

Health Benefits Operations

Project Summary

November 4, 2004

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1. Executive Summary

The purpose of this report is to provide the public and interested stakeholders with a summary of final outcomes and benefits to be achieved from the Health Benefits Operations (HBO) alternative services delivery initiative.

Health Benefits Operations is the administrative unit of the Ministry of Health Services (“Ministry”) that is responsible for registration and claims processing for the Medical Services Plan (MSP) and PharmaCare.

The HBO Project was designed to resolve long-standing service problems and through this to enable the long-term sustainability of Health Benefits Operations registration and claims processing functions. Through the procurement process, a partner has been engaged who will have the ability to transform both the business processes and underlying technologies of the program in order to significantly enhance service delivery for the public. This partnership leverages existing and future expertise and technologies that the Ministry does not have internally. The initiative also is aligned with the Ministry’s evolving role of stewardship and oversight, as opposed to direct service delivery

The Ministry has entered into a long term agreement with MAXIMUS Inc. to transform and deliver Health Benefits Operations services. The Master Services Agreement is a ten-year performance based service contract with a five-year renewal option. MAXIMUS’ newly-incorporated subsidiaries in BC (“MAXIMUS BC”) have been contracted to deliver the services. The service centre will be located in Victoria and all current employees will be offered positions with the new provider. Union successorship will apply. The project commits MAXIMUS BC to significantly improve and sustain service levels, with financial incentives to drive superior performance.

Ensuring the privacy and security of personal information has been a fundamental element of this project. The numerous benefits to be gained by involving the private sector in this initiative could not be justified unless the Ministry could secure the confidentiality of information. Moreover, the Ministry sought assurances that the significantly enhanced privacy and security arrangements required under existing and new legislation as well as rigorous contract parameters could be met consistently and reliably by MAXIMUS BC.

The transfer of HBO services from the Ministry and current information technology outsourcers to MAXIMUS BC has been designed as a “run-build-run” model. MAXIMUS BC will make initial improvements in call centre technology to take effect as soon as they assume operations. All other existing information systems will continue to support HBO for several months following the handover, and will be replaced incrementally over the first 12 months. This model will allow services to be transferred to MAXIMUS BC with the minimum risk of disruption in services to the public and providers, and will allow the Ministry sufficient time to test and validate MAXIMUS

BC's compliance with privacy and security obligations before each major change is implemented.

The privacy, security, technology and service improvements, together with a commitment to continuing technology refresh, within a fixed price contract, will ensure that British Columbia (BC) residents continue to receive value for money throughout the term of the agreement.

2. Background

Functionally, Health Benefits Operations is divided into three groups:

MSP Provider Services administers payments to doctors and other health care providers in BC. As well, provider services registers eligible health care providers, manages MSP's electronic claims systems, and provides technical and business support services.

MSP Beneficiary Services enrolls residents for publicly funded health care, determines applicable MSP premium rates for individuals and families, administers premium assistance programs, maintains registration records, and handles a high volume of inquiries (phone and written) from the general public.

PharmaCare Operations processes registrations for PharmaCare financial assistance under the Fair PharmaCare program. In addition, it administers PharmaNet, a network that connects BC's pharmacies to automate billing and payment processing to pharmacists. PharmaNet also gives health professionals valuable patient information in a timely manner, reducing duplication and adverse drug reaction for patients.

The delivery of these support services is complex and the Ministry has used private sector partners for many years to support both systems and call centre operations. Currently, the majority of HBO information systems support and call centre operations is delivered under contract by IBM, Pacific Blue Cross and other vendors.

MSP was established in 1965. Since then, BC's population has grown by almost 80 per cent and the population has become older and more culturally diverse. Approximately 545 applications for MSP premium assistance are received daily and 138,000 new or returning residents apply for MSP benefits every year.

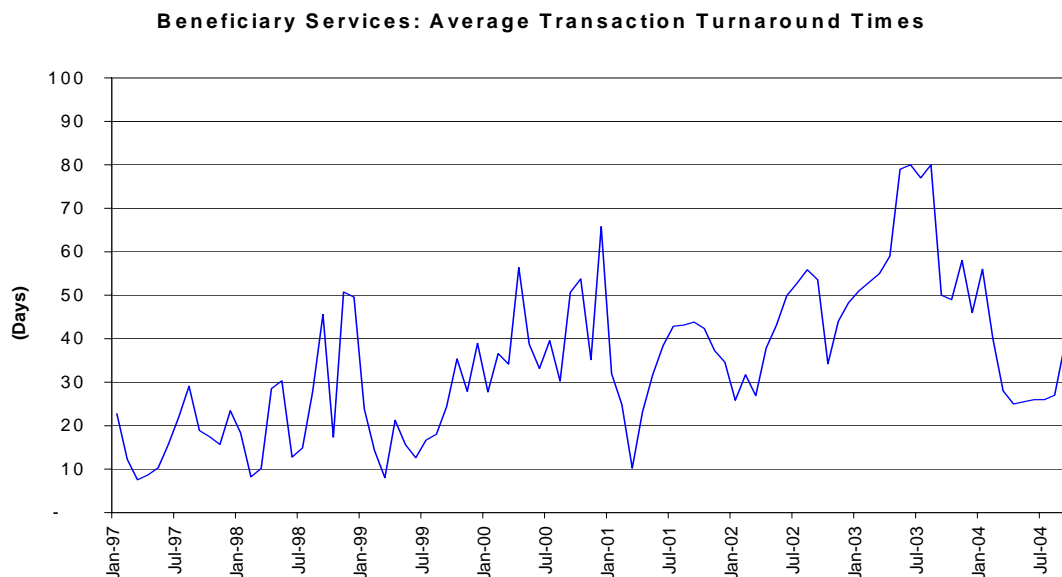
MSP information systems have been operating on the same basic software applications for the past thirty years. System patches and upgrades during that time have resulted in extremely complex systems, and the resources, such as programmers, required to support and continue updating them are increasingly scarce. The applications also are not flexible enough to adapt to rapid changes to policies and business processes, or to take advantage of increasing opportunities for

alternatives such as web-based self-service, or integration with sophisticated “natural language” Interactive Voice Response (IVR) systems.

PharmaCare was established in 1974 to provide prescription drug coverage for residents of long term care facilities. Since then it has been expanded to include all residents of BC and has diversified into a number of separate, targeted plans. PharmaCare technologies are more current than those supporting MSP, however, they too will require ongoing system upgrades over the next ten years.

