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**FINANCE AND BUDGET COMMITTEE
FEBRUARY 20, 2008**

SUBJECT: WORKERS' COMPENSATION ANCILLARY SERVICES CONTRACTS

**ACTION: AWARD CONTRACTS TO STRATACARE (PS05312102-A) CID
(PS05312102-B), GSG (PS05312102-C) AND CORVEL (PS05312102-D)**

RECOMMENDATION

- A. Authorize the Chief Executive Officer to award a ten-year unit price contract, Contract No. PS05312102-A, to Stratacare for workers' compensation medical bill review and outsourced mail imaging and indexing services in an amount not to exceed \$3,500,000 inclusive of three, two-year options, effective July 1, 2008.
- B. Authorize the Chief Executive Officer to award a ten-year unit price contract, Contract No. PS05312102-B, to CID for workers' compensation utilization review, peer review, physician consulting and expedited review services in an amount not to exceed \$2,800,000 inclusive of three, two-year options, effective July 1, 2008.
- C. Authorize the Chief Executive Officer to award a ten-year unit price contract, Contract No. PS05312102-C, to GSG for workers' compensation telephonic nurse case management and field nurse case management services in an amount not to exceed \$550,000 inclusive of three, two-year options, effective July 1, 2008.
- D. Authorize the Chief Executive Officer to award a ten-year incentive based, Contract No. PS05312102-D, to Corvel for a workers' compensation Preferred Provider Organization (PPO) and Medical Provider Network (MPN) services in an amount not to exceed \$13,600,000 inclusive of three, two-year options, effective July 1, 2008.

RATIONALE

The self-administration of workers' compensation benefits for our injured employees began in fall of 2001. At that time, we contracted with EOS to provide workers' compensation ancillary services including Bill Review, Utilization Review and a Preferred Provider Organization. EOS was acquired and subsequent mergers and acquisitions meant that currently, Coventry is our provider for these services. Nurse Case Management services, to date, are paid from claim files and multiple firms have been used.

We, as a self-insured and self-administered employer for workers' compensation, process thousands of payments monthly for such items as medical services, equipment, pharmaceuticals, legal fees, indemnity benefits and others. Our actuary, Milliman, estimates that total expenditures for workers' compensation claims payments (excluding the

cost of administration) for claims occurring in fiscal 2009 will exceed \$37 million, with more than a third of these expenditures covering medical costs.

Consistent with industry practice, we use a variety of techniques to lower our medical expenditures. Such techniques include Bill Review, Peer and Utilization Review, PPO discounts and Nurse Case Management Services.

DISCUSSION

Bill Review Services

Bill review service providers take gross medical billings from physicians, hospitals, pharmacies and other medical service providers and write these bills down to the State of California's approved fee schedules. The best bill review vendors have elaborate screening mechanisms to detect duplicate billings at the line level, flag inappropriate treatment or excessive utilization, and the ability to integrate PPO networks with our claims system with their bill review system to facilitate California reporting requirements. Bill review vendors also represent us in legal proceedings involving bill related disputes with service providers.

Utilization Review

The California Labor Code also makes provisions for insurers and self-insured employers to evaluate the appropriateness of medical care prescribed by an injured employee's treating physician, or other medical provider and to deny treatments inconsistent with accepted protocols. Types of treatment subject to review include surgeries, some diagnostic tests, physical therapy and others. This utilization review (UR) process in California and other states has decreased medical and indemnity costs by reducing unnecessary medical treatments.

In general, our in-house occupational nurse (or in the case of overflow or absence, a contract nurse) certifies obviously acceptable treatments or tests. Non-certified treatments are forwarded to a peer review physician, as required by law, to review specific medical documentation and issue a report citing guidelines under which the requested treatment complies or fails to comply. For complicated cases, we might request a more extensive consultation with a physician regarding treatment options. Administrative rules specify a timeframe (5 days) by which insurers and self-insured employers must respond to a treatment request. Hence, a very fast response time is necessary to complete reviews in order to avoid possible penalties or sanctions. The highest quality UR firms assist in the development of referral guidelines, the integration of UR, bill review and claims systems, as well as contracting with the highest quality peer review physicians licensed and domiciled in California.

