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July 31, 2023

**Via Email:** [jcr.docs@mlis.state.md.us](mailto:jcr.docs@mlis.state.md.us)

The Honorable Guy Guzzone  
Chairman, Senate Budget and Taxation  
Committee  
Miller Senate Office Building, 3 West  
11 Bladen Street  
Annapolis, MD 21401

The Honorable Ben Barnes  
Chairman, House Appropriations Committee  
House Office Building, Room 121  
6 Bladen Street  
Annapolis, MD 21401

**RE: 2023\_p40\_MIA ITS Project History and Future Management Plans**

Dear Chairman Guzzone and Chairman Barnes:

Enclosed please find the Report of the Maryland Insurance Administration summarizing the ITS Project History and Future Management Plans as mandated by the Joint Chairmen's Report on the Fiscal 2024 State Operating Budget (HB 200) and the State Capital Budget (HB 201) and Related Recommendations ("Joint Chairmen's Report"). See p. 40.

Five printed copies and an electronic copy of this report have been mailed to the DLS library for its records.

Should you have any questions regarding this Report, please do not hesitate to contact me or the MIA's Director of Legislative and Regulatory Policy, Jamie Sexton at [jamie.sexton@maryland.gov](mailto:jamie.sexton@maryland.gov).

Respectfully yours,

Kathleen A. Birrane  
Commissioner

cc: The Honorable Bill Ferguson, President of the Senate  
The Honorable Adrienne A. Jones, Speaker of the House of Delegates  
Sarah T. Albert, Department of Legislative Services (5 copies)



## **Joint Chairmen's Report**

# **ITS Project History and Future Management Plans**

**Kathleen A. Birrane  
Insurance Commissioner**

**July 31, 2023**

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This document is available in alternative format upon request  
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## **I. Introduction**

The Joint Chairmen’s Report directs the MIA to provide the Committees with a better understanding of the steps that the MIA will take to prevent future delays in the ITS project, similar to the defaulting of the prior contractor, and to provide updates regarding the Project’s funding and timeline. Following a brief overview of the Project’s history in the section captioned, “Overview and Project Background”, this Report specifically addresses the following items requested by the Committees:

- the reasons for contractor default in March 2022 and how the MIA will prevent contractor default on this Project in the future, as discussed under the header, “MIA Contractor Default”;
- a detailed Project spending history through fiscal year 2023, or an explanation as to why this is not possible, as described under “Project Spending History”; and
- how the MIA plans to track and report spending on this Project through its completion, as explained in the subsection, “Tracking and Reporting of Expenditures”.

## **II. Overview and Project Background**

### *A. Project History*

Planning and procurement-related activities for the MIA’s Insurance Tracking System (ITS) project began in 2019. The purpose of the ITS project was to design and implement a system that would replace and expand the capabilities of the MIA’s legacy Enterprise System (ES), which was custom built in the 1990s as a rudimentary case tracking and case management platform for Company Licensing and Renewals, Market Conduct, and Hearings and Orders. The ES technology is obsolete and its functions are minimal and insufficient to meet the needs of the MIA with respect to the units that are using it. The new ITS was proposed to upgrade the tracking system; add document management, workflow, collaboration, data analysis and data reporting capabilities; and extend the system use to additional MIA units, such as the Fraud Division. ITS was expected to interface with and supplement the Enterprise Complaint Tracking Systems (ECTS), which was implemented in phases in 2018 and 2019 primarily to provide case tracking capabilities for consumer complaints and related investigations.

The MIA’s Management Information Systems (MIS) division began researching technologies to replace the Legacy Enterprise System in May 2019 and focused on a Microsoft solution to replace the Legacy Enterprise System since the ECTS had been built with Microsoft technologies. While conducting its research, the MIA met with several other governmental agencies that had implemented systems with the Microsoft Dynamics technology framework, including: the California Department of Insurance (DOI); the Maryland Department of Housing and Community Development (DHCD); the Maryland State Retirement Agency (MSRA); the Maryland Department of Health (MDH); and the Maryland Judicial Information Systems (JIS).

Each of these agencies had recently started Customer Relationship Management (CRM) projects using the Microsoft Dynamics platform and provided positive feedback.

