



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

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August 19, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**CONTRACT EXTENSION FOR WORKERS' COMPENSATION MEDICAL AND
DISABILITY MANAGEMENT SERVICES - (3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

Approve, and instruct the Chair to sign, the attached amendment to the contract for the provision of workers' compensation medical and disability management services with CorVel Corporation for extension of the contract term for an additional two-month period, from September 7, 2003 through November 6, 2003.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The current amended contract with CorVel Corporation expires September 6, 2003. A Request for Proposal (RFP) for medical and disability management services was issued on January 27, 2003. Six proposals were evaluated and the highest ranking proposer, the incumbent CorVel Corporation, was invited in March 2003, to enter into negotiations for a final contract to be approved by the Board of Supervisors. Since March, RFP process issues have delayed contract negotiation. Attachment 1 describes the contracting process. On June 17, 2003, your Board directed that the medical and disability management services contract be continued month-to-month. The CAO anticipates the new contracts will be filed for approval on the October 7, 2003, Board of Supervisors' meeting agenda with an implementation date of November 7, 2003.

Honorable Board of Supervisors
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Approval of this amendment (Attachment 2) will enable the Chief Administrative Office to continue to provide these cost containment services to the County's workers' compensation third party administrators and injured workers. The expiring contract's terms, conditions and costs remain the same. These cost containment services are necessary for reducing workers' compensation medical charges to the California Official Medical Fee Schedule, achieving further reductions through preferred provider network arrangements and assuring injured County workers receive the best quality care at the best price for the County.

Implementation of Strategic Plan Goals

The medical and disability management services provided by the contractor promote and further the Board-approved Strategic Plan goals of Workforce Excellence, Organizational Effectiveness, and Fiscal Responsibility by facilitating the CAO's objective of establishing a risk management process emphasizing loss prevention and cost containment.

FISCAL IMPACT/FINANCING

The cost for medical and disability management services will continue to be paid from the Workers' Compensation Trust Fund. Currently, these services achieve annual estimated savings of \$90.0M, more than offsetting contract fees.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In 1996, an outside consulting firm recommended the County of Los Angeles establish a comprehensive medical and disability management program that would integrate medical fee review services with Preferred Provider Organization (PPO) channeling, nurse case management and 24-hour claim reporting. Subsequent review by another consultant in 2001 resulted in the recommendation that the County continue contracting for these services. On July 30, 2002, the Director of Personnel delegated his authority under the Los Angeles County Code Section 5.31.050 to the Chief Administrative Officer.

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The State of California establishes an Official Medical Fee Schedule for workers' compensation medical billings. While employers and insurers are not required by law to follow the fee schedule and may pay more than fee schedule, considerable savings are achieved by reducing medical billings to the Official Medical Fee Schedule. Virtually all sound workers' compensation programs employ a service to reduce its medical bills. Similarly, PPO's achieve additional reductions in billings below Official Medical Fee Schedule and are utilized by efficient workers' compensation programs. Medical and disability management services, also, provide nurse specialists trained in workers' compensation to work with the medical provider to expeditiously return an injured worker to productive work.

County Counsel approved the amendment as to form. The County may terminate the agreement if sufficient funds are not available.

Living Wage Program requirements do not apply to this non-Proposition A contract.

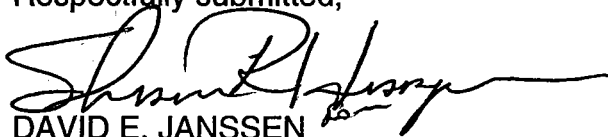
IMPACT ON CURRENT SERVICES (OR PROJECTS)

None, approval of this amendment provides for the continuation of existing services.

CONCLUSION

Please sign three copies of the attached amendment and return two copies to the CAO Risk Management Branch, attention Rocky Armfield, County Risk Manager.

