
Fixed Administrative Fees								
Integrated Eligibility services	$ 45,741,720	$ 16,420,205	$ 47,043,376	$ 40,786,559	$ 39,410,872	$ 40,826,046	$ 22,687,267	$ 252,916,046
CHIP Eligibility services[2]	N/A	N/A	$ 918,393	N/A	N/A	N/A	N/A	$ 918,393
Children's Medicaid services[3]	N/A	N/A	$ 816,295	N/A	N/A	N/A	N/A	$ 816,295
TIERS Maintenance services	$ 27,886,919	$ 6,818,611	$ 33,555,179	$ 33,971,781	$ 34,756,301	$ 33,138,606	$ 16,907,768	$ 187,035,165
Enrollment Broker services	$ 2,190,396	N/A	$ 8,051,397	$ 8,190,473	$ 8,639,461	$ 8,895,304	$ 5,992,118	$ 41,959,149
Sub-total Fixed Administrative Fees	$ 75,819,035	$ 23,238,816	$ 90,384,641	$ 82,948,813	$ 82,806,634	$ 82,859,956	$ 45,587,153	$ 483,645,048
Estimated Variable Administrative Fees								
Integrated Eligibility services			$ 42,828,861	$ 81,680,320	$ 79,713,136	$ 77,800,913	$ 38,003,100	$ 320,026,329
CHIP Eligibility services[2]			$ 1,108,175	N/A	N/A	N/A	N/A	$ 1,108,175
Children's Medicaid services[3]			$ 7,244,723	N/A	N/A	N/A	N/A	$ 7,244,723
TIERS Maintenance services			N/A	N/A	N/A	N/A	N/A	N/A
Enrollment Broker services			$ 18,261,495	$ 18,723,847	$ 18,723,847	$ 18,723,847	$ 12,482,564	$ 86,915,600
Sub-total Variable Administrative Fees			$ 69,443,254	$ 100,404,166	$ 98,436,982	$ 96,524,759	$ 50,485,665	$ 415,294,827
Total Projected Contract Price	**$ 75,819,035**	**$ 23,238,816**	**$ 159,827,895**	**$ 183,352,979**	**$ 181,243,617**	**$ 179,384,715**	**$ 96,072,818**	**$ 898,939,874**
HHSC Estimated Retained Pass through Expenses								
Postage	N/A	N/A	$ 7,025,344	$ 11,581,904	$ 11,674,375	$ 11,766,935	$ 7,906,414	$ 49,954,972
Printing	N/A	N/A	$ 2,437,326	$ 3,560,996	$ 3,620,588	$ 3,681,968	$ 2,496,797	$ 15,797,676
Maintenance - Hardware and Software	$ 2,665,281	$ -	$ 5,930,898	$ 6,055,303	$ 6,406,646	$ 6,515,747	$ 1,413,837	$ 28,987,713
Sub-total Retained Pass through Expenses	$ 2,665,281	$ -	$ 15,393,568	$ 21,198,203	$ 21,701,609	$ 21,964,650	$ 11,817,049	$ 94,740,361
								$ -
Total Projected Price (inc. retained expenses)	**$ 78,484,316**	**$ 23,238,816**	**$ 175,221,463**	**$ 204,551,182**	**$ 202,945,226**	**$ 201,349,365**	**$ 107,889,867**	**$ 993,680,235**

Note(s):
1. The contract operational years for Integrated Eligibility services are defined in Appendix A-3, Schedule 2.
2. The fixed and variable prices for CHIP Eligibility services provided during the period November 16, 2005 – December 31, 2005 (until the IE component becomes fully operational on December 1, 2005) shall be itemized separately above in Operational Contract Year 1.
3. Effective January 1, 2006, only incremental fixed pricing for Children's Medicaid services shall be itemized separately in Operational Contract Year 1. If there is no incremental fixed price on or after January 1, all Children's Medicaid fixed pricing shall be included with the proposed fixed prices for the Integrated Eligibility Services component above.

Appendix 6
Key Performance Requirements Listing

Appendix 6
Key Performance Requirements (KPR)

KPR	Earn Back Category	Program	Description	Maximum Liquidated Damage	Active?
1a	A+	IE	Food Stamp Error Rate: under-issuance and denial	$70,000	Not Active
1b	A	IE	Food Stamp Error Rate - other errors (see 1a)	$70,000	Not Active
2	A+	IE	Medicaid Error Rate	$70,000	Not Active
3	A	CHIP	CHIP Error Rate	$70,000	Not Active
4	A	TIERS	Accuracy of information	$56,000	Not Active
5	C	PM	Annual Business Plan	$14,000	Active
7	B	TIERS	Major IEE Outage Notification	$14,000	Active
8	B	PM	State Action Request (SAR) Memos - Responsiveness	$7,000	Active
10	A	IE	Refer clients appropriately	$56,000	Not Active
11	B	IE	Customer Satisfaction Level	$56,000	Not Active
12	C	EB	Complaint Report	$7,000	Active
14	A	CHIP	Cost Sharing Accuracy	$56,000	Active
15	A+	CHIP	Deposit Cost Sharing Payments Timeframe	$14,000	Active
16	A	CHIP	Cost Sharing Reconciliation	$14,000	Active
17	A	CHIP	Cost Sharing Refund Accuracy	$56,000	Active
18	C	IE	Inquiry handling methods and procedures plan	$14,000	Active
19	A	IE	Blocked call volume (busy signal)	$56,000	Not Active
20	B	IE	Perceived speech quality	$56,000	Not Active
21	C	IE	Monitored call percentage	$56,000	Active
22	A	IE	Abandoned call rate < 5%: Medicaid, TANF, Food Stamps	$56,000	Active
23	A	IE	Caller hold time	$56,000	Active
24	A	IE	IVR Rescue rate	$56,000	Active
25	A	IE	100% Calls Answered within 4 rings	$56,000	Not Active
26	C	IE	Dispute and Complaint Plan submission	$14,000	Active
27	B	IE	Dispute and Complaint Plan compliance	$56,000	Active
28	A	EB	Establish a Customer Help Line	$56,000	Active
30	A	EB	EB Abandoned Call rate < 15%	$56,000	Active
31	A	EB	211 after hours script for NorthSTAR	$14,000	Active
35	B	TR	Turnover Plan	$70,000	Not Active
36	C	PM	Disaster Recovery Plan	$14,000	Active
37	B	PM	Disaster Recovery Plan Execution	$14,000	Active
38	B	EB	Submit Educational Materials for approval	$70,000	Active
39	A+	EB	Enrollment Timeframe	$14,000	Active
40	A	EB	Enrollment Package Distribution Timeframe	$14,000	Active
41	A	EB	"Failure to Respond" Follow up with client	$14,000	Active
43	A+	EB	Maintain Confidentiality of client data	$140,000	Active
44	B	EB	Enrollment corrections responsiveness	$14,000	Not Active

Appendix 6
Key Performance Requirements (KPR)