The MIA worked closely with the Maryland Department of Information Technology (DoIT) with respect to the original RFP. After conducting the above-referenced research, MIS met with DoIT to review the project scope and design on November 18, 2019. Thereafter, the MIA submitted the required Information Technology Project Request (ITPR) documentation, which DoIT approved. DoIT also assigned a Project Oversight Manager for the project.

The timing of the documentation of the RFP was disrupted by the Covid-19 pandemic, and the need for MIS to focus on transitioning the MIA to a fully virtual teleworking environment. Documenting the ITS RFP resumed in May 2020, and the draft RFP was submitted to the Department of General Services (DGS) and DoIT for review and feedback on September 9, 2020. The MIA incorporated the DoIT's feedback into the RFP and received DGS's approval to release the RFP on February 1, 2021. After BPW's approval on October 4, 2021, the MIA awarded the Insurance Tracking System (ITS) Contract to MERP Systems, Inc. (the "Contractor") on October 21, 2021.

As discussed below, under MIA Contractor Default, the ITS Project began with a kickoff meeting on November 4, 2021. Discovery sessions with individual MIA units began shortly thereafter, but were halted by the Contractor, who determined that the needs of the business units and the function and technical scope of the project far exceeded the RFP/Contract description and could not be performed under the Contract time/price terms. The Contractor sought a contract modification on December 20, 2021 and, as discussed below, ultimately refused to continue work under the Contract and was terminated for default on March 10, 2022. The MIA provided DoIT with project status updates and project spending reporting via the Monthly Health Assessment Report prescribed by DoIT throughout this period and DoIT was aware of the issues with, and the ultimate termination of, the Contractor.

Following the Contractor's default, and the termination of the ITS Contract in March 2022, the MIA did not simply reissue the RFP. The MIA worked internally to expand the detail within the RFP and also worked with DoIT to discuss the most time and cost efficient way to proceed. As part of that process, the MIA considered the need to assure that the platform selected would support future technology and software needs. In addition to the immediate goal of replacing, updating and expanding the scope of the ES modules, the MIA also needed to assure that the new system would (i) integrate with and be able to quickly and efficiently expand to accommodate new software applications and tools that the agency needs in order to automate and digitize manual processes, manage data and records, analyze industry conduct, and evaluate industry models and (ii) could support, in time, the migration of other MIA tracking systems and methods to the new platform as those systems aged-out.

DoIT recommended that the MIA shift to a Salesforce solution instead of the Microsoft Tools Solution and further recommended that the MIA seek bids through the State's One Stop contract. DoIT's recommendations were accepted and MIA provided DoIT with its expanded RFP scope of work to share with the One Stop vendors. The scope of work developed by MIS and provided to DoIT was intended to develop a system similar in scope to the functionality described in the original 2021 ITS RFP, but with the expectation that it would readily integrate with other software solutions, expand to accommodate additional functions, and accommodate new modules for MIA units not fully serviced by ES or ECTS or other software applications.

On November 12, 2022, DoIT submitted requests for quotes from its One-Stop vendors. MIA and DoIT met with the two vendors available under the One Stop contract on December 9, 2022 to discuss scope and answer vendor questions. Following the meeting, DoIT advised the vendors to submit their quotes by December 30, 2022. The vendors subsequently requested an extension and DoIT extended the deadline to February 10, 2023. The bids were submitted on time and reviewed internally by DoIT.

The MIA did not receive copies of the bids until March 31, 2023, after they had been approved by DoIT. Neither proposal offered a complete solution for the MIA's ITS Project, both required separate procurements for development tools, middleware, and a Document Management technology and both lacked a Deliverable Acceptance Term for vendor payments. The proposals also exceeded MIA's cost expectations by several million dollars. In addition, one bid was \$10 million higher than the other, with no immediately appreciable distinction between the two bids. The MIA identified its Bid Evaluation Team and met with DoIT on April 27, 2023 to discuss the bids and MIA's options for moving forward.

In the meantime, the MIA noted the Salesforce Master Contract (SMC) on DoIT's website. The MIA asked the Office of State Procurement (OSP) within DGS about the scope of the Salesforce Master Contract (SMC) and whether it was limited to licenses or included professional services. OSP advised that the SMC is not limited to licenses and includes architectural services, such as discovery sessions and the creation of a project blueprint. The SMC does not currently include implementation services, but it is expected that implementation services will become available in September 2023.