Respectfully submitted,



DAVID E. JANSSEN
Chief Administrative Officer

DEJ:RAA
CSS:AMR

Attachments (2)

c: County Counsel
Auditor-Controller

CONTRACTING PROCESS

The Chief Administrative Office (CAO) Risk Management Branch issued a Request for Proposal (RFP) for Workers' Compensation Medical and Disability Management and Cost Containment Services on January 27, 2003.

The RFP was posted on the County of Los Angeles' Website. An Invitation to Submit Proposal was mailed to a list of 36 vendors including nine vendors from the Office of Affirmation Action Compliance County-certified Community Business Enterprise (CBE) participating vendors listing. It was advertised in the *Los Angeles Times*, *Los Angeles Sentinel*, *La Opinion*, and *Acton/Agua Dulce* newspapers.

A proposers' conference was conducted on February 7, 2003. Thirty-three companies attended that conference. Six proposals were submitted by the due date of February 28, 2003.

Two evaluation phases were conducted. The minimum requirements phase was conducted by the CAO staff and consisted of a verification of all minimum requirements and included a financial capability assessment by the Auditor-Controller (A-C). The second phase evaluation consisted of a technical review. The committee for the technical evaluation consisted of staff of the Department of Health Services, the Sheriff Department, the Fire Department, and the Department of Public Works, in addition to CAO staff possessing workers' compensation expertise. Consultants from Garner Consulting participated in this phase as subject matter experts and facilitators. The committee ranked the six proposers. Independent rankings by Garner Consulting were very similar to those of the committee. The highest ranking proposer, CorVel Corporation, was invited in March 2003, to enter into preliminary negotiations.

However, since March, RFP process issues arose requiring further attention by the CAO before a contract could be brought to the Board. The A-C reviewed the RFP process and made certain recommendations. In accordance with the recommendations, the technical evaluation committee reconvened and resolved the matters raised by the A-C. Since the CorVel Corporation contract expired on July 6, 2003, and the County needed to undertake additional steps before new contracts would be negotiated, an extension to the CorVel Corporation contract was needed. On June 17, 2003, the Board approved a month-to-month extension to the CorVel Corporation contract.

On June 30, 2003, the CAO notified RFP proposers whether they qualified to enter into preliminary negotiations, and that an appeal process was available. The CAO informed the three highest ranked proposers it was considering allocating the medical and disability management and cost containment services between those three proposers.

The CAO received two appeals filed by the following firms:

1. CorVel Corporation: appeal submitted on behalf of CorVel Corporation through the law firm of ReedSmithCrosbyHeafey
2. Health Net Plus

An Appeal Committee was convened on July 16, 2003 to hear and consider the appeals of each firm and the responses by the CAO. The Committee was comprised of representatives from the Internal Services Department, Department of Human Resources, and Department of Public Works.

The Appeal Committee's report is attached. In brief, the Appeal Committee concluded that:

1. The CAO's option to recommend award to more than one contractor is consistent with the provisions of the RFP.
2. After debriefing by CAO representatives, Health Net Plus withdrew its appeal and no further action was necessary.

On July 30, 2003, the Appeal Committee's report was submitted to each appellant. Because no deficiencies were found by the Appeal Committee, the CAO began preliminary negotiations with the three highest proposers on August 1, 2003. Consequently, the CAO requests the Board approve a two-month extension to the CorVel Corporation medical and disability management services contract to allow for these negotiations to conclude and facilitate implementation of new contracts. This two-month extension would be for the September 7, 2003 through November 6, 2003, period. The CAO anticipates new medical and disability and cost containment contracts would be effective November 7, 2003.

REPORT OF APPEAL COMMITTEE
County of Los Angeles
Worker's Compensation Medical and Disability
Management and Cost Containment Services
Request for Proposals

The County's Chief Administrative Office (CAO) received two appeals with regards to the aforementioned RFP from the following firms:

1. CorVel Coporation: appeal submitted on behalf of CorVel Corporation by the firm of ReedSmithCrosbyHeafey
2. HealthNet Plus

The Appeal Committee was convened on July 16, 2003 at 2:00 P.M. to hear and consider the concerns voiced by each firm and the responses hereto by the CAO. The Committee consisted of the following members: Kathy Hanks, Internal Services Department; Travis Howland, Department of Human Resources; and Barbara Knighton, Department of Public Works.