Nurse Case Management

We occasionally have need for nurses to visit injured employees at their home or for nurses to accompany an employee on a medical visit. Nurses are also infrequently used by us to talk to medical providers or to injured employees telephonically. The use of these nursing

services is referred to as nurse case management (NCM) and includes both field case management and telephonic case management. We have not contracted for these services from a single vendor before, but have used multiple nursing vendors to provide these services in the past.

Preferred Provider Organizations

PPO vendors provide a network of contracted doctors at rates below California's approved fee schedules. The highest quality PPO vendors have deeper discounts and better quality assurance by constantly reviewing their panel of physicians and terminate contracts when physicians fail to meet specific clinical or legal criteria. PPO vendors have extensive networks (in Southern California this might be tens of thousands of providers) with many medical specialties and locations represented, allowing a greater degree of access and penetration than smaller networks can provide. PPO vendors should also be able to support the creation of a customized medical provider network (MPN) consistent with the regulations in the California Labor Code.

FINANCIAL IMPACT

The funding of \$1,154,000 for Workers' Compensation Ancillary Services is included in the FY08 budget in cost center 0531, Risk Management, Project 300004, Workers' Compensation, line item 50316, Professional Services. Since this is a multi-year contract, the Executive Officer, Risk Management will be accountable for budgeting the cost in future years, including any options exercised. In FY07, \$872,000 was expended on these ancillary services.

We anticipate that PPO services costs for Corvel will be higher under the new contract because it is incentive based (20% of savings) and estimated reductions from the California fee schedule are expected to be higher. Higher incentive fees to Corvel will mean lower overall medical payments to providers and net of incentive fees, lower costs.

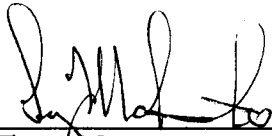
ALTERNATIVES CONSIDERED

If we did not contract for these services, the medical cost savings generated by the application of bill review, UR, PPO and nurse case management would not be realized. Reports from the current vendor, Coventry show savings from gross billed amounts in the September through November 2007 period of more than \$4 million, and more than \$400,000 in PPO savings. In December 2007 alone, UR gross savings exceeded \$100,000, not considering the deterrent impacts on service providers from us having an operational program. Our net savings from using these services exceeds \$15 million annually.

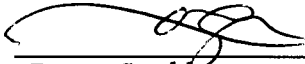
ATTACHMENT(S)

- A. Procurement Summary
- B. Estimated Costs and Unit Rates

Prepared by: Gregory Kildare, Executive Officer, Risk Management



Terry Matsumoto
Chief Financial Services Officer and
Treasurer



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

WORKERS' COMPENSATION ANCILLARY SERVICES CONTRACTS

1.	Contract Number: PS-0531-2102		
2.	Recommended Vendor(s): StrataCare, Inc.; GSG Associates; CorVel Corp.; CID Management		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$	Recommended Price: \$	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Unit Rate		
5.	Procurement Dates:		
	A. Issued: October 18, 2007		
	B. Advertised: October 22-23, 2007		
	C. Pre-proposal Conference: October 25, 2007		
	D. Proposals Due: December 17, 2007		
	E. Pre-Qualification Completed: StrataCare, Inc. - 1/15/08; GSG Associates - 1/15/08; CorVel Corporation - pending; CID Management - pending		
	F. Conflict of Interest Form Submitted to Ethics: January 16, 2008		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 0.0% describe goal type	Date Small Business Evaluation Completed: January 17, 2008	
	Small Business Commitment: 0.0% Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 18	Bids/Proposals Picked up: 59	Bids/Proposals Received: 11
8.	Evaluation Information:		
	A. Bidders/Proposers Names: List of bidders/proposers is in Attachment A-3	<u>Bid/Proposal Amount:</u> \$	<u>Best and Final Offer Amount:</u> \$
	B. Evaluation Methodology: Weighted Criteria - Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: February 26, 2008		
	B. Protest Receipt Date: N/A		
	C. Disposition of Protest Date: N/A		
10.	Contract Administrator: Maria V. Lechuga	Telephone Number: (213) 922-7206	
11.	Project Manager: Greg Kildare	Telephone Number: (213) 922-4971	

**BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY**

WORKERS' COMPENSATION ANCILLARY SERVICES CONTRACTS

A. Background on Contractor

Four contractors have been selected for award under this procurement. The information regarding the four companies is detailed below:

StrataCare, Inc. (Bill Review Services)

Building on the success of their existing company, Care Solutions, Scott Greene and Ron Taylor launched StrataCare in 1998. Their main office is located in Irvine, California with other offices in Columbus, Ohio, Atlanta, Georgia and St. Louis, Missouri. Additional sales offices are planned with expansion of sales coverage on both coasts. StrataCare has been providing bill services since 1998 and their management team consists of industry veterans with combined experience of 100 + years. StrataCare is one of the most respected companies in the workers' compensation bill review industry. StrataCare has accomplished many firsts in their short history: first to be internet based, first to develop a paperless bill review solution, first nationwide dedicated Workers' Compensation pharmacy PPO Network providing all electronic billing, etc. They have a long list of clients too numerous to mention, but among them are the cities of Albuquerque, Anaheim, Huntington Beach, Sacramento and Torrance. Other client are Disney Worldwide Services, County of Los Angeles, County of Santa Barbara, Kaiser Permanente, Loma Linda University Medical Center, Ryder Services, San Diego Gas & Electric Company, Southern California Gas Company, Verizon Wireless, Walmart, Wells Fargo and many more. In August of 2002, StrataCare and CareSolutions were merged into one company under the legal name of StrataCare Incorporated. With the growth of CareSolutions and StrataCare's expansion including additions in management, software development, tech support, and customized service, the combined companies employ more than one hundred and fifty-five people and process over 3.3 million workers' compensation bills annually.

GSG Associates, Inc. (Case Management)

GSG Associates, Inc. was founded in 1994, in Pasadena, California by registered nurses who utilized their vision and experience to create medical and disability management products unique for each client and delivered with a personal touch. GSG Associates, Inc. is URAC accredited, and a certified Women's Business Enterprise, as well as being a certified California Small Business Enterprise, and owned by Registered Nurses. The executive staff of GSG has a combined cumulative experience in occupational and non-occupational medical utilization review, disability management and Absence management of over 70 years. Since 1994, GSG successfully developed and implemented several programs that were created in response to meeting the needs of business in the Workers' Compensation environment in multiple states. As GSG has evolved, additional programs have been developed to meet client needs: disability duration/lost time management and one of the first true employee absence management programs in the nation. GSG employs approximately 75 nurses and has a growing network of physician advisors. GSG has a notable list of clients including State Compensation Insurance Fund,

Southern California Edison, City of Los Angeles Department of Water and Power; Warner Brothers Studios, City of San Jose, Aloha Airlines, Hawaiian Airlines, ATT Wireless Services, County of Los Angeles, and Ralph's Supermarkets among others.

CorVel Corp. (Preferred Provider Network & Medical Provider Network)

CorVel Corporation's corporate headquarters are located in Irvine and a business office in Orange, California. Additionally, CorVel has a national network of offices to ensure that they always have state experts available who are knowledgeable about their state's medical guidelines. In 1988, Gordon Clemons joined with Jim Micahel and Jeff Michael, investors from Minnesota, to found CorVel Corporation (originally named "FORTIS"). Three small vocational rehabilitation firms were consolidated to form the initial foundation of the new Company, valued at approximately \$2 million. The Company quickly exceeded 200 associates. Within two years, the number of service offices more than doubled to 51 locations and the Company entered the medical bill review and medical case management business. Investments in technology began almost immediately, and a data center was established in Portland, Oregon. Revenues increased fourfold from 1987 levels, as the Company's service began to achieve national reach.

