

Ronald Reagan Presidential Library Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Reagan, Ronald: Gubernatorial Papers,
1966-74: Press Unit

Folder Title: [Medi-Cal] – Evaluation of Proposals –
Statewide Medi-Cal Intermediary,
March 1974 (3 of 4)

Box: P37

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

CONSULTANTS' REPORTS
3/1/74

GEORGE GLASER
225 WARREN ROAD
SAN MATEO, CA. 94402

March 1, 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 completion of my consulting assignment for the Department of Health. It constitutes my certification of the evaluation of contractor proposals for a Statewide Medi-Cal Intermediary recently carried out by the staff of the Program Implementation Section, Department of Health.

In my letter to you of January 28, 1974, I stated that I believe that the evaluation approach proposed by the staff of the Program Implementation Section was sound and that every effort had been made to ensure that the staff would carry out its evaluation in a fair and thorough manner. I further stated my opinion that the proposed approach was not only workable but also one designed to be as equitable as it is possible for such a process to be.

Several aspects of the evaluation process deserving special mention are listed below; these were cited by me in my previous letter commenting on the process before the evaluation took place:

1. Offerors' responses were first reviewed by a team of relatively senior staff members to validate that they met the mandatory requirements for content and form as set forth in Section 3. of the RFP.

2. Each proposal then was divided into two parts: Systems and Procedures Proposal and Cost Proposal. Evaluation proceeded independently for each, with the results considered jointly later in the process.

3. Individual sections of each Systems and Procedures Proposal; e.g., Implementation, Claims Review, then were assigned to small teams of staff members who were knowledgeable of the particular material being addressed

in those sections. Individual members of these teams first evaluated their assigned sections independently, awarding a number of points (on a scale of 0-100); following that, teams reached a consensus on the points to be awarded their assigned sections.

Certain sections of the proposal; e.g. Offeror's Qualifications, Change Control, and Equipment and Facilities, were evaluated on a Pass/Fail basis. The rationale used by your staff in deciding which sections were to be evaluated in this manner had been explained to me and I understood and agreed with it.

4. The individual and team evaluations described above included 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 were 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. Prior to the evaluation, sections of the proposal had been assigned a weighted point total to reflect the relative importance of that section in the overall proposal. These weights were not disclosed to the analysts until after their evaluation had been completed, thus avoiding any bias--conscious or otherwise--in their individual assessments.

Such weighting schemes are almost universally used in evaluations of this sort, in spite of the fact that subjective judgments must be made in assigning a particular weight to any section. Although it is impossible to argue that the weights that were assigned are "correct" in any absolute sense, I do believe that every attempt was made to assign them rationally and equitably.

6. Detailed instructions and forms were prescribed in the RFP for the submission of cost data; these proved

adequate for the purpose of testing the data's reasonableness even though cost estimates inevitably were based on the accounting and budgeting conventions of individual offerors, thus precluding direct comparisons of detailed costs without further analysis. Total costs (and unit prices), however, have been evaluated and I believe the resulting comparisons are meaningful and valid.

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 has been made and presented for review. This obviously is the key step in the evaluation process and one where good judgment is the crucial ingredient.

Other preparation that I believe is noteworthy included:

1. Analysts who played an active role in the evaluation process attended a series of training sessions to review the proposed approach and to further ensure that their individual evaluations would be based on a uniform application of the evaluation criteria.

2. Each step in the evaluation was documented by a group of six staff members who had been assigned 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 prepared for the evaluation.

During the last month, I have monitored the work of your staff as they carried out the evaluation and have reviewed their findings, conclusions, and recommendations. In carrying out these tasks, I have worked directly with the staff in their detailed analysis and evaluation of individual proposals and their subsequent comparative evaluations.