Service levels and the currency of supporting technologies for MSP and, to a lesser extent, Pharmacare, have been a long-standing concern of the Ministry. Due to budget constraints, MSP has not been able to keep pace with technological change in information systems and telecommunications over the past ten years.

Services provided through MSP Beneficiary Services involve a high degree of manual intervention. The staff in Beneficiary Services handle more than 800,000 paper forms annually without the benefit of advanced systems support. Despite the best efforts of staff, increased demand due to population growth coupled with the lack of contemporary system support has resulted in inconsistent and generally deteriorating services to the public. The following graph illustrates this trend.



Over the past seven years, average turnaround times for Beneficiary Services have ranged from a low of 10 days to a high of 80 days, with the trend increasing over time. Despite improvements in service levels over the past year, Beneficiary Services is not achieving the service level targets set out in the Ministry’s Service Plan. Until technology is upgraded, it will continue to be vulnerable to policy changes and fluctuations in demand.

MSP Beneficiary Services	Service Plan Performance Target	Actual (April 2003)	Actual (Most recent 6 months)
Enrolment	Less than 4 weeks	16 weeks	6 weeks
MSP Account Maintenance	Less than 4 weeks	Up to 24 weeks	13 weeks
MSP Premium Assistance	Less than 4 weeks	12 weeks	4 weeks

The main interface with the public, the call centres, have been enhanced through contracts with private sector partners over the last 2 years, however, members of the public trying to reach MSP by phone are still being met with a busy signal over fifty percent of the time. Without the advantage of some of the advances in communication technology, which a new partnership brings, the service level issues will remain problematic.

PharmaCare processes more than 26 million drug claims per year and has had the advantage of more advanced system support. However the rate of increase in activity (47 per cent increase over the last 10 years) means that access to advanced and renewable technology will be critical to maintain service.

Finally due to the different systems involved and the separate origins of each program, the operational components of the Medical Services Plan and Pharmacare have been run independently of each other. A single, integrated organization would be able to respond more quickly and effectively to the service needs of all clients and policy needs of government, while enhancing the confidentiality of sensitive data. The operational advantages of a one-system approach cannot be achieved without significant changes in systems and business process organization. Furthermore, the public of BC need to be able to access sophisticated and advanced technology on an ongoing basis to meet their service needs as they interact with MSP and Pharmacare.

The HBO Project was designed to resolve these long-standing service issues and through this to enable the long-term sustainability of Health Benefits Operations' registration and claims processing functions. Through the procurement process, a partner has been engaged who will have the ability to transform both the business processes and underlying technologies of the program in order to significantly enhance service delivery for the public. This partnership leverages existing and future expertise and technologies that the Ministry does not have internally. The initiative also is aligned with the Ministry of Health Services' evolving role of stewardship and oversight, as opposed to direct service delivery.

3. Procurement Process

In late 2001, the Ministry began to assess the potential for Alternative Service Delivery (ASD) through detailed analysis of MSP and PharmaCare business processes, and, subsequently, the supporting information technology. An ASD was regarded as a viable alternative because it would allow the Ministry to avoid the cost and risks of

developing new systems and keeping them current, and would be better aligned with the Ministry's evolving role.

Criteria used to decide the suitability of different HBO functions and services for alternative service delivery included:

- the tools available to a private sector partner to enhance protection of privacy and data security;
- the nature of the activities (generic or specialized; rule-bound or requiring discretionary decision);
- opportunities to improve current business processes and reduce costs;
- status of technology (need for replacement or upgrade);
- expertise and experience available in the private sector;
- potential impact on policy, or management of budgets for provider services;
- existing outsourcing arrangements; and
- obligations and restrictions under the *Canada Health Act* and provincial legislation.

The responsibilities identified for retention by the Ministry include discretionary and policy-sensitive functions that support the Ministry's stewardship role and overall accountability for HBO services. These include:

- ownership and control of data;
- policy development,
- appeals of registration or adjudication determinations by a private provider,
- authorizing payments to practitioners or beneficiaries;
- pre-authorization and adjudication of complex procedures and claims, and
- relations with stakeholders.

The Ministry must retain these functions in order to maintain accountability for HBO services and benefit payments, and to ensure alignment with the *Canada Health Act*.

The Health Benefits Operations functions identified as suitable for outsourcing include:

- Medical Services Plan – Beneficiary Services (call centre and registration services to the public and employer groups);
- Medical Services Plan – Provider Services (registration and claims processing services to physicians and health care providers); and
- PharmaCare Operations (call centre, registration and claims processing services to pharmacists and the general public under Fair PharmaCare and other PharmaCare plans).

Building on these initial analyses, the Ministry developed a business case that considered several options:

1. Continue operations within government with significant new capital investment.
2. Alternative Service Delivery for all three major program areas of HBO¹.
3. Alternative Service Delivery for MSP Beneficiary Services only.

¹ With the exception of the responsibilities identified above as remaining with the Ministry

The analysis indicated that there was minimal potential for cost savings or cost avoidance under any of these options (see Appendix 1). However, there was the potential that an ASD solution could significantly improve services, lever access to new technology both now and in the future, and, very importantly, be implemented at similar cost to an in-house solution.

The Ministry recommended proceeding with Option 2 -- ASD for all of HBO, on the basis that it could provide additional opportunities to:

- significantly improve service to the public by involving specialized private sector expertise in business process re-engineering, and state of the art technologies;
- secure ongoing access to current technology and leading edge business practices;
- transfer to the private sector the risks of improving and maintaining service delivery within a pre-defined budget allocation;
- avoid significant up-front and ongoing capital investment to upgrade or replace the supporting technologies; and
- permit the Ministry to focus on its core business – stewardship and leadership for the health system in British Columbia – rather than direct delivery of services.

The Ministry also recommended that vendors' ability, commitment and track record in protecting the confidentiality of sensitive information be subject to careful scrutiny and given the highest consideration throughout the procurement process.

4. Competitive Selection Process

In traditional procurement processes government decides on a solution to a problem and then provides vendors with detailed specifications. Vendors must bid and build within those pre-determined parameters. This approach does not allow vendors to propose alternative solutions that would achieve the desired outcomes in different, and potentially more effective ways. Nor does it allow vendors to make use of the experience and ideas of government staff that currently deliver the services in order to develop or tailor creative alternatives.

