Management of Fraud, Waste & Abuse: Technology Solution

November 5, 2012

What framework will be developed by COHBE to ensure proper internal controls, training, testing, and what notifications are in place to prevent Fraud, Waste & Abuse (FWA) during the development of the Exchange technology solution?

COHBE Goals for FWA:

- Protect the organization and our customers and business partners against fraud, waste & abuse

- Ensure Exchange funds are properly managed

Principles for managing fraud, waste and abuse:

- Be good stewards of the public trust

- Provide full transparency

- Be accountable

Considerations: Areas of Critical Risk

	Description of Risk	Risk Mitigation Efforts and Questions
IT Vendor Contract Monitoring **(FWA-Technology Contract)**	This area is a high risk for exposure due to high-dollar value and the multi-layered nature of IT vendor contracts. How will COHBE ensure vendors and sub-vendors are using similar ethical guidelines to conduct business, and how will contractual progress be audited and performance be monitored? (i.e. Do the deliverables match the contract timeline? Are vendors using reasonable judgment when making purchases? How can COHBE measure the "value" they are receiving for the contractual work?)	COHBE has negotiated a detailed Statement of Work (SOW) and Master Services Agreement (MSA) that outline the performance expectations and requirements of the IT vendor. PMO is accountable for: • Project progress & deliverable schedule • Engaging and managing Subject Matter Experts • Coordination of Technology Director Activities • Assisting IV&V firm throughout their review processes

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<u>Recommendation:</u>

COHBE has implemented a multi-faceted accountability model, discussed and illustrated below, to monitor progress and quality, coordinate activities, and ensure full value for the money and effort invested in the Exchange system. The main components of the model are as follows:

1. A contract for the development and delivery of the system.
2. Close oversight of contractual work.
3. Formal internal controls.
4. Third-party Independent Verification and Validation (IV&V).
5. Formal processes for project controls and standards, and for managing issues and risks.
6. Complete documentation.

The controls apply at all levels, from individual items to the entirety of the system. They are described in more detail below, and the scope of each control includes detection, escalation and response to potential fraud, waste and abuse.

1. A contract for the development and delivery of the system.

   COHBE executed a contract with CGI, Inc. to develop the Exchange system. The fixed-price, delivery contract and its statement of work (SOW) define the scope, milestones and cost for the system-development efforts. The contract structures the development of, and payment for, the system as 40 component "deliverables" that culminate in an operational system. Ten percent of each of the 40 payments is held in reserve until final delivery and acceptance of the system. This structure allows COHBE to specify, review and accept each component, including subcontracts and purchases of third-party software, at a fine-grained level that enables tight control and timely management of deviations and variations. Any changes, which are to be expected as policies and regulations are refined, must follow a formal change-control process that includes review by a Change Control Board (CCB) and signature by COHBE's CEO and Executive Director.

2. Close oversight of contractual work by COHBE professionals who have substantial expertise and experience in managing large, system-development projects.

   Out-sourcing the development of the system requires COHBE to oversee the work to ensure that CGI is performing to contract and COHBE's business needs. COHBE has hired staff and in-house contract professionals with substantial expertise in insurance, health care, system development and program management to provide this oversight as their full-time roles. COHBE staff engage daily with CGI staff at Director-level and below, and weekly with senior and executive staff, in all system-related activities to ensure that practices and mindsets of the contract staff align with COHBE's ethics and professional standards.

3. Formal internal controls that are administered by the COHBE Program Management Office (PMO)

   The COHBE PMO has established a formal process that employs best practices to manage the program and each deliverable. The process builds on practices defined by the Project Management Institute and includes oversight of system functionality, technical development and security controls for confidentiality, integrity and availability. See below for controls in managing issues, risks, quality and communications.
   COHBE applies these disciplines to each deliverable through formal documents:
   - Deliverable Expectations Documents (DED) specify the scope, validation criteria, validation process and payment for each deliverable.

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- CGI develops, documents and delivers the solution component.
- COHBE staff review each deliverable and its documentation for conformance to expectations per above. If the component meets the criteria, COHBE releases 90% of the stated value of that deliverable; COHBE withholds ten percent of the value of each deliverable until final acceptance of the entire system.

4. Engaging third-party resources to perform independent verification and validation (IV&V) and report directly to the CEO/ED.

   COHBE is engaging an IV&V contract to provide independent review of its PMO, COHBE's contract oversight, and CGI's system-development work. The stated goals of IV&V are to:
   - Ensure that COHBE is developing the documented system, and
   - Ensure that the system is developed correctly, securely, and on time..

