



# HAMSTREET & associates

To: Aaron Patnode, Cover Oregon Board  
Re: Hamstreet Final Report  
From: Clyde Hamstreet  
Date: September 2, 2014

This memo is intended to serve as Hamstreet & Associates' final report pursuant to Schedule A of our contract with Cover Oregon. As such it provides an overview of our work performed in operations, finance, and governance since mid-April 2014, and it includes our recommendations for Cover Oregon's future path.

Hamstreet's engagement at Cover Oregon was for hands-on work. We filled the roles of executive director, chief operating officer, and chief financial officer. In these positions we were not outside auditors preparing assessments and recommendations for others to act on. Rather, once we had in hand the necessary information and analysis, we ourselves took or directed others to take action to respond to crisis situations, improve performance, and build a foundation for positive future results. During our tenure we prepared and contributed to the preparation of several presentations and reports for various purposes, including reports to the Centers for Medicare and Medicaid Services (CMS), the Oregon legislature, and the Cover Oregon board, and also an updated business plan. This memo does not attempt to record exhaustively every aspect of this prior work, but rather to present a cogent overview of (i) the situation as we found it, (ii) what we did to correct and improve that situation, and (iii) what we recommend for Oregon and its health insurance exchange as they move forward.

Hamstreet & Associates appreciates the opportunity it has had to assist the State of Oregon on this important project.

## **I. Executive Summary**

In April 2014 Cover Oregon was on the verge of collapse, both operationally and financially. If left to continue on its previous course, the combination of ineffective management, uncontrolled spending, failed technology, lack of direction, inadequate business processes, and poor morale would have quickly destroyed the organization.

Working with others whom Governor Kitzhaber inserted into the situation to focus on the IT crisis, Hamstreet & Associates removed non-performing executives, helped develop and implement a plan to rescue the exchange's core operations, cut spending, improved transparency and communications both internally and among stakeholders (especially agents

and carriers), provided direction to staff, established financial controls and better business practices, improved the management culture and working environment, and performed many other actions to stabilize Cover Oregon's business and strengthen its foundations for future operations.

While this work proceeded, Hamstreet & Associates supported the organizational search for a new permanent executive director, and was pleased that Cover Oregon was able to attract a candidate as qualified and capable as Aaron Patnode. Clyde Hamstreet stepped down from his interim leadership role in mid-July; his colleagues Mark Schmidt (interim COO) and Sue King (interim CFO) remained until the end of August. Much work remains to be done at Cover Oregon, but Hamstreet & Associates has turned over its responsibilities to an able leader, supported by a skilled and committed staff. We have confidence that, if allowed to continue, they will perform well.

This report outlines several considerations relating to the organization's future structure and governance. Cover Oregon's mission is to improve the health of Oregonians by providing insurance coverage options, increasing access, and fostering quality and value in the health care system. Advanced information systems are necessary to fully achieve those ends, but Cover Oregon is not and was never intended to be a technology shop. The failed IT rollout created a major crisis, but it was not a failure of Cover Oregon's core activity, and it should not be allowed to permanently disable or define the valuable purpose of this otherwise useful and effective organization.

As Oregon contemplates what to do with its health insurance exchange, we hope that it will acknowledge and learn from past mistakes without becoming trapped by them; that it will choose the path that will best support and fulfill its overall health care vision; that it will set realistic expectations and engage in sound business planning; and that it will lay the appropriate foundations for achieving its vision.

## **II. Operations**

### ***A. Initial Situation***

Introduction. As the open enrollment deadline drew near in 2013 and news broke that Oregon's health insurance exchange would not have a functional website in place, Cover Oregon became quickly embroiled in the biggest, most public, and most political meltdown in recent Oregon memory.

A crisis that becomes front-page political news on a national scale will often disable leadership. People with intelligence and vision who do very well managing a business and meeting challenges in the ordinary course may become ineffectual or even paralyzed when plunged into such a crisis. It is not easy to know what to do first when everything needs doing at once.

We begin our report with these observations because we feel it necessary to describe the situation we encountered at Cover Oregon in mid-April 2014, and that description requires a negative assessment of management. But we also feel it important to observe how unusual and

how stressful the crisis was that enveloped Cover Oregon. Those few who have experienced similar demands may be more understanding of the pressures that aggravated an already difficult situation.

Dysfunctional Management. When the Hamstreet 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 profanity in verbal communications.