In approaching the HBO problem, the Ministry decided to try a different procurement approach. Rather than defining the solution, the Ministry defined the problem and desired outcomes, and then asked the vendors to propose solutions. The Ministry's intention was to select an ASD 'partner' through a process that would result in an innovative and tailored solution, sustainable over a contract term of at least seven to ten years.

The Joint Solution Procurement (JSP) process was selected as the preferred alternative to the traditional procurement approach. The JSP process allowed both the private sector and government staff the opportunity to apply their collective knowledge and expertise to evaluate and design a wider range of solutions. In the

first stage of the process, vendors qualified to participate by demonstrating their capability (experience and track record in delivering similar services), capacity (financial and human capital available to sustain an operation of the size and scope of HBO) and commitment. Details on the process and participants are contained in Appendix 2.

The JSD Phase ended in March 2004, and MAXIMUS Inc. was selected as the final proponent. Extensive due diligence performed on MAXIMUS included site visits, customer reference checks and analysis of financial reports. The visits and interviews with MAXIMUS' government partners included assessment of MAXIMUS' practices and track record on managing the privacy and security of sensitive information. Government entered into negotiations with MAXIMUS in April 2004 and a contract was signed in early November 2004.

5. The Final Agreement

The Master Agreement with MAXIMUS is a ten-year performance based service contract with a five-year renewal option. Privacy has received extensive attention in the agreement. Unprecedented expectations and commitments for privacy protection are built in, which will significantly enhance government's ability to protect the privacy and security of personal information. The MAXIMUS BC service centre will be located in Victoria and all current employees will be offered positions with the new provider. Union successorship will apply. MAXIMUS BC has committed to significantly improve and sustain service levels, with financial incentives to drive superior performance.

The key terms of the agreement are summarized in Appendix 3.

- Profile of Successful Proponent
 - Parent Company MAXIMUS, Inc,
 - Established in 1975
 - Head office – Reston, Virginia
 - Primary business – providing technical and business process outsourcing services to government
 - Specialist in health field
 - 5000 employees world wide
 - 2003 revenues \$558M USD
 - MAXIMUS' Canadian subsidiary THEMIS runs the BC Ministry of Attorney General's Family Maintenance Enforcement Program
 - HBO services will be delivered through BC-based subsidiaries of MAXIMUS, Canada
 - MAXIMUS BC is sub-contracting with TELUS Inc to transform and maintain call centre technology, and with Emergis to replace and maintain claims processing systems.

- Financial summary

This project was driven by the need for very significant service improvements, and the ability to move ahead in the future, providing excellent service and access to advanced technologies for the public. Comprehensive and robust privacy and security arrangements are a critical element of the project. The preliminary analysis indicated that alternative service delivery for HBO would not result in cost savings, however, for the same cost, government could expect to access significant improvements both now and in the future without the need to make significant up-front or future capital investment for new and ongoing systems development.

The relative costs and benefits of the MAXIMUS BC deal were measured against a Public Sector Comparator (PSC). The PSC represents the estimated cost of keeping HBO in government and making technical and business process improvements equivalent to the MAXIMUS solution.

Financial comparison between the MAXIMUS deal and the Public Sector Comparator indicates the cost of the MAXIMUS deal is slightly lower, however, as expected, the difference is not material (table below, and Appendix 4). The total deal cost of \$357.5 million includes the costs of new technology, ongoing provision of HBO services, and related Ministry expenses. The ten-year value of the MAXIMUS contract is \$324 million.

Final Deal: Summary Financial Analysis

Criteria	Public Sector Comparator (PSC)	MAXIMUS Deal
Total Cost over Ten Years	\$368.6 million	\$357.5 million
Ten year Discounted Cost²	\$277.9 million	\$273.0 million

- Intangible Benefits:

There are a number of benefits in the MAXIMUS BC contract that don't readily lend themselves to financial quantification. Although these benefits don't show up in the financial analysis, they are very real and vital to the objectives of the HBO initiative.

² The discounted cost is a calculation that expresses the present value of money that will be spent (or received) in the future. It takes into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return this year. The discounted cost allows for a more accurate comparison to be made between the costs of different options, particularly if those options require expenditures (such as capital investments) in different years.

These intangible benefits include:

- ongoing systems improvements undertaken by MAXIMUS in other jurisdictions will be provided to the Province at no additional cost;
 - MAXIMUS BC brings proven proprietary technologies -- government avoids significant system development risk, and government retains a perpetual license to the software;
 - technology will be continuously updated over the life of the contract at no additional cost, leaving the Province with access to current technology at the end of the contract term;
 - all technology and business processes, from front-end customer service telecommunications to back-end databases will be fully integrated, to enable quicker response times and lower levels of duplicate or manual work;
 - the contract provides a significantly higher privacy and security standard than has been in place until now for the sensitive information used by HBO;
 - Province has opportunities for gain-sharing if MAXIMUS BC leverages its BC experience to gain new customers; and for profit-sharing if the profits of the BC operations exceed specified levels (protects against the vendor realizing “windfall” profits);
 - MAXIMUS BC’s parent companies have proven experience in the management of similar businesses and in business process re-design; and
 - MAXIMUS BC’s parent companies have a strong corporate focus and track record on service quality and best practices.
- Service Levels

An additional benefit to the Province is that the contract is fixed price and performance-based. There are financial consequences to MAXIMUS if specified service levels are not achieved. This provides the Ministry with the ability to plan and manage its budget more effectively, and transfers to MAXIMUS the risk of delivering required service levels within a fixed funding allocation.

MAXIMUS BC has committed to significant improvement in services to the public, and to maintaining or improving service levels to providers. The following table illustrates some of the key service level commitments affecting MSP beneficiary registration services, as examples of service improvements:

	<u>CURRENT SERVICE LEVELS</u>		MAXIMUS
	September 2004	6 Month Average	(AFTER 90 DAY IMPLEMENTATION – JULY 1, 2005)
Enrollment	64% within 40 days	93% within 40 days	99% within 20 days
MSP Premium Assistance	100% within 40 days	100% within 40 days	99% within 20 days
MSP Account Maintenance	48% within 180 days	98% within 180 days	99% within 20 days
Phone Busy Rates	Over 53%	Over 52%	Average of 2%
Average Phone Wait	Less than 3 minutes	Less than 5 minutes	Less than 3 minutes

- Risk allocation

The deal structure is based on the principle that risk will be assumed by the party that is best able to manage it. In several areas, the Ministry has retained some measure of risk in order to avoid the addition of a risk premium into the project pricing. Provisions have been built into the agreement to mitigate the Province’s exposure in shared risk areas.