   First Data will review the work bi-monthly and report its findings directly to the COHBE ED/CEO. Updates will be provided periodically to the board. Upon request it will work with COHBE and CGI to implement improvements.

5. Formal processes for project controls and standards, and for managing issues and risks.

   COHBE developed, implemented and documented formal control processes for managing issues, risks, quality and communications, with weekly or bi-weekly reviews conducted by the COHBE PMO. Items requiring attention or escalation are documented and tracked for resolution. Complete documentation of each process is available upon request.

   Project Controls and Standards

   The Project Controls and Standards Management Plan describes the strategy and processes for monitoring and controlling the COHBE project. This includes activities for managing project scope, comparing the estimated progress documented in the project schedule to actual status, as well as how the project will monitor, escalate, and report issues, risks, action items, and critical dependencies.

   Project controls specific that reporting will occur weekly or biweekly throughout the project and will include the following areas of control:
   - Project status
   - Team-member status
   - Schedule status
   - Critical dependencies
   - Issue reporting
   - Risk reporting
   - Action-item reporting

   Suspicions or evidence of potential fraud, waste and abuse are raised through issue and risk reporting (see below).

   Issue and Risk Management

   An issue or risk is a factor that can affect the project's success because it has or could occur contrary to plan, or it hasn't or may not occur according to plan. By definition, any action or suspicion of fraud, waste and abuse is a risk, and it becomes an issue if it occurs.

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Every COHBE staff and project member has the responsibility to detect and escalate potential issues and risks. Once identified and placed under active management, some issues can be resolved completely, but it is not possible to fully eliminate all risks. Out of necessity, therefore, prioritization and successful management of each issue and risk requires diligence and managerial judgment.

The nature of attention depends upon the nature of item. COHBE therefore makes a distinction between risks and issues.

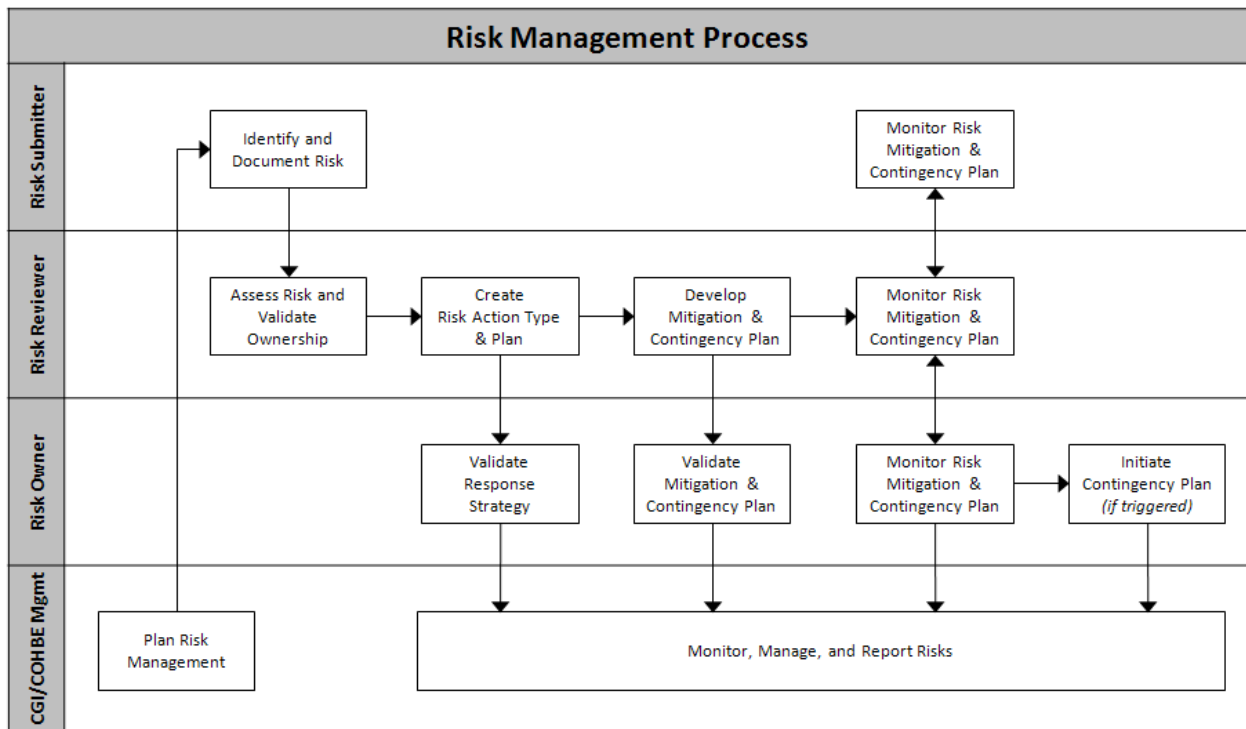| Term	Issue	Risk
Definition	Problem or question, currently occurring, that must be escalated to management and resolved by a certain date	An uncertain event or condition in the future, that if it occurs, has a positive or negative effect on a project's objectives
Strategy	Resolution via Resolution Plan and/or escalation to senior management for decision/action	Avoid or Mitigate via Mitigation Plan, Accept or Transfer via Contingency Plan
Source	May come out of a meeting, discussion, Action Item that has not been resolved, barrier to schedule task completion, or Risk that has been triggered	Can be identified by review at project phase start; and ongoing during planning and execution of scheduled tasks
Managed By	Resolution Plan	Mitigation Plan prior to Trigger Date; Contingency Plan after Risk is triggered