KPR	Earn Back Category	Program	Description	Maximum Liquidated Damage	Active?
45	A	IE	In/Outbound Document Processing Timeframes	$14,000	Not Active
46	C	PM	Communication and Coordination Management Plan	$7,000	Active
47	B	PM	Key Personnel Replacement	$14,000	Active
48	B	TR	Meet Key Milestone Dates	$70,000	Active
49	B	TIERS	Provide System test, training and development Environments	$60,000	Active
50	A+	EB	HMO Enrollment Action Timeliness	$14,000	Active
51	A	EB	Provide Enrollment Files to HMOs	$14,000	Active
52	A	EB	TPR Data Transmission	$7,000	Active
54a	C	TIERS	TIERS Create Joint Integration Plan	$14,000	Active
54b	C	EB	EB Create Joint Integration Plan	$14,000	Active
56	C	EB	Conduct quality evaluation of EB Outreach and Education	$7,000	Active
57	C	EB	Performance standards of EB Outreach and Education	$14,000	Active
58	B	EB	EB Policy and Procedures Manual	$14,000	Active
59	B	PM	Weekly Management Report Submission	$14,000	Active
61	C	PM	Conduct audits and produce Quality Management Monthly Report	$14,000	Active
62	C	PM	Quality Assurance Program Plan	$14,000	Active
63a	B	TR	Readiness Assessment Plan	$14,000	Active
63b	B	TR	Readiness Assessment Report/Readiness Result Report	$56,000	Active
64	C	TR	Records Retention Plan and policies and procedures	$14,000	Active
65	B	TIERS	Reference table updates	$56,000	Active
66	B	TIERS	Table Change Approval	$35,000	Not Active
67	B	TIERS	Generate Required Reports and process documentation	$14,000	Active
68	C	PM	KPR Monitoring report	$14,000	Active
69	C	TIERS	TIERS report listing	$14,000	Active
70	C	EB	EB Reports	$14,000	Active
71a	A+	TIERS	Maintain voice systems and operations to 99% (does not include data systems)	$140,000	Active
71b	B	TIERS	Data systems and operations availability	$140,000	Active
72a	A+	TIERS	Maintenance Performance Levels 4 & 5	$140,000	Not Active
72b	B	TIERS	Maintenance Performance Levels 1-3	$35,000	Not Active
75a	B	PM	System security requirements	$35,000	Active
75b	B	TIERS	Maintain Security Features	$35,000	Active
79	B	TIERS	TIERS Utilization rates	$56,000	Not Active
80	C	PM	Change Request Responsiveness	$56,000	Active
81	B	TIERS	Implement TIERS changes on schedule	$14,000	Active
84	B	PM	Policy change estimate reports	$14,000	Active
86	B	TIERS	TIERS Response Time	$56,000	Not Active

Appendix 6
Key Performance Requirements (KPR)

KPR	Earn Back Category	Program	Description	Maximum Liquidated Damage	Active?
87	A+	IE	Food Stamp Application Processing Standards	$56,000	Not Active
88	A+	IE	Expedited Food Stamp Application Processing Standards	$56,000	Not Active
89	A	IE	Food Stamp Re-certifications: Client Verifications Request Timeliness	$56,000	Not Active
90	A	IE	Notice of required verification: Timeliness	$56,000	Not Active
91	A	IE	Notice of adverse action: Timeliness	$56,000	Not Active
92	B	IE	Case File Delivery Timeliness	$14,000	Not Active
93	A	IE	TANF Applications: Final Action Notification Timeliness	$56,000	Not Active
94	A	IE	TANF Redeterminations: Eligibility change - timeliness of notification	$56,000	Not Active
96	A	CHIP	Eligibility determination process timeliness	$56,000	Not Active
97	A+	CHIP	Eligibility Redetermination Timeliness	$56,000	Not Active
98	A	CHIP	Appeals timeliness	$56,000	Active
99	A+	IE	Refugee Medical Assistance Program Eligibility Determination Timeliness	$56,000	Not Active
100a	A	TIERS	Trading Partner Information Timeliness	$14,000	Not Active
100b	A	PM	Performance Management Plan	$14,000	Active
101	A	IE	Fraud and Abuse Reporting Timeliness	$14,000	Not Active
102	A	IE	Notice of Eligibility Determination Timeliness	$56,000	Not Active
104	A	IE	Supply Appeals Materials Timeliness	$56,000	Active
105	A+	IE	Medicaid Application Processing Timeliness	$56,000	Not Active
106	B	TR	Readiness Assessment Report	$56,000	Active
107	B	TR	Turnover Plan	$56,000	Not Active
108	B	EB	Provide Communications Material as Planned	$14,000	Active
			Total	**$3,819,000**	

Programs:
CHIP = Children's Health Insurance Plan
EB = HMO Enrollment Broker Services for Medicaid and CHIP
IE = Integrated Eligibility for Medicaid, TANF and Food Stamps
PM = Project Management
TIERS = Texas Integrated Eligibility Redesign System
TR = Transition Phase: July – December 2005

Note: The following KPR's were deleted from the contract: 6, 9, 13, 29, 32, 33, 34, 42, 53, 55, 60, 73, 74, 76, 77, 78, 82, 83, 85, 95, 103.
Source: Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture, Schedule 3.

Appendix 7
Integrated Eligibility Determination KPRs

Appendix 7
Integrated Eligibility: Medicaid, TANF and Food Stamps Eligibility Determination Timeliness and Accuracy Key Performance Requirements

IE Key Performance Requirement	Earnback Category (indicates Priority)	Performance Standard	Active?	Measurement: January - April 2006
1a and b	A+/A	Food Stamp Error Rate	Not Active	None
2	A+	Medicaid Error Rate	Not Active	None
4	A	Maintain accuracy of information collected by Accenture staff and shared with trading partners; 99% of data must be correct when compared to TIERS	Not Active: "The interpretation of KPR 4 is being disputed"	None
10	A	Refer clients appropriately to state local offices; 99% of clients referred should have been fully screened by Accenture and have a scheduled appointment, and the state worker has received complete screening documentation	Not Active	None
11	B	Percentage of clients surveyed express satisfaction with vendor customer service	Not Active	None
27	B	Dispute and complaint performance standards	Active	Accenture's performance was below standard.
45	A	Meet or exceed standards for processing inbound and outbound documents	Not Active:" Intent of this KPR is under review. Measurement is To Be Determined."	None
61	C	Produce Monthly Quality Management Report: Perform monthly audits on services and operations to identify and report compliance with laws and regulations	Active	Deliver report by 15th of month. No requirement for quality metrics reported to meet any performance threshold.
87	A+	Food Stamps Normal Application Processing Standards	Not Active: "This KPR is being finalized"	None
88	A+	Food Stamps Expedited Application Processing Standards: 99% within two hours and 100% within three days	Not Active: Measurement is "to be determined"	Accenture reported standards based on a random sample. Accenture never met the standard in any month.
89	A	Food Stamps Re-certifications: In 99% of cases, Accenture shall request verifications from the clients by the 15th of the last month of the client's certification period.	Not Active: Measurement is "to be determined"	Accenture reported its performance based on a random sample. Accenture never met the standard in any month.
90	A	Notice of Required Information Timeliness: In 100% of cases, Accenture shall mail the notice of required verification to the client for applications and renewals.	Not Active: "This KPR is being finalized"	None

Appendix 7
Integrated Eligibility: Medicaid, TANF and Food Stamps Eligibility Determination Timeliness and Accuracy Key Performance Requirements (cont.)

