HAMSTREET
& associates

To: Aaron Patnode, Cover Oregon Board, Governor Kitzhaber
Re: Overview of Hamstreet Cover Oregon engagement and recommendations
From: Clyde Hamstreet
Date: August 29, 2014

Since stepping aside as interim executive director at Cover Oregon in July, and as part of the wind-down of my firm's engagement with Oregon's health insurance exchange, I have prepared this memo as an overview of our work and recommendations for the future of Oregon's exchange. The memo covers three areas: operations, finance, and future structure and governance.

I. Operations

A. Initial Situation

Dysfunctional Management. When my team arrived at Cover Oregon in April the organization was in serious disarray. Rarely if ever in my experience as a turnaround professional have I encountered so dysfunctional a leadership and management situation. Several executives and managers held positions they did not have the experience or ability to handle and were consequently failing. There was little accountability among management. High level objectives were not aligned and executives were frequently at odds with one another, at times displaying unprofessional conduct such as territorial behavior, open hostility, and use of strong profanities in verbal communications.

Cooperation with the Oregon Health Authority (OHA) was poor and there was evident ill will. Lines of authority were vague in several functional areas; e.g., two executives were responsible for the same Salem operations. Communications between managers, across levels internally, and with many outside constituents (e.g., agents) were poor. Important policies and procedures were either inadequate or did not exist. Management and systems weaknesses required frequent ad hoc decision-making to enable continued operations, usually with nothing but an email for documentation.

The problems in senior leadership affected the entire organization. Employee morale was poor and we encountered widespread discomfort and wariness among the staff about whom to align with or trust.

Ineffective Agent Relations. Agent relations was not a priority and agent commission processing was wholly inadequate. An agent relations team existed in title, but in fact spent its time on

enrollments, resulting in weeks of unanswered agent phone calls and hundreds of unanswered agent emails. Commission payment processing had largely failed and Cover Oregon was paying agents less than half the commissions it was receiving.

Instability of IT system. When Hamstreet came on board, Cover Oregon did not have control over its production data processing systems. Oregon's Chief Information Officer, Alex Pettit, had initiated activity to assume this control from Oracle, but results were still a month away. Disabling system problems and outages were part of the normal course of operations. Most business processes had ~~only~~ limited automated support, but ~~and~~ a few, such as life change processing, had none at all. Cover Oregon relied on Oracle to provide the needed services but did not have an effective independent problem identification or management process in place to guide that relationship or fill in gaps to enable independent operations. Cover Oregon had no formal service level expectations or effective service level agreement with Oracle.

Continued Focus and Expenditure on IT. In mid-April, several Cover Oregon executives~~leadership~~ had yet to understand that the IT implementation had failed and that it was time to regroup, stabilize the business, and develop a new approach. The organization continued single-mindedly down the path of debilitating expenditure on technology~~, leaving the rest of the business to fall apart in its wake~~ [I think this last phrase is too strong].

Weak Financial Controls and Business Processes. Elements of financial management lay in three separate parts of the organization, ~~all~~ relegated two or three levels below the executive director. This fragmentation led to incomplete financial planning and oversight. Contract and invoice authorization was dispersed and poorly controlled, and there were virtually no controls on IT spending. Expense run rates would have left Cover Oregon out of funds by 3Q14. There was no effective budgeting or variance tracking, and where any such efforts did exist there was no accountability. No meaningful business planning was current, except for grant funds forecasting, and there was no formal agreement in place between Cover Oregon and OHA related to cost sharing or fees for service.

Processing Backlog. Large piles of untouched work had accumulated. This included the processing of Medicaid redeterminations, carrier assessment billings, and the processing of member life changes ("Qualifying Life Events"). In mid-April there was a backlog of approximately 6,500 life changes—all untouched—with no process defined or enabled to handle them. At that time there were also approximately 3,000 complex applications that had yet to be handled, and 7,000 identified data errors in need of correction. The organization had no plans in place to address roughly 20,000 document verifications that should have been started by then.