Mr. Jack R. Brown
Department of Health

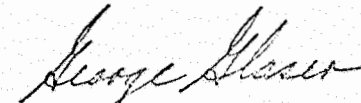
March 1, 1974
Page - 4 -

Based on my review of the actual evaluations, I believe that they have been carried out conscientiously and in a highly professional manner. The evaluation process which I had previously reviewed and endorsed was, with certain refinements that are well documented, followed with meticulous care.

I hereby certify that, to the best of my knowledge, the evaluation was thorough and each proposal was given a fair review.

Respectfully submitted,

GEORGE GLASER & COMPANY

A handwritten signature in cursive script, appearing to read "George Glaser", written in dark ink.

George Glaser

GG:rlc

ANALYSIS OF OFFERORS' COSTS

STATEWIDE MEDI-CAL FISCAL INTERMEDIARY EVALUATION

FOR

STATE OF CALIFORNIA
DEPARTMENT OF HEALTH

BY

STANFORD L. OPTNER & ASSOCIATES, INC.

FEBRUARY 28, 1974

TABLE OF CONTENTS

	<u>PAGE</u>
RECOMMENDATION	
INTRODUCTION	1
Sharpness of Detailed Data	2
Internal Consistence	33
Minimum Cost	10
Offeror's Cost Elements	11
FINDINGS	
<i>Manual Processing Costs</i>	12
<i>EDP and Forms Costs</i>	20
<i>Facilities Costs</i>	23
<i>Equipment Costs</i>	23
<i>Overhead Costs</i>	26
<i>Other Expense</i>	26
<i>Subcontracts</i>	35
<i>Implementation Cost of Claims Processing System</i>	38
<i>Calculation of Charges for Changes</i>	40

RECOMMENDATION

Discussion of the foregoing criteria was a subjective, qualitative exercise based upon my limited view of the evaluation problem through the analysis of costs. Indeed, the small difference between Vendors' B and C total costs led me to feel that they could be judged as though they were equal. In this competition, Vendor C was clearly better, in my opinion.

In judging between Vendor C and Vendor A, the absolute dollars of cost became the principal factor, and in this regard Vendor C emerged as the lower of the two.

I must therefore commend Vendor C to the Department, based on the evidence at hand.

INTRODUCTION

The overriding objective of the Statewide Medi-Cal Fiscal Intermediary Evaluation was to identify the offeror whose proposed costs in their total impact would give the State the most "system" for the dollar. Balancing the worth of each offeror's system against its costs will be the final, qualitative-quantitative effort of the State's evaluation team.

This analysis of cost proposes to answer the implied question, "Which offeror's proposal, after scrutiny, subjective evaluation and quantitative analysis (to the extent possible) seems to give the State the lowest total costs over the next 4 years, not considering the merit of the offeror's proposed system?"

The implication of total cost is somewhat elusive in this context. As a concept it is easy to define: Total costs are those which lie within the total system boundary. But in practice, the application of the concept is not that "neat." For example, certain offerors are not on the same footing with respect to system scope; second, the State's add-on costs which are substantial, must be included within the boundary, yet offerors do not control those costs to the extent they do their own.

Thus, the relative *sharpness of detailed data* was a prime criterion used to evaluate the relative merits of proposals. In applying this criterion, I tried to look at each proposal independent of the others, knowing that two of the offerors had more experience than the third, and that one had extensive experience. Since experience would be the best way of learning actual costs, I tried to deal with the values proposed by each vendor from the standpoint of whether or not, up to the limit of each vendor's ability, the data appeared to be well researched. Thus, the sharpness of detail would be some evidence of good research and a lack of round numbers would illustrate care in proposal preparation.

Internal consistency (or inconsistency) of a single offeror's data became a second criterion to determine the "cost winner." Since all offerors do not present identical account structures, the initial analysis was directed at the emergent profile of the offeror as it became evident through its proffered costs. Although a noted satirist says that "consistency is the hobgoblin of little minds" in cost analysis it is one among several insights to the validity and integrity of a proposed vendor's operations.