IE Key Performance Requirement	Earnback Category (indicates Priority)	Performance Standard	Active?	Measurement: January - April 2006
91	A	Notice of Adverse Action Timeliness: In 100% of cases, Accenture must mail clients notice of proposed action to terminate, discontinue or suspend their eligibility within three days.	Not Active: "Suspended/No Assessment"	None
93	A	TANF Applications Timeliness: In 100% of cases, Accenture will send client notification of final action within three days of receiving final determination from State.	Not Active: "Suspended/No Assessment"	None
94	A	TANF Redeterminations Timeliness: In 100% of cases, Accenture shall send notification to the client within three days.	Not Active: "Suspended/No Assessment"	None
99	A+	Refugee Medical Assistance Application Timeliness: Accenture shall complete its processes to allow the state no less than five business days to conduct its review and certification activities within federal 90 day deadline for Medicaid disability and 45 days for all other.	Not Active: "This KPR is being finalized"	None
100a	A	Trading Partner Information: Timeliness of client information collected by Accenture and shared with trading partners.	Not Active: "TAA will request a meeting with the State to review the approach to measuring Trading Partner timeliness.	None
102	A	Timeliness of Notice of eligibility determination: 100% mailed within three days.	Not Active: "This KPR is being finalized"	None
104	A	Appeals Timeliness: Mail information and documentation necessary for client to file an appeal within one mailing day of client inquiry 98% of the time.	Active	Accenture never met 98% standard: February 4%, March 8%, April 4.55%
105	A+	Medicaid Application Timeliness: Accenture must complete its processes to allow state no less than five calendar days to conduct review and eligibility determination within federal 90 day deadline for Medicaid disability and 45 days for all other applications.	Not Active: "This KPR is being finalized"	None

Sources: Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture, Schedule 3 and Texas Access Alliance, Texas Integrated Eligibility and Enrollment Services KPR 68 Monthly Monitoring Report for January, February and March 2006.

Appendix 8
FNS Summary

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline

June 10, 2003 H.B. 2292 signed into law.

October 21, 2003 Integrated Eligibility and Enrollment (IEE) Team formed.

March 2004 IEE Team produces its Business Case Analysis, which finds that it is financially feasible for Texas to operate a call center, and operationally feasible to support eligibility determination through this call center.

June 7, 2004 Federal Food and Nutrition Service (FNS) letter to HHSC:

> Further, keep in mind a state agency must obtain prior written approval from FNS in order to receive FNS federal funding for the development of automated systems. In addition, when states use contracted services to develop automated systems, they must obtain prior approval for the Request for Proposals and Contracts, subject to dollar thresholds.

June 8, 2004 HHSC releases a draft request for proposals (RFP) regarding the implementation and operation of call centers.

July 14, 2004 FNS letter to HHSC:

> We have reviewed the As Needed Advanced Planning Document Update (APDU) which was transmitted to our office via your June 21, 2004 letter. We are granting contingent approval of the As Needed APDU with the following constraints:
>
> (1) The final Request for Proposals (RFP) for these services must be submitted to the Food and Nutrition Service (FNS) for prior approval.
>
> (2) *The Health and Human Services Commission (HHSC)/Texas Department of Human Services (TDHS) must update FNS on TIERS and Integrated Eligibility and Enrollment activity on a regular basis. This update should occur at least once a month, or more frequent if needed.*
>
> (3) Once the cost, time frame, and program changes are known, HHSC/TDHS must submit another APDU to FNS for approval.
>
> (4) *Once a contractor has been chosen, HHSC/TDHS must submit the contract to FNS for approval prior to the award of the contract.* [emphasis added]

July 22, 2004 HHSC releases its final version of the RFP.

July 26, 2004 FNS letter to HHSC:

> Please be advised that, pending our approval of your RFP, you are proceeding at your own risk and that no federal funding for this initiative can be provided by the Food and Nutrition Service until we have fully approved it.

August 13, 2004 FNS letter to HHSC:

> The final contract must provide a contingency plan should the vendor fail to perform under the contract, in addition to a transition plan.
>
> Once HHSC/TDHS determines which vendor is its preference, *it must submit the contract to FNS for approval prior to the award of the contract.* [emphasis added] FNS must be provided the allowable 60-day time frame for a proper review.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

September 30, 2004 Vendor proposals due.

October 28, 2004 FNS letter to HHSC:

> *We continue to have concerns about the seemingly unrealistic timeframes for implementation of the State's plan, and urge you to provide sufficient time for pilot testing the new system.*
>
> USDA/FNS' position is that we have 60 days to adequately review the State's contract, per 7 CFR 277.18(c)(5). We will need sufficient time to review the document and will make every effort to respond promptly. While *we understand the State's urgency, we are concerned that the RFP was issued without our final approval*, and we will not rush an approval of the State's contract without a thorough review. [emphasis added]

January 6, 2005 FNS letter to HHSC:

> We have received your November 30, 2004 letter requesting expedited review and approval of the As Needed/Amendment 14 package for the Texas Integrated Eligibility Redesign System (TIERS)…. We are unsure as to why the State agency is modifying the environment now, when the final decision has not been made to go forward with the Integrated Eligibility and Enrollment (lEE) project…. *Please be aware that federal funding for this project could be in jeopardy if the State has acted on its own in this matter.* [emphasis added]

February 25, 2005 HHSC announces tentative awarding of contract.

May 16, 2005 FNS letter to HHSC:

> As we have advised you on a number of occasions, it is imperative that we have the opportunity to review and approve your proposed contract, in its entirety, before we approve the use of FNS funds for this project.
>
> As a Federal partner, we will continue to work with you and your staff to help ensure that this project succeeds and that funds are properly expended for that purpose. As you know, our prior approval of this contract is a critical prerequisite to that end. *Please be advised, though, that any decision by the State to proceed with your contract without our specific approval may result in the disallowance of Federal financial participation.* [emphasis added] As you are aware, Food Stamp Program regulations at 7 CFR 277.18(c) require that State agencies obtain prior written approval when planning to acquire automated data processing services with proposed Federal financial participation funds, and that we have 60 days to review the contract.

