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SUMMARY OF COST
EVALUATION

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After evaluating the Sections of the proposals which described functions to be performed either by the Intermediary or the State, the recommended choices (State or proposer) for each section were incorporated into the proposals. Proposed costs were adjusted to reflect the recommended options and cost proposals were compared and ranked from lowest to highest cost as follows:

1. First year costs (including implementation)
 - A. MIO \$40,921,046
 - B. HCSA (State Eligibility System) \$46,665,245
 - C. HCSA (HCSA Eligibility System) \$47,645,769
 - D. LSL \$48,330,444
2. Normal yearly cost
 - A. HCSA (HCSA Eligibility System) \$34,166,902
 - B. HCSA (State Eligibility System) \$34,321,644
 - C. LSL \$34,399,788
 - D. MIO \$39,629,413
3. Four year costs (including all applicable costs)
 - A. HCSA (State Eligibility System) \$149,630,177
 - B. HCSA (HCSA Eligibility System) \$150,146,475
 - C. LSL \$151,527,408
 - D. MIO \$159,803,525

In addition to the overall evaluation of costs, the effect on the cost when a decrease in claim volume falls into Range I was determined. Also, peculiarities in individual offeror's proposed costs were identified and discussed.

SCHEDULE I

OFFEROR'S NORMAL YEAR OPERATION COST

(All Figures are in Millions)

| | <u>LSL</u> | <u>MIO</u> | <u>HCSA</u> HCSA Eligibility System | State Operated Eligibility System |
|---|---------------|---------------|---|--------------------------------------|
| Normal Yearly Operation: | | | | |
| Claims Processing | \$27.9 | \$32.7 | \$28.4 | \$28.4 |
| Options: | | | | |
| Beneficiary Explanation of Medi-Cal Benefits | 1.4 | 1.3 | 1.0 | 1.0 |
| Other Coverage Processing | .5 | .6 | .3 | .3 |
| Benefits Review Function | .1 | .1 | .1 | .1 |
| Check Write Function | .2 | .8 | .3 | .3 |
| Eligibility Subsystem | 3.4 | 3.4 | 3.3 | 3.4 |
| Charges for Changes | <u>.9</u> | <u>.7</u> | <u>.8</u> | <u>.8</u> |
| Total Options | 6.5 | 6.9 | 5.8 | 5.9 |
| Total Normal Yearly Operation | <u>\$34.4</u> | <u>\$39.6</u> | <u>\$34.2</u> | <u>\$34.3</u> |

OFFEROR'S FIRST YEAR

COSTS

(All Figures are in Millions)

| | <u>LSL</u> | <u>MIO</u> | <u>HCSA</u> | |
|---|-------------------|-------------------|----------------------------|--------------------------------------|
| | | | HCSA Eligibility System | State Proposed Eligibility System |
| Claims Processing | \$15.2 | \$32.7 | \$15.6 | \$15.6 |
| Options | 6.5 | 6.9 | 5.7 | 5.9 |
| Implementation | 4.3 | .1 | 5.0 ^{1/} | 3.9 |
| Phase Out of Prior Intermediaries | 19.9 | .9 | 19.0 | 19.0 |
| Processing of Claims Transferred from Prior Intermediaries | 2.4 | .3 | 2.3 | 2.3 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL FIRST YEAR COSTS | <u>\$48.3</u> | <u>\$40.9</u> | <u>\$47.6</u> | <u>\$46.7</u> |

^{1/} Includes .8 million for converting the Counties to the HCSA Eligibility System

SCHEDULE III

OFFEROR'S FOUR YEAR COST

(All Figures are in Millions)

| | <u>LSL</u> | <u>MIO</u> | <u>HCSA</u> HCSA Eligibility System | State Provided Eligibility System |
|-----------------------|----------------|----------------|---|--------------------------------------|
| Four Year Costs: | | | | |
| Fiscal Year 74/75 | \$48.3 | \$40.9 | \$47.6 | \$46.7 |
| Fiscal Year 75/76 | 34.4 | 39.6 | 34.2 | 34.3 |
| Fiscal Year 76/77 | 34.4 | 39.6 | 34.2 | 34.3 |
| Fiscal Year 77/78 | <u>34.4</u> | <u>39.6</u> | <u>34.2</u> | <u>34.3</u> |
| Total Four Year Costs | <u>\$151.5</u> | <u>\$159.7</u> | <u>\$150.2</u> | <u>\$149.6</u> |

PROFORMA BUDGET FOR EACH OFFEROR FOR THE 4 YEAR CONTRACT
(All Figures are in Millions)

| | <u>LSL</u> | <u>MIO</u> | <u>HCSA</u> | |
|--|----------------|----------------|----------------------------|--------------------------------------|
| | | | HCSA Eligibility System | State Provided Eligibility System |
| Fiscal Year 74/75 | | | | |
| Claims Processing | \$15.2 | \$32.7 | \$15.6 | \$15.6 |
| Options | 6.5 | 6.9 | 5.7 | 5.9 |
| Implementation | 4.3 | .1 | 5.0 | 3.9 |
| Phase Out of Prior Intermediaries | 19.9 | .9 | 19.0 | 19.0 |
| Processing of Claims Transferred from Prior Intermediaries | <u>2.4</u> | <u>.3</u> | <u>2.3</u> | <u>2.3</u> |
| Total Fiscal Year 74/75 | <u>48.3</u> | <u>40.9</u> | <u>47.6</u> | <u>46.7</u> |
| Fiscal Year 75/76 | | | | |
| Claims Processing | 27.9 | 32.7 | 28.4 | 28.4 |
| Options | <u>6.5</u> | <u>6.9</u> | <u>5.8</u> | <u>5.9</u> |
| Total Fiscal Year 75/76 | <u>34.4</u> | <u>39.6</u> | <u>34.2</u> | <u>34.3</u> |
| Fiscal Year 76/77 | | | | |
| Claims Processing | 27.9 | 32.7 | 28.4 | 28.4 |
| Options | <u>6.5</u> | <u>6.9</u> | <u>5.8</u> | <u>5.9</u> |
| Total Fiscal Year 76/77 | <u>34.4</u> | <u>39.6</u> | <u>34.2</u> | <u>34.3</u> |
| Fiscal Year 77/78 | | | | |
| Claims Processing | 27.9 | 32.7 | 28.4 | 28.4 |
| Options | <u>6.5</u> | <u>6.9</u> | <u>5.8</u> | <u>5.9</u> |
| Total Fiscal Year 77/78 | <u>34.4</u> | <u>39.6</u> | <u>34.2</u> | <u>34.3</u> |
| Total Four Year Contract | <u>\$151.5</u> | <u>\$159.7</u> | <u>\$150.2</u> | <u>\$149.6</u> |

Note: (1) No contract escalation between years has been considered.

(2) No significant variation in claim volume has been considered.

(3) No departmental expense other than options provided by the State and costs to convert counties to the HCSA eligibility system has been included.

Following are the Rates proposed by MIO, LSL, and HCSA

| | MIO | | LSL | | HCSA | |
|---------------------|---------|---------|---------|---------|---------|---------|
| | Range 1 | Range 2 | Range 1 | Range 2 | Range 1 | Range 2 |
| Medical | 1.7961 | 1.6332 | 1.19 | 1.16 | 1.6663 | 1.596 |
| Drug | .5556 | .4962 | .63 | .61 | .6279 | .595 |
| Other Professional | 1.6535 | 1.4944 | 1.58 | 1.53 | 1.5445 | 1.4677 |
| Hospital Inpatient | 6.0934 | 5.7107 | 2.92 | 2.74 | 2.8037 | 2.6383 |
| Hospital Outpatient | 2.1245 | 1.9825 | 1.23 | 1.19 | 1.6257 | 1.5492 |
| Nursing Home | 2.5257 | 2.3136 | 1.36 | 1.32 | 1.714 | 1.6259 |
| Other Institutional | 4.0748 | 3.8156 | 2.05 | 1.99 | 3.9041 | 3.6788 |
| Crossover | .9381 | .8548 | 1.30 | 1.27 | .4662 | .4395 |

MIO's proposed rates are higher than LSL for each claim type with the exception of drugs (1.53 - 1.4944) and crossovers (1.27 - .8548). MIO is higher than HCSA with the exception of Drugs (1.4677 - 1.4944).