Cooperation with the Oregon Health Authority (OHA) was poor and there was evident ill will between OHA and Cover Oregon. Lines of authority were vague in several functional areas; two co-equal executives, for instance, were responsible for the same Salem operations. Communications between managers, across levels internally, and with many outside constituents (e.g., insurance 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 continuing operations, usually with nothing but an email for documentation.

The problems in senior leadership affected the entire organization. Although we found the staff to be almost universally passionate about their jobs, committed to doing good work, and eager for direction, we also encountered very poor morale and widespread discomfort and wariness among the staff about whom to align with or trust. The people most needed to right the ship were seeking other work and beginning to leave.

Disruption Related to IT and Software Issues. The failure of the technology rollout and the factors contributing to that failure have received significant attention in other venues, including the FirstData report, Maximus quality assurance reports, the Cover Oregon Technology Committee report, a CMS agency report Technical Assistance Report, and the press. We have no intention to review those issues here; ~~but~~. But the IT troubles had important impacts on operations that affected Cover Oregon's work, and these need to be noted.

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 Significantly higher costs, increased complexity and risk of error, work delays, and disabling system problems and outages were part of the normal course of operations; outages sometimes affecting affected the ability of more than 100 employees to do their work.

In mid-April, several Cover Oregon executives 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, always thinking the complete solution was just around the corner. This belief may have been fed by the fact that parts of the software system were operational. The core was sufficiently developed that most business processes had limited automated support, although a few, such as life change processing, had none at all. In a cumbersome process involving significant manual support by trained staff and oversight by technically competent managers, applications could be processed in about a fifth of the time required by an exclusively manual procedure.

This hybrid process allowed Cover Oregon to engage, even if belatedly, in its primary business purpose of processing applications and helping Oregonians obtain health insurance. But the impact on operations was significant:

- Straightforward applications could be processed readily, but only three or four of the most skilled staff could process more complex applications.
- The manual process required employment of a large temporary staff and reassignment of many permanent staff to assist with enrollment. The reassignments left many other responsibilities to go unmet.
- The hybrid procedure was error-prone in its reliance on unfinished software and manual processing. The systems for auto-checking errors such as address typos or inconsistencies in the spelling or capitalization of names were limited, and contributed to a significant backlog of errors, many of which were not discovered for months.
- Oracle continued to write code to repair problems or add basic parts to the software to eliminate errors and improve automation. Patching the new or repaired code into the working system was risky and often sometimes caused the system to fail completely. At these times Cover Oregon became unable to process any applications at all.
- Retrieving data was very difficult and created stress in the required skilled systems engineers to deliver queries and non-standard reports.
- Automated support for two critical financial department, which was responsible for processes—paying earned commissions to agents and billing carriers for administrative fees—did not exist, creating significant stress in the financial department responsible for these functions.

In sum, the condition of the software made the job of taking care of Cover Oregon's basic business much harder than it should have been.

Ineffective Industry Relations. Agent relations were not a priority and agent commission processing was wholly inadequate, resulting in most agents being unpaid or underpaid for months. An agent relations team existed in title, but in fact spent most of its time on enrollments, resulting in weeks of unanswered agent phone calls and hundreds of unanswered agent emails. Commission payment processing was fraught with errors and agents were receiving only about half the commissions they were due.

Cover Oregon's carrier relations were in better shape than agent relations, and most carriers have been publicly supportive of Cover Oregon. However, some carriers also expressed clear

dissatisfaction because of confusion about policy requirements and enrollment provisions, and because of errors and/or delays in application processing and documentation issues.

Weak Financial Controls and Business Processes. Financial management was divided among three separate parts of the organization and 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 sometime in 3Q14, with bankruptcy as a potential outcome. There was little effective tracking of budget variances, and where any such efforts did exist there was no accountability. Business plans were not current, except for grant funds forecasting, and there was no effective agreement in place between Cover Oregon and OHA related to tens of millions of dollars in 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 underway by then.

### ***B. Work Performed***

Two bright spots at Cover Oregon in mid-April were state CIO Alex Pettit and DAS Deputy Chief Operating Officer Sarah Miller. The governor inserted both into the situation, just prior to our engagement, to assess and manage the IT crisis. Both were instrumental in helping to educate my team about the technological issues and in providing valuable support on that front throughout our engagement. They and many Cover Oregon personnel played important roles alongside my team in achieving the results described below.