June 10, 2005 HHSC letter to FNS, et al:

> This letter requests a limited waiver of prior federal approval for the purpose of authorizing the Texas Health and Human Services Commission to execute a contract with Accenture, L.L.P., for Integrated Eligibility and Enrollment Services (IEES)…. We understand, of course, that during the period of any waiver of prior federal approval the State will use State funds only to pay for contracted ADP or services and that no federal funds will be available unless and until your agencies approve the contract…. We also want to emphasize that our request is intended to enable the State to begin implementation of the project contingent upon receipt of federal approval.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

June 28, 2005 HHSC letter to FNS, et al:

> Based on direction from Executive Commissioner Albert Hawkins following discussions with representatives of your office, we are withdrawing our request for a limited waiver of prior federal approval for the purpose of authorizing the Texas Health and Human Services Commission to execute a contract with Accenture, L.L.P., for Integrated Eligibility and Enrollment Services (IEES).

June 28, 2005 HHSC letter to FNS et al:

> We are, hereby, requesting federal review and approval of the contract for Integrated Eligibility and Enrollment Services (IEES) with Accenture, L.L.P. Contract negotiations have concluded and we are ready to proceed with this effort. Copies of the contract, which was evaluated at $898,939,874, are being provided to your office.

June 29, 2005 HHSC signs contract with Accenture.

June 30, 2005 FNS letter to HHSC:

> It was a pleasure to meet with your representatives at our National Office yesterday and receive a briefing on your Integrated Eligibility and Enrollment Services project and pending contract with Accenture…. While the contract is certainly important, it is essential that we receive and review an Implementation Advance Planning Document Update (IAPDU) that meets the requirements contained in FNS Handbook 901…. Once we receive the necessary documents and information, we will proceed with our review as expeditiously as possible. Please be reminded that our regulations allow us 60 days to respond once we have received the necessary documentation, however, we will make every attempt to expedite the review.

July 14, 2005 FNS letter to HHSC:

> This is to confirm our understandings and reiterate the concerns we expressed during our meeting with representatives from your agency in Dallas on July 7, 2005, on the Texas Integrated Eligibility Redesign System (TIERS) and Integrated Eligibility and Enrollment (lEE) Services project.
>
> State projects such as this typically follow the Advanced Planning Document (APD) sequence defined in FNS regulations and instructions. That sequence lays out an orderly way to present information that we need to review and approve these projects. *Texas, however, is not currently following that sequence, thus creating a more difficult review process.*
>
> There remains some information still to be submitted: a cost allocation plan, an updated budget, and an explanation of the cost savings to be realized from the TIERS and lEE Services project.
>
> *Finally, I need to reiterate that no Federal funds may be drawn from FNS for lEE services until we have completed our required review and granted approval. If Texas had followed the normal course of events, the State would have secured the approvals needed for Federal financial participation before the contract was signed. Since the contract was signed before obtaining our approval, the funds that are expended now must be State funds and may not be reimbursed by FNS.* [emphasis added]

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

September 7, 2005 FNS letter to HHSC:

> Thank you for the information you provided in your letter of August 31, 2005, which supplements previously submitted documents related to your Integrated Enrollment and Eligibility Services (IEES) received on June 29, 2005 (Request for Proposals and contract), July 7, 2005 (draft Advanced Planning Document Update), and July 27, 2005 (Advanced Planning Document Update). We understand from your August 31, letter that we will receive the requested contingency planning documents by September 9, 2005.

September 26, 2005 FNS letter to HHSC:

> We have just received your September 20, 2005 letter enclosing the TIERS/IEES Contingency Plans, and we will review the information promptly.

October 7, 2005 FNS letter to HHSC:

> The State needs to provide go/no-go decision criteria for the roll-out of MAX-E and for the evaluation of each implementation phase. The State has provided project/staffing contingency plans but not system contingency plans. We need an overall contingency plan that addresses system failures.

October 26, 2005 FNS letter to HHSC:

> This is to confirm the visit by Booz Allen Hamilton (BAH) scheduled for the week of November 14, 2005 in Austin. The Food and Nutrition Service (FNS) has contracted with BAH to provide technical expertise for our monitoring of the Texas Integrated Eligibility Redesign System (TIERS) and the Integrated Eligibility and Enrollment Services (IEES) project.

November 7, 2005 FNS letter to HHSC:

> We are pleased to notify you that the Food and Nutrition Service (FNS) is granting conditional approval of your Implementation Advance Planning Document Update (IAPDU) dated July 27, 2005, and your contract with Accenture for the Texas Integrated Eligibility Redesign System (TIERS) and the Integrated Eligibility and Enrollment Services (lEES) project dated June 29, 2005.
>
> After careful consideration, we have established two conditions associated with our approval: 1) Resolution of the filing date and application signature issue to overcome legal constraints and, 2) Submission of an acceptable cost allocation plan. With respect to Item 1, we are willing to grant our approval upon receipt of either a revision to your business model or an acceptable waiver request and receipt of an approvable call center script, as further discussed in the enclosure. We understand that development of the cost allocation plan is underway and submission is forthcoming.
>
> *Given the magnitude and innovative nature of the State's project, we believe that an assessment of the early phases of the project implementation is in our mutual best interests. Thus, FNS will provide incremental funding contingent upon the demonstrated success of key project phases.* [emphasis added]
>
> If you submit an acceptable proposal to resolve the outstanding certification issue within 30 days of the date of this letter, the initial FNS funding for the lEES project would be approved from the date of this letter through the end of your three-month first rollout phase.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

Please be assured that these conditions are not meant to unduly hinder or delay your planned Statewide rollout, but are only meant to ensure Federal funds are properly utilized and that the system performs as intended.

November 10, 2005 HHSC letter to FNS:

I received your letter of November 7, 2005, which offered conditional approval of the Texas Integrated Eligibility and Enrollment services project. . . We must respectfully but steadfastly disagree, however, with the conditions specified in your letter. We believe these conditions are both unnecessary and inappropriate. More importantly, we believe these conditions violate Congress' delegation of authority, under the Food Stamp Act, to the states to develop and implement a non-paper based application process:

"Nothing in this Act shall prohibit the use of signatures provided and maintained electronically, storage of records using automated retrieval systems only, or any other feature of a State agency's application system that does not rely exclusively on the collection and retention of paper applications or other records."

In light of this unambiguous declaration of Congressional intent, we urge USDA to reconsider its decision and remove the conditions contained in your letter.

Should (the FNS) position be maintained, we are prepared to revise our business process to remove the telephone filing of Food Stamp applications and relegate it to a paper-based process for applicants whose first contact with a food stamp office is via telephone, enhanced only by the opportunity to apply on-line.

Under the revised business process, Food Stamp applicants will be able to apply at a local office, by fax, by mail, or through the Internet, or for some applicants, in person at their home or another agreed upon location.

November 18, 2005 HHSC letter to FNS:

This is to follow up on our correspondence to you dated November 10, 2005, in which we offered to provide the USDA with a revised Food Stamp application business process that complies with the option offered to the Health and Human Services Commission (HHSC) in your letter dated November 7, 2005, for unconditional approval of the pending APDU.

The revised business process reflected in the two enclosures will improve on the access to benefits currently available to our clients. Of course, in light of USDA's position concerning the filing of applications by telephone, Food Stamp applicants will not be able to avail themselves of the full convenience of Texas' new eligibility system.