CAO representatives speaking on behalf of the department were Rocky Armfield, Alex Rossi. Also in attendance were Elaine Butler, CAO; Natoya Alexander-Frazier, Auditor-Controller.

Patrick Wu and Elizabeth Cortez represented the Office of the County Counsel.

CorVel Corporation

Debbie Fredricks, Laurie Wright, and Connie Couvey of CorVel and Peter Kennedy of ReedSmithCrosbyHeafey represented the firm.

The scope of the Committee's review was limited to the concerns set forth in their letter and restated by CorVel and its representatives at the meeting as:

"to appeal the County of Los Angeles Risk Management Branch's decision to recommend to the Board of Supervisors that COLA award 50%, rather than 100%, of the contract to CorVel rather than dividing up the contract to include two firms...."

CorVel stated that they have no issues with the RFP document or selection process. CorVel set forth their business reasons as to why they should get the entire contract instead of 50% of the contract.

Committee Finding

The Committee found that Section 1.8 of the CAO's RFP specifically states that the purpose of the RFP is to select one or more contractors. Further, Section 1.14 of the RFP indicates the resultant contract will not be an exclusive contract. Therefore, the CAO's option to recommend award to more than one contractor is consistent with the provisions of the RFP. The issue of the CAO's business

**REPORT OF APPEAL COMMITTEE
County of Los Angeles
Worker's Compensation Medical and Disability
Management and Cost Containment Services
Request for Proposals**

decision to recommend award to more than one firm is not within the purview of the Appeal Committee.

HealthNet Plus

Stephen Cattolica represented the firm.

Mr. Cattolica was given the opportunity for debriefing by the CAO representatives on why his firm's proposal was not being selected for recommendation of a contract. After the debriefing, the Appeal Committee was advised that HealthNet Plus had withdrawn their appeal. No further action was necessary.

Dated: 7-17-03


KATHY HANKS


BARBARA KNIGHTON


TRAVIS HOWLAND

**AMENDMENT TO MEDICAL AND DISABILITY MANAGEMENT SERVICES
AGREEMENT**

This Amendment is entered into on this 5 day of August, 2003 by and between the COUNTY OF LOS ANGELES (hereinafter referred to as County) and **CORVEL CORPORATION** (hereinafter referred to as Contractor) to amend the July 7, 1998 Medical and Disability Management Services Agreement (Agreement) between the parties.

WHEREAS, Los Angeles County Code Section 5.31.050 provides that the Director of Personnel shall have the authority and responsibility to establish, administer and operate a complete self-insured Workers' Compensation program; and

WHEREAS, pursuant to the California Government Code Section 31000.8, County is authorized to contract with private businesses to perform such services; and

WHEREAS, the County entered into the Agreement with Contractor on July 7, 1998 to provide medical and disability management services until July 7, 2001 with an option for two additional one-year extensions; and

WHEREAS, the Agreement was amended by Amendment No. 3 on July 29, 2003, Amendment No. 2 on June 17, 2003, Amendment No. 1 on May 29, 2001, and by Change Notice No. 1 on May 31, 2002, extending the term of the Agreement to September 7, 2003; and

WHEREAS, the County continues to need medical and disability management services; and

NOW, THEREFORE, THE PARTIES MUTUALLY AGREE TO AMEND THE AGREEMENT AS FOLLOWS:

1.0 Item 1.0 TERM, Subsection 1.1 is amended as follows:

"1.1 The term of this Agreement shall commence on the date first hereinabove written and shall continue in full force and effect until five (5) years and four months from that date. Contractor's delivery of services hereunder shall commence at a date mutually agreeable to the parties but in no event shall the implementation date be later than July 15, 1998.