In the spring of 1991 the Company first issued stock to the public and began trading on the NASDAQ at a market capitalization value of \$43 million. The following year the FORTIS name was sold, raising \$4 million, and the Company changed its name to CorVel Corporation. With the funding from the name sale, CorVel began building the CorCare national preferred provider organization (PPO), an effort that dramatically changed the Company's breadth of service and strategic positioning in the casualty healthcare management marketplace. During the mid-'90's CorVel doubled its office network again, and expanded its software offerings. PPO services became an important part of most healthcare management sales. Out-of-network medical review was added to the portfolio of provider programs. When the internet began to transform business communications, CorVel web-enabled its entire service line via the launch of the Care^{MC} website. CorVel continues to add new information tools to the service line, further expanding the information processing capabilities that have always been the core of the Company's value proposition.

CorVel's client list is confidential, but among the list of references given are the County of Los Angeles, San Diego Joint Powers Authority and the Capistrano Unified School District.

CID Management (Utilization/Peer Review)

CID Management has been in business since late 2001; they are located in San Ramon, California. With a combined 40 years in the occupational health, financial and technology industries, Steven Cardinale and Eric Leinwohl merged their talents and conceived an organization dedicated to reducing overall medical management costs across all areas of the workers compensation value chain including return to work services, network management, case management, utilization management, and medical management. In December 2001, they began developing and implementing innovative workers' compensation solutions for concerned employers. As a result, on October 1, 2002 they incorporated Comprehensive Industrial Disability management. Their focus quickly

narrowed to providing the “best in class” utilization and peer review services supported by an advanced technology infrastructure and updated management techniques. Through CID’s unique web-based platform and their proven six years experience, they continue to provide injured workers with a management team of highly skilled, like-minded health care professionals and a team of proactive administrative personnel. CID is URAC accredited and is a national competitor delivering utilization review tools and solutions.

A list of CID’s clients include the following: City of Los Angeles, Contra Costa County, E&J Gallo, City of Santa Monica, Teichert Construction, City of Riverside and a large national insurance carrier and a large national retail corporation, who requested that their names be withheld.

B. Procurement Background

We retained a consultant, a medical director of Zenith Insurance, to assist in drafting the scope(s) of work and participate in the selection panel. The Request for Proposal (RFP) which contained four Statements of Work was issued on October 18, 2007. The proposers were requested to provide unit rate pricing for each of the services or work for which they were submitting a proposal. The pricing was based on estimated number of claims for which proposers provided their unit rate to be used for evaluation purposes only. Proposers were advised that fees will be fixed price (or incentive for PPO) for the first four (4) years. At year five, and every year thereafter, fees shall be adjusted annually at national CPI-U annual growth rate except for the PPO incentives contract which will automatically adjust with medical pricing.

Recommendation for award is being made to the four (4) proposers who were scored the highest and offer the best overall value to us. The proposers have been determined to be both responsive and responsible.

C. Evaluation of Proposals

The procurement was a standard Request for Proposal in compliance with our Procurement policies and procedures and included outside members for the source selection committee.

We performed a best value procurement process. We received proposals from eleven different companies. This procurement process was unique in that proposers could submit proposals for all or some of the four services contained in the RFP. Proposers were required to pass the minimum requirements in order to be further evaluated. Proposers that did not meet our stated minimum requirements in each of the four services were deemed as non-responsive. The selection committee evaluated each proposal according to multiple pre-stated criteria, blind to cost. As a criterion, cost was weighted as 10%.

Recommendations: The four firms listed below who are recommended for award are the highest scored proposers who offer the best value to us. Other contractors that submitted

their proposals for the same services either did not pass minimum requirements or were not the highest scored proposers.

Stratacare is recommended for Bill Review. Stratacare has a seasoned management team with a long history in the bill review industry and has demonstrated that it has significant technology and integration as well as account management resources that it will dedicate to us. Stratacare also has a robust bill tracking system that can track individual bills from receipt through final disposition. It has state-of-the art 5-level duplicate detection capabilities and an industry-standard duplicate detection rate of 13%. It has also passed SAS-70 and HIPAA audits. Stratacare views itself as hub for multi-platform (vendor) technology integration and has already electronically integrated with multiple peer review vendors which is a key factor for us. This key functionality should enable us to manage medical utilization more effectively. It also has the ability to develop specific business rules, claim specific business roles, and integrate recommended treatment “templates” based on ACOEM (the treatment guideline with the presumption of correctness from the State of California).

