



**STATE PROCUREMENT OFFICE
NOTICE OF REQUEST FOR EXEMPTION
FROM HRS CHAPTER 103D**

*13 DEC -2 P3:00

STATE PROCUREMENT OFFICE
STATE OF HAWAII

TO: Chief Procurement Officer

FROM: Department of Human Services
Name of Requesting Department

SUBJECT: Request for Exemption

Pursuant to HRS §103D-102(b)(4) and HAR Chapter 3-120, the Department requests a procurement exemption for the following:

1. Describe the goods, services or construction. Request approval to contract System Application Design, Development, Construction and Implementation Services to integrate the Programs of the Benefit and Employment Support Services Division (BESSD) into the new MedQuest Division (MQD) Eligibility Determination Application System (KOLEA). DHS will also integrate Programs and Functions to the extent possible, of the Social Services Division (SSD). See Attached for additional description.	
2. Vendor/Contractor Name : <p align="center">KPMG</p>	3. Amount of Request: \$ 35,000,000.00
4. Term of Contract: From: 1/1/2014 To: 12/31/2016	5. Prior Exemption Reference No.: N/A
6. Explain in detail, why it is not practicable or not advantageous for the department to procure by competitive means: Please see attached.	
7. In selecting the vendor/contractor, explain in detail, the process the department will utilize to maximize fair and open competition: The original RFP to select a vendor for the Design, Development and Implementation of KOLEA followed all State procurement processes. The current contractor was selected as a result of the competitive process, required to meet the RFP specifications and comply in a timely manner to fully address the scope of the project. As conceived, the KOLEA project was intended to be the backbone upon which to leverage additional IT functionality to assist the Department and its various divisions as it transitioned from antiquated legacy IT systems to today's more agile, enhanced IT systems. Following an evaluation of the current KOLEA project, the requested exemption is the most efficient and cost effective way to integrate and deploy KOLEA's IT hardware and software to the benefit of BESSD Programs, which are similar in many respects to the processes and flows utilized by the MedQUEST Division. Those SSD programs that can also benefit from the design and development of KOLEA will be integrated into the SSD IT build as well.	

3. Identify the primary individual(s) who is knowledgeable about this request, who will conduct and manage this process and has completed mandatory training. (Type over "example" and delete cells not used)

Name of Department Personnel	Division/Agency	Phone Number	e-mail address
Kenneth Fink	DHS - MQD Admin	692-8050	kfink@medicaid.dhs.state.hi.us
Pankaj Bhanot	DHS - BESSD Admin.	586-5230	pbhanot@dhs.hawaii.gov
Mona Maehara	DHS - SSD Admin.	586-5701	mmaehara@dhs.hawaii.gov
See Attachment for additional Staff			

9. The department shall ensure adherence to applicable administrative and statutory requirements, and all requirements, approvals, and internal controls for this request are the responsibility of the department.

I certify that the information provided above is, to the best of my knowledge, true and correct.



 Department Head Signature

 11/18/13
 Date

For Chief Procurement Officer Use Only

Date Notice Posted 12/3/13

Submit written objections to this notice to issue an exemption from Chapter 103D, HRS, within seven calendar days or as otherwise allowed from date notice posted to:

Chief Procurement Officer
 State Procurement Office P.O.
 Box 119 Honolulu, Hawaii
 96810-0119

10. Chief Procurement Officer (CPO) Comments:

Approved
 Disapproved
 No Action Required

 Chief Procurement Officer Signature Date

ATTACHMENT TO ITEM 1

The Department of Human Services (DHS) is in the process of replacing the mission critical application systems for the following two Divisions.

The Benefit and Employment Support Services Division (BESSD) includes the Temporary Aid to Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and additional State programs.

The Social Services Division (SSD) includes the Child Welfare Services Branch (CWSB) and the Adult Protective and Community Services Branch (APCSB). These branches provide protective services for abused children and adults and offer family strengthening, and child abuse and neglect prevention services.