Both individual cost elements and categories of costs were reviewed to determine if one vendor offered *minimum cost*. First, absolute dollars were compared; then per cent relationships of cost elements to various totals were compared. Since *all* costs cannot (generally) be concurrently minimized, the intent was to find out if one vendor showed; more consistently than others, detailed and hence more reliable cost estimates which were lower in magnitude.

A final criterion, *offeror's cost elements*, was invented to enable me to draw some conclusions with regard to the types of costs the vendors want the State to absorb. In this judgmental effort, I was trying to assess whether or not various cost elements were intrinsically valuable to the State. Using this yardstick, I tried to gain some insight to the vendors' organization to perform the FI functions. In this effort, the objective was to assess the items of cost which appear to be pertinent to the FI role, versus those which on their face only appear to saddle the State with continuing, nonproductive burden (overhead).

Armed with these criteria the data provided were examined over a 4-week period, with the following results.

SHARPNESS OF DETAILED DATA

With respect to the first criterion, the cost data of Vendor C were the most detailed and complete, and were most sharply delineated for examination. This conclusion does not derive from the six-position claims unit costs in each claim category, but rather from a review of each offeror's attempt to bring precision into its cost presentation. Precision was judged best for Vendor C because in every cost exhibit it offered as many, or more, details than its competitors and showed evidence of having computed values based upon auditable procedures. I was unable to audit any vendor completely since vendors were not required to leave a trail.

By contrast Vendor B's cost data were, in too many cases, simply round numbers. For example, in *Other Expense*, this vendor had \$600,000 of unidentified cost, \$400,000 of Computer Supplies and \$2,000,000 of Professional Utilization Payments; the cost of Telephone is \$500,000, clearly an educated

guess; Salaries and Wages are \$2,000,000; Recruitment is \$300,000; Equipment Acquisition cost is \$300,000; Equipment Rent or Lease cost is \$500,000; Manuals, Training Material and Other is \$500,000, etc. These round numbers should be avoided, not so much because they may be too high, but because they may be too low, in which case the offeror is in a loss position and perhaps unable to perform. If they are too high, these costs set the stage for other complex problems, also to be avoided.

Vendor A presents a different cost picture under this criterion. I could not help but feel that Overhead was the least "sharp" for this vendor because of its sheer magnitude. Unlike Vendor B, there was no audit trail, and since the absolute dollars were \$2,188,575 higher than Vendor C (69.06%), there was no alternative but to decide that the State would be assuming the largest burden if this vendor were selected. I was equally disturbed by what may be a vast understatement of Profit (\$576,650). It is hard to accept this as a real target of the offeror in view of the upside risk. The only reasonable explanation is that the vendor has offset its "risk" in its higher cost, much of which is ill-defined. For example, \$9,475,950 is the quoted subcontractor Data Processing fee; without further supporting detail, the State is asked to admit 28.97% of this vendor's proposal without the supporting details provided by other competing offerors. In view of the gap between the EDP Subcontract cost and the total from claims EDP unit cost expansion (\$11,797,000 - \$9,475,950 = \$2,321,050), the vendor has inadvertently obscured its own position. Because of this, I have ranked Vendor A third under this criterion.

INTERNAL CONSISTENCY

Vendors B and C rank ahead of Vendor A using this criterion. As between the two, Vendor B must be preferred. This is to say that Vendor B is the most auditable of the offerors, and in addition seems to have the most provable data. The essence of internal consistency is an understanding of how a vendor structured its costs, and in this respect there are repeated situations in which Vendor B's totals are clear and consistent. There are only half a dozen instances where its costs seem "irrational," and some of these overlap with the problem of using round numbers rather than computed values.