We required all proposers to run the same test sample of our bills, and Stratacare demonstrated an impressive 29.6% paid to billed ratio. Its California-wide paid to billed ratio is 34%. Finally, Stracare has a 99.2% first file EDI acceptance rate with the State. It also demonstrated its low re-evaluation rate and low loss rate at the WCAB (1 loss out of 242 tried cases).

GSG is recommended for Case Management. GSG has a strong management team with significant industry experience. GSG does not outsource personnel, and employs California licensed and domiciled nurses with long tenure. GSG was the sole proposer to demonstrate that its philosophy is in line with ours. It has a singular focus, reducing overall claims cost. GSG emphasizes the use of lower cost telephonic case management services over more costly field case management services. It has also developed an impressive methodology of identifying claims that require field case management—only 3% of telephonic cases are escalated to field cases. Finally, GSG has the ability to integrate its systems with iVOS, our claims system, and committed to allocating resources to this end. GSG has invested in an EBMR tool that enables its staff to query multiple medical guideline databases from one application, unique amongst proposers.

CorVel Corp is recommended for the Preferred Provider Network & Medical Provider Network. Corvel has a strong management team with significant industry experience. It has the highest discounts, 26% below California Official Medical Fee Schedule which was considerably better than those of the other proposers. Corvel demonstrated that it can add providers to its network at our request with 4-8 weeks lead time, rather than 6-9 months, and Corvel is contracted directly with 90% of its medical providers which is considerably higher than that of its competitors.

CID Management is recommended for Utilization/Peer Review. CID has a strong management team with a singular focus on utilization/peer review services. CID also provides its clients with 24x7 access to personnel. It has the fastest turnaround time, with an average of 1.17 days and is committed to adhering to a service level agreement with a

48 hour turnaround time with financial penalties for non-compliance. This is very important considering the 5-day statutory timeframes and associated \$400,000 penalties for non-compliance. CID has a robust tracking system that can track individual reviews from receipt through final disposition and provided detail quality control and quality assurance processes. Cid has a very low, 3.5% re-evaluation rate, a negligible over-turn rate and a 95% customer satisfaction rate which is impressive. CID also specializes in utilization/ peer reviews in the jurisdiction of California and has performed 60,000 reviews for California workers' compensation carriers and insureds—that is over 2 times the volume of the other proposers.

CID has a diverse network of physicians that cover all of the sub-specialties requested by us. Unlike other proposers, CID does not outsource this function. Finally, CID has integrated its system with leading bill review systems, and will dedicate resources to ensure that its system is integrated with the systems of our other vendors.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon adequate competition. Three firms submitted proposals in the PPO section of the RFP and in the other three sections at least six firms submitted proposals for each. Currently, our contracts with Coventry for all services (Utilization Review, PPO and Bill Review) except nurse case management and outsourced mail indexing and imaging. During, September and October and November of 2007, the average monthly cost for Bill Review, PPO and Utilization Peer Review services was \$74,000. Estimated pricing for the selected vendors given similar utilization and PPO discounts yields a monthly cost of \$64,000.

Estimated Monthly Cost Using New Pricing		
Bills	Rate/Bill	Monthly Amount
2460	\$ 8.00	\$ 19,683
Avg. PPO Discounts Below Fee Schedule Metro Experience for September, October, November, 2007		
\$ 138,035	Incentive Fee 20%	\$ 27,607
Monthly Reviews peer Reviews		
62	\$/Review \$ 190.00	\$ 11,780
Monthly Consult Hours		
20	\$/Hour \$ 250.00	\$ 5,000
		\$ 64,070

The additional services not currently contracted include Nurse case management and outsourced mail imaging and indexing. Mail imaging and indexing is expected to cost \$3,500 per month, substantially less than the 1.5 to 2.0 Office Assistant FTEs that would perform this function in house. Nurse case management services are not currently contracted for, but are used occasionally and billed to the claim files as medical treatment with billing rates, most recently at \$96.00 per hour for telephonic case management.

BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS

WORKERS' COMPENSATION ANCILLARY SERVICES CONTRACTS

PRIME CONTRACTORS:

StrataCare, Inc. (Bill Review Services)
GSG Associates, Inc. (Case Management)
CorVel Corp. (Preferred Provider Network & Medical Provider Network)
CID Management (Utilization/Peer Review)

Small Business Commitment

Other Subcontractors

None

None

Total Commitment: 0.0%

**BOARD REPORT ATTACHMENT A-3
LIST OF PROPOSERS**

WORKERS' COMPENSATION ANCILLARY SERVICES CONTRACTS

ADVANCED MEDICAL REVIEWS

1950 Sawtelle Blvd., #220
Los Angeles, Ca 90025

CID MANAGEMENT

2415 San Ramon Valley Blvd., #4414
San Ramon, CA 94583

CORVEL CORP

600 City Parkway West, Suite 700
Orange, CA 92686

**COVENTRY HEALTH CARE
WORKERS COMPENSATION**

3200 Highland Avenue
Downers Grove, IL 60515

GENEX SERVICES

440 East Swedesford Road, Suite 1000
Wayne, PA 19087

GSG ASSOCIATES, INC.

46 Dayton Street
Pasadena, CA 91105

**INTERMED COST
CONTAINMENT SOLUTIONS, INC.**

3010 Lava Ridge Court, Suite 200
Roseville, CA 95661

PROFESSIONAL DYNAMICS, INC.

3320 Data Drive, Suite 400
Rancho Cordova, CA 95670

STRATACARE

16800 Aston, 2nd Fl.
Irvine, CA 92606

TOTAL HEALTHCARE MANAGMNT

17310 Red Hill Avenue, #300
Irvine, CA 92614

VALLEY OAK SYSTEMS, INC.

5000 Executive Parkway, Suite 340
San Ramon, CA 94583

Estimated Costs and Unit Rates

Stratacare	Bills	Rate/Bill	Monthly Amount	10 Year Amount*
Bill Review	2,460	\$ 8.00	\$ 19,683	
	Pages	Rate/Page		
Mail Indexing and Imaging	7,000	0.50	<u>3,500</u>	
Subtotal			<u>23,183</u>	
15% Contingency for Increases in Claim/Mail Volume			<u>3,477</u>	
Total			<u>\$ 26,660</u>	<u>\$ 3,486,591</u>

Corvel

	PPO Discounts Indicated from proposal at 26% below California Fee Schedule	Incentive Fee		
PPO Cost	\$ 1,118,814	20%	\$ 74,588	
15% Contingency for Increases in Claim Volume			11,188	
Total			<u>\$ 85,776</u>	<u>\$ 13,567,104</u>

CID

	Reviews	\$/Review		
Physician Peer Reviews	62	\$ 190.00	\$ 11,780	
	Hours	\$/Hour		
Chiropractic/Physical Therapy Consults	0	\$ 150.00	-	
Orthopaedics Consults	0	\$ 300.00	-	
Mental Health/Surgery Consults	20	\$ 250.00	\$ 5,000	
General Medicine	0	\$ 195.00	-	
	Reviews	\$/Review		
Utilization Reviews (Nursing)	15	\$ 65.00	975	
	Reviews	\$/Review		
8 Hour Expedited Review	0	\$ 190.00	-	
24 Hour Expedited Review	5	\$ 95.00	475	
Subtotal			<u>18,230</u>	
15% Contingency for Increases in Claim Volume			<u>2,735</u>	
Grand Total			<u>\$ 20,965</u>	<u>\$ 2,741,728</u>

GSG

	Hours	\$/Hour		
Telephonic NCM	20	\$ 85.00	\$ 1,700	
Field NCM	20	\$ 95.00	\$ 1,900	
Subtotal			<u>\$ 3,600</u>	
15% Contingency for Increases in Claim Volume			<u>\$ 540</u>	
Grand Total			<u>\$ 4,140</u>	<u>\$ 541,427</u>

* Terms allow CID, GSG and Stratacare CPI increases (4%) annually in years 5 through 10. For Corvel, annual medical cost increases are estimated at 6% in years 2 through year 10.