The types of risks transferred to MAXIMUS BC include:

- failure to deliver services at specified performance levels;
- client dissatisfaction;
- cost over-runs after Year 2;
- penalties for breaches of data security and privacy;
- disaster recovery/business continuity;
- business failure of MAXIMUS BC service provider or sub-contractors; and
- end-to-end integration of multiple systems and business processes.

The types of risks shared between the Province and MAXIMUS BC include:

- cost over-runs during transition and first two years of contract term (technology transformation phase);
- inflation;
- termination of agreement by the Province “for convenience”;
- increased claim costs due to decision error; and
- breakdown in relationship between vendor and government.

The types of risks retained by the Province include:

- increase in MAXIMUS BC’s costs due to changes in government policy or legislation;
- staff voluntary exit costs prior to handover and severance costs through first two years of contract; and

- costs and risks related to organizational change within government.

Additional details on risks and risk allocation are in Appendix 5.

6. Privacy Considerations

Privacy issues have been a top priority for this initiative since it was started. However, the issue took on increased importance with the awareness of the potential implications of the USA *Patriot Act* (“the *Patriot Act*”). Analysis of the *Patriot Act* also made government aware of possible vulnerabilities within existing privacy and security arrangements in existing HBO service provider contracts, and the need to significantly strengthen those arrangements.

The Ministry consulted with Information and Privacy Commissioner, David Loukidelis, and his staff before and during the procurement process to ensure any concerns they had were discussed and addressed.³ Throughout the procurement process, the expectations laid out by government, which were based on recommendations by former Privacy Commissioner David Flaherty, required vendors to have a strong track record in the area of privacy, and to build significant and comprehensive privacy protections into their proposals. Stringent evaluation criteria were carefully designed to measure this aspect of each proposal, at every stage of the procurement process.

Comprehensive provisions in the Master Services Agreement with MAXIMUS BC include specific and onerous new requirements that provide protection against attempted access under the *Patriot Act* and respond to recent amendments to the *BC Freedom of Information and Protection of Privacy Act*, in addition to the already significant requirements which are a standard part of all government contracts for this type of work. These measures include:

- Technical protection measures:
 - data storage and access, including remote access, will be only in Canada, and can only be changed with the Province’s express consent;
 - data access will be segregated so that only MAXIMUS BC (and not the Canadian or US parents) has access;
 - any US employees working on transition and transformation activities will be subject to special supervision requirements and restrictions on data access;
 - outbound web and email access for staff will be prohibited or restricted, except as required to deliver specific services;
 - comprehensive and robust technology security measures including: advanced firewalls, sophisticated encryption and physical security measures; and
 - hardware that would enable data to be copied and taken off site, such as removable floppy drives, CD burners and USB smart drives will be restricted to designated personnel.

³ After formal complaints regarding ASD projects and the USA Patriot Act were initiated, Mr Loukidelis was unable to continue advising the Ministry.

- Contractual protection measures:
 - contract includes termination rights in the event of disclosure or privacy breach;
 - MAXIMUS BC's policies and procedures outline all privacy and security objectives, methodologies, and disclosure requirements;
 - within MAXIMUS BC, access to information will be further segregated to align with specific job requirements;
 - MAXIMUS BC is committed to comply with all government policies related to management and storage of records related to the services they will deliver;
 - Privacy Impact Assessments will be required, and signed off by the Ministry prior to any systems change;
 - all employees, including employees of sub-contractors who have access to MSP or PharmaCare data sign non-disclosure agreements with the Province;
 - non-disclosure agreements include the requirement for the signer to notify the Province in the event that he/she becomes aware of any potential disclosure;
 - MAXIMUS BC's agreements with its own employees must state that the employee non-disclosure agreement with the Province has precedence over its employment agreement; and will include "whistleblower" protection;
 - government is establishing a whistleblower hotline for employees to call;
 - the service provider will require annual confidentiality commitments from all employees; and
 - systems security audits will be undertaken every two years, and government will have unrestricted access for both scheduled and ad-hoc privacy audits, either directly, or through the Office of the Information and Privacy Commissioner.
- Corporate protection measures:
 - MAXIMUS' BC operations (MAXIMUS BC) will be structured as separate corporate entities under MAXIMUS Canada;
 - the Province has power of attorney and other contractual rights that allow the Province to take over the operations of MAXIMUS BC in the event of a potential disclosure of personal information;
 - shares of MAXIMUS BC held in trust structure – all Canadian resident Directors on Board of MAXIMUS BC;
 - a detailed Privacy Management Plan will be created by MAXIMUS BC to the satisfaction of the Ministry;
 - MAXIMUS BC must have dedicated Privacy and Security Officer who monitors compliance; and
 - contract includes liquidated damages in the event of disclosure or privacy breach in response to a requirement of a foreign country.

These provisions set a new, significantly enhanced and unprecedented standard for data security that is higher than the requirements previously in place in BC or

anywhere in the country for the kinds of information used by HBO (Appendices 6 and 7).

7. Transition, Transformation, Ongoing Contract Management

The Ministry and MAXIMUS BC have agreed to a “Run-Build-Run” model for MAXIMUS’ management of Health Benefits Operations. MAXIMUS BC will make initial improvements in call centre technology to take effect as soon as they assume operations. All other existing information systems will continue to support HBO for several months following the handover. These legacy systems will be replaced incrementally over the first 12 months. This model will allow services to be transferred with the minimum risk of disruption to the public and providers. It will also allow the Ministry sufficient time to test and validate MAXIMUS BC’s compliance with privacy and security obligations before each major change is implemented.

“Run”:

- Transition begins immediately after contract signing, and will continue for five months. During this phase, MAXIMUS BC prepares facilities, processes, technology and personnel required for the transfer of services from the Ministry and current systems outsourcers.
- Transfer of operations from the Ministry to MAXIMUS BC takes place at end of Transition Period (beginning of April 2005).
- MAXIMUS BC will make changes to processes and call centre technology prior to transfer to improve customer service, and will stabilize the transferred operations prior to making major technology transformations.

“Build”:

- Includes two major systems transformations, and completion of business process transformation:
 - Replacement of Registration system: November 2005 (7 months following handover of operations); and
 - Replacement of Claims system: April 2006 (12 months following handover of operations)

“Run”:

- End of Transformation; initiation of fixed price phase: April 2007.
- End of contract term (unless extended): April 2015.