Vendor C shows high consistency in many ways: for example, its uniformly lower costs of claims. However, in this regard the per cent relationships are inconsistent, and I have some feeling that the Range 3 costs should be lower (see data on the following pages). In other areas, such as the technique

VENDOR A
PER CENT RELATIONSHIP
UNIT COSTS TO TOTAL COSTS
AND CHANGE IN TOTAL UNIT PRICE

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
	<u>% TO</u>	<u>CHANGE</u>	<u>CHANGE</u>
	<u>TOTAL</u>	<u>FROM</u>	<u>FROM</u>
		<u>RANGE 1</u>	<u>RANGE 2</u>
		<u>TO RANGE 2</u>	<u>TO RANGE 3</u>
		<u>% TO</u>	<u>% TO</u>
		<u>TOTAL</u>	<u>TOTAL</u>
<u>Medical Claims</u>			
Manual Processing	31.40	32.99	33.12
EDP	32.51	29.59	29.77
Facilities	4.89	5.14	5.16
Forms	1.00	1.07	1.09
Provider Relations	8.24	8.44	8.29
Overhead	20.26	20.97	20.78
Profit	1.71	1.80	1.79
Total Unit Price		- 9.07	- 4.19
<u>Drug Claims</u>			
Manual Processing	25.88	27.89	27.92
EDP	49.37	46.17	46.68
Facilities	5.22	5.54	5.50
Forms	1.28	1.39	1.42
Provider Relations	3.40	3.57	3.48
Overhead	13.55	14.05	13.62
Profit	1.30	1.39	1.38
Total Unit Price		- 10.69	- 3.35
<u>Other Professional Claims</u>			
Manual Processing	26.33	27.90	28.12
EDP	35.31	32.33	32.58
Facilities	4.94	5.22	5.26
Forms	1.28	1.37	1.40
Provider Relations	13.91	14.19	13.82
Overhead	16.58	17.24	17.09
Profit	1.65	1.73	1.73
Total Unit Price		- 9.62	- 4.38
<u>Hospital Inpatient Claims</u>			
Manual Processing	41.36	42.32	42.87
EDP	20.29	19.96	20.41
Facilities	8.85	8.70	8.41
Forms	0.49	0.53	0.55
Provider Relations	12.55	12.19	11.65
Overhead	14.25	14.10	13.92
Profit	2.19	2.20	2.19
Total Unit Price		- 6.28	- 4.93

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
		CHANGE FROM RANGE 1 TO RANGE 2	CHANGE FROM RANGE 2 TO RANGE 3
	<u>% TO TOTAL</u>	<u>% TO TOTAL</u>	<u>% TO TOTAL</u>
<u>Hospital Outpatient Claims</u>			
Manual Processing	22.44	23.31	23.23
EDP	46.91	46.64	47.56
Facilities	7.22	7.06	6.91
Forms	0.92	0.99	1.03
Provider Relations	7.71	7.44	7.02
Overhead	12.97	12.72	12.43
Profit	1.83	1.84	1.82
Total Unit Price		- 9.00	- 8.48
<u>Nursing Home Claims</u>			
Manual Processing	25.45	26.59	26.74
EDP	36.76	35.51	36.31
Facilities	8.28	8.32	8.18
Forms	1.12	1.22	1.28
Provider Relations	13.20	13.07	12.36
Overhead	13.17	13.23	13.08
Profit	2.02	2.07	2.05
Total Unit Price		- 8.40	- 8.51
<u>Other Institutional Claims</u>			
Manual Processing	37.12	37.98	37.35
EDP	24.51	24.59	25.88
Facilities	9.00	8.81	8.72
Forms	0.17	0.19	0.20
Provider Relations	12.31	11.86	11.45
Overhead	14.75	14.44	14.29
Profit	2.12	2.14	2.11
Total Unit Price		- 6.36	- 8.29
<u>Crossover Claims</u>			
Manual Processing	19.96	20.84	20.96
EDP	54.34	53.10	53.72
Facilities	5.22	5.31	5.28
Forms			
Provider Relations	7.47	7.64	7.57
Overhead	11.73	11.82	11.53
Profit	1.28	1.30	1.29
Total Unit Price		- 8.33	- 4.43