The following two sections outline COHBE's processes for managing risks and issues; the content below is excerpted from the full documents.

Risk Management

Risk Management early in the lifecycle ensures that steps toward mitigation are built into project plans and operational management tools, and progress toward Risk mitigation is monitored as a routine component of the management process.

The Risk Management approach consists of four high-level steps, which are supported by several underlying activities:

- Step 1: Plan Risk Management
- Step 2: Identify and Assess Risks, which may arise internally or externally to COHBE and the project
- Step 3: Revise, Refine and Verify Mitigation and Contingency Plans
- Step 4: Monitor and Control Risks
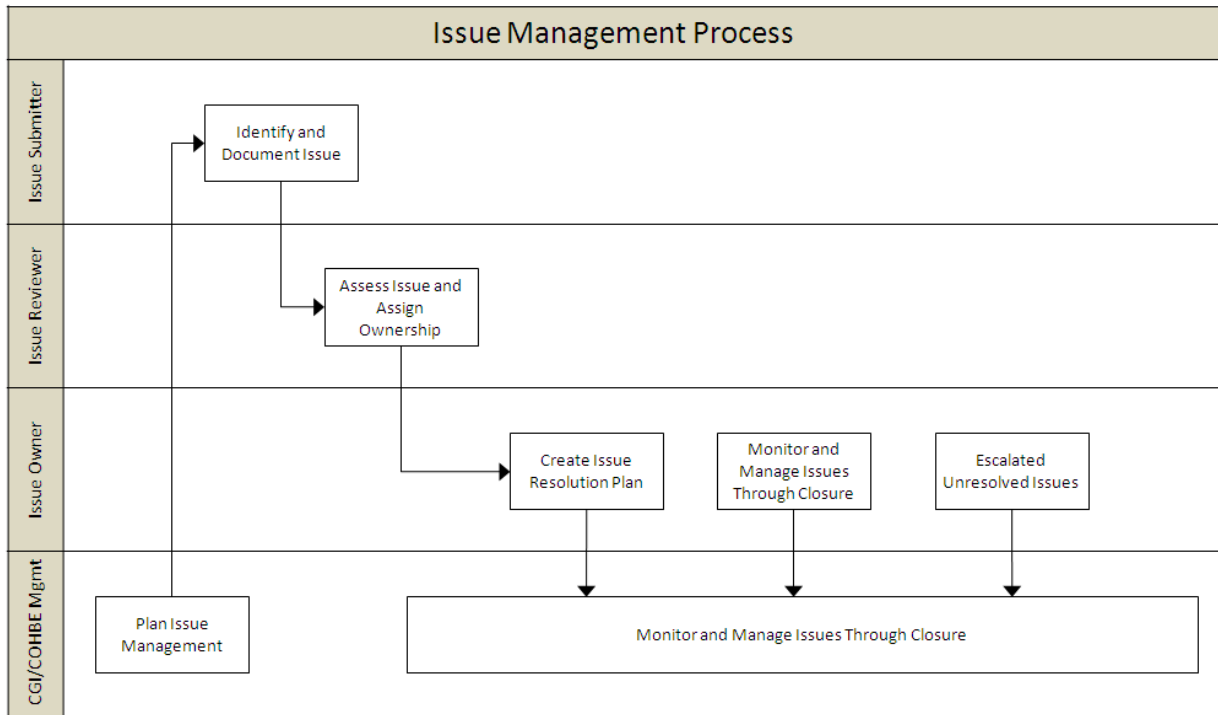
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Risk Management Process

COHBE PMO rates each risk according to its Probability (of occurrence) and Severity (of impact) on the project, and assigns an action and due date that occurs before the likely manifestation of the risk. Four alternative actions are possible: avoid the risk, transfer the risk, accept the risk, or mitigate the risk. Mitigation is the most common response; it reduces the risk's probability, severity, or both. Contingency plans define the actions COHBE will take if the risk occurs at its expected severity.