Improvements in service levels will begin at handover, and ongoing improvements will occur as technologies are replaced and upgraded.

- Contract Management

Effective management of the relationship between the Ministry and MAXIMUS BC will be key to ensuring that MAXIMUS BC meets its contractual commitments, and that government continues to receive value for money throughout the contract term. The Ministry has taken guidance from examples of effective contract management in other jurisdictions, and well as outsourcing arrangements that have not lived up to expectations.

Recent studies of successful and unsuccessful long-term business deals, of the kind that the Ministry and MAXIMUS are entering into, identify that the most important success factor is the ability of the two organizations to build and maintain effective working relationships between key personnel at multiple levels of each organization -- from the day-to-day working levels, to key executive positions. An effective relationship requires:

- shared values and objectives;
- joint problem solving;
- mutual need;
- transparency (to the extent possible and reasonable); and
- willingness to act as “partners”.

The Ministry and MAXIMUS have designed a contract management structure and governance relationship that models “best practice” in this field.

A dedicated contract management unit has been established within the Ministry of Health Services to manage the MAXIMUS contract. The unit will be responsible for ensuring the overall effectiveness of the governance relationship throughout the contract term.

Specific responsibilities will include:

- monitoring compliance with government policies, legislation and standards, including those related to privacy and security;
- managing governance committees and other interfaces between the Ministry and MAXIMUS BC;
- overseeing all technology-related aspects of the agreement, including systems transition, transformation, maintenance of interfaces; development projects and compliance with security standards;
- reviewing monthly performance reports, Annual Operating Plans and other required reports, and taking necessary action;
- managing processes for amending the contract and schedules, including major changes in scope and related new procurement processes, if required;
- ensuring appropriate and effective communications between the outsourced operations and the Ministry (eg, policy and information technology divisions) as well as other government ministries and central agencies;

- initiating and overseeing routine and ad-hoc audits and benchmarking studies; and
- detailed monitoring and assessment of financial performance and contract payments.

Two years prior to the end of the contract term the Ministry and MAXIMUS BC will initiate discussions towards extending the contract for five years or re-tendering the contract. A comprehensive evaluation of MAXIMUS BC's performance will be undertaken to inform the Ministry's decision on a potential contract extension.

The contract management unit will maintain a best-practices approach to the management of the relationship with MAXIMUS BC, to ensure the Province continues to receive value for money throughout the term of the Agreement.

Appendix 1: June 2003 Business Case – Financial Summary

Option	Estimated Capital Investment in new technology or technology upgrades	One-time costs (eg, for contract management; voluntary exit program for staff)	Ongoing Annual Operating Costs	Ten year discounted cost ⁴
(\$ millions)				
1. Direct Government Provision of Services with Minimum New Capital Investment	16 - 36	0	28	212 to 228
2. ASD of all HBO:				
a) With replacement systems for Beneficiary Services only; minor upgrades to other technology;	16 – 36	5.5 – 10.5	22– 34	174 to 279
b) With replacement of all existing technology	48 - 84	5.5 – 10.5	22– 34	204 to 325
3. ASD of MSP Beneficiary Services only	16 - 36	3 - 5	21 - 32	164 - 261

This table summarizes the financial analysis in the original business case that identified the potential for an ASD solution for Health Benefits Operations.

Technology cost estimates were based on analyses of HBO technology issues and potential solutions that had been undertaken in previous years, current market information, and the ministry’s experience with other recent technology projects.

One-time costs include the estimated cost of a joint solutions development procurement process, and the estimated cost of severance/retirement for staff that might choose not to move to an ASD provider.

On-going costs were based on the Ministry’s Service Plan budget targets for HBO and the associated information technology support (both outsourced and in-Ministry). ASD costs assumed that a range of productivity improvements could be achieved.

⁴ The discounted cost is a calculation that expresses the present value of money that will be spent (or received) in the future. It takes into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return this year. The discounted cost allows for a more accurate comparison to be made between the costs of different options, particularly if those options require expenditures (such as capital investments) in different years.

Option 1 would see the Ministry develop and implement major system upgrades only in MSP Beneficiary Services, in order to resolve the most pressing service problems, and make minor upgrades to the existing MSP Claims system.

Option 2a is most directly comparable to Option 1, in that it would achieve approximately the same objectives, however, the changes would be achieved through outsourcing to the private sector. Option 2a anticipated some one-time severance/retirement costs, however, annual operating costs were expected to be reduced due to the ability of a private sector provider to leverage existing technologies, skills and management processes, and, as a result, deliver the services at a lower cost.

Option 2b is similar to Option 2a, however, it anticipated a full systems replacement or upgrade for MSP and Pharmacare, which would allow more scope for productivity improvements.

Option 3 would involve outsourcing only MSP Beneficiary Services (business processes and technology) to a new ASD provider. The rest of the current HBO business operations would be retained within government, while technology support for the rest of HBO would continue to be outsourced to current providers.

This preliminary analysis indicated that an ASD initiative did not present an opportunity for significant cost reduction, however, it would have the potential for significant technological advancement, avoided up front capital technology investment, and the transfer of risk to the private sector.

Appendix 2: Joint Solutions Development Procurement Process

The Joint Solutions Request for Proposals was issued July 29, 2003. Five companies responded and four vendors were short listed on the basis of their initial written proposals:

Submitted Proposal	Shortlisted	JSD Phase Participant
MAXIMUS, Inc.	Yes	Yes
IBM Canada	Yes	Yes
CGI Information Systems and Management Consultants Inc.	Yes	No
EDS	Yes	No

These vendors were provided with summary information about the current business processes and technology. They then prepared high level conceptual presentations demonstrating their proposed solution to address the problems and achieve the desired outcomes. On the basis of those conceptual solutions, evaluators selected two preferred proponents to work through a three-month Joint Solutions Development (JSD) phase. During this phase the proponents had access to more detailed information about the current business, and refined and elaborated on their initial solutions in close collaboration with HBO staff. All participants in this process were bound by confidentiality agreements, and were not provided access to any sensitive personal data.

Proposals were evaluated by a panel that included senior staff of the Ministry of Health Services, with expertise in privacy and security, HBO business processes, information technology, human resources, policy, accounting, and government finances ; staff of the Ministry of Management Services, as well as external consultants with expertise in economics and finance. The Ministry also retained an independent legal expert (process monitor) to monitor the workshops and the evaluation process to ensure that all proponents were given equal opportunities to develop their solutions, and were fairly evaluated.