Given the MIA's experience with the RFP Contractor and the One Stop bid process, the decision was made to carve out the architectural design services as a first phase, which would inform the scope of work, and the projected work plan, cost and timing of the replacement and enhancement/expansion of the ES system modules, and then phase additional builds to expand capacity and integrate applications and systems over time.

DoIT and OSP advised the MIA that this was an acceptable and permissible option. Hence, on May 30, 2023, the MIA requested that DoIT cancel the One-Stop request for bids. The MIA received a quote for design services under the SMC on June 2, 2023. On June 6, 2023, DoIT authorized the MIA to move forward with the engagement. The MIA prepared a purchase order, which was approved by OSP and sent to the SMC vendor on June 15, 2023.

#### *B. Current Status*

With DoIT's agreement, the MIA made the determination to divide the ITS Project into two separate phases: a design phase, followed by an implementation phase. Doing so is intended to avoid the issues encountered by the MIA at both ends of the spectrum – with the original ITS Contractor defaulting rather than continue with the project because of its belief that the RFP failed to capture the true project scope and the OneStop vendors envisioning builds that seemed to far exceed the project scope.

To effect this, the MIA has purchased design services from Salesforce through the SMC. The purpose of the engagement is to perform the discovery phase of the ITS project and to develop

a system design blueprint and implementation plan. Specifically, Salesforce will meet with all the MIA units that either currently use the ES modules or were to be added to the new system under the original RFP. Those discovery sessions will result in a blueprint for meeting the needs of those units in tracking and performing their work.

With respect to Phase I (Design), following the issuance of the OSP approved purchase order on June 15, 2023, the MIA met with Salesforce to identify the individuals who will perform the services under the purchase order. A kick-off meeting with impacted MIA unit leaders, Salesforce, and MIA/MIS was held on July 14, 2023. Discovery sessions with the five MIA divisions that will use the new system began on July 17, 2023 and each unit will meet with Salesforce and MIA/MIS weekly through (it is expected) the end of August, 2023. These meetings will provide the impacted divisions with the opportunity to identify their business needs and use cases. In addition to the discovery sessions, the MIA receives written weekly progress reports from Salesforce and the MIA/MIS have weekly touchpoint meetings with Salesforce to discuss the progress of the project.

The Phase I (Design) project deliverable is a proposed system design/blueprint (the “Blueprint”) setting out specifications, timing, and estimated costs for the ES replacement /enhancement build. The Blueprint is currently scheduled to be delivered to the MIA for discussion on September 15, 2023. When the Blueprint is delivered, the MIA’s entire ITS Project Team will meet to evaluate it and to determine the phasing and timing of the build. In making that assessment, the focus and priority will be on the replacement/enhancement of the legacy ES modules. Because this is a major IT project, DoIT will also be involved in any decision that the MIA makes. And, all future purchases of services or software licenses will be subject to procurement under the SMC or through another vehicle, as appropriate in consultation with DoIT and OSP.

The cost of the Phase I (Design) services, which were previously embedded into the MIA’s RFP Scope of Work, is \$394,152.

The MIA is unable to provide an estimate of Phase II (Implementation) of the project at this time. In the MIA’s initial conversations with DoIT, project costs were estimated at \$2 - 3 million over the life of the project. The RFP award was significantly lower, but the Contract failed because, when the Contractor began discovery, it concluded that the scope and complexity of the design and implementation were significantly different than the description in the RFP and could not be completed within the cost and time terms of the Contract.

The MIA will be able to estimate the Phase II (Implementation) costs once it has reviewed the Blueprint and determined the scope of Phase II based on the design recommendations in the Blueprint.

For the FY24 budget, the MIA included \$160,000 for ITS (Z0102/ Obj. 0863) in its budget and DBM approved \$1,215,238, based on the amount identified for this project for FY24 by DoIT.