B. Work Performed

To correct and improve the situation described above Hamstreet & Associates:

- Removed non-performing executives
- Changed the management culture through increased communications and senior executive availability and transparency, improving morale

- Stabilized the business by refocusing on core activities and stanching the bleeding on technology
- Closed out many contracts and sent many contractors home
- Improved financial forecasting and reporting
- Cut expenses to a run rate capable or finishing the year
- Demonstrated open cooperation with OHA, and expected the same from Cover Oregon employees
- Jointly developed the 2015 Transition Plan with OHA and the governor's office
- Clarified authority, delegating more operations decision-making while restricting financial decisions
- Promoted the controller to executive ranks and pulled billing and payroll functions under finance
- Increased the attention and resources dedicated to agent relations
- Implemented new agent commission processing procedures, achieving 90%+ commission pay ratios and placing the organization on track to fully pay out all commissions
- Working with Alex Pettit, normalized data processing operations and support and added key personnel in this area
- Required Hamstreet approval for all contracts and review of all invoices
- Caught up on all complex application processing
- ~~Developed carrier assessment billing to begin with the August run~~
- Facilitated implementation of life change processing and eliminated the QHP life change backlog
- Fixed more than 10,000 data errors, reducing this backlog to approximately 1,000 by the end of August

C. Transition — Work Still to Perform

The following is an excerpted overview of the operations workload prepared by Mark Schmidt and recently presented to Aaron Patnode as Mark turned over the reins as interim COO to Alicia Blevins.

Salem Operations. Salem activities focus on eligibility and enrollment processing and the call center. Given the parallel activities at OHA pertaining to Medicaid, periodic coordination with OHA senior management on eligibility and enrollment is important.

The eligibility team faces a significant workload through the remainder of 2014. Tasks include error corrections and life change processing, both of which are already underway and well advanced, but OHA redeterminations are likely to generate additional life change work. The eligibility team will also be responsible for whatever document verification Cover Oregon has to complete. The level of verification required is not yet clear, but if it is significant the workload may exceed the team's capacity. Workload planning in this area will be critical.

Enrollment processing is fairly stable at this time and has a capable team. This workload should decline as 2015 open enrollment begins, but we expect continuing applications and carrier cancellations and terminations until sometime in November.

The call center workload has remained higher than expected following the end of extended enrollment on April 30. Cover Oregon has been handling 30,000+ calls per month during ~~every month since~~ May, June and July. August call volumes will come in slightly below this level, but with ~~With~~ OHA's pending redeterminations, call volume will almost certainly increase in the near term. If volume remains as high as it has been or increases, Cover Oregon may wish to evaluate its desired service levels. Abandon rates are ranging from 10-20%, down from highs of 40% during open/extended enrollment, and average speed of answer now runs ~~3~~ 5 to ~~6~~ 8 minutes, down from 20+ minutes early this year. If Cover Oregon were willing to tolerate lower service levels it might proceed with fewer customer service reps. We have not wanted to make these reductions, but there is room to save costs in this area if necessary.

Durham Operations. The Durham office houses corporate functions, such as Finance and HR, as well as planning for SHOP, agent relations, and plan management. HR is virtually self-managing at this point and should not require significant operational attention. The SHOP team is currently reallocated to helping pay commissions, and plan management is working as part of the technology transition team. Agent relations is active with both agent communications and assisting with commission payment processing. All these areas are adequately staffed and workloads are manageable.

Two organization charts are attached as Exhibit A, one representing the current transitional scenario and the second a potential organization for 2015.

Exhibit B provides a schedule of the most important 2014-15 projects on Cover Oregon's plate, listing the project owner and timeframe. Hamstreet facilitated the development of this schedule with department managers in mid-August. Areas covered include Audit/Reporting, Budgeting, Carriers, CO Systems, Critical Constituencies, Document Verification, Inter-Governmental Agreements, Life Change Processing, OHA Coordination, OHA Eligibility Hand-Off, Renewal Notices, Service Center, SHOP, and the Transition Project.

II. Finance

Hamstreet's activity in the finance area arose from the same set of problems described above in Part A of the Operations section. Early on we recast the role finance played in the organization, which had previously disregarded this department as a second-team player. We added a temporary CFO and elevated the Controller to an executive-level position. We also restructured the accounting department to include the payroll function and billing and commission processing, both of which had been reporting in a fragmented manner to other parts of the organization. Other important financial actions include:

