COUNTY OF LOS ANGELES
CHIEF INFORMATION OFFICE
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July 13, 2004

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

Dear Supervisors:

FIND THAT SIERRA SYSTEMS GROUP INC. HAS CURED THEIR DEFAULT UNDER AGREEMENT 74144 AND REMOVE THE RESTRICTION ON NEW BUSINESS WITH LOS ANGELES COUNTY FOR SIERRA SYSTEMS GROUP INC.
(All Districts) (3 VOTES)

JOINT RECOMMENDATION THAT YOUR BOARD:

Find that Sierra Systems Group Inc. ("Sierra") has cured the default under Agreement 74144 and remove the restriction on new business with Los Angeles County ("County") put in place by your Board on November 25, 2003.

PURPOSE OF THE RECOMMENDED ACTION

Approval of this recommended action by your Board will remove a restriction on Sierra competing for new County contracts or expanding their business under existing agreements with the County.

JUSTIFICATION

On September 3, 2002, your Board approved Agreement 74144, which requires Sierra to develop an Integrated System (the "System") on behalf of the Department of Mental Health (DMH) in order to assist DMH in achieving compliance under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) Transaction and Code Set (TCS) rules. A significant milestone in the Agreement called for Sierra to achieve a "Go-live" (production use) of the System on October 16, 2003. Sierra did not meet that date, or the two subsequent Go-

live dates it promised. Accordingly, on November 25, 2003, your Board imposed a restriction on new County business with Sierra. The text of the motion is attached.

Sierra has corrected the contractual default that was the basis for initiating the restriction on expanding business with the County by delivering System functionality which was to have been delivered back on October 16, 2003.

On June 30, 2004, Sierra satisfied a key outstanding Deliverable by successfully performing a Simulated Full Load Performance Test (the "Load Test") as required under Deliverable 10.5 of the Agreement. The Load Test demonstrated that the System can process peak production transaction volumes without degradation of performance. After DMH, the Chief Information Office (CIO), and Internal Services Department's Information Technology Services (ISD/ITS) staff reviewed the results of the Load Test, DMH determined that Sierra has, as of this date, met the Agreement conditions for satisfying Deliverable 12.2, System Go-live. Accordingly, Sierra is ready for DMH to commence the first of two thirty-five (35) day Acceptance Test periods prior to Final System Acceptance under the Agreement.

Under the authority granted the Project Director under Paragraph 6.1.4 of the Agreement, and by mutual agreement with Sierra, Deliverables 9, 11.2, 13.3, and 13.4 will be completed after Go-live, but before Final System Acceptance.

Deliverable 9, Design and Develop Reports, involves up to 40 custom reports and capabilities that will allow DMH to develop reports in the future. Sierra believes they have satisfied Deliverable 9, but DMH has asked for, and Sierra agreed to, an extension of the time to perform a thorough review of these detailed reports.

Deliverable 11.2, Technical Staff Training, will also be deferred at the request of DMH, and with the concurrence of Sierra, because of availability of DMH and ISD/ITS technical staff to participate in the training and because of DMH and ISD/ITS preference to be trained only after the System technical environment has been finalized. The System technical environment is now final and it is simply a scheduling issue for this Deliverable. Postponing Deliverable 11.2 to after Go-live does not impact the level of technical support available for the System.

Deliverables 13.3, Pharmacy Transaction Implementation, and 13.4, Pharmacy Compliance Testing and Acceptance Testing, are also deferred to after Go-live at the request of DMH and with the concurrence of Sierra. While Sierra believes they have satisfied Deliverables 13.3 and 13.4, DMH has been unable to persuade a participating pharmacy provider to implement the pharmacy functionality of the System or otherwise thoroughly evaluate these deliverables. The key pharmacy transaction, the NCPDP pharmacy claim, is implemented in

the System and the System can accept and process this transaction if it is sent from a participating pharmacy. During the Load Test, the System processed prescriptions and medication orders in a manner completely consistent with the Simulated Full Load Test Plan.

The key issues with pharmacy functionality are more related to pharmacy provider workflow than to System functionality. DMH will evaluate what its options are within the scope of the existing Deliverables and what, if any, changes to pharmacy functionality may be necessary to provide pharmacy provider contractors with workflow improvements.

As you may recall, DMH informed your Board in May 2004 that it was the first county mental health department in California to have its HIPAA-compliant health care claim transaction certified for production use by the State of California Department of Mental Health (CDMH). On June 21, 2004, DMH, with support from Sierra and the ISD/ITS, initiated production use of the HIPAA-compliant health care claim transaction by submitting a February Short-Doyle claims file.