Projecting the proposed rates using the Mid range of Range 2 claim volume, the annual cost, by claim type, for each proposal results:

| | MIO | LSL | HCSA | Volume |
|---------------------|--------------|------------|------------|------------|
| Medical | 12,151,008 | 8,630,400 | 11,874,240 | 7,440,000 |
| Drug | 5,184,297.6 | 6,373,280 | 6,216,560 | 10,448,000 |
| Other Professional | 2,743,718.4 | 2,809,080 | 2,694,697 | 1,836,000 |
| Hospital Inpatient | 3,632,005.2 | 1,742,640 | 1,667,958 | 636,000 |
| Hospital Outpatient | 3,830,190 | 2,299,080 | 2,993,054 | 1,932,000 |
| Nursing Home | 1,665,792 | 950,400 | 1,170,648 | 720,000 |
| Other Institutional | 549,446.4 | 286,560 | 529,747 | 144,000 |
| Crossover | 3,518,356.8 | 5,227,320 | 1,808,982 | 4,116,000 |
| Total | 33,274,814.4 | 28,248,760 | 28,955,886 | |

A review of the rates reveals several points.

PERCENT OF PROPOSED RATE

| | Manual | | | EDP | | |
|---------------------|--------|-------|-------|-------|-------|-------|
| | MIO | LSL | HCSA | MIO | LSL | HCSA |
| Medical | 33 % | 29.3% | 25.9% | 29.6% | 21.6% | 28 % |
| Drugs | 27.9% | 18.0% | 14.4% | 42.2% | 39.3% | 42.4% |
| Other Professional | 27.9% | 22.2% | 25.1% | 32.3% | 17.6% | 28.9% |
| Hospital Inpatient | 42.3% | 18.2% | 17.2% | 20 % | 44.5% | 17.5% |
| Hospital Outpatient | 23.3% | 27.7% | 21.3% | 46.6% | 31.1% | 24.6% |
| Nursing Home | 26.6% | 19.7% | 19.1% | 35.5% | 28.0% | 21.5% |
| Other Institutional | 38 % | 24.6% | 17.4% | 24.6% | 28.6% | 15.0% |
| Crossover | 20.8% | 26 % | 12.3% | 53.1% | 27.5% | 46.6% |

MIO's proposed manual processing is greater than LSL with the exception of drugs (27.7% - 23.3%) and crossovers (26% - 20.8%). MIO's manual processing percentage is higher in every claim type than HCSA. However, MIO's proposed EDP percentage is higher than LSL with the exception of Hospital Inpatient (44.5% - 20%) and Other Institutional (28.6% - 24.6%) while MIO's percentage of EDP is higher than HCSA with the exception of drug claims (42.2% - 42.4%).

MIO's proposed Form cost per claim type is considerably less than LSL's or HCSA's, particularly, Hospital Inpatient, Other Institutional and Crossover Claim.

Percent of Proposed Rate

| | <u>MIO</u> | <u>LSL</u> | <u>HCSA</u> |
|---------------------|------------|------------|-------------|
| Hospital Inpatient | .5 | 9.1 | 2.3 |
| Other Institutional | .2 | 10.0 | 1.6 |
| Crossover | Ø | 10.2 | 9.3 |

Since MIO budgets Ø for crossover claim forms, MIO either absorbed the cost in other claim types or proposes to handle crossover claims in the same manner as previously done.

It was not clear how MIO can supply forms at a rate much lower than LSL or HCSA.

MIO has proposed a profit (risk factor) ranging from 1.3 to 2.2% yet the cost per claim proposed is greater than LSL and HCSA. The proposed system of the proposers are not radically different. Therefore, it must be assumed a risk margin was added to the other categories of claim cost, overhead may be an example.

HCSA's percent of overhead for other institutional claims (22.1) is not consistent with the other claim types. No reason can be established for this variance (the average is 13.7).

Comparison of Proposed Rates:

MIO

Percent of Proposed Rate

| | Profit | Overhead | Provider Rel. | Forms | Facilities | EDP | Manual |
|---------------------|--------|----------|---------------|-------|------------|------|--------|
| Medical | 1.8 | 21.0 | 8.4 | 1.1 | 5.1 | 29.6 | 33 |
| Drug | 1.4 | 14.0 | 3.6 | 1.4 | 5.5 | 46.2 | 27.9 |
| Other Professional | 1.7 | 17.2 | 14.2 | 1.4 | 5.2 | 32.3 | 27.9 |
| Hospital Inpatient | 2.2 | 14.1 | 12.2 | .5 | 8.7 | 20 | 42.3 |
| Hospital Outpatient | 1.8 | 12.7 | 7.4 | 1.0 | 7.1 | 46.6 | 23.3 |
| Nursing Home | 2.1 | 13.2 | 13.1 | 1.2 | 8.3 | 35.5 | 26.6 |
| Other Institutional | 2.1 | 14.4 | 11.8 | .2 | 8.6 | 24.6 | 38 |
| Crossover | 1.3 | 11.8 | 7.6 | --- | 5.3 | 53.1 | 20.8 |

LSL

| | Profit | Overhead | Provider Rel. | Forms | Facilities | EDP | Manual |
|---------------------|--------|----------|---------------|-------|------------|------|--------|
| Medical | 10.3 | 4.3 | 15.5 | 8.6 | 10.3 | 21.6 | 29.3 |
| Drug | 9.8 | 5.0 | 6.6 | 14.7 | 6.6 | 39.3 | 18.0 |
| Other Professional | 9.8 | 3.9 | 31.4 | 7.2 | 7.8 | 17.6 | 22.2 |
| Hospital Inpatient | 9.5 | 4.4 | 8.0 | 9.1 | 6.2 | 44.5 | 18.2 |
| Hospital Outpatient | 10.1 | 5.0 | 7.6 | 8.4 | 10.1 | 31.1 | 27.7 |
| Nursing Home | 9.8 | 4.5 | 25.0 | 6.1 | 6.8 | 28.0 | 19.7 |
| Other Institutional | 10.1 | 4.5 | 13.6 | 10.0 | 8.5 | 28.6 | 24.6 |
| Crossover | 10.2 | 3.9 | 13.4 | 10.2 | 8.7 | 27.5 | 26 |

HCSA

| | Profit | Overhead | Provider Rel. | Forms | Facilities | EDP | Manual |
|---------------------|--------|----------|---------------|-------|------------|------|--------|
| Medical | 10.0 | 11.1 | 9.6 | 2.6 | 12.6 | 28. | 25.9 |
| Drug | 10. | 6.5 | 13.1 | 8.8 | 4.8 | 42.4 | 14.4 |
| Other Professional | 10.0 | 12.1 | 8.9 | 3.0 | 12.0 | 28.9 | 25.1 |
| Hospital Inpatient | 10.0 | 18.1 | 28.8 | 2.3 | 6.1 | 17.5 | 17.2 |
| Hospital Outpatient | 10.0 | 13.4 | 18.0 | 2.9 | 9.6 | 24.6 | 21.3 |
| Nursing Home | 10.0 | 17.3 | 21.3 | 2.9 | 7.9 | 21.5 | 19.1 |
| Other Institutional | 10.0 | 22.1 | 28.1 | 1.6 | 5.7 | 15.0 | 17.4 |
| Crossover | 10.0 | 8.7 | 7.9 | 9.3 | 5.1 | 46.6 | 12.3 |

Since it is anticipated that the volume of claims will decrease in the next four years because of PHPs, HMOs, and Federal involvement, a comparison is made between the cost per year for claim volumes at the maximum of Range 1 and the minimum of Range 2.

