

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 25, 2014

Howard Zucker, M.D.
Acting Commissioner
Department of Health
Empire State Plaza
Corning Tower Building
Albany, NY 12237

Re: Report 2014-STAT-02B

Dear Dr. Zucker:

This is a follow-up to our letter dated May 6, 2014, which we issued to the Department of Health reporting the results of our examination¹ of specific expenses relating to \$435 million in amendments to contract C025147 with Maximus Inc., which now totals \$605 million. Under the amendments, Maximus is required to staff a Customer Contact Center and an Eligibility and Enrollment Unit for the New York Health Benefit Exchange, and to provide other relevant support to the Department. The services contained in the amendments were not subject to competitive bidding or contract approval by the Comptroller's Office.²

We recommended the Department address the lack of provisions in the amendments and related task orders to limit the amount Maximus may charge the Department for labor, fringe benefits, overhead, general and administrative expenses, other direct costs, and profit.

Based on discussions with Department managers and our examination of subsequent Maximus vouchers and related documents, we found the Department has made significant progress in implementing our recommendations. As a result, we project the Department will save nearly \$21 million over the remaining life of the contract, which is scheduled to end in August 2017. Specifically, the Department will save approximately:

- \$11.5 million by reducing Maximus' profit rate from 17.65 percent to 15 percent,
- \$5.4 million by reducing Maximus' rate for general and administrative (G&A) fees from 14.2 percent to 12.6 percent, and
- \$3.7 million by eliminating profit and G&A fees from pass-through costs (e.g., travel & certain subcontractor fees).

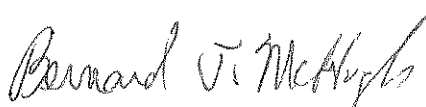
¹We performed our examination in accordance with the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8, and Article VII, Section 111 of the State Finance Law.

²Social Services Law, Article V, Title XI, Section 365-N.

Department managers have addressed other cost control opportunities by (i) requiring Maximus to use federal per diem rates for meals and to limit the amount of lodging that may be charged per night for travel and (ii) requiring salary schedules for titles required under the amendments. Further, to facilitate more effective monitoring of deliverables, the Department now requires Maximus to provide more detailed information in budgets and invoices.

We appreciate the diligence of Department officials in implementing our recommendations. We will continue to examine payments under this contract as part of our daily audit and will advise you of any additional opportunities as they arise. If we can provide you with any other information, please contact me at 518-402-4104.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bernard J. McHugh". The signature is fluid and cursive, with the first name "Bernard" being more prominent.

Bernard J. McHugh
Director of State Expenditures

cc: Sue E. Kelly, Executive Deputy Commissioner
Diane Christensen, Director, Internal Audit