### **III. MIA Contractor Default**

The ITS contract was approved by the Board of Public Works on October 4, 2021. The contract was formally awarded by the MIA on October 21, 2021 and a kick-off meeting was held on November 4, 2021 to review the work plan. As described more fully below, under “Chronology of Events,” the MIA noted deficiencies in the MIA Contractor’s performance as early as



December, 2021 when the Contractor stopped holding discovery sessions with MIA units and sought a Contract Amendment on December 20, 2021. Deficiencies by the Contractor included

1. **Breach of Duty to Perform Continuously.** On January 28, 2022 the MIA Contractor sent the MIA a document titled, “Project Scope of Work; Version 1.0” (“Project SOW”), which identified services to be performed and described the related tasks, along with a proposed timeline. The MIA Contractor suspended its work under the Contract pending execution of the Project SOW; notably, the MIA Contractor had previously suspended work pending the MIA’s response to its proposed Work Order and Request for Modification.
2. **Substitution of Personnel in Violation of the Contract.** Contractor replaced 4 of the 5 Key Personnel identified in Contractor’s Technical Proposal without authorization from the MIA and in direct violation of the Contract.
3. **Failure to Timely Deliver Contract Deliverable, RFP Section 2.4.4.2 “Project Schedule”;** and
4. **Anticipatory breach.** The MIA Contractor, verbally and in writing, communicated that it no longer desired to continue work on the contract, requested information as to how to terminate it, and indicated it would not complete the work unless the MIA agreed to modify the scope of work as specified by the Company in its Project SOW.

A. *Chronology of Events*

After the kick-off meeting, the Contractor initiated Discovery Sessions, but quickly stopped those meetings and submitted a Contract Modification Request and Proposed Work Order on December 20, 2021. The Contractor concluded that the scope of the work necessary to provide the required functionality exceeded the scope described in the RFP and could not be performed under the contract price.

The MIA’s MIS team met with the Contractor on January 13, 2022 to discuss its request. The Contractor suggested that the technical and functional scope of the project was broader in scope and complexity than had been described in the RFP. The Contractor advised that after conferring with MIA units, it was clear to the Contractor that the work that was actually required to achieve the contracted outcomes could not be completed within the time or cost terms of the RFP as awarded. The MIA’s MIS team advised the Contractor that further discovery sessions were needed to identify the next level of detail for each module within scope for the ITS project and that a contract modification was premature. The Contractor advised the MIA that it would document a high level project schedule for one of the modules, based on the information collected to date and review that with the MIA.

Instead, on January 28, 2021, the Contractor submitted a Project Scope Document. MIS believed that the document severely limited the functional and technical scope of the work required by the MIA's RFP / Contract. The Contractor refused to continue work under the contract unless the MIA accepted and executed the Project Scope Document. When the MIA’s MIS team requested clarification on certain points in the Project Scope Document, the Contractor requested to end the contract. In response, on February 15, 2022, the MIA issued a Notice to Cure to the Contractor identifying deficiencies in the Contractor’s performance. The response submitted by

the Contractor on February 24, 2022 was insufficient and, on March 10, 2022, the MIA formally terminated the contract for default.

#### IV. Project Spending History

Type	Prior FY's	FY 23
Funding	\$2,160,000	\$160,000
Spending	\$85,950 *	\$27,029 ** and ***
Cost Variance	\$2,074,050	\$110,008

\*Microsoft Dynamics and DocuSign Software licenses were purchased for the ITS Project in December 2021 so that the licenses would be available for the project's Agile software development process that was scheduled to begin in the first quarter of 2022. Those licenses were repurposed temporarily and may not be renewed.

\*\*DoIT Project Oversight Costs are invoiced by the DoIT Enterprise Project Management Office (EPMO).

\*\*\*The MIA submitted a budget amendment to its FY23 Budget in the amount of \$394,152 to cover the Purchase Order for the performance of the Phase I (Design) services under the SMC. Although MIA had sufficient funds in its FY23 budget to purchase these IT services without an amendment; however, because the services are part of the ITS Project a budget amendment was required.

#### V. Tracking and Reporting of Expenditures

As soon as the MIA reviews the Blueprint and determines the scope and timing of Phase II (Implementation), the MIA will work with DoIT and OSP to finalize the Phase II requirements and to purchase/procure the necessary implementation services and licenses. The MIA will then continue to work with DoIT, OSP, and DBM in the budgeting and project spending oversight processes. That includes the continuing to update project spending on the Monthly Health Assessment Reports that are provided to the DoIT Project Oversight Manager.