Initial evaluation criteria measured the capacity, capability and commitment of the proponent. A clearly demonstrated ability to manage sensitive personal information was specifically required. Proponents' conceptual and final solutions were evaluated on the quality and comprehensiveness of privacy and security protections, proposed technology and business process transformations and their short and long-term service outcomes, as well as the proposed deal structure and economics.

Appendix 3: Key Terms of Agreement

Term	10 years with option to extend for 5 years
Pricing and Deal Structure	<p>Ten year contract value: \$324.2 million;</p> <p>Pure outsource arrangement.</p> <p><u>Transition and first two years</u>: Base price fixed; Province pays share of cost overruns only if pre-approved by Joint Executive Committee. Province's share of overruns is 50% during Transition Phase; 40% in Year 1; and 25% in Year 2.</p> <p><u>Years 3 through 10</u>: Fixed price, with annual inflation escalator capped at 1.25%.</p> <p>Provides for gain-sharing and profit-sharing by government.</p>
Legal and Commercial Structure	<p>MAXIMUS is establishing two BC-based sole-service companies to deliver the contracted services.</p> <p>Directors of the BC corporations must be Canadian citizens and residents of BC.</p> <p>Shares of the BC corporate entities will be held in trust for the benefit of MAXIMUS Canada. The Province has the option to take ownership of the BC companies on a temporary or permanent basis in the event of an actual or anticipated privacy breach, or upon termination of the contract.</p>
Location	Service Centre will continue to be located in Victoria. All operations and technology, including data backup, must be located in BC unless otherwise approved by the Province.
Privacy and Security	See Appendices 6 and 7
Performance Levels	27 Service Level Requirements are defined; if not met, MAXIMUS incurs financial consequences. A further 41 Service Level Objectives are also defined, but are not accompanied by financial penalties. The majority of service level outcomes will be measured and reported monthly.
Labour Relations	All current HBO staff (approximately 230 employees) will be offered positions with the new organization, and will continue to be members of the BC Government and Service Employees' Union (BCGEU).
Contract Termination Provisions	<p>Includes a range of termination provisions:</p> <ul style="list-style-type: none"> - Termination for Cause; - Termination for Convenience, and - No-fault Termination. <p>Termination costs borne by the parties vary in accordance with the reason for termination (three categories above), and the contract phase or year.</p> <p>Unless the Province specifically directs otherwise, MAXIMUS BC is required to provide transition services upon contract termination.</p>

<p>Governance and Contract Management</p>	<p>Three levels of committees will develop and maintain high quality relationships between the Province and MAXIMUS BC;</p> <ul style="list-style-type: none"> ○ Joint Executive Committee: provides executive level governance and leadership; ○ Joint Steering Committee: provides detailed management of the relationship; ○ Working Groups: formed as required by Joint Steering Committee <p>Dedicated contract management unit within the Ministry of Health Services to manage contract and governance relationships.</p>
<p>Audit</p>	<p>Province has extensive rights to perform reviews, audits and investigations as required, using internal or external auditors or other professional advisors. Audits may cover any aspect of the agreement, including privacy and security, general controls, practices and procedures, and financial/business matters.</p>
<p>Dispute Resolution</p>	<p>Governance structure is designed to facilitate internal dispute resolution as early as possible at the lowest possible level. Formal dispute resolution processes culminate with binding arbitration under the BC <i>Commercial Arbitration Act</i>. Province may bypass arbitration and proceed directly to court if it suffers irreparable harm due to a breach by MAXIMUS BC. An expedited arbitration process is available if required during the initial Transition and Transformation Phases.</p>
<p>Features of Technology solution</p>	<ul style="list-style-type: none"> ○ Significant redesign of telephone system; ○ Replacement of existing manual processes for enrolment and registration services for the public. The new technology will be directly integrated with telephone and web services; ○ Replacement of the existing aging technology supporting payments to medical providers; ○ Continuing upgrades and improvements to other existing and new systems throughout the contract term.
<p>Financial and Accounting Issues</p>	<p>Performance-based service contract: Monthly invoice will report major cost categories and service level outcomes; Future changes in scope of services follow defined process and will be priced at the lowest level made available to MAXIMUS' other customers ("Most Favoured Customer" pricing); Price and service benchmarking to assess ongoing value for money; Financial reports for the MAXIMUS BC operations will be consolidated with MAXIMUS Canada; MAXIMUS BC and its subsidiary are outside the Government Reporting Entity (ie, they are not controlled by government, and are not a government partnership or joint venture).</p>

Appendix 4: Final Deal -- Financial Summary

The following table provides more details on the business case comparison between the MAXIMUS BC deal, and the estimated cost of keeping HBO in government and making technical and business process improvements equivalent to the MAXIMUS BC solution (the Public Sector Comparator).

Criteria	Public Sector Comparator (PSC)	MAXIMUS Deal
Technology and Capital Investment	\$15.8 million	Not applicable (costs recovered through service fees)
Base Operating Costs	\$339.7 million	\$324.2 million
Other Related Costs ⁵	\$28.9 million	\$33.3 million
Total Cost over Ten Years	\$368.6 million	\$357.5 million
Variance from PSC		-3.0%
Ten year Discounted Cost (Present Value)⁶	\$277.9 million	\$273.0 million
Variance from PSC		-1.8%

The PSC is an estimate of what it would cost government to build, implement and operate, in-house, a solution that would achieve the results specified in the procurement process.

In producing the PSC, the ministry performed a detailed baseline analysis of HBO. This analysis produced detailed maps of the business processes; technology linkages and performance metrics, and the unit costs of providing HBO services at current levels. A secondary analysis looked at the opportunities for productivity gains related to specific changes in technology and business processes, and the expected implications for staffing and budgets.

⁵ Includes network charges, Ministry transition and contract management expenses.

⁶ Discount rate = 5.23 percent. The discounted cost is a calculation that expresses the present value of money that will be spent (or received) in the future. It takes into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return this year. The discounted cost allows for a more accurate comparison to be made between the costs of different options, particularly if those options require expenditures (such as capital investments) in different years.

The cost of custom-building an equivalent technology to MAXIMUS' proprietary Max e² is estimated to be very high, therefore it was not reasonable to assume government could afford to custom-build such a comprehensive system. Therefore, for the purposes of the PSC, an alternative, less costly technology was substituted. This substitute technology likely would not achieve the same outcomes (in terms of staff productivity and integration with other systems) as the MAXIMUS solution.