There is a marked difference in the proposed differential (Range 1 - Range 2) between MIO, LSL, and HCSA. MIO has proposed the greatest differential and for every claim type the margin is greater than LSL or HCSA. Medical claims are particularly noteworthy because of the volume per year; annual costs would increase. MIO - \$1,151,000, LSL - \$212,000, and HCSA - \$496,000.

| | Cost for Range 1 Maximum | | | Cost for Range 2 Minimum | | | Difference Made by One Claim | | | Number of Claims in Range that Equals Range 2 Minimum | | |
|---------------------|-----------------------------|-----------|------------|-----------------------------|-----------|------------|---------------------------------|---------|---------|---|-----------|-----------|
| | MIO | LSL | HCSA | MIO | LSL | HCSA | MIO | LSL | HCSA | MIO | LSL | HCSA |
| Medical | 12,694,000 | 8,199,000 | 11,777,000 | 11,543,000 | 8,411,000 | 11,280,000 | 1,151,000 | 212,040 | 496,000 | 7,066,000 | 6,890,000 | 6,769,977 |
| Drug | 5,515,000 | 6,055,000 | 6,232,000 | 4,925,000 | 6,253,000 | 5,906,000 | 590,000 | 198,520 | 326,000 | 8,864,000 | 9,611,000 | 9,406,000 |
| Other Professional | 2,877,000 | 2,662,000 | 2,687,000 | 2,600,000 | 2,749,000 | 2,553,000 | 277,000 | 87,000 | 133,000 | 1,572,000 | 1,685,000 | 1,653,000 |
| Hospital Inpatient | 3,656,000 | 1,644,000 | 1,682,000 | 3,426,000 | 1,752,000 | 1,583,000 | 230,000 | 108,000 | 99,277 | 562,000 | 563,000 | 564,000 |
| Hospital Outpatient | 3,900,000 | 2,185,000 | 2,984,000 | 3,640,000 | 2,258,000 | 2,844,000 | 260,000 | 73,000 | 140,000 | 1,713,000 | 1,776,000 | 1,750,000 |
| Nursing Home | 1,727,000 | 902,000 | 1,172,000 | 1,582,000 | 930,000 | 1,112,000 | 145,000 | 27,000 | 60,000 | 626,000 | 664,000 | 649,000 |
| Other Institutional | 538,000 | 263,000 | 515,000 | 504,000 | 271,000 | 486,000 | 34,000 | 8,000 | 30,000 | 123,000 | 128,000 | 124,000 |
| Crossover | 3,670,000 | 4,969,000 | 1,824,000 | 3,344,000 | 5,087,000 | 1,719,000 | 326,000 | 117,000 | 104,000 | 3,565,000 | 3,823,000 | 3,689,000 |

CONSULTANTS' REPORTS
2/1/74

STANFORD L. OPTNER & ASSOCIATES, INC.

11661 SAN VICENTE BOULEVARD - SUITE 501

LOS ANGELES, CALIFORNIA 90049

(213) 826-6670

January 28, 1974

State of California
Department of Health
714 P Street, #1786
Sacramento, California 95814

Attention: Ms. Barbara Carr
Mr. Paul Keller
Mr. Michael Woodard

Gentlemen:

Pursuant to your instructions, I have reviewed the *Request for Proposal for a Statewide Medi-Cal Intermediary* (six volumes), and the *Statewide Medi-Cal Fiscal Intermediary Evaluation Criteria* (January 1974). The objectives of this review were:

- To comment on the sufficiency, completeness and objectivity of the proposed evaluation criteria;
- To comment on the evaluation methodology as to its reasonableness and its logical rigor.

The above objectives were constrained by the requirement to complete the review, rendering a report by January 28, 1974. This letter provides my review and embodies the required report. It is in two sections:

- Recommendations to the Department of Health
- Findings

RECOMMENDATIONS TO THE DEPARTMENT OF HEALTH

Recommendations to the Department of Health are grouped under the following headings:

- Validation Procedure
- Criteria and Methodology for Established Weights
- Evaluation of Proposals
- Recommendations to the Director of Health

VALIDATION PROCEDURE

The following are my recommendations:

- Cross-reference capital letters (A., B., C., etc.) and integers (1., 2., 3., etc.) to volume numbers and page numbers in the RFP
- Require some indication from the reviewer-analyst that each and every item listed has been reviewed using:
 - Plus and minus (+, -), or,
 - Check and zero (✓, 0),
 - Etc.
- Before a proposal is rejected by the analyst and the supervisor as nonresponsive, require a second analyst's concurrence in the form of a detailed review of specific items not answered to the satisfaction of the original reviewer.
- Amplify by example in SECTION IV (VALIDATION) typical satisfactory *versus* deficient responses to critical items.

CRITERIA AND METHODOLOGY FOR ESTABLISHED WEIGHTS

The following are my recommendations:

- Some weight should be given to the originality and invention which the prospective contractor has brought to bear.
- Some weight should be given to the articulation of quantitative benefits, identification of "hard" costs to be eliminated, description of "soft" costs to be displaced, and avoidance of future costs.
- Justifications for the evaluation of Change Control, Offeror's Qualifications, and Equipment and Facilities on a pass/fail basis should be provided in the Evaluation Criteria document to reviewing analysts (and subsequently to the losing contractors).
- The forms produced as a result of the evaluation should show that Change Control, Offeror's Qualifications, and Equipment and Facilities were examined in detail, on which items prospective contractors "failed," and what percent of "failures" caused rejection of a complete section of the proposal.

EVALUATION OF PROPOSALS

The following are my recommendations:

- Clarify the arithmetic procedure to be used in the event the proposed technique (page 16 of the Evaluation Criteria document) is employed.
- Clarify how the cost proposals are to be evaluated:
 - There is no indication of how cost benefit analysis will be conducted (page 18).
 - There is no indication of whether the test of "reasonableness" (page 18) is based upon absolute dollars, relative dollars, etc.
 - There is no indication if "total system cost" (page 18) is to include existing contractors' costs, existing State costs, the sum of total implementation cost plus the first 4 years of operations, or other categories properly within the boundary of total system costs.
- Do not add the ratios derived from each section of the system proposal...a better indication of the differences among vendors will be derived if the values are multiplied.
- Some consideration should be given to *reliability*, the assessment of risk and/or exposure to failure evidenced by the design approach of the proposed contractor (see *Definitions*, page 17).
- The definition of "effective" should be expanded to reflect technical excellence...one vendor may illustrate this quality conclusively and may, as a result, meet the objectives of the Department of Health better than the others.
- Volume 1, page 14, paragraph 2 says:

"Although both systems are performing satisfactorily, in order to achieve uniform and improved processing and to maximize cost effectiveness, this Request for Proposal for a single, Statewide fiscal intermediary has been issued."

Since the desirability of a single Statewide fiscal intermediary is the overriding justification for the RFP, the evaluation should reveal how the selected contractor

has achieved the "uniform and improved processing objectives," and has "maximized cost-effectiveness." Some consideration should be given to the use of cost-benefit formulae if offerors provide *both* cost and benefit data, and they can be validated, or if the State's reviewer-analysis can compute benefit data based upon an offeror's proposal.