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

- Removed non-performing executives.
- Quickly realized that the impact of the crisis extended well beyond Cover Oregon to include OHA, and worked with OHA Interim Executive Director Tina Edlund to find a broad positive solution for both agencies.
- Stabilized the business by refocusing on core activities and stanching the bleeding on technology.
- Cooperatively developed a transition plan with OHA and the governor’s office that we were then able to present successfully to CMS. This plan allowed Oregon to use the federal technology at no cost and without losing its state-based marketplace (SBM) status. It also provided a basis for taking advantage of the useful parts of Oracle’s work to complete the technology that will process and manage Medicaid applications.<sup>1</sup>

- Supported the work of the Transition Project by engaging Deloitte to initially assess the situation and develop a transition plan, providing facilities and staff to the Project, including some of Cover Oregon’s best people, and cooperating in critical ways with the Transition Project priorities and objectives.
- Changed the management culture through increased communications and senior executive availability and transparency.
- Took many actions to improve morale and create a positive working environment. These actions included:
  - Regular staff meetings where we candidly described the situation as it developed.
  - Upfront acknowledgment that some staff reductions would be necessary, but that remaining staff could count on jobs for the balance of the year.
  - Emphasis to the staff that we were working on a statewide project, not just a Cover Oregon project, that we needed to work on it globally, and that we could not tolerate interagency rivalries or territorial conduct.
  - Communicating a clear vision of where we were headed, what we were going to do to get there, and what everyone’s role was.
  - Once we had taken the measure of its quality, we publicly defended the staff.
- Closed out many contracts and sent many contractors home.
- Improved financial forecasting and reporting.
- Cut expenses to a run rate capable of finishing the year.
- Clarified authority, delegating more operational decision-making while restricting financial decisions.
- Promoted the controller to executive ranks and pulled billing, payroll, and commission processing 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 owing to Cover Oregon’s agents.
- Focused an operations team to address carrier concerns and made significant improvements by mid-July.
- Implemented a retention bonus plan to stem the exodus of employees important to Cover Oregon’s turnaround or the success of the Transition Project.
- 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.
- Facilitated implementation of life change processing, eliminating the QHP life change backlog, and correction of more than 10,000 consumer database errors, reducing this backlog to approximately 1,000 by the end of August.
- Supported the search process for a permanent executive director, and in the interim period filled that position including:

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<sup>1</sup> This complex and vital work is known as the “Transition Project.” Ms. Edlund resigned as interim executive director of OHA to take the lead on this project and reports directly to the governor.

- Regular reporting to the board, attendance at board meetings, and making recommendations about board actions and fiscal policies.
- Reporting to legislative committees.
- Working with CMS and Medicaid on the Transition Project and budget modification approvals, and issuing required reports.

### *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 handled 30,000+ calls per month during May, June and July. August call volumes will come in slightly below this level, but 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 reevaluate its desired service levels. Caller abandon rates currently range from 10-20%, down from highs of 40% during open/extended enrollment, and average speed of answer now runs 5 to 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 implementation 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.

### **III. 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. In other important financial actions we:

- 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 vs. forecast results) 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).

#### **IV. 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 on beneficial terms. 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 support. 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 team that will be valuable to Oregon's health insurance exchange whatever its future 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. As described above, when I took over as interim executive director 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, and support from the governor's office and CMS, to bring those areas into line. But the problems FirstData pointed out in its report and those discussed in this report were attributable to prior planning, direction, and management, not to underlying staff incompetence, lack of vision, or lackluster commitment and performance. In terms of their 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. Indeed, as Cover Oregon sheds over time the negative associations arising from its technology failure, it may benefit from significant public recognition as the place for Oregonians to go for health insurance.

***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 require 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.

We should also keep in mind the significant and so far effective corrective steps that the governor has taken to get Cover Oregon back on its feet and to ensure that all Oregonians will have access to a web-based health insurance marketplace. These actions include taking responsibility for the situation, hiring FirstData to assess what had happened, assigning Mr. Pettit and Ms. Miller to help resolve the IT issues, encouraging the Cover Oregon board to hire Hamstreet & Associates, and supporting the Transition Project.

Oregon should 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, and 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.