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2.0 Item 6.1.6 is amended to Exhibit I, Section B as follows:

"6.1.6 PERFORMANCE GUARANTEES FOR TWO-MONTH EXTENSION AFTER YEAR 5 AND TWO MONTHS		SCORE
-	Met all reporting requirements over the course of the previous 12 months, including data file transfer.	5
-	99.5% of the time, no payment for duplicate billings and no charge for review of duplicate billings.	5
-	35% of savings on gross billings after bill review.	10
-	Contractor will reduce medical payments by 10% .	20
	OR	
	Contractor will reduce medical payments by 5%.	10
-	Turnaround time will be less than or equal to 5 business days for 84% of all bills received.	5
-	For in-patient hospital services not subject to the California Medical Fee Schedule and PPO discounts, the amounts paid for services must average at least 30% below the amounts charged.	5

TOTAL SCORE	BONUS or PENALTY
50	Collect additional 5% of revenue generated by this contract for the period 7/7/02—7/6/03.
40	Collect additional 2.5% of revenue generated by this contract for the period 7/7/02—7/6/03.
25	Revenue neutral.
20	Pay back service fees of 2.5% of revenue generated by this contract for the period 7/7/02—7/6/03.
10 or less	Pay back service fees of 5% of revenue generated by this contract for the period 7/7/02—7/6/03."

3.0 Exhibit II, Payment Provisions, is amended as follows:

“EXHIBIT II PAYMENT PROVISIONS”

	Year 1	Year 2	Year 3	Year 4	Year 5*
24 Hour Telephonic Reporting	\$15.00 per claim	\$15.00 per claim	\$15.00 per claim	\$15.00 per claim	\$15.00 per claim
Telephonic Medical Case Management	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour
Onsite Medical Case Management	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour
Medical Bill Review	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum
Medical/Legal Bill Review	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum
Pharmacy Bill Review	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum
Vocational Rehab. Fee Review	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum	\$.98 per line 2 line minimum 10 line maximum
Hospital PPO	17% of savings	17% of savings	17% of savings	17% of savings	17% of savings
M.D. PPO	17% of savings	17% of savings	17% of savings	17% of savings	17% of savings
UR Hospital In-Patient Services (Prospective)	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour
UR Hospital In-Patient Services (Concurrent)	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour
UR Hospital In-Patient Services (Retrospective) Hospital Bill Audit	20% of savings	20% of savings	20% of savings	20% of savings	20% of savings
UR Out-Patient Services	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour	\$60.00 per hour

* Payment during the two-month extension period after Year 5 and two months will be made at Year 5 rates.

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Contract No. 71668
Amendment Number 4

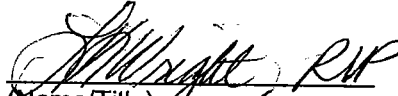
IN WITNESS THEREOF, the Board of Supervisors of the County of Los Angeles has caused this Agreement to be subscribed by its Chair and the seal of such Board to be hereto affixed, and attested to by the Executive Officer-Clerk thereof, and the Contractor has caused this Agreement to be subscribed to on its behalf by its duly authorized officer, the day, month and the year first above written.

COUNTY OF LOS ANGELES

CONTRACTOR

The Contractor represents and warrants that the signatory to this Agreement is fully authorized to obligate the Contractor hereunder and that all corporate acts necessary to the execution of this Agreement have been accomplished.

Chair, Board of Supervisors



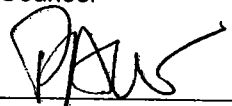
(Name/Title)

ATTEST:

VIOLET VARONA-LUKENS
Executive Offer-Clerk
Of the Board of Supervisors

By _____
Deputy

APPROVED AS TO FORM:
LLOYD W. PELLMAN
County Counsel

By  _____
Deputy

APPROVED AS TO CONTRACT ADMINISTRATION:
Chief Administrative Officer

By _____

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