- Cross-reference the evaluation document to the proposal in a manner similar to the validation document (see VALIDATION PROCEDURE above).

RECOMMENDATIONS TO THE DIRECTOR OF HEALTH

The following suggestion may be worthy of some consideration:

- VII.1. says in part...

"The proposals will be ranked according to preference."

It is not clear how the *combined* ranking will be accomplished. Although it should be easy to differentiate proposals on the "points earned" (systems) basis, ranking of cost proposals (on a "cost/point ratio and the needs of the State") is not self-evident.

FINDINGS

Discussion of the above RECOMMENDATIONS will follow the same organizational pattern as used in the foregoing section of this letter.

VALIDATION PROCEDURE

Each recommendation will be briefly explored in a sequential manner:

Cross-References

Although the specific documents to be used in the review with unsuccessful contractors were not identified, it may be that the Validation (and Evaluation) materials would come into use. If cross-references to the proposal are available, it would simplify your ability to go back to the part of the RFP in question.

Cross-referencing would tighten up the Validation (and Evaluation) procedurally, tying a specific volume and section of the RFP to a specific judgment. When the two or three members of a team come together to test their independent appraisals, they would have a common denominator in the designation of RFP areas. Cross-referencing would function as a "base line," in that the State could point to specific RFP areas used in comparison to the contractors' proposals.

Reviewer Checkoff

As a quality control feature, you may wish to assure Department management (or unsuccessful contractors) that each and every item in the Validation procedure was considered. The best way to do this is to leave an audit trail of plus (+) or minus (-), or check (✓) or zero (0) opposite every item.

Second Review of Nonresponsive Proposals

I am not certain from the materials provided if the Validation procedure is an individual or a committee activity. If it is an individual review, the Department may wish to consider a detailed review of the specific items considered nonresponsive in the Validation procedure by a *second* analyst, in conjunction with the contractor's proposal. The review with the supervisor may be insufficient if the supervisor cannot take time to go back to the original proposal and verify the original reviewer's findings.

Amplify by Example

In qualitative areas, it may be desirable to give reviewers actual examples of materials which are both responsive and nonresponsive. Use of examples will tend to ground judgments more soundly, since the analysts will be able to go back to something "official" in which the differences between "adequate" and "inadequate" have been detailed.

One way to do this would be to stipulate your expected level of detail in a particular area. For example, if the contractor has not used the data element field lengths to compute prospective disk storage requirements or file sizes, you may wish to declare him nonresponsive to that area.

CRITERIA AND METHODOLOGY FOR ESTABLISHED WEIGHTS

Each recommendation will be briefly explored in a sequential manner:

Credit for Originality and Invention

Although the Department may be looking for maximum transferability in its existing system, there may be some areas in which the contractor's ingenuity would create preference because of the way in which he attacked and solved a particular problem.

For example, in any review of Volume III, page S6.195, there is a requirement for a Report Generator. A particular contractor may provide some or all of these additional capabilities, in which event his future performance may be judged more desirable than others:

- Implied *and/or* logic (no need to state logical requirements)
- Ability to stratify data, extracting data subsets for parametrically defined limits
- Ability to call out statistical routines on demand, e.g., mean, mode, median, standard deviation, etc., by which to treat data subsets
- Ability to extract data from multiple files in the course of routine processing, a function of user-provided multiparameter specifications which limit and/or condition extraction routines

If the above features were additive (more than the required minimum), the Department may wish to do more than give the contractor more points relative to other respondents, as a means of recognizing ingenuity and originality.

Specification of Quantitative Benefits

I was unable to discover how the cost-effectiveness calculations would be conducted in that the formulae with which I am familiar require identification of "hard" costs to be eliminated, "soft" costs to be displaced or future costs to be avoided.

If a contractor is able to specify and identify costs in any of the three categories cited above, their credibility would have to be determined. If "hard," "soft," or "avoided" costs could be validated, then the magnitude of such savings might be a factor in selecting a contractor.

Justification for Pass-Fail

No contractor will object to "passing"; however, if a contractor "fails," he may question the way in which the Department judged this portion of the proposal. Some amplification of the rationale is desirable in view of this possibility.

Audit Trail for Pass-Fail

If the recommendation with respect to Reviewer Checkoff is adopted in this section of the evaluation, I believe the Department will have an adequate audit trail. It may be desirable to have examples available to illustrate to reviewers why some contractor material would "pass," whereas other contractor material would "fail."

It is not clear from the materials available to me, if one "fail" in a category would be sufficient to eliminate a contractor, or whether he must fail a majority (51 percent) of the items in a category, etc. Despite the pass-fail nature of the grading technique, it seems that a line should be drawn based upon some acceptable number of "failures," especially in areas not considered critical by the Department.

EVALUATION OF PROPOSALS

Each recommendation will be briefly explored in a sequential manner:

Arithmetic Procedure

I assume that individual scores in the system evaluation would be added. Therefore, each contractor would score on the basis of 100 possible points. It is not clear, however, how the cost proposals will be evaluated in terms of "scoring" or "points." If the cost proposals are to be compared on some other basis, perhaps a "confidence factor" should be developed. The "confidence factor" would provide some measure of trust in the contractor's proposed *unit cost per claim* (for example) and other critical cost items.

Evaluation of Cost Proposals

I have previously submitted information on three useful cost-benefit equations. Their usefulness will be very limited, however, in the absence of benefit data which are as accurate as

the cost data against which they are to be used. Indeed, if one contractor provides very accurate benefit data, but another provides relatively inaccurate but comparable data, the equations would not reflect this difference in confidence which would result.

In the absence of some stipulated technique, I do not understand how the cost-effectiveness analysis will be conducted.

Test of Reasonableness

There must be a basis for "reasonableness," even though it may be a difficult concept to articulate. Some specific rules or guidelines ought to be provided to help the reviewers in understanding the intent of the Department, and to clarify conditions under which the position taken by the contractor would not be deemed reasonable.

Total System Cost

I am not clear on the location of the total cost boundary. I agree that the Department should try to assess the total cost of the proposed alternatives, selecting the one which is best in terms of all other system considerations. However, I do not understand which costs are deemed to fall within the total cost boundary, and which costs will not be considered.

Arithmetic Methodology

In missile system reliability engineering, the Air Force had the problem: If each major subsystem can be assigned a reliability, what is the combined, interactive reliability of the total system? The following hypothetical table of percent reliability illustrates their methodology, whereby the nose cone reliability was multiplied by the propulsion reliability and the resulting number multiplied by the guidance reliability, etc.

| <u>HYPOTHETICAL MISSILE SUBSYSTEMS</u> | <u>PERCENT RELIABILITY OF VENDOR SUBSYSTEMS</u> | | |
|--|---|--------------|--------------|
| | <u>A</u> | <u>B</u> | <u>C</u> |
| Nose Cone | 98.94 | 99.21 | 99.02 |
| Propulsion | 99.87 | 98.71 | 99.12 |
| Guidance | 97.61 | 95.43 | 98.01 |
| Payload | 96.73 | 95.84 | 97.67 |
| Air Frame | <u>97.21</u> | <u>96.73</u> | <u>95.45</u> |
| TOTAL SYSTEM RELIABILITY | 90.69 | 86.64 | 89.68 |

I commend this technique to the Department to forestall the possibility that numerical scoring may be "too close for comfort," or may not adequately distinguish the real differences among vendors.