In May we shared an abbreviated analysis of savings from technology with the House and Senate Legislative Committees, and included the following language in the 2014 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 reflect *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 the State of Oregon's fully burdened *actual* cost per application (OHP or QHP) to be approximately \$120, as compared to less than \$5 in a fully automated process. 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, and especially important to OHA in handling a million Medicaid applications and redeterminations annually.

In addition to the huge savings proper technology can bring to the state, there are many other benefits of consistently managed data located at one source, within Oregon, to simplify processes and provide quick answers to both the state and the user.

***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 suggests 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 continue to increase 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 our brief analysis of one narrow piece of Oregon's technological needs and costs is any indication, the aggregate potential savings to the state 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 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 governmental 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, rather than OHA, it makes more sense to put it in the Department of Consumer and Business Services (DCBS), which houses the Oregon Insurance Division (OID). The bureaucracy of OHA has more to do with entitlement programs and safety nets for people in need than with the business of creating a competitive marketplace for insurance. Cover Oregon is primarily involved with consumers and businesses and the sale of private insurance, and for that reason aligns more naturally with DCBS.

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

- Oregonians will be better served if its board members have prior experience on boards of mid- to large-sized organizations (whether for profit or not for profit) that deal with complex issues.
- Restrictions on the number of industry members should be eased. It is important for the board to maintain its independence from the industry, and for this reason industry representatives should not dominate the board; but the board needs more industry experience than it has.
- The governor should appoint the chair, based on his or her leadership abilities, with the restriction that the chair cannot be someone who reports to the governor in the ordinary course of his or her employment.
- Except for industry representatives, requirements for specific kinds of members (consumer advocates, small business representatives, minorities) should become guidelines rather than rules. It is desirable for the board to include representatives from these groups, but it is more important to get the best people regardless of background.
- Above all, board members must have the ability, experience, and confidence to question and if necessary challenge the reports and recommendations of vendors like Oracle and of the executive director him or herself if problems arise. The best governance comes from a partnership between a strong and knowledgeable board and an effective executive director.

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

Healthcare reform in this country and in Oregon has become politicized to such a degree that short-term political needs or impractical ideologically-driven goals too often displace rational long-term thinking in making decisions. How best to provide healthcare benefits to all Oregonians is a sufficiently difficult subject by itself; we need to take the politics out of the issue before we will find the best solutions.

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. The recent website change is a case in point. Yes, “Cover Oregon” is a damaged brand—but it’s also a highly recognized brand, and people in the state know where to go to sign up for health coverage. Oregon spent millions of dollars to market the Cover Oregon website. Moving to a new website negates this prior effort and, along with the new call center this move will be confusing to people when it comes time to reenroll. The indecisive maneuvering and slow movement in decision involved in making the change these changes also delayed the opportunity to communicate clearly to people about what to expect this fall, adding to stress and uncertainty.

When Hamstreet arrived in mid-April there were two full-time agent relations personnel, presumably representing what management believed would be necessary to fulfill those functions. Burdened annual costs for those two people were approximately \$225,000. During 2014, properly operating the agent relations program—i.e., communicating with

agents and tracking, reconciling, and paying commissions—has required significantly more than two people. In our estimation, the personnel, administrative, and occupancy cost to provide adequate agent support functions in 2014 will exceed \$1 million. Even in a stabilized year with smoother operations the cost would likely exceed \$500,000. Prior Cover Oregon leadership appears not to have thought through what it would take to carry out agent relation and payment functions, or what provisions should be made to offset the cost of doing so.

It is not clear from a business perspective why Cover Oregon located computer hardware in two offsite locations in Utah and Texas, with state taxes of approximately \$100,000 per year on the Texas-based equipment. Nor is it clear how Cover Oregon leadership planned to pay for licensing fees and support and maintenance agreements amounting to \$2 million per quarter while living on annual operating revenues of \$10 to \$20 million per year. One ~~of example is the most significant costs in this respect~~ cost related to the acquisition and installation of PeopleSoft software to support the organization's business activities. PeopleSoft is a complex ERP system seldom seen in companies with less than \$200 million in annual revenue. Hamstreet & Associates has recommended an enterprise level of QuickBooks as more appropriate to Cover Oregon, and the organization is currently pursuing this track. This decision will save hundreds of thousands of dollars per year.

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

In the future, once ACA provisions are solidified and the requirements for Oregon to remain an SBM are determined, the state may want to consider broader options. 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.