VENDOR B
PER CENT RELATIONSHIP
UNIT COSTS TO TOTAL COSTS
AND CHANGE IN TOTAL UNIT PRICE

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>	
	<u>% TO</u>	<u>CHANGE</u>	<u>CHANGE</u>	
	<u>TOTAL</u>	<u>FROM</u>	<u>FROM</u>	
		<u>RANGE 1</u>	<u>RANGE 2</u>	
		<u>TO RANGE 2</u>	<u>TO RANGE 3</u>	
<u>Medical Claims</u>				
Manual Processing	28.57	29.31	30.09	
EDP	22.69	21.55	21.24	
Facilities	10.92	10.34	9.73	
Forms	8.40	8.62	8.85	
Provider Relations	15.13	15.52	15.93	
Overhead	4.20	4.31	4.42	
Profit	10.08	10.34	9.73	
Total Unit Price		- 2.52	- 2.59	
<u>Drug Claims</u>				
Manual Processing	17.46	18.03	16.95	
EDP	39.68	39.34	38.98	
Facilities	7.94	6.56	6.78	
Forms	14.29	14.75	15.25	
Provider Relations	6.35	6.56	6.78	
Overhead	4.76	4.92	5.08	
Profit	9.52	9.84	10.17	
Total Unit Price		- 3.17	- 3.28	
<u>Other Professional Claims</u>				
Manual Processing	21.52	22.22	22.37	
EDP	17.72	17.65	17.11	
Facilities	8.23	7.84	7.89	
Forms	6.96	7.19	7.24	
Provider Relations	30.38	31.37	31.58	
Overhead	5.06	3.92	3.95	
Profit	10.13	9.80	9.87	
Total Unit Price		- 3.16	- 0.65	
<u>Hospital Inpatient Claims</u>				
Manual Processing	18.15	18.25	18.38	
EDP	44.52	44.53	44.12	
Facilities	6.85	6.20	6.25	
Forms	8.56	9.12	8.82	
Provider Relations	7.53	8.03	8.09	
Overhead	4.45	4.38	4.04	
Profit	9.93	9.49	9.93	
Total Unit Price		- 6.16	- 0.74	

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
	<u>% TO</u>	<u>CHANGE</u>	<u>CHANGE</u>
	<u>TOTAL</u>	<u>FROM</u>	<u>FROM</u>
		<u>RANGE 1</u>	<u>RANGE 2</u>
		<u>TO RANGE 2</u>	<u>TO RANGE 3</u>
<u>Hospital Outpatient Claims</u>			
Manual Processing	26.83	27.73	28.45
EDP	31.71	31.09	31.03
Facilities	9.76	10.08	9.48
Forms	8.94	8.40	8.62
Provider Relations	8.13	7.56	7.76
Overhead	4.88	5.04	4.31
Profit	9.76	10.08	10.34
Total Unit Price		- 3.25	- 2.52
<u>Nursing Home Claims</u>			
Manual Processing	19.85	19.70	20.00
EDP	27.94	28.03	27.69
Facilities	7.35	6.82	6.92
Forms	5.88	6.06	6.15
Provider Relations	24.26	25.00	24.62
Overhead	4.41	4.55	4.62
Profit	10.29	9.85	10.00
Total Unit Price		- 2.94	- 1.52
<u>Other Institutional Claims</u>			
Manual Processing	23.90	24.62	25.13
EDP	28.78	28.64	28.21
Facilities	9.27	8.54	8.21
Forms	9.76	10.05	10.26
Provider Relations	13.17	13.57	13.85
Overhead	4.88	4.52	4.10
Profit	10.24	10.05	10.26
Total Unit Price		- 2.93	- 2.01
<u>Crossover Claims</u>			
Manual Processing	25.38	25.93	27.05
EDP	27.69	27.56	26.23
Facilities	9.23	8.66	9.02
Forms	10.00	10.24	10.66
Provider Relations	13.08	13.39	13.11
Overhead	4.62	3.94	4.10
Profit	10.00	10.24	9.84
Total Unit Price		- 2.31	- 3.94