In the 1970 evaluation for the Department, the following additive technique was used:

| ORIGINAL SUMMARY EVALUATIONS OF CRITERIA | | | |
|--|--------------------|------------------|-----------------|
| CATEGORIES | POINTS ASSIGNED | POINTS CENPRO | AWARDED HCSA |
| Adequacy of technical approach | 10 | 6.00 | 9.33 |
| Adequacy of work plan | 5 | 4.45 | 4.45 |
| Credibility of development and operations costs | 10 | 5.20 | 5.70 |
| Logic and practicality of equipment configuration | 5 | 2.10 | 4.15 |
| Adequacy and skills of committed personnel and their joint venturers | 20 | 18.80 | 15.60 |
| Level of detail response to Request for Proposal | <u>10</u> | <u>5.30</u> | <u>8.70</u> |
| TOTAL POINTS | 60 | 41.85 | 47.93 |

There were three justifications for this:

- I personally controlled the assignment of points and saw to it that the differences between vendors was not indistinguishable.
- There were only two vendors, and the differences between them were marked.
- The point scoring technique was invented for the purpose of my evaluation procedure, and was not a condition of evaluation of the Department.

Note, however, how different the evaluation would have appeared if the points awarded had been multiplied, rather than added:

| MULTIPLIER EFFECT ON SUMMARY EVALUATIONS ¹ | | |
|--|-----------|------------|
| CATEGORIES | CENPRO | HCSA |
| Adequacy of technical approach | -- | -- |
| Adequacy of work plan | 26.70 | 41.52 |
| Credibility of development and operations costs | 138.84 | 236.66 |
| Logic and practicality of equipment configuration | 291.56 | 982.14 |
| Adequacy and skills of committed personnel and their joint venturers | 5,481.33 | 15,321.38 |
| Level of detail response to Request for Proposal | 29,051.05 | 133,296.00 |
| FACTOR ² | 1.00 | 4.59 |

¹Example: For CENPRO, multiply $6.00 \times 4.45 = 26.70$, etc.
For HCSA, multiply $9.33 \times 4.45 = 41.52$, etc.

²Example: $133,296.00 \div 29,051.05 = 4.59$

If the points had been placed on a percent relationship to the total points available for scoring purposes, the results would have appeared as follows:

| PERCENT MULTIPLIER EFFECT ON SUMMARY EVALUATIONS ¹ | | | |
|--|--------------------|-------------------------------|------|
| CATEGORIES | POINTS ASSIGNED | PERCENT REALIZATION CENPRO | HCSA |
| Adequacy of technical approach | 10 | .60 | .93 |
| Adequacy of work plan | 5 | .89 | .89 |
| Credibility of development and operations costs | 10 | .52 | .57 |
| Logic and practicality of equipment configuration | 5 | .42 | .83 |
| Adequacy and skills of committed personnel and their joint venturers | 20 | .94 | .78 |
| Level of detail response to Request for Proposal | 10 | .53 | .87 |
| TOTAL | 60 | | |
| TOTAL SYSTEM RELIABILITY ² | | .06 | .27 |
| FACTOR ³ | | 1.00 | 4.50 |

¹Example: For CENPRO, $6.00 \div 10 = 60$ percent realization, etc.
For HCSA, $9.33 \div 10 = 93.30$ percent realization, etc.

²For CENPRO, the product of $.60 \times .89 \times .52 \times .42 \times .94 \times .53$
For HCSA, the product of $.93 \times .89 \times .57 \times .83 \times .78 \times .87$

³Example: $.27 \div .06 = 4.50$

Why use the multiplier principle now? There are the following reasons:

- There may be three or more vendors...it may not be simple to distinguish differences among two of them...if there are differences, the multiplier will reveal them more adequately.
- The evaluation technique using the scoring principle is public knowledge and cannot be "controlled"...it will, therefore, be in the Department's interest to have a spread between vendors, if possible, so that one outstandingly capable contractor can be selected.
- Without the multiplier technique, there is no measure of the combined, interactive effect of a low score in one section of the proposal, on a high score in another section.
- Using the multiplier will avoid situations like the one below:

| CRITERION | VENDORS | | | POSSIBLE SCORE |
|-------------|---------|----|----|-------------------|
| | A | B | C | |
| 1 | 18 | 16 | 17 | 20 |
| 2 | 17 | 18 | 18 | 20 |
| 3 | 19 | 19 | 15 | 20 |
| 4 | 16 | 14 | 18 | 20 |
| 5 | 14 | 19 | 14 | 20 |
| POINT TOTAL | 84 | 86 | 82 | 100 |

Using the same scores, the multiplier effect shows they were not almost "equal" in points:

| CRITERION | PERCENT REALIZATION OF VENDORS | | |
|-----------------------------|-----------------------------------|----|----|
| | A | B | C |
| 1 | 90 | 80 | 85 |
| 2 | 85 | 90 | 90 |
| 3 | 95 | 95 | 75 |
| 4 | 80 | 70 | 90 |
| 5 | 70 | 95 | 70 |
| TOTAL SYSTEM RELIABILITY | 41 | 46 | 36 |

Use of Reliability as a Criterion

From the above review of estimating reliability, you may wish to add this term as a factor in evaluation. Risk measurement (mean-time-to-failure, etc.) can be an elaborate data reduction problem. In this instance, the factors are qualitative, and less responsive. However, some recognition of reliability as a factor in the evaluation may be in order. If this is to be used, it must be dimensioned by example.

Technical Excellence of Proposals

In the Lockheed-HCSA competition, the excellence of proposals was decidedly on the side of HCSA. It may be that a recognition of technical excellence will give the Department another criterion by which to differentiate among vendors. If this criterion is added, it should be dimensioned by example.

Uniform, Improved Processing... Maximize Cost-Effectiveness

Although it may be stated (I was unable to find it), there seems to be a discontinuity between the overriding reason for having a single Statewide system, and the supporting material to indicate why this is so desirable. This may have no impact upon the contractors who propose. However, if the Department were to identify the reasons for this goal, one contractor may emerge as having superior qualifications by which to satisfy this objective requirement.

A rule of mathematics and logic says that you *cannot* maximize cost-effectiveness, but only find the best relationship (the optimum), all things considered, between the two. The problem of establishing values except in a gross sense may be difficult, since "effectiveness" has not been dimensioned for the vendor; therefore, he may be unable to respond to it quantitatively.

Cross-Reference the Evaluation Document to the Request for Proposal

This step will facilitate the work of the reviewers, and may be valuable for use in review of unsuccessful contractors' proposals.

* * *

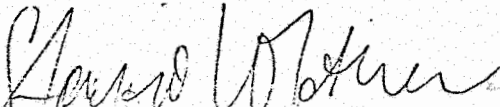
Page Fourteen
State of California
January 28, 1974

STANFORD L. OPTNER & ASSOCIATES, INC.

Notwithstanding the above comments, I believe that the evaluation technique is generally sufficient, complete and objective. It seems to me to be reasonable and to have a high degree of logical rigor. I am impressed by the high-quality effort which is evident from the RFP and its companion Evaluation Criteria document.

Sincerely yours,

STANFORD L. OPTNER & ASSOCIATES, INC.



Stanford L. Optner, President

SLO:km

GEORGE GLASER
225 WARREN ROAD
SAN MATEO, CA. 94402

January 28, 1974

Mr. Jack R. Brown, Chief
Program Implementation Section
Department of Health
714 P Street
Sacramento, California 95814

Dear Mr. Brown:

This letter is submitted in conjunction with my consulting assignment for the Department of Health to assist you in ensuring that the selection of a contractor for a Statewide Medi-Cal Intermediary would be based on a thorough and objective evaluation of offeror proposals. Specifically, one of the tasks I undertook was to "review and comment in writing on the process by which proposals are to be evaluated, including a critique of the criteria to be used and the method you have established for applying them."