We have notified Governor Rick Perry that unless the state hears back otherwise from the USDA by November 23, 2005…the state has satisfied all of the USDA's criteria for unconditional approval of our APDU, and it is therefore approved unconditionally.

November 22, 2005 FNS letter to HHSC:

We have again reviewed the material relating to the legality of the State's proposed model, and find nothing which alters our determination that the Food Stamp Act requires a signed application, and that the only way to accommodate the model Texas initially put forward is through a demonstration waiver.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

We acknowledge that you disagree on the need for a demonstration waiver. We are disappointed that given two choices to revise your proposal, you took the one that does not provide the maximum assistance both to the applicant and the State. We do not understand why Texas would prefer to revise the proposed intake process for food stamp applicants rather than submit a waiver request. In earlier correspondence we stressed that FNS supported the proposed telephone application process, and would work closely with the State in developing the waiver request and providing an expedited approval.

We again encourage you to give serious consideration to our recommendation to request a demonstration waiver. To facilitate the waiver clearance process, we have enclosed a sample waiver request form…. The waiver would be granted for 5 years, the period of the TIERS/lEES contract.

In our previous discussions, we have agreed that given the extraordinary cost of these computer systems and the scope of service model changes, including the simultaneous implementation of TIERS and lEES, *judicious exercise of our fiduciary responsibility through project oversight is warranted….* We are exercising our authority to provide incremental funding as discussed in the Food Stamp Program regulations at 7 CFR 277.18(i)(5) and (n).

For over 20 years, both FNS and the Department of Health and Human Services have routinely used incremental funding for information technology projects. While projects may have been given overall approval, the actual funding approval is almost always provided for discrete periods, generally a year or so. For projects using new, innovative, or untried technology, shorter periods have been used. In many instances, incremental funding was provided as a complement to a phased-in approach, as is the current case for the Texas project.

Due to the scope of the TIERS/lEES project and its considerable change in the delivery of client services, we will provide incremental funding in accordance with the phased-in approach. *Given that the State is not conducting a pilot of lEES, we want to see that the project rollout is paced in accordance with prudent management.* This is in accordance with the State's assurances that the phased-in approach is being used to ensure protection of client services and access. [emphasis added]

Please note that, contrary to your internal November 23, 2005 due date, until formal Federal funding approvals have been received, no charges for costs associated with this contract may be claimed from FNS.

As you likely know, the (federal) Agriculture Appropriations Act for Fiscal Year 2006 was signed into law on November 10, 2005. The House Conference Report for Pub. L. No. 109-97 emphasized the need for USDA's responsibility to provide oversight of this project:

"The conferees are aware that the State of Texas has recently entered into a contract to privatize certain operations of the Food Stamp program. It is the conferees' understanding that USDA has worked with the State in order to ensure that this contract will not result in a higher food stamp error rate or reduced access to the program. Therefore, the conferees direct the Secretary to provide quarterly reports, beginning 30 days after enactment of this Act, on the status of this contract, including the effects it is having on program access, error rates, and spending on administrative expenses."

December 21, 2005 HHSC letter to FNS:

In letters to FNS dated November 10, 2005, and November 18, 2005, the State of Texas submitted details related to a modification to the IEES business process to resolve the

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

single outstanding issue with FNS, which dealt with the Food Stamp telephone application process. In your letter dated November 22, 2005, you stated the modification to the IEES business process chosen by Texas was one of two choices available to the state that would resolve the outstanding issue.

Consistent with the representations in your November 7 and November 22 letters, which the State of Texas has relied upon in its implementation of the project, we request unconditional FNS approval of funding for the IEES project effective from the execution date of the Integrated Eligibility and Enrollment Services Agreement between the Texas Health and Human Services Commission and Accenture, LLP through the end of the Agreement.

January 4, 2006 FNS letter to HHSC:

This is in reply to your December 21, 2005 letter in which you requested unconditional approval from the Food and Nutrition Service (FNS) of Food Stamp Program (FSP) funding for Texas' Integrated Eligibility and Enrollment Services (IEES) project…. This funding provision is not related to the issue regarding the FSP application filing method, as we stated in our November 22, 2005 letter.

As discussed with Deputy Executive Commissioner Anne Heiligenstein on December 29, 2005, we are willing to approve funding for the period of the San Antonio regional rollout, in addition to the Austin roll-out.

We again urge you to apply for a waiver to enable the date of the call to start the benefit period. To encourage and facilitate this request, we have enclosed a completed waiver request form, and an evaluation plan for your consideration. If you request it as written in the enclosure, we will approve it within 3 business days of receipt.

However, if you do not choose the waiver and remain with the model offered in your letter of November 18, *we are concerned that the additional volume of applicants who will choose to apply at HHSC offices will place a strain on the limited number of offices and the reduced staffing at these offices which was not contemplated by the original project design*. [emphasis added]

January 12, 2006 FNS letter to HHSC:

This is to follow-up on our January 4, 2006 letter in which we promised to provide FNS criteria for approval of the next increment of Food Stamp Program funding for the Texas Integrated Eligibility Redesign System (TIERS) and the Integrated Eligibility and Enrollment Services (lEES) project. *As of the date of this letter, we have yet to receive the State's detailed, specific go/no-go criteria, which we had planned to consider in the development of our conditions.*

We trust you appreciate that FNS' stewardship responsibilities require assurance that basic program standards are maintained. With these considerations in mind, we have developed a list of performance elements, provided as Enclosure 1, which we consider critical and appropriate for use in deciding whether the outcome of the initial rollout of TIERS/lEES can be determined as successful leading to the next planned rollout area. Most of these reference specific Key Performance Requirements (KPRs) provided in the TIERS/lEES contract.

We intend to continue funding and working in partnership to resolve problems and will only halt funding in the face of serious deficiencies.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

Booz Allen Hamilton (BAH) has provided us with some findings and recommendations which we are sharing with you as Enclosure 2.

BAH Findings: *BAH expressed concern about the adequacy of the time periods provided by the aggressive rollout schedule.* They suggested that the initial rollout in Austin be extended for a total of 90 days at a minimum. Since the San Antonio rollout is the first true test of how both TIERS and lEES will be adopted, they suggested that a period of at least 90 days is also more appropriate.

BAH noted the risks associated with closing local offices and reducing State staff, based on the assumption that the majority of applicants will choose the new business model of applying for benefits primarily over the Internet or by telephone. They also noted that this risk would be exacerbated by high levels of attrition and turnover by State and vendor employees. If applicants do not rapidly adopt the new model, this could impact timeliness, customer service quality and client satisfaction, areas which should be monitored. [emphasis added]

January 19, 2006 FNS letter to HHSC:

As indicated in our January 12, 2006 letter, we have developed a list of critical performance elements to guide FNS decisions on future funding…. *As you are aware, we need to prepare quarterly reports to Congress on Texas' modernization initiative.* [emphasis added]

January 20, 2006 HHSC launches rollout in Travis and Hays counties.