In addition, the timelines for implementing key components of the new technology in the PSC are different than those in the MAXIMUS solution. MAXIMUS will replace all key systems within the first year of operations. It would be highly unlikely that government could develop and implement such a major initiative, involving multiple systems projects, within such a short time frame. Accordingly, the PSC assumes technology would be replaced incrementally over a four-year time frame.

Both of these factors result in lower ten-year productivity gains in the PSC in comparison to MAXIMUS.

From a financial perspective, the analysis confirms that the difference between an in-house solution versus an ASD is negligible. However, the MAXIMUS solution provides a number of intangible benefits that tip the final decision in favour of the ASD. Those intangible benefits are outlined on page 11 of this Summary Report.

Appendix 5: Risk Allocation

This table summarizes the significant points in the risk assessment of the MAXIMUS deal, outlines the allocation of risks between the Ministry and MAXIMUS BC, and the contractual provisions that reduce the Province’s risk exposure.

A. Material risks transferred to the private sector

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	MAXIMUS	Ministry	
Business Risk			
MAXIMUS BC does not achieve service levels in contract	✓	-	Financial penalties
Privacy or Security Breach	✓	-	Breach triggers termination for cause; liquidated damages; Province assumes control of MAXIMUS BC
Fraud or negligence	✓	-	Breach triggers termination for cause; liquidated damages
Sale or Change in Control of Company	✓	-	Province may terminate without triggering expropriation provisions; Province may take ownership of existing assets and/or may take management control of operations;
Failure of Company or sub-contractors	✓	-	Province may take ownership of existing assets and/or may take management control of operations; Warranties and Guarantees against failure of sub-contractors
Business Continuity and Disaster Recovery	✓	-	Significant penalties; liquidated damages; termination for cause
Economic Risks:			
Cost Overruns: Year 3 through 10	✓	-	Years 3 through 10 are fixed price
Technology Risks			
Data Security	✓	-	Commitment to government-imposed standards; audit requirements; termination provisions (see above, Privacy or Security Breach)
System Maintainability	✓	-	
Flexibility/ Responsiveness	✓	-	

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	MAXIMUS	Ministry	
System Integrity	✓	-	
Organizational Change			
Transition risks: collective agreement negotiations	✓	-	MAXIMUS BC will be responsible for negotiation of a separate collective agreement with the BCGEU.
Stakeholder risks:			
Conflicts/issues with HBO business clients	✓	-	Service level commitments/penalties

B: Shared Material Risks

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	MAXIMUS	Ministry	
Business Risk			
Force Majeure	✓	✓	Uninterruptible services defined; BC-DR Plan required; Province may obtain services elsewhere; no payments for interrupted services
Economic Risks:			
Cost Overruns: Transition	50%	50%	Governance structure; reporting requirements
Cost Overruns: Transformation, Year 1	60%	40%	Governance structure; reporting requirements
Cost Overruns: Transformation, Year 2	75%	25%	Governance structure; reporting requirements
Inflation	✓	✓	Government's inflation exposure capped at 1.25% annually
Termination by Province for Convenience	✓	✓	Government's exposure limited by contractual provisions, including pre-agreed level of compensation to MAXIMUS BC.

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	MAXIMUS	Ministry	
Decision Error (risk of increased claim costs)	✓	✓	Governance Structure: Ministry sign-off on all systems business rule changes; defined role for Ministry in decisions regarding complex manual claims; service levels include quality measurement, with penalties for high error rates.
Scheduling Risks:			
Transition Plan	✓	✓	Governance Structure; reporting requirements; penalties for delayed hand-over
Transformation Plan	✓	✓	Governance Structure; reporting requirements; Time limit on financial risk-sharing; MAXIMUS BC bears risk of delayed productivity improvements after Year 2.
Scope:			
Risk that scope changes will increase net cost to Ministry	✓	✓	Ministry has sign off on unanticipated scope changes; would require business case from MAXIMUS BC
Project Complexity			
Risks associated with balancing multiple goals, numerous concurrent activities, new business processes complex technology implementation, coordinating multiple organizational units	✓	✓	Time-limit on financial risk-sharing; vendor incented to maintain service levels during transition and transformation phases (see Service Levels, above)
Organizational Change			
Transition risk: reorganization of remaining Ministry functions; alignment of Ministry and MAXIMUS BC.	✓	✓	Governance Structure; planning and reporting requirements; commitment to stability of key management personnel during first two years.
Quality Management/ Deliverables			
Risk that Ministry will be unable to monitor and measure deliverables.	✓	✓	Governance structure; reporting requirements; significant audit requirements; vendor required to accommodate audits initiated by Province

Decision Error (risk of appeals/litigation)	✓	✓	Governance structure: Appeals escalate to Ministry. Policy decisions stay within Ministry.
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C: Material risks retained by the Province

Risk Category & Description	Allocation of Risk		Mitigation (Contractual Provisions)
	MAXIMUS	Ministry	
Business Risk			
Major/sustained volume growth driven by government activity or policy change	-	✓	Governance structure: annual business planning and joint priority setting
Change in government law or policy requiring changes in scope, systems or business processes	-	✓	Governance structure: annual business planning and joint priority setting
Economic Risks:			
Voluntary exit or Severance Costs - prior to handover and during first two years of contract	-	✓	Province's exposure capped; limited by seniority provisions in collective agreement.

Appendix 6: Privacy Protection

The following table compares the major privacy and security requirements and commitments in current HBO outsourcing contracts with those in the MAXIMUS contract at the time of contract signing with MAXIMUS.