I have now completed my review of the process by which your staff intends to evaluate the Medi-Cal Intermediary Proposals. My review consisted of several meetings with various members of your staff during which we discussed in detail a draft of the document titled "Statewide Medi-Cal Fiscal Intermediary Evaluation Criteria" (January 1974); this document sets forth the evaluation criteria and the instructions for applying them in carrying out the evaluation. Certain of my more detailed comments, many of them editorial in nature, have been transmitted verbally to your staff and need not be repeated here. Below, I will summarize what I believe are the more important aspects of the evaluation you are about to undertake and the features of the approach you plan to follow.

You are no doubt well aware that no process of this kind--however well designed--can lead to a simple and precise quantitative measure that unequivocally identifies one proposal as better than another. A number of factors--technical, economic, operational, and political--must be considered, yet these factors can almost never be expressed in common units, e.g. dollars, for direct comparison. Both objective analyses

and subjective judgments must be applied before a decision can be made.

Nonetheless, I believe that the evaluation approach proposed by the staff of the Program Implementation Section is sound and that every effort is being made to ensure that they carry out their evaluation in a fair and thorough manner.

Specific steps being taken include the following:

1. Offerors' responses will first be reviewed by a team of relatively senior staff members to validate that they meet the mandatory requirements for content and form as set forth in Section 3. of the RFP.
2. Each proposal then will be divided into two parts: Systems and Procedures Proposal and Cost Proposal. Evaluation will proceed independently for each, with the results to be considered jointly later in the process.
3. Individual sections of each Systems and Procedures Proposal; e.g., Implementation, Claims Review, then will be assigned to a small team of staff members who are knowledgeable of the particular material being addressed in that section. Individual members of these teams will first evaluate their assigned sections independently, awarding a number of points (on a scale of 0-100); following that, teams will attempt to reach a consensus on the points to be awarded their assigned section(s).

Certain sections of the proposal; e.g., Offeror's Qualifications, Change Control, and Equipment and Facilities, will not be assigned points; instead, they will be evaluated on a Pass/Fail basis. The rationale used by your staff in deciding which sections will be evaluated in this manner has been explained to me and I understand and agree with it.

4. The individual and team evaluations described above will include a comparison against the minimum requirements outlined in the evaluation guidelines and

in the RFP, as well as an assessment of certain additional qualitative criteria, such as completeness, flexibility, and controllability. Although these assessments obviously are subjective, I know of no way to avoid this drawback entirely in such a process and, because I believe that the proposed criteria are appropriate, I endorse their use in this way.

5. Sections of the proposal then will be awarded a weighted point total that reflects the evaluation team's assessment of the relative importance of that section in the overall proposal. Such weighting schemes are almost universally used in evaluations of this sort, in spite of the fact that subjective judgments again must be made in assigning a particular weight to any section. Although I do not have the expertise in health care nor the experience with current Medi-Cal programs to argue that the points assigned in the proposed scheme are "correct" in any absolute sense, I do believe that every attempt has been made to assign the weights rationally and equitably.

6. Detailed instructions and forms are prescribed in the RFP for the submission of cost data; these should be adequate for the purpose of testing their reasonableness. Nonetheless, line-by-line comparison of cost data between offerors will no doubt be difficult, regardless of the quality of the instructions and forms provided.

Cost estimates inevitably will be based on the accounting and budgeting conventions of individual offerors, thus precluding direct comparisons of detailed costs without further analysis. I anticipate that it will be particularly difficult to make detailed cost comparisons between certain functions now performed by the State and those proposed by the offerors. Total costs (and unit prices), however, often can be meaningfully compared and the mechanism proposed for doing so also seems sound.

7. Finally, after summing up the weighted points awarded to each Systems and Procedures proposal, and taking into account the "reasonableness" analysis of each Cost Proposal, a comparative evaluation of all offerors' responses will be made and presented for review. This obviously is the key step in the evaluation process and one where good judgment is the crucial ingredient if you are to resolve dilemmas of the

following kind: A is more effective and desirable than B but costs \$X more. Such dilemmas are probably inevitable and no formal process I've ever seen or heard of can be expected to resolve them neatly.

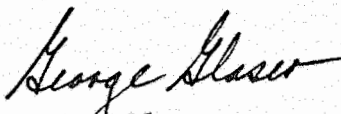
Other preparation that I believe is noteworthy includes:

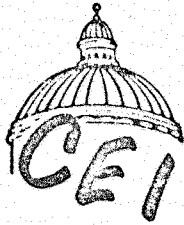
1. Analysts who will play an active role in the evaluation process are scheduled to attend a series of four training sessions to review the proposed approach and to further ensure that their individual evaluations will be based on a uniform application of the evaluation criteria.

2. Steps also are planned to document each step in the evaluation, including the assignment of six staff members to a writing team relatively early in the evaluation cycle.

All of the above are indicative of the thoroughness and care with which the Program Implementation staff is preparing for the evaluation. Their task will not be an easy one; vendor selection never is. But I believe that the proposed approach is not only workable but also one designed to be as equitable as it is possible for such a process to be.

Respectfully submitted,


George Glaser



CAPITOL ENTERPRISES, INC.

2510 "J" Street, Suite 3.

Sacramento, CA. 95816

(916) 446-7849

MARION J. WOODS

President

INTERVIEW? 2/4 & 2/5

2/11 & 2/15

4/22 & 2/24

January 28, 1974

Mrs. Barbara Carr, Assistant Chief
Program Implementation Section
Department of Health
714 P Street
Sacramento, CA. 95814

Dear Mrs. Carr:

In compliance with our agreement of January 23, 1974, we have reviewed the Request for Proposal for a "Statewide Medi-Cal Intermediary."

Enclosed is our critique of the proposed evaluation criteria.

We are available to discuss this critique with you and your staff upon request.

Very truly yours.

MARION J. WOODS
President

MJW:max

Enclosure

CONSULTANT'S REVIEW OF REQUEST FOR PROPOSAL FOR A STATE-WIDE MEDICAL INTERMEDIARY

Background

On January 23, 1973, the State Department of Health requested the Consultant services of Capitol Enterprise, Inc., for the purpose of reviewing an RFP for a state-wide Medi-Cal Intermediary. Emphasis in the reviewing process was to be placed on (1) Proposed evaluation criteria and (2) methodology supporting weight (to be used in the evaluation.)

Consultant's Approach

The primary task in completing this review was to become as familiar with the RFP and the Statewide Medi-Cal Fiscal Intermediary Evaluation Criteria as was feasible within the time frame. Particular attention was paid to those sections of the RFP dealing with purpose, scope and objectives of the RFP as well as the system's evaluation process, systems requirements and cost.

In addition, the Department of Health's evaluation criteria was thoroughly reviewed with emphasis on the evaluation criteria and the weighing of certain portions of the RFP.

The next task was to analyze the evaluation criteria and weights that will be used in evaluating the proposal. The findings contained in this report are as a result of this analysis. Because of the limited amount of information available to us, the findings may be covered in another document which we did not review. They are presented, however, with the view that they may add to the State's evaluation process.

Overall Findings and Comments

The evaluation criteria were found to be adequate in meeting the needs of most proposals. The findings and comments following may add dimension to that evaluation process.

Finding #1

It appears that bidders can be readily identified by members of the evaluation work group.

Discussion (Comments)

7. SEPARATE PROPOSALS
The evaluation process could be made more objective if either all the materials specifically identifying the bidder, i.e., name, location, etc., were removed from the proposals and/or all identifying information removed from sections that are to be awarded points, i.e., those sections not rated on a pass/fail basis and that only those sections with such information removed be given to the evaluation work group. In the latter case, those sections rated on a pass/fail basis would be evaluated by separate work group and/or manager.