- Added staff resources to work on commission processing problems

- Reviewed the 2013 Independent Auditors Report on Internal Controls and implementation of corrective plans to address findings
- Implemented accurate and timely cash flow budget forecasting
- Improved financial reporting formats for management and the board
- Implemented regular and timely financial variance reporting (actual results to forecasted) to executive team and department managers
- Improved processes to identify and track significant forecasted costs, especially related to contracts
- Initiated contracts review to improve accuracy of contract obligations in forecasting
- Improved month-end reconciliations of accounting data to heighten accuracy and facilitate timely month-end close
- Developed and implemented cost reductions to reduce monthly expenditures rate from an average of $10.4M/month in the first six months of the year to a projected $4.1M/month for the last six months
- Limited signature authority and expenditure approval for major expenditures
- Managed the CMS grant budget re-scope project requesting CMS approval for remaining grant fund expenditures
- Helped develop plans for the carrier assessment billing process
- Participated in IT meetings to prioritize and accelerate critical system fixes
- Led development of a 2015 budget framework
- Worked with the Controller in the daily management of financial operations including staff meetings, review of financial information, and other financial operational issues
- Assisted in preparing financial reports for the board and legislative committees, and for other reporting needs
- Developed a financial operations work plan for the remainder of 2014 and the first quarter of 2015 scheduling significant issues that need to be addressed (Exhibit C).

III. Future Structure and Governance

Cover Oregon, its board, the governor, and the legislature face an important near-term decision in determining the future course of Oregon's health insurance exchange. Should Cover Oregon survive to house the exchange or should the exchange move to another agency? If Cover Oregon survives, what is the best structure and governance? If it moves into an agency, to which one and with what structure or special provisions? The following observations give food for thought and recommendations related to this decision-making process.

Throughout, the discussion assumes that Oregon wishes to and will remain a state-based (or supported state-based) marketplace (SBM). For 2015, Oregon may retain SBM status while using the federal exchange technology. As long as this situation lasts, maintaining the status quo is the obvious course. But long-term future use of federal technology by SBMs is not yet settled, and (while I do not think it probable) it may come to pass that SBMs will lose federal access. I feel strongly that Oregon should keep its options open. Not only is it important for the state to retain control over its health insurance market, but it is also critical that Oregon follows through on the representations it made when applying for and receiving federal funds. The

ability to remain an SBM means keeping technology options open, in large part by thinking through the steps, timing, and costs necessary to retain that status without the use of the federal system. The discussion below includes some thoughts about planning around federal uncertainties in this area.

A. Cover Oregon has a strong core organization that deserves to survive in some form.

The group to whom this memo is addressed may not need to be told what seems obvious to them, but in light of the early problems, public struggles, and media environment this year it needs to be said. When I took over as interim executive director in April the financial and operational situations were on the verge of collapse, and it took time and effort on the part of my team and many others within the organization to bring those areas into line. These weaknesses were attributable to prior planning, direction, and management, not to underlying staff incompetence, lack of vision, or lackluster commitment and performance. In terms of ability, sense of mission, and dedication, I and my team found most of the staff very capable and enjoyable to work with. We recognize and admire the strong ethos that runs deep through the organization to ensure that all Oregonians have health insurance that they can readily understand, acquire, and afford.

Having helped develop and implement important process and oversight improvements, and having now ceded the executive directorship to a very capable leader, we have confidence that Cover Oregon's strengths will flourish. If allowed to continue, I believe this growth will eventually be recognized by the public.

B. The early technology fiasco should not undermine Oregon's long-term healthcare goals.

Both Cover Oregon and the state took a very public and embarrassing beating that is difficult but important to leave behind. The best way to do so is to acknowledge mistakes, learn from them, and move forward. The state has stumbled, but it should resist regressive forces that insist the prior errors necessarily entail some lesser version of its healthcare vision. The technology rollout was appalling and Cover Oregon bears partial responsibility for that. But, in mitigation of these stark acknowledgements, we should keep in mind how massive and how uncharted was the territory created by ACA. Oregon was not alone in making significant implementation mistakes, and both the states and the federal government are still feeling their way through a relatively dark environment towards the future.

Oregon must embrace discipline and fiscal responsibility, but that does not mean it must abdicate its comprehensive healthcare vision. Short term planning that takes financial and political realities into account is necessary, but longer term vision is also essential. I am concerned that short-term decisions may impair the flexibility needed to achieve longer term goals. The unsettled nature of the federal healthcare law may work to Oregon's advantage, but in the meantime the state should keep its options open.