Mitigation Strategy / Contract Provisions (✘ = not a specific requirement; ✓ = specific requirement)	Current Contracts	MAXIMUS Contract
<ul style="list-style-type: none"> Compliance with new FOIPPA amendments and recommendations of the Information and Privacy Commissioner regarding the USA Patriot Act 	✘	✓
<ul style="list-style-type: none"> MAXIMUS BC's policies and procedures outline all privacy and security objectives, methodologies, and disclosure requirements; 	✓	✓
<ul style="list-style-type: none"> Within MAXIMUS BC, data access will be segregated to align with specific job requirements; 	✓	✓
<ul style="list-style-type: none"> Tools will be implemented to enable trace and audit of all data access/copying, including individual user logs; 	✓	✓
<ul style="list-style-type: none"> Strong technology security measures will be implemented, including firewalls, encryption and physical security; 	✓	✓
<ul style="list-style-type: none"> Strict records management and retention policies will be implemented; 	✓	✓
<ul style="list-style-type: none"> Privacy Impact Assessments will be required prior to any systems change; 	✓	✓
<ul style="list-style-type: none"> Contract includes termination rights in the event of disclosure or privacy breach; 	✓	✓
<ul style="list-style-type: none"> All MAXIMUS BC employees and employees of MAXIMUS' sub-contractors who have access to HBO data sign non-disclosure agreements with the Province as well as with MAXIMUS BC; 	✘	✓
<ul style="list-style-type: none"> Non-disclosure agreements include the requirement for the signer to notify the Province in the event that he/she becomes aware of any potential disclosure; 	✘	✓
<ul style="list-style-type: none"> MAXIMUS BC's agreements with its own employees must state the contract with the Province has precedence over its employment agreement; and will include "whistleblower" protection; 	✘	✓

Mitigation Strategy / Contract Provisions (* = not a specific requirement; ✓ = specific requirement)	Current Contracts	MAXIMUS Contract
<ul style="list-style-type: none"> MAXIMUS BC will require annual oaths/confidentiality letters from all employees and sub-contractors; 	✘	✓
<ul style="list-style-type: none"> A detailed Privacy Plan will be created and referenced to the contract; 	✘	✓
<ul style="list-style-type: none"> Special restrictions on data access and oversight/supervision requirements apply to US employees working on transition and transformation activities. 	✘	✓
<ul style="list-style-type: none"> Data storage and access, including remote access, will be only in Canada, and can only be changed with the Province's express consent; 	✘	✓
<ul style="list-style-type: none"> Data access by MAXIMUS will be segregated so that only the BC Service Provider (and not the Canadian or US parents) has access; 	✘	✓
<ul style="list-style-type: none"> Automatic processes will be put in place to notify the Province if MAXIMUS' staff appear to be copying or accessing data in an unusual manner; 	✘	✓
<ul style="list-style-type: none"> Outbound web and email access for staff will be prohibited or restricted, except as required to deliver specific services; 	✘	✓
<ul style="list-style-type: none"> Hardware that would enable data to be copied and taken off site, such as removable floppy drives, CD burners and USB smart drives will be restricted to designated personnel; 	✘	✓
<ul style="list-style-type: none"> MAXIMUS BC must have dedicated Privacy and Security Officer who monitors compliance; 	✘	✓
<ul style="list-style-type: none"> Contract includes substantial financial penalties in the event of disclosure or privacy breach. 	✘	✓

Appendix 7: Specific Recommendations of the Commissioner in Respect of Alternative Service Delivery Projects

Topic	Specific Report Wording	HBO Project Response
Amendments to FOIPPA	“...prohibit personal information in the custody or under the control of a public body from being temporarily or permanently sent outside Canada for management, storage or safekeeping and from being accessed from outside Canada”	<ul style="list-style-type: none"> ○ Contract language restricts ability to have data stored or accessed from outside Canada. Contract makes specific reference to FOIPPA. Restrictions also placed in Articles of the service provider.
	“expressly provide that a public body may only disclose personal information in response to a subpoena... from a Canadian court”	<ul style="list-style-type: none"> ○ Contract language specifically covers this.
	“impose direct responsibility on a contractor to a public body to ensure that personal information is... used and disclosed only in accordance with FOIPPA”	<ul style="list-style-type: none"> ○ Contract specifically requires service provider to hold data in accordance with FOIPPA. Direct agreements with persons with access to data. Contract language restricts use and defines province ownership. Significant penalties for breach.
	“require a contractor to a public body to notify the public body of any subpoena... made by a foreign court ... for the disclosure of personal information”	<ul style="list-style-type: none"> ○ Direct agreements require this. Contract requires this. Reference made to FOIPPA also in contract.
	“require a contractor to a public body to notify the public body of any unauthorized disclosure...”	<ul style="list-style-type: none"> ○ Contract language specifies this. Direct agreements require this.
	“ensure that the IPC has the powers necessary to fully and effectively investigate contractors’ compliance with FOIPPA... including powers to enter contractor premises, obtain and copy records, and order compliance...”	<ul style="list-style-type: none"> ○ Full audit privileges extend beyond FOIPPA – allow province to appoint auditor or officer. ○ Specific language recognizes IPC right to audit in accordance with FOIPPA. Audit privileges extend IPC rights.
Resources and Governance	“All public bodies should ensure that they commit, for the duration of all relevant contracts, the financial and other resources necessary to actively and diligently monitor contract performance, punish any breaches, and detect and defend against actual or potential disclosure of personal information to a foreign court...”	<ul style="list-style-type: none"> ○ Contract management branch will have dedicated complement of staff for oversight and monitoring. Contract specifies contract management, key positions and rights of Province. ○ Contract management branch has established a budget for the purpose of audit.

Topic	Specific Report Wording	HBO Project Response
Audit	<p>“Recognizing that it is not enough to rely on contractors to self-report their breaches, a public body that has entered into an outsourcing contract should create and implement a program of regular, thorough compliance audits. Such audits should be performed by a third party auditor, selected by the public body, that has the necessary expertise to perform the audit... consideration should be given to providing that the contractor must pay for any audit that uncovers material noncompliance with the contract.”</p>	<p>Significant audit rights in contract. Province pays for routine audits including performance, compliance, privacy and SysTrust Audits. Service provider pays for annual financial audits – and for the costs of any corrective action required noted during audits – and for any follow up audit work required to ensure remedial action was taken.</p>

Other Issues Not Specified in Recommendations

Topic	General Report Wording	
Corporate Structure	<p>The Commissioner highlighted that a contract with a US service provider, or a Canadian service provider that has a direct link to a US company, can result in the potential for vulnerability to a Patriot Act order.</p>	<ul style="list-style-type: none"> ○ Corporate structure includes Canadian Subsidiary with two BC Based Subsidiaries. Directors of BC Based Subsidiary (BC Prime) are Canadian citizens and BC residents. ○ Articles of incorporate restrict disclosure for USA Patriot Act and require notification if disclosure requested. ○ Shares of BC Prime held in trust by Canadian Western Bank. No right of US parent to direct BC Prime regarding disclosure. Shares transfer to the Province in the event of a potential or actual disclosure.
Compliance with the Standard Privacy Protection Schedule		<ul style="list-style-type: none"> ○ The Contract has incorporated (and generally exceeded) all of the requirements of the new Privacy Protection Schedule.