Finding #2:

AL MD
The departmental checklist (for validation) contains no criteria, except that stated on Page 3 of the Statewide Medi-Cal Fiscal Intermediary Evaluation Criteria. "If all items are not answered to the satisfaction of the analyst....."

Discussion (Comments)

The analyst making the validation has no criteria for items that must be included. The checklist does not provide for the following:

- ALL Is there a minimal number of items that must be included (from the checklist)?
- If so, how many?
- If not, how many and which items could be excluded?
- NO Will any proposals be eliminated from competition as a result of the validation?
- YES Will bidders be given notice of their deficiencies?
- YES Will bidders be given opportunity to respond to deficiencies?
- Are there certain items that must be included in the validation?
- YES In addition, will the same analyst that does the validation also do the evaluation?

Finding #3:

From information available on the work groups that will be evaluating the proposals, it appears that only one person will be reviewing any assigned portion of a proposal.

Discussion (Comments)

This process puts total responsibility for evaluation of a portion of the proposal on one member of the work group. The evaluation could be more comprehensive if either:

Two or more members in each work group were to evaluate each portion of the proposal or that

One member of each of several work groups were to evaluate each portion of the proposal.

Finding #4:

Sim The evaluation criteria document does not define the work group, how members are chosen, the composition of the work group, etc.

Discussion (Comments)

Sim
Mo Although the work group (team) concept is very advantageous to good decision making, the selection process must include the use of several interdisciplinary skills in the group. Two alternatives are presented: (1) The work group can consist of several specialists from different fields, or (2) The work group can consist of several specialists from similar fields. The process used in the decision making of the work group would vary, according to the type of work group used.

Specialists in the work group might include, medical professionals, data processing system specialists, firms specialists, auditors and/or accounting specialists, security specialists, trainers, managers who will be liaison to the final intermediaries, county welfare department representatives and representatives from the Department of Benefit Payments.

Finding #5:

The evaluation checklist may not be easily understood or used by members of the work group.

Discussion (Comments)

In our review of the evaluation checklist, we found it difficult to exactly understand and use the checklist.

For example, under category 2, Implementation, there are four points listed:

Do the work group members assign points to each point covered? or

Do the work group members check the space if that particular area is covered?

If points are awarded, how many points could be awarded to each of the four areas?

If they are of equal significance, each area would be awarded a maximum of 25 points, but, are the areas equally significant?

*Over the
Area*

If "checks" are made for areas covered, how are "checks" converted to points?

The same questions could be applied to any area of the evaluation checklist; however, area #4 needs special consideration. There are 68 variables within 7 categories. The section has 100 points available to it. Are there certain variables, i.e., duplicate claims, that demand special consideration or are all variables of equal weight. What is the maximum number of points that could be awarded to any variable, to any category, if the point system were used?

If this issue has not been raised, it would allow for a more objective evaluation if a weighing factor were given to each variable.

Finding #6:

Eight (8) points (maximum) one of a possible 100 points for the total evaluation, are to be awarded for those proposals that adequately display a process for implementing the eligibility subsystem.

Discussion (Comments)

The eligibility subsystem is listed in the RFP as an optional requirement of the response. It appears that any proposal not containing an eligibility subsystem cannot earn more than 92 points of the possible 100 points. The display of an adequate eligibility subsystem is ranked only behind the claims review process, the professional review process, and the administrative subsystem.

What if the proposal recommends that, based on some criteria, the current system should continue? Would the proposal be

*IS IT CLEAR
THAT WE SUB
ELIGIBILITY*

awarded 8 points for that recommendation?

Since the eligibility subsystem is described as an option, should its point value be weighed along with systems that are mandatory in the proposal?

1/ Why is eligibility subsystem optional if, in the weighing, it is ranked fourth in order of importance?

Finding #7:

The evaluation work groups are going to find it difficult to evaluate the professional review portion of the proposal.

Discussion (Comments)

In volume 1 of the RFP, Page 266, it is stated that the "offeror shall submit a narrative description of his proposed procedure for professional review..." The need for a professional review is listed next to last (optional - offerors comments, listed last) in the list of items that are to be included in the offeror's response.

The work group members are probably going to have difficulty with this section because (1) it was given low priority in the RFP - by its location and its lack of further clarification and (2) the response will be in narrative form. In addition, there are only four variables in the proposal checklist (#8 consideration). It will be very difficult to score the proposed professional review between one and twenty.

An alternative might be to rate the professional review on a pass/fail basis. Another alternative might be to expand the evaluation checklist to include some of the tasks and activities involved in the professional review process.

Finding #8:

It is unclear how many points are awarded if a portion of the proposal "phases".

Discussion (Comments)

On the Proposal Summary Document, Page 60 of the Criteria Document, points are listed for certain portions of the proposal that were previously awarded the pass/fail, i.e., offerors qualifications. A ratio cannot be done unless points are awarded. Will pass/fail criteria be converted to points for this part of the evaluation?

FAILURE ON
PASS/FAIL
SECTION
PROPOSAL

General Comments

This section includes comments on those areas in the documents that seem unclear in some respects:

Very little attention was paid in the RFP to the professional review process. In addition, the variables in the evaluation checklist regarding professional review are unclear as to their standards for adequacy.

The evaluation criteria states that (page 14) "attitudes cannot be effectively presented in a proposal, therefore, communication was given the least weight of any unit (2) in the evaluation schedule." Also, "The Department recognizes the fact that although effective communication ranks high in importance to the total system....."

If the Department wants to evaluate the communications process, it might be done through an oral interview with the contractor or a panel discussion with certain representatives of the Department and the offeror.

unfair? { The claims review process and the professional review process account for 65% of the total points to be awarded in this proposal. This leaves a very small percentage of the points for the administration and implementation of the system. Is it realistic to expect that even a superior system cannot operate without adequate administration?

In the evaluation checklist, most considerations do not appear to have adequate criteria--especially as those criteria are stated in the RFP. Many items are "demands: in the RFP, yet, these items are not covered, either partially or wholly, in the evaluation checklist.

Those sections that are options and that will not be counted toward the 100% maximum, are not marked as such on the evaluation checklist. It is feasible that a positive or negative halo effect could occur as a result of those sections not being marked.

Conclusion

We recognize that the time to conduct this review was limited, and that there may be areas that need further clarification. To accomplish this, we would appreciate an oral interview with appropriate staff to further discuss our finding.

We recommend, in addition, that the work group members be trained in the process of proposal evaluation so that the greatest degree of objectivity can be achieved in this process.

A CRITIQUE
OF EVALUATION CRITERIA
USED IN EVALUATING THE R. F. P.
FOR A STATEWIDE MEDI-CAL
FISCAL INTERMEDIARY

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I. INTRODUCTION

The scope of this critique is to evaluate the methods, weights, and procedures proposed by the Department of Health's staff that are to be used in evaluating proposals submitted in response to the R. F. P. for a statewide Medi-Cal Fiscal Intermediary.

The objectives of this critique are to:

1. Analyze and validate the methods, weights, and procedures proposed.
2. Recommend modifications where appropriate.
3. Point out areas which appear unclear or confusing.

The approach adopted in preparing this critical analysis is as follows:

1. The Consultant reviewed the R. F. P. in general and Volume One (I) in particular.
2. In Volume One (I) of the R. F. P., Sections 1.4 through 1.9, 1.15, 1.16, 2.1, 3.1, and 3.2 were specifically analyzed.
3. The Department of Health's instruction packet of evaluation criteria for the statewide Medi-Cal Fiscal Intermediary proposals was analyzed relative to the stated R. F. P. requirements.