As of the creation date of this document, COHBE is managing 35 open risks in 6 categories (budget, external dependencies, quality, schedule, scope and staffing), none of which pertain to fraud waste and abuse. COHBE also has closed 1 risk (no longer relevant) and cancelled 1 other (resolved).

Issue Management

Issues will continually be identified, managed, and closed. The Issue Management approach described in this plan consists of three high-level steps, which are supported by several underlying activities:

- Step 1:   Plan Issue Management
- Step 2:   Identify and Assess Issues
- Step 3:   Continuous Issue Response Monitoring and Control

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Issue Management Process

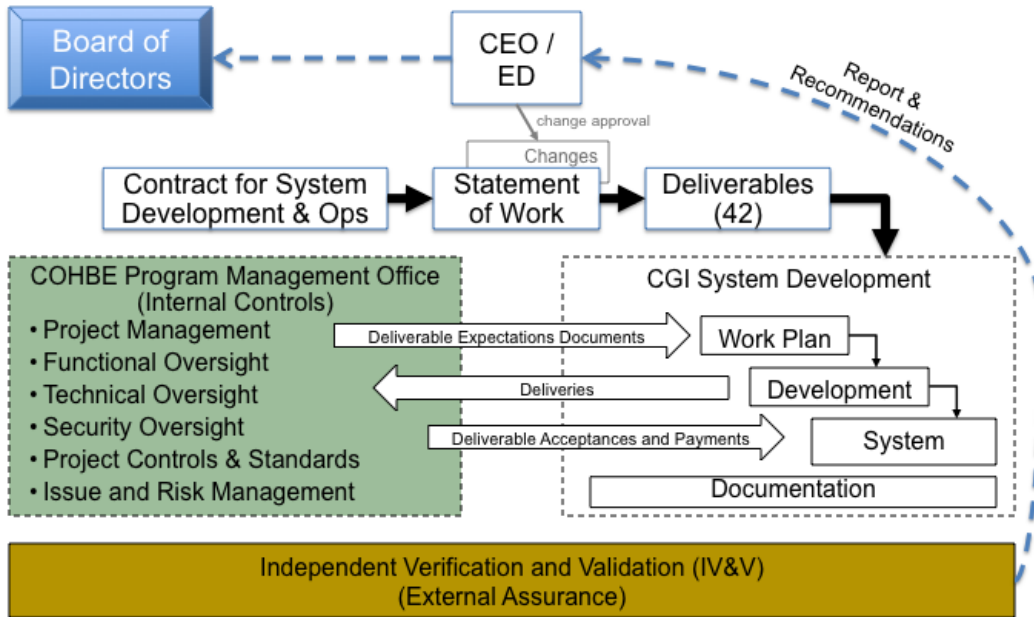|	
Issue Submitter	Identify and Document Issue
Issue Reviewer	Assess Issue and Assign Ownership
Issue Owner	Create Issue Resolution Plan — Monitor and Manage Issues Through Closure — Escalated Unresolved Issues
CGI/COHBE Mgmt	Plan Issue Management — Monitor and Manage Issues Through Closure

COHBE PMO rates each issue according to its Severity (of impact) on the project, and assigns action for assessing and resolving the risk before it has a material impact on the project. COHBE PMO monitors the issue to ensure the resolution plan is timely and effective. PMO escalates to COHBE management if the plan does not appear to be progressing to resolution.

6. Complete documentation.

COHBE's contract with CGI requires complete documentation of each deliverable, as noted above. In addition to being used for deliverable acceptance, the documents are available to the IV&V team and the staff and vendor team for subsequent review and recommendations for improvement.

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COHBE Accountability Model

Controls are designed to be holistic, complementary and interlocking, and apply at all levels.

Summary:

COHBE applies the above controls individually and collectively to protect against fraud, waste and abuse, and to ensure that the use of Exchange funds results in full value realization. The engagement of IV&V resources ensures transparency and provides further assurance to COHBE stakeholders.

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