The DHS BESSD will integrate its programs policies and procedures by leveraging the newly developed and implemented MedQuest Division (MQD) Affordable Care Act (ACA) Medicaid System (aka. KOLEA). This system integration will allow BESSD to streamline its design, development, implementation process, and customer service delivery as they share many of the same clients and have similar eligibility determination process.

In addition, the DHS SSD will integrate its program and specific functions where appropriate. The following program and functions can be integrated: The IV-E Eligibility Determination Program, the functions of the State HUB, Financial Processing and Monitoring, and the Electronic Content Management modules.

ATTACHMENT TO ITEM 6

6) Explain in detail, why it is not practicable or not advantageous for the department to procure by competitive means:

Chapter 3-120-5, Hawaii Administrative Rules (HAR), allows the head of the department to submit a request for an exemption to the chief procurement officer where procurement by competitive means would be either not practicable or not advantageous to the State.

While ardently supporting the programmatic goals of moving forward to deliver greater care for those in most need within the State, the Department of Human Services is also very concerned about the incremental risk and cost associated with the introduction of a new third party to the existing KOLEA system. Such an introduction will unnecessarily increase risk and cost for the new program clients of the system (e.g., BESSD & SSD), but also the current users (e.g., Med-QUEST). The reasons for this are intuitive, but also replete with detailed technical consequences.

At the highest level, risk levels rise when multiple parties are asked to work toward different programmatic scopes but in close proximity to each other's contractual scope. Specifically, the Department of Human Services would be contracting to have two vendors work to meet separate divisional goals with the Department on a single instance of a software application solution. The predictable contention for access and control will lead to an inevitable deterioration in the Department's ability to hold either vendor accountable. Specifically, the Department of Human Services would have to make significant changes to the existing contractual Service Level Agreements for KOLEA as the presence of a third party during the current implementation phase was not previously contemplated. The risks associated with this level of overlapping and inter-related scope being exercised by two separate vendor teams is significant; it is likely significant enough to consider canceling the current contract if awarded to another vendor.

Risk aside, the cost of duplication of effort will be economically measurable. Many if not all of the technical operating environments (e.g., development, multiple testing environments, production support, etc.) will need to be duplicated for a new third party vendor. Today the existing vendor maintains over ten (10) such technical environments at a significant cost. These additional costs would be borne by the State. Additionally, a significant collaborative effort to coordinate efforts between the two vendors would be necessary to address a multi-tenant and code merging process. These efforts are not only time consuming, but expensive. It is conceivable that the incremental costs for State of a new procurement – solely attributable to a new vendor – could easily exceed \$10,000,000 over the life of the implementation effort. The Department of Human Services is seeing aspects of this presently through the coordination with the Hawaii Health Connector (which is much less integrated than BESSD will be to Med-QUEST).

There is additional concern that a subsequent procurement process may impact the overall timeline for the State in leveraging special provisions in the Federal Cost Allocation permissions for cross-program efforts such as integrated eligibility. An extended procurement or other delay could potentially cost the State tens of millions of

dollars in lost Federal matching funds, potentially at a 90%-10% federal to state match rate, if this program is not fully encumbered and executed by December 2015 deadline.

In very pragmatic terms, the Department of Human Services needs a single solution to meet the enterprise goals and objectives that best serve the State, as well as ensuring that the State is able to maximize the use of time limited Federal matching funds. A single vendor team is most rational approach for predictably achieving these goals without undue risk and costs being incurred by the State through a procurement process that has limited opportunity to deliver on the normally expected merits of competition.

ATTACHMENT TO ITEM 8

8) Identify the primary individual(s) who is knowledgeable about this request, who will conduct and manage this process and has completed mandatory training

DHS-FMO:

Ed Igarashi Chief Financial Officer 586-4856

DHS-BESSD:

Scott Nakasone Assistant Division Administrator 586-4856

Gwen Murashige System and Operation Requirements Office Administrator 586-5236

DHS-SSD:

Kayle Perez Child Welfare Services Branch Administrator 586-5667

DHS-MQD:

Aileen Hiramatsu KOLEA Business Lead 692-7960

Randy Chau MQD Systems Officer 692-7951

DHS-OIT:

Ryan Shimamura Chief Information Officer 586-5139