When the above tasks were accomplished, the Consultant was then prepared to begin his critique of the stated evaluation criteria.

This critique is organized into two major areas, and each will be analyzed separately. These sections are Evaluation Procedures and Evaluation Criteria. This organization was adopted because it allows concentration on the two major areas of analyses: planning, represented by methodology and stated criteria and value weights; and implementation, represented by the procedural instructions for applying the stated criteria and value weights.

II. EVALUATION PROCEDURES

1. Validation

The procedure for validating each proposal against stated minimums from the R. F. P. and rejecting those that fail to comply is a good way to begin the evaluation process. Because of the magnitude and great complexity of this project, the proposals received will, of necessity, be of great length, and full evaluation will be a taxing and involved job. It, therefore, is not only logical but imperative that this staff time consuming task be limited to only those proposals which fully comply with the mandatory requirements outlined in the R. F. P.

2. Evaluation of Proposals

The proposals that pass the validation inspection will be evaluated separately for systems content and costs. The systems will be evaluated by individual section, and each section will be rated on a hundred point scale. A further evaluation will occur for the options listed in the R. F. P. and compared to proposals submitted by various sections of the Department of Health.

The major sections of the R. F. P. to be evaluated on the point scale are:

- a. Claims Review (R. F. P. Section 2.2)
- b. Professional Review (R. F. P. Section 2.8)
- c. Administrative Subsystems (R. F. P. Section 2.3)

- d. Implementation (R. F. P. Section 1.15)
- e. Eligibility Subsystem (R. F. P. Section 2.4)
- f. Other Insurance Coverage (R. F. P. Section 2.7)
- g. Communications between the State and Fiscal Intermediary (R. F. P. Section 2.6)
- h. Change Control (R. F. P. Section 1.16)
- i. Officers' Qualifications (R. F. P. Section 1.7)
- j. Equipment and Facilities (R. F. P. Section 2.5)

The above sections cover the heart of the project and collectively represent the task to be accomplished; however, they are not of equal size and, for this reason, they have been assigned points which rank each section's relative importance (the method of assigning these points is discussed in the next section).

Each section of the proposal names above will be evaluated by an analyst and rated from one to one hundred by him. He will then meet with other members of his work group (who have evaluated the other sections of the proposal), and this group will develop a single evaluation.

Although it does not state this, it is presumed that during the meeting of the work group, the one to 100 rating will be extended by the weights associated with each section to develop a complete evaluation point count for the proposal.

The procedure does not indicate how many individuals will separately analyze each section, nor does it indicate how many work groups will be evaluating proposals. This Consultant would recommend at least two different analysts review the same section, and at least two work groups review each proposal. This would aid in detecting any unwarranted bias which in a single evaluation would go unnoticed.

The cost analysis procedure outlined in the Evaluation Criteria instructions indicates that each proposal will be evaluated for total costs and analyzed for reasonableness of specific sections separately and in relationship to the total systems costs. Unfortunately, it does not describe in much detail how this is to be accomplished or controlled. There should be more information describing the desired procedure at this point in the instructions.

3. Recommendation Procedure

When each proposal has been evaluated for both systems content and costs, a cost/system comparison will be developed from the results of the procedures described above. This cost/system comparison will be accomplished by the most responsible staff members involved in the evaluation process, namely the work leaders, proposal coordinator, section chief, and program manager. The criteria for developing this cost/system comparison is based on: cost, points earned, cost/point ratios (cost divided by points), and the needs of the State. This final point,

"the needs of the State", could be better defined as presumably the needs of the State as outlined in detail in the R. F. P.; however, this is not always the case. Some critical areas are defined much too generally in the R. F. P., and this will cause some prospective bidders great difficulty in responding to this R. F. P. (i. e., developing unit costs which include processing residual claims from the present system over which the bidder has no control; wide latitude for the State regarding access to the FI's proprietary systems and software).

Finally, a comprehensive analysis of the top three proposals will be made which includes both strong points and weaknesses of each proposal to serve as a justification for the proposal recommended by the program manager.

The procedure described above appears to be thorough and conducive to serving the needs of the State as described in the R. F. P.

III. EVALUATION CRITERIA

1. Criteria and Methodology for Establishing Weights

The ranking of each section of the proposal and the subsequent weighting of each based on the Modified Qualitative Ranking Method (Introduction to Operations Research--by Achoff, Arnoff, and Churchman) is as good an approach as any this Consultant can think of at this time. However, the main point here is to use a standard tested, and accepted method of comparison in determining the relative importance of each section of the proposal, and the method named above is certainly acceptable.

Further, the criteria for establishing the relative importance of each section was reviewed by the Consultant and was deemed reasonable with only one minor exception. The exception is that regarding the importance of equipment and facilities. This is an area that if not adequately controlled and professionally utilized could cost the State a great deal more than necessary. Poor technical use of computing and communication equipment could add as much as \$.005 to \$.01 to each claim, and as the anticipated volume is greater than 35 million claims annually, this could result in an additional yearly cost of from \$175,000 to \$350,000 for just the claim processing.

2. Definitions

To aid the analysts in evaluating the specific systems in and to promote standardization in all the evaluations, key terms have been defined in the evaluation instructions.

This is a good well understood method, and the application of it generally will result in the desired results. However, the Consultant feels that some of the definitions overlap each other as they are defined, i. e., satisfaction is defined as meeting the needs of the beneficiary, provider, state, county, and federal government which, indeed, is an attempt at global satisfaction; however, adequate is defined as ...fully sufficient to meet the needs of the Medi-Cal program. If the satisfaction meets the needs defined for it, then the Consultant sees little difference between the two definitions. It is felt that these definitions would be far more useful if they were defined in such a way as to be mutually exclusive.

3. Evaluation Check List

The criteria defined in this section for assigning points during evaluation is an acceptable and approved method; however, this Consultant feels that the distinction between highly effective (point 4) and extremely effective (point 5) could and should be more clearly defined. These could be easily clarified by including several examples.

4. Evaluation Forms

The Consultant has reviewed the forms included in the evaluation packet and finds them to be well done. They are well laid out and appear to provide good coverage for all items to be evaluated, as well as providing excellent support to the evaluation procedures.

IV. CONCLUSION

This Consultant has reviewed the R. F. P. and the stated evaluation procedures and criteria proposed by the Department of Health for evaluation of the solicited proposals. It is this Consultant's opinion, except in the few instances noted in the preceding section, that the methods and criteria described here are sound and should yield the results anticipated.

In reviewing Volume I of the R. F. P., there were a few general criticisms which should be noted.

1. Use of the average Federal Consumer Price Index to project the next fiscal year costs for the system could be very dangerous to the Fiscal Intermediary as costs which specifically effect claims processing in California may be greatly in excess of the Federal Index.
2. The provisions to require competitive bidding among sub-contractors for services in excess of \$10,000.00 seem to usurp for the State much of the control of the operation from the Fiscal Intermediary while leaving him all the responsibility.

As noted in the previous section, the Consultant felt that some of the definitions of key words to be used in evaluating the proposals could be stated more concisely. The following are the definitions felt to be in need of clarification and possible redefinition:

| | | |
|--------------|---|--|
| Satisfaction | - | Will the system/unit <u>functions clearly and easily</u> meet the needs of the beneficiary, provider, State, county, and Federal Government? |
|--------------|---|--|

Adequate

- Is the system/unit fully sufficient to meet not only the needs and requirements of the Medi-Cal program, but does it provide reasonable administrative procedures for functional control of operations?

Effective

- Does the system/unit provide a clear and concise operational picture that appears to function efficiently within itself and at all interface points with other system/units? Would other methods accomplish the task better?