VENDOR C
PER CENT RELATIONSHIP
UNIT COSTS TO TOTAL COSTS
AND CHANGE IN TOTAL UNIT PRICE

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
	<u>% TO</u>	<u>CHANGE</u>	<u>CHANGE</u>
	<u>TOTAL</u>	<u>FROM</u>	<u>FROM</u>
		<u>RANGE 1</u>	<u>RANGE 2</u>
		<u>TO RANGE 2</u>	<u>TO RANGE 3</u>
<u>Medical Claims</u>			
Manual Processing	25.21	25.95	26.89
EDP	27.91	28.05	27.94
Facilities	12.76	12.61	12.60
Forms	2.51	2.61	2.71
Provider Relations	10.22	9.64	9.28
Overhead	11.40	11.13	10.59
Profit	10.00	10.00	10.00
Total Unit Price		- 4.23	- 3.83
<u>Drug Claims</u>			
Manual Processing	13.93	14.43	15.55
EDP	43.15	42.41	41.78
Facilities	5.08	4.79	4.51
Forms	8.38	8.82	9.19
Provider Relations	13.01	13.09	12.78
Overhead	6.44	6.45	6.18
Profit	10.00	10.00	10.00
Total Unit Price		- 5.22	- 3.93
<u>Other Professional Claims</u>			
Manual Processing	24.45	25.10	26.08
EDP	28.85	28.92	28.66
Facilities	12.10	11.99	11.96
Forms	2.87	2.98	3.07
Provider Relations	9.36	8.94	8.77
Overhead	12.35	12.07	11.47
Profit	10.00	10.00	10.00
Total Unit Price		- 4.97	- 4.13
<u>Hospital Inpatient Claims</u>			
Manual Processing	16.33	17.18	18.10
EDP	17.27	17.51	17.52
Facilities	6.04	6.11	6.21
Forms	21.90	2.26	2.31
Provider Relations	29.63	28.77	28.38
Overhead	18.54	18.18	17.49
Profit	10.00	10.00	10.00
Total Unit Price		- 5.90	- 6.51

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
		CHANGE FROM RANGE 1 TO RANGE 2	CHANGE FROM RANGE 2 TO RANGE 3
	<u>% TO TOTAL</u>	<u>% TO TOTAL</u>	<u>% TO TOTAL</u>
<u>Hospital Outpatient Claims</u>			
Manual Processing	20.63	21.38	22.33
EDP	24.43	24.61	24.47
Facilities	9.64	9.63	9.66
Forms	2.78	2.90	3.00
Provider Relations	18.77	18.04	17.71
Overhead	13.75	13.44	12.83
Profit	10.00	10.00	10.00
Total Unit Price		- 4.70	- 4.18
<u>Nursing Home Claims</u>			
Manual Processing	18.31	19.08	19.98
EDP	21.31	21.50	21.41
Facilities	7.83	7.87	7.93
Forms	2.75	2.88	2.99
Provider Relations	22.09	21.38	21.14
Overhead	17.70	17.30	16.55
Profit	10.00	10.00	10.00
Total Unit Price		- 5.15	- 4.67
<u>Other Institutional Claims</u>			
Manual Processing	16.58	17.41	18.30
EDP	14.77	15.02	15.07
Facilities	5.62	5.69	5.78
Forms	1.57	1.63	1.68
Provider Relations	28.88	28.10	27.86
Overhead	22.57	22.15	21.32
Profit	10.00	10.00	10.00
Total Unit Price		- 5.77	- 11.51
<u>Crossover Claims</u>			
Manual Processing	11.75	12.34	13.03
EDP	47.48	46.58	45.61
Facilities	5.03	5.09	5.17
Forms	8.76	9.35	9.90
Provider Relations	8.17	7.95	7.89
Overhead	8.81	8.70	8.40
Profit	10.00	10.00	10.00
Total Unit Price		- 5.73	- 5.39

of using the manning table, it is impossible to determine consistency because the data are not accountable. If Vendor C had provided an analysis of what was included in Overhead (as did Vendor B), its proposal would have been more auditable and perhaps would have added to my view of the consistency of data.