February 3, 2006 HHSC letter to FNS:

In light of these initial (rollout) results, we agree that the key performance requirements (KPRs) developed by the Health and Human Services Commission and comprising part of the IEES contract with Accenture L.L.P., are effective and sensible measures of the performance of the IEES and TIERS. We agree that these measures are appropriate for FNS to monitor and to report to Congress, and we welcome the scrutiny and advice FNS can offer to help enhance the improvements to client service and access IEES will achieve. However, because we do not fully appreciate FNS' approach to incremental funding or its potential impact on state decision-making, we are not prepared to agree that these requirements are appropriate benchmarks for the release of funds to the state.

March 10, 2006 FNS letter to HHSC:

This is to follow-up on our letter of November 22, 2005 in which we indicated the general data elements that would be needed for the preparation of our quarterly reports to Congress on the status of the Texas Integrated Eligibility Redesign System (TIERS) and the Integrated Eligibility and Enrollment Services (IEES) project…. Enclosed is a proposed list of more specific data elements, many of which are also tracked to the State's Key Performance Requirements for Accenture…. We would like to know how the State proposes to provide the information to FNS, and in what time frame.

March 31, 2006 HHSC letter to FNS:

This letter is written to request FNS approval for "Retroactive Funding" for the period June 29, 2005, through November 6, 2005. The retroactive funding is requested for the specified period to ensure the success of the IEES project and its ability to continue to improve access to nutrition assistance and increasing program participation of low-income households.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

April 5, 2006 FNS letter to HHSC:

> This is to notify you of the Food and Nutrition Service's (FNS) assessment regarding the current status of the Texas Integrated Eligibility Redesign System (TIERS) and the Integrated Eligibility and Enrollment Services (lEES) project.
>
> *We believe you will agree with us that the following concerns give pause to expansion from Phase 0 to the next rollout area without substantial improvements in system functionality to support a more ambitious implementation agenda.*
>
> *Call Center statistics continue to show long wait times and high abandonment rates.* Although we are looking forward to receiving more specific information, backlogs are apparent in many areas, including data entry of application information into MAXe3 and TIERS at the San Antonio Call Center.
>
> *Vendor performance is questionable as evidenced by the high percentage of cases that are returned to the vendor because of missing information and errors.* Vendor performance in the quality of 2-1-1 calls show problems with staffing and training resulting in misinformation to the extent that it is unclear whether applicants will know how to apply, in spite of the new opportunities clients are provided under the new model.
>
> In addition, we have been advised by BAH that the lack of discrete, independent and formal user acceptance testing, coupled with the lack of independent validation and verification testing will further complicate insufficient time periods to assess the impact of the new system. Finally, without a proven link between TIERS and MAXe3, we are concerned that roll-out to large areas that have not previously implemented TIERS will only exacerbate these problems.
>
> Based on the problems initially discussed with your staff at our exit conference on March 24, 2006, and in consideration of the issues raised in this correspondence, *we recommend that you reconsider expansion of the project until these issues are sufficiently resolved.* [emphasis added]

April 5, 2006 HHSC letter to FNS:

> We request expedited review and approval to allow us to proceed with Amendment 16 to the TIERS Phase 1 contract with Deloitte Consulting.
>
> Implementation Advance Planning Document (IAPDU) as of March 2006:
>
> The price increase of $2,261,076 addresses costs associated with TIERS Build 52, extending the Technical Operations Team and Training Team and other services through October 31, 2005…. Amendment 16 also includes a reserved option to extend the services provided in the contract with Deloitte Consulting for a period of up to one year. The total cost of the one-year extension would be $39,112,000 if and when fully exercised.
>
> Also from IAPDU as of March 2006:
>
> Per the terms and conditions of the original contract, HHSC elects to renew the contract with Deloitte Consulting for an additional period of up to one year.

April 5, 2006 HHSC announces that it will make technical and operational improvements before further rollout.

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

April 27, 2006 FNS letter to HHSC:

> This letter is in response to your March 31, 2006 letter requesting retroactive funding approval from the Food and Nutrition Service (FNS) for costs incurred by the Texas Integrated Eligibility Redesign System (TIERS)/Integrated Eligibility and Enrollment Services (lEES) Project prior to November 7, 2005.
>
> We have carefully reviewed the circumstances involved in the overall TIERS/lEES Project and note that the State was aware of the requirement for FNS approval prior to the contract signing and FNS' requirement for prior approval of the Request for Procurement (RFP) before its release. In both cases, the State chose to move forward without prior approval despite knowledge of the associated requirements and the risk of losing federal financial participation without prior approvals.
>
> *In light of the above, we are denying the State's request for approval for retroactive funding for the period June 29, 2005 through November 6, 2005.* [emphasis added]

May 4, 2006 HHSC announces that it will retain an additional 1,000 state workers and pay retention bonuses to help keep state staff in place during the transition. In addition, HHSC announces hiring 900 temporary employees to help during the transition.

May 19, 2006 FNS letter to HHSC:

> This is to inform you of the Food and Nutrition Service's (FNS) concern regarding the timeliness of application processing in the Texas Integrated Eligibility Redesign System/Integrated Eligibility and Enrollment Services (TIERS/TEES) project; of particular note is the large backlog of applications in the San Antonio Call Center. We noted this concern to you in our letter of April 6, 2006. Your agency committed to a speedy resolution of the situation. However, in a review of documents dated May 3rd and May 10th, *it appears that the application backlog is increasing rather than diminishing.*
>
> As of May 9, 2006, 6,869 food stamp applications in the TIERS/IEES project were identified as pending over 30 days—5,706 of those applications were pending over 45 days. This number is up from the 4,236 reported as of April 25, 2006.
>
> *We appreciate that the State agrees that this is unacceptable.*
>
> *While FNS continues to support Texas' modernization efforts, we cannot allow this unacceptable situation to continue.* [emphasis added]

June 5, 2006 FNS letter to HHSC:

> In my letter of May 19, 2006, I advised you of the Food and Nutrition Service's (FNS) concern about the substantial backlog of food stamp applications pending over 30 days in the Austin pilot area and asked that your agency take immediate remedial steps to rectify the situation.
>
> While we have not received a written response as yet, your staff has advised us that they are working toward providing an accurate count of overdue applications, but as yet are unable to provide this information.
>
> *Based upon the limited information that is available it appears that the backlog is not diminishing and may, in fact, be growing.*

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

"It is critical that (the State) take immediate, aggressive action to process the overdue applications and bring your agency into full compliance with Federal Law regarding processing standards. [emphasis added]

Within 15 days of the date of this letter, please submit a corrective action plan for eliminating the backlog while maintaining timely processing for new applicants.

June 7, 2006 FNS letter to HHSC:

It has come to our attention through the Texas Access Alliance's Information Technology Governance System (#48818) that the Texas Integrated Eligibility and Redesign System (TIERS) is incorrectly issuing supplemental food stamp benefits. [emphasis added] Based on this information, please provide the following information:

1. Additional detail on why TIERS is issuing incorrect supplemental benefits and why this issue has not been resolved;

2. The status of recoupment or recovery of the incorrect issuance of supplements in TIERS;

3. Identify corrective action for ensuring incorrect supplement food stamp benefits are not issued and the timeline for completion of corrective action.