C. *The failed initial rollout should not undermine Oregon's commitment to a working healthcare eligibility and enrollment technology.*

The value of a working technology far outweighs its cost, even if that cost is a multiple of what it should or might have been. The tremendous savings provided by automated application processing imply the inevitability of significant information systems. While the state could have done a much better job of implementation, it never truly had an option *not* to implement a technological solution, and it does not have that option now. We shared an abbreviated analysis of this fact with the House and Senate Legislative Committees in May, and included the following language in the update to the Cover Oregon business plan:

> The cost of processing Medicaid applications manually is extremely high. Our preliminary estimates of direct labor costs suggest that an exclusively manual procedure would exceed $120 million per year. Currently, using the new (but unfinished) technology, Cover Oregon and OHA employ a hybrid manual and automated process estimated to cost closer to $30 million per year in direct labor. By contrast, a fully automated electronic process is projected to cost less than $1 million annually in direct labor (not including call center functions or hands-on staff time to help applicants understand or complete the application). While a fully-automated process is not realistic given the federal requirement that paper applications be made available and the larger number of applicants that will require hands-on assistance to apply, these figures show that the State of Oregon cannot afford NOT to complete the technology.

The numbers referred to in the business plan update derive from a preliminary analysis of application processing costs completed in mid-May 2014. The table below presents direct labor costs to process Medicaid and QHP applications coming through Cover Oregon and OHA using three different levels of technology—none (the legacy manual system), partial (the hybrid solution developed in early 2014), and full (yet to come). The analysis treats *direct labor costs only*. No administrative overhead, no management costs, no equipment or facilities costs, and no expenses for communications, outreach, call center, or other activities are included. Taking all costs into consideration, Hamstreet & Associates estimates Cover Oregon's fully burdened per-application cost to be approximately $120.

As seen from the table, most of the savings lie on the OHA side, which handles more than ten times the number of applications as Cover Oregon. But the savings are significant for Cover Oregon as well, amounting to nearly $7.5 million over two years compared to the hybrid model—i.e., more than the organization's total operating revenues for 2014, and just for direct processing labor. Caveats must be kept in mind relating to the rough nature of the analysis and the impossibility of 100% automation; but these precautions do not undermine the conclusion that eligibility and enrollment technology is vitally important to Oregon.

Value of Technology[1]

	Cover OR	*OHA*	*Total*
Labor cost to process per application[2]			
Manual (legacy)	$ 75.50	$ 44.50	
Hybrid (current)	35.00	10.30	
Fully automated	0 .30	0.30	
Number of applications (estimate)			
2014	82,000	1,200,000	
2015	130,000	1,200,000	
Total	212,000	2,400,000	
Total labor cost to process (2014-15)			
Manual (legacy)	$ 16,000,000	$ 106,800,000	$ 122,800,000
Hybrid (current)	7,420,000	24,700,000	32,120,000
Fully automated	64,000	720,000	784,000

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D. Oregon should establish a statewide Information Systems department answerable to the governor and responsible for all government IT needs.

The processing cost analysis given above shows that Oregon must continue on the path towards improved systems automation. Even if, as an SBM, Oregon is allowed long-term use of federal technology for QHP enrollments, the state must maintain the essential and complex systems supporting OHA's eligibility and enrollment operations. Based on my exposure to technology issues at Cover Oregon and OHA, I strongly recommend that Oregon establish a statewide IS department responsible for all of the state's technological needs. Such a department would offer several advantages over existing practices.

- Greater consistency and efficiency are the most obvious benefits. A single department could build a comprehensive plan to support all state government activities, rationalizing processes and eliminating significant redundancy.
- As information needs rise and the government's work becomes more complex, the state needs its databases to integrate smoothly and talk to each other. Too often the left hand does not know what the right hand is doing; seamless information sharing would reduce these problems and make government much more capable and much less expensive. If the table above is any indication, the potential savings in this area are tremendous.
- Such a department would concentrate expertise, leading to higher and more consistent quality of design and implementation.
- Pulling responsibility for technology into one place liberates other departments and agencies to focus on providing the services for which they exist. Cover Oregon's mission is health-related. It is not a tech shop, and it got into trouble when it had to

[1] This is a rough analysis based on application processing costs developed in May 2014 to assist in manpower planning and budgeting for remaining 2014 processing requirements.

[2] Includes new applicants, re-enrollments, re-certifications, transfers from terminated plans, etc.

act like one in order to fulfill its mission. The trouble it got into was uniquely public, but Cover Oregon is surely not unique among Oregon government and quasi-government entities to be managing its IT needs in less than optimal ways.

- While free to focus on their missions, other agencies and departments would still retain significant control over their own processes and technology needs. They would submit scopes and specifications to the IS department and work closely with IS personnel on solutions and implementation.
- A new department of this kind would have the opportunity to make a fresh start using best business practices from the private sector and avoiding the sometimes territorial and bureaucratic culture that holds back other parts of state government.
- Finally, returning to Oregon's health insurance exchange and the lingering uncertainty about future rules and requirements: A centralized IT system would greatly reduce the cost, time, and risk involved to implement eligibility and enrollment capability for QHP processing, in the event SBMs are not allowed to use federal exchange technology in the future. It would also enable Oregon's exchange to more readily build in components related to the tribes and SHOP.