Exchanging HIPAA compliant health care claim and remittance advice transactions with the State in production is not a contract deliverable *per se*, and had the System gone live on October 16, 2003, it would have occurred during the two 35 day Acceptance Test periods if the State had been ready, which it was not. DMH expects to receive a HIPAA compliant remittance advice file from the State for the February claims submission between July 6 and July 14, 2004. Since this claims submission will be the first HIPAA-compliant claims file processed by the State, and they may have issues of their own, DMH will hold further HIPAA-compliant submissions until it is confirmed that the State process is working properly. If the remittance advice file confirms proper processing of the February claims file by the State, DMH and Sierra will submit March, April, and May claims files, containing both Short-Doyle and Fee-for-Service claims, within a matter of days. After clearing the backlog, DMH and Sierra will work closely with the State to establish the routine weekly Fee-for-Service billing cycle and monthly Short-Doyle billing cycle for the System.

Sierra has worked aggressively and relentlessly to bring the System into reliable production use and has remained an engaged participant with DMH in achieving compliance with the HIPAA Transactions and Code Sets (TCS) rules.

Despite the force of Federal law as a motivator, the fact that only Los Angeles County DMH has achieved State certification for its health care claim transaction is evidence of the difficulty the industry is having with the TCS rules. The System was, from the beginning, known to be a technically complex and challenging solution for DMH to achieve HIPAA TCS compliance, but there was no practical alternative.

DMH administrative staff, DMH directly operated clinic providers and contract providers, have had to accommodate a significant number of changes to their business process which are required by HIPAA TCS rules. They have also been required to simultaneously learn to use and manage a new information system. Despite the difficulties and delays in arriving at Go-live, routine use of the System is an enormous technical and management achievement.

Sierra's successful delivery of the System (Go Live) cures their default under their Agreement and resolves the condition that prompted your Board to restrict their access to additional County business. Sierra demonstrated a consistent commitment to the project and to the County's overall success.

FISCAL IMPACT/FINANCING

None.

FACTS AND PROVISIONAL/LEGAL REQUIREMENTS

Implementation of the IS in all DMH directly operated clinics is necessary under the terms of the County's federal 1115 Waiver. The last group of directly operated clinics are scheduled to begin production use of the IS on July 8, 2004. Analysis of the 1115 Waiver by County Counsel and outside counsel has resulted in their assessment that use of HIPAA compliant transactions and codes by all directly operated providers will constitute DMH compliance with the HIPAA related requirements under the Waiver.

IMPACT ON CURRENT SERVICES

Achieving System Go-live and lifting the restriction on new business will allow Sierra and DMH to turn their attention to post-live enhancements and improvements to the System and supporting the deployment of the System to contract providers beginning in August 2004.

Sierra will also be allowed to compete for new information technology projects. Historically, they have been a capable and competitive provider of technology related services.

CONCLUSION

It is our recommendation that your Board find that Sierra has cured its default status under the Agreement, and act to lift the restriction on competing for new County business.

Respectfully submitted,

JON W. FULLINWIDER
Chief Information Officer

MARVIN J. SOUTHARD, D.S.W.
Director, Department of Mental Health

JWF:RG:ygd

c: Raymond G. Fortner, Chief Deputy County Counsel
Mark Gascoigne, General Manager, ISD/ITS
David E. Janssen, CAO
Dave Lambertson, Interim Director, ISD
Hugh McClennan, Sierra Systems Group, Inc.
Violet Varona-Lukens, Executive Officer, BOS

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MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

Violet Varona-Lukens, Executive Officer
Clerk of the Board of Supervisors
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Chief Information Officer

At its meeting held November 25, 2003, the Board took the following action:

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Jon Fullinwider, Chief Information Officer, gave a status report to the Board, as detailed in the attached memorandum dated November 24, 2003, regarding Sierra Systems, Inc.'s (Sierra) Corrective Action Plan to bring the contract into compliance, based on Sierra's failure to deliver an integrated HIPPA Transactions and Code Sets System for the Department of Mental Health by the compliance deadline of October 16, 2003.

After discussion, on motion of Supervisor Yaroslavsky, seconded by Supervisor Knabe, unanimously carried, the Board reaffirmed the ability of the Sheriff, and the Directors of Health Services and Mental Health to continue their current work with Sierra Systems, Inc., however, no new work with the contractor can be initiated until all current contract work is completed.

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Attachment

Copies distributed:
Each Supervisor
Sheriff
Chief Administrative Officer
County Counsel
Director of Health Services
Director of Mental Health