June 29, 2006 FNS letter to HHSC:

In our April 27, 2006, letter to you, the Food and Nutrition Service (FNS) requested that the Health and Human Services Commission (HHSC) provide us with a revised budget, by Federal quarter, which reflects the schedule changes to the Texas Integrated Eligibility and Redesign System and the Integrated Eligibility and Enrollment System (lEES). Also, we requested a comparative analysis of the expenditures to-date compared to the budget to-date. As of this time, we have not received the information requested.

In addition to the above requests, we are requesting a revised cost benefit analysis to reflect the costs associated with the permanent reduction in the number of state staff to be laid off and the bonus of $1,800 for each employee that remains with HHSC through the TIERS/IEES rollout. [emphasis added]

June 29, 2006 HHSC letter to FNS:

We are in receipt of your letter dated June 5, 2006, sharing your concern regarding the substantial number of food stamp applications pending over 30 days in the Integrated Eligibility and Enrollment Services (lEES) pilot area.

I want to note that because we were extremely concerned with the timeliness of services to our clients, I directed state staff to implement interim processes that would redirect new applications from the San Antonio Document Processing Center operated by the Texas Access Alliance (TAA) beginning on May 10, 2006. I also asked state staff to implement processes to reduce the backlog in the San Antonio Document Processing Center while handling new applications for assistance, and other client actions.

The state has deployed a significant number of additional resources to eliminate the number of cases pending over 30 days. It is our goal to bring the agency into full compliance with federal law regarding processing standards. In addition to taking appropriate action under our contract with the Texas Access Alliance by placing the vendor under corrective

Appendix 8
Interactions between HHSC and the federal Food and Nutrition Service: Timeline (cont.)

action, the state also developed interim processes, including the enclosed corrective action plan, that would allow its offices and call centers to eliminate the backlog of cases.

As of June 26, 2006, the Texas Health and Human Services Commission (HHSC) is reporting a current count of overdue applications of 7,200. The information provided in this letter is the most current information as of this date, and it includes all work within the IEES pilot area.

July 21, 2006 FNS letter to HHSC:

On June 7, 2006, we requested information regarding the incorrect issuance of supplemental benefits from the Texas Integrated Eligibility and Redesign System (TIERS). To date, we have not received a response. [emphasis added]

August 7, 2006 FNS Report to Congress:

The State [of Texas] has assumed some of the contractor-delegated functions until the contractor can restructure and improve training for its staff. The State is also taking corrective action to resolve call center issues such as high call abandonment rates, inaccurate responses, and long call wait times. The State has resumed the training function for new call operators, and is providing additional training for existing operators.

Due to a substantial backlog of FSP applications in the Austin pilot area, on May 10, 2006, the State assumed end-to-end processing of applications. Processing of new applications by the contractor has been halted until the backlog is eliminated.

FNS is providing incremental funding contingent upon the demonstrated success of key project phases. The amount of FNS' initial funding provided to cover the period November 7, 2005—March 31, 2006, including the first scheduled phase of the project, was $13.3 million. A subsequent amount of almost $2.4 million was provided to support continuance of the pilot project during the third quarter, which covers the period April 1—June 30, 2006. These amounts are subject to adjustments based on a revised implementation plan. Since the State has reported spending only a small portion of the $15.7 million approved by FNS to date, we have suspended the provision of additional funding for the continuation of the project in the pilot area until the State agency can provide further cost information.

Appendix 9
Changes to Eligibility, Procedures and Contractor Requirements HHSC Rules

Appendix 9
2003 Changes to Eligibility, Procedures and Contractor Requirements HHSC Rules

Proposed rules to CHIP program posted in Texas Register, June 27, 2003
CHIP Rules Adopted Effective August 29, 2003

Texas Admin. Code Citation	CHIP Rules Changes	Effect of Change
370.4	Deleted definition of dental plan.	Eliminated dental benefits from CHIP.
370.4	Deleted definition of income deductions that are applied against the gross income of a CHIP applicant.	Eliminated deductions in determining CHIP eligibility.
370.23	Added a requirement that a child's Social Security number or proof of application for a number is required for the CHIP application to be considered complete.	
370.23	Requires applicants to provide information as to whether children have health insurance currently, or had health insurance within 90 days prior to the date of the application being completed for Medicaid.	Families must provide information required only for Medicaid eligibility for their CHIP applications to be considered complete.
370.23	Deleted the requirement that the CHIP applicant provide information as to whether he or she pays for child care or cares for a disabled adult in order to work.	Eliminated deductions in determining CHIP eligibility.
370.23	Deleted the requirement that the CHIP applicant provide information as to whether any one pays child support or alimony.	Eliminated deductions in determining CHIP eligibility.
370.43	Deleted the deduction of the first $50 of a family's monthly child support payments.	Eliminated deductions in determining CHIP eligibility.
370.43	Imposed a gross income test instead of the net income limit.	Used gross income to determine CHIP eligibility instead of net income.
370.44	Imposed an assets test for families with gross incomes above 150 percent of the federal poverty level.	Imposed an assets test for families with incomes above 150 percent of the federal poverty level.
370.44	Eliminated a standard work-related expense deduction of $120 a month for each employed family member.	Eliminated deductions in determining CHIP eligibility.
370.44	Eliminated a deduction for the actual costs of child care or for care of a disabled adult, up to a maximum of $200 for each child and $175 for each disabled adult.	Eliminated deductions in determining CHIP eligibility.
370.44	Eliminated a deduction for the actual costs of alimony or child support paid to an individual who is not a budget group member.	Eliminated deductions in determining CHIP eligibility.
370.44	Eliminated a deduction for the first $50 of child support payments received by the applicant's family.	Eliminated deductions in determining CHIP eligibility.
370.46	Imposed a 90-day waiting period before the start of health insurance coverage for a child determined to be eligible for CHIP.	Imposed a 90-day waiting period before the CHIP health insurance would start, after determining a family is eligible for CHIP.
370.307	Imposed a continuous enrollment period for six months instead of 12 months.	Imposed an enrollment period for six months instead of 12 months.
370.321	Imposed a monthly premium.	Increased family CHIP costs.

Sources: Health and Human Services Commission and Texas Register.