E. Considerations for Cover Oregon's future structure and governance.

If Oregon has a centralized IT department, housing its health insurance exchange becomes much less of an issue. Removing technology concerns from planning and operations will enable the exchange to focus exclusively on its mission. Hamstreet & Associates does not have a strong opinion as to whether Cover Oregon should remain a freestanding quasi-governmental entity, become an agency, or be subsumed into an existing agency, but we incline to let it remain as it is. The same considerations that supported its creation as an independent entity remain in force, and there is much for the organization still to do. Besides the individual QHP market, there are the tribes and SHOP to work on; there may also be a role for Cover Oregon to serve public entities such as school districts, by growing market size, increasing buying power, and reducing costs.

If the state wishes to place its health insurance exchange within an existing agency, we believe it makes more sense to put it in the Oregon Insurance Division (OID) than OHA. The culture and bureaucracy of OHA is a deterrent to fresh, efficient operations, and the experience of that agency has more to do with entitlement programs than with insurance. Cover Oregon is primarily involved with the sale of private insurance, and for that reason aligns more naturally with OID.

If Cover Oregon remains a freestanding entity, we have the following recommendations for changes in its board composition and procedures:

- All board members should have prior experience on boards of mid- to large-sized organizations that deal with complex issues.
- Restrictions on the number of industry members should be eased. The industry should not dominate the board, and the board should maintain its independence; but it needs more industry experience than it has.

- The governor should appoint the chair, with the restriction that the chair cannot be someone who reports to the governor in the ordinary course of his or her employment.
- Other than industry representatives, requirements for specific kinds of members (consumer advocates, small business representatives, minorities) should be removed. The board needs the best people it can get regardless of background.

F. *Future planning for Oregon's health insurance exchange should be done in a more businesslike manner than in the past.*

Whatever the state decides to do with Cover Oregon, decisions should be analyzed and made in a more businesslike manner than has been the case in the past. A brief example illustrates this point. When Hamstreet arrived in mid-April there were two full-time people assigned to agent relations, presumably representing what management believed would be necessary to fulfill those functions. Burdened annual costs for those two people were approximately $225,000. But to properly operate the agent relations program—i.e., to communicate with agents and track, reconcile, and pay commissions—has required significantly more than two personnel, with burdened annual costs that we estimate will exceed $800,000. Actual costs including office space, fixtures, and equipment will be somewhat higher. Prior Cover Oregon leadership appears not to have thought through what it would take to carry out agent relation functions, or how Cover Oregon would be compensated for doing so.

There are other examples of questionable business planning as well, such as locating computer hardware in two offsite locations in Utah and Texas, with state taxes of approximately $100,000 per year on the Texas-based equipment alone. Cover Oregon leadership appears not to have thought through how it would pay for licensing fees and support and maintenance agreements amounting to $2 million per month while living on annual operating revenues of $10 to $20 million per year. One of the most significant costs in this respect related to the installation of PeopleSoft software to support the organization's business activities. PeopleSoft is a complex ERP system seldom seen in companies with less than $150 million in annual revenue. The enterprise level of QuickBooks is more appropriate to Cover Oregon, and that is what Hamstreet & Associates has recommended.

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G. Consider regional or licensing solutions for the IT platform if necessary.

Oregon is a small-population state with limited potential for QHP enrollment. Given the newness of the law, estimates of the market size are tentative; but credible sources such as the Kaiser Family Foundation and the Robert Wood Johnson Foundation (Urban Institute) converge on a figure in the neighborhood of 330,000-350,000. This market size should inform Cover Oregon's future planning. If we have a centralized IS department capable of adding QHP functionality to existing Medicaid eligibility and enrollment systems, then the state may well proceed on its own terms as an SBM. But if Oregon's exchange has to independently develop and implement the technology it needs, or if the cost to develop the additional functionality is too great to make sense, then Oregon should look outside itself for ways to share costs and find solutions. While it would take time and effort to bring about, collaborating with neighboring states on a common IT platform that allows retention of state control over regulations and processes could increase efficiency in the QHP marketplace by spreading costs over a much larger group of people. Licensed use of technology from the federal government or another state may also be worth looking at.