Color Codes:

Reduced Eligibility
Increased Burden on CHIP Applicants
Eliminated Contractor Performance Standards from State Rules
Legislative Requirement

Appendix 9
2005 Changes to Eligibility, Procedures and Contractor Requirements HHSC Rules

Proposed rules to CHIP program posted in Texas Register, October 14, 2005; final rules published December 23, 2005

Texas Admin. Code Citation	Policy and Rules Changes that increased the number of denials of CHIP coverage	Effect of Change
370.4	Changed definition of "budget group" to be the group of individuals who live in the home for whom an application for health care coverage is submitted.	Students older than 18 who are living at home while attending school are excluded from the family. Family size decreases, which means that it is more difficult to qualify for CHIP even though income levels have not changed.
370.24	Deleted the provision that, within three working days from receipt of an application, TexCare enters the application, regardless of origin or completeness, into a database; date-stamps the application; and assigns a unique application identification number.	Deleted this subsection. Adopted HHSC rules state that this section is obsolete.
370.25	Deleted requirement that HHSC or designee sends a followup letter requesting missing information within two working days from the date that the application is entered into the database.	
370.25	Allows HHSC or designee to state a deadline by which missing information must be provided, and allows HHSC to deny the application by the deadline if the information is not provided.	Adopted rules state that changes are being made to 370.25 to expedite the application process. HHSC in adopted rules said that the deadlines are stated in the notices and that it will also be stated in CHIP policy and business rules.
370.25	Reduced the time period that an application could be open from 90 days to 60 days.	Adopted rules state that the 60 day timeframe is to align CHIP policy with Medicaid policy under integrated eligibility. This provision shortened the time that an applicant can act in providing information.
370.25	Deleted the provision that an application with missing information remains active for 90 days.	
370.25	Added a provision that HHSC will certify or deny an application no later than 45 days from the application file date.	Previously, contractor had to decide the case in 30 days. This lengthens the time for the contractor to act, but shortened the time for an applicant to act.
370.25	Deleted requirement that contractor must send a second followup letter within 14 calendar days if the contractor has not received the missing information.	
370.25	Deleted requirement that contractor must mail an application to the applicant if it is only missing the signature.	
370.40	Deleted the provision that CHIP eligibility is determined not later than the 30th day after the date a complete application is submitted, unless the child is referred for a Medicaid application.	
340.42	Deleted the provision that the applicant states the child's birth date on the application form and that verification of age is not required.	Adds an additional verification requirement that could lead to "missing information."
370.43	Deleted the provision that if the applicant states that a child is a United States Citizen and a Texas resident, no verification of this status is required.	Could be another reason for "missing information" and thus denial of a CHIP application.
370.44	Deleted the deduction for business expenses from self employment income.	Raises the threshold for CHIP eligibility.
370.44	Added the requirement that interest income is counted as part of unearned income and is counted in determining CHIP eligibility.	Raises the threshold for CHIP eligibility.
370.44	Deleted a provision that would allow a copy of a divorce decree to be sufficient for proof of child support payments.	Could be another reason for "missing information" and thus denial of a CHIP application.

Appendix 9
2005 Changes to Eligibility, Procedures and Contractor Requirements HHSC Rules (cont.)

Texas Admin. Code Citation	Policy and Rules Changes that increased the number of denials of CHIP coverage	Effect of Change
370.45	Changes procedures so that children are tested first for Medicaid eligibility, and then CHIP eligibility.	Medicaid eligibility requires additional screening. TAA said that they have been doing a manual override for screening income first, then determining whether to screen for CHIP or Medicaid.
370.48	Deleted deadlines for the contractor's actions on transferring the application for Medicaid eligibility determination.	
370.51	Changed the deadline for an applicant to request a review of an action from 30 working days from the date that the applicant received written notice of the decision to 30 working days from the date of the action.	If the contractor does not notify the applicant on a timely basis, this reduces the time an applicant can request a review.
370.52	Reduced the time that an applicant can request reconsideration of a review from 20 days to 15 days.	
370.54	Deleted the provision that would temporarily enroll a child in CHIP if there is factual information that could have an impact on an eligibility decision review, and substituted a provision that would allow, rather than require, HHSC to temporarily enroll.	
370.307	Adds exceptions to a continuous enrollment period, include one that would allow HHSC to direct a member's disenrollment if there is evidence that the member's original eligibility determination was incorrect.	
370.309	Removed the timeframes (14 calendar days) in which HHSC or the contractor must send out reminder packets to sign, return or complete enrollment forms.	
370.321	Replaced the CHIP monthly premium with an enrollment fee.	Legislative requirement
370.401	Established 12-month CHIP eligibility for an unborn child. (This provision does not add to chip caseload decline.)	Legislative requirement
	Required CHIP applicants to submit documents that validate family income on renewal applications.	
	Omitting family income and asset information from CHIP renewal applications that have other information prepopulated.	
	Requiring new data broker checks to be applied on all new CHIP applications and renewals.	

Note: Most rule changes were effective Jan. 1, 2006. New enrollment fees for new CHIP applicants were effective Jan. 1, 2006, and fees for renewing families were effective March 1, 2006. Verification of income and using a data broker were implemented for renewing families with March CHIP enrollment.
Sources: Health and Human Services Commission and Texas Register.

Color Codes:

- Rule Change: Reduced Eligibility
- Rule Change: Increased Burden on CHIP Applicants
- Rule Change: Eliminated Contractor Performance Standards from State Rules
- Legislative Requirement
- Policy Change Adopted without Public Rule-Making Process

Appendix 10
CHIP Eligibility Determination KPRs

Appendix 10
CHIP Eligibility Determination Key Performance Requirements

CHIP Key Performance Requirement	Earnback Category (indicates Priority)	Performance Standard	Active?	Measurement: January - April 2006
3	A	CHIP Error Rate: Prevent or minimize dual enrollment with Medicaid	Not active: Performance Threshold "To Be Determined"	"TAA will request a meeting with the State to identify and agree upon a Performance Standard for evaluating CHIP error rate."
45	A	Meet or exceed standards for processing inbound and outbound documents as included in the Vendor's Performance Measurement Plan.	Not Active	"Intent of this KPR is under review. Measurement is To Be Determined."
61	C	Produce Monthly Quality Management Report: Perform monthly audits on services and operations to identify and report compliance with laws and regulations	Active	Deliver report by 15th of month. No requirement for quality metrics reported to meet any performance threshold.
96	A	Mail notice of eligibility determination: 100% mailed within 50 working days from the application file date, excluding days during which the application was suspended.	Not Active: "Suspended/No Assessment"	None.
97	A+	Complete 99% of redeterminations within three working days from receipt of a completed application.	Not Active: Performance Threshold "To Be Determined"	Measurement reported despite not being active. Accenture never met 99% standard: Jan 43%, February 1%, March 1%, April 20%
98	A	CHIP Appeals Timeliness: 100% completed and letter sent to the client within 12 days	Active	Accenture never met 100% standard: January 98%, February 72%, March 7.45%, April 4.36%
102	A	Notice of eligibility determination: 100% mailed within three days.	Not Active: "This KPR is being finalized"	None.
104	A	Mail information and documentation necessary for client to file an appeal within one mailing day of client inquiry 98% of the time.	Active	Accenture never met 98% standard: February 4%, March 8%, April 4.55%

Sources: Integrated Eligibility and Enrollment Services Agreement between Health and Human Services Commission and Accenture, Schedule 3 and Texas Access Alliance, Texas Integrated Eligibility and Enrollment Services KPR 68 Monthly Monitoring Report for January, February and March 2006.