Vendor A data are much like those of Vendor C, in that the absolute dollars and cents of claims costs go down from Range 2 to Range 3; however, the per cent relationships vary markedly (see data on prior pages). In addition, Vendor A's unexplained variances in instances where B and C seem to be relatively close in the approximate magnitude of costs was disturbing. Large-scale variations in total create problems for the analyst because he hopes that at some point there will be a way to compare all vendors for a similar service. The only time this became practical was when the Total Implementation Cost was added to the Total Cost for the First Year. Postage and Shipping expense was consistent as between Vendors C and A; however, in total it was not significant.

MINIMUM COST

In the FINDINGS, vendor data have been presented in the sequence B, C, A to show how vendors rank according to the magnitude of their Total Cost for the First Year. In this portion of the evaluation, I rank Vendor C best, even though there is a slight advantage in absolute dollars on the side of Vendor B. C is ranked best because its costs appear more reliable, and I believe that it would be able to perform better under its proposed cost structure. Vendor B has in excess of \$7,100,000 (25.44%) of round values in its cost proposal, and I believe there would be a higher risk to the State because of this.

In the area of Implementation Cost, Vendor B presents a better position by \$258,366. While this is not significant over the life of the FI contract, it supports the above position in that the costs of Vendor B have been computed and are probably a more reliable indication of what is necessary to do the job.

Some of Vendor C's cost elements appear to be unfairly added to the cost of the FI function, both in the category of implementation and annual operating costs (see next section). These may be candidates for discussion with Vendor C if it is selected by the Department. In the event that the vendor will negotiate on some of these items, its cost in total would then be substantially less than Vendor B.

Vendor A is competitive with Vendors B and C in the first year only, and after that becomes highest in cost by a substantial amount.

OFFEROR'S COST ELEMENTS

In my judgment, Vendor C again ranked best with the exception of particular items of cost detailed in the FINDINGS (Corporate Services, Computer Utility Charge, Data Committee, etc.). The types of costs listed in exhibits generally seemed germane to the tasks to be performed. I did not have the feeling that important costs were left out. However, in the categories noted above, I have strong reservations about the admissability of costs, and hope that the State can make the vendor agree to delete them, or at the least, reduce them substantially.

Vendor A data were the least revealing and the most difficult to audit. Too much of the offeror's credibility as a competitor is not subject to analysis. The evidence presented is not readily comparable with the competitors' costs. Because of this, Vendor A was judged the least desirable under this criterion. As in the case of Vendor C, there are numerous elements of cost which not only deviate from those of competitors, but are higher, contributing to the higher cost in total.

FINDINGS

Using the method which was worked out in Sacramento, the following are the rankings of the three vendors:

	<u>RANGE 1</u>			<u>RANGE 2</u>			<u>RANGE 3</u>		
	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>
Medical Claims	1	3	2	1	3	2	1	3	2
Drug Claims	3	1	2	3	1	2	3	1	2
Other Professional Claims	1	2	3	2	1	3	2	1	3
Hospital Inpatient Claims	1	2	3	1	2	3	1	2	3
Hospital Outpatient Claims	2	3	1	2	3	1	1	3	2
Nursing Home Claims	1	3	2	1	3	2	1	3	2
Other Institutional Claims	1	3	2	1	3	2	1	3	2
Crossover Claims	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>3</u>
TOTAL RANGE 1	12	18	18	13	17	18	12	17	19
TOTAL RANGE 2	13	17	18						
TOTAL RANGE 3	<u>12</u>	<u>17</u>	<u>19</u>						
	37	52	55	TOTAL SCORE: POINTS ACCUMU- LATED FOR LOWER COST					
	.51	.72	.76	TOTAL SCORE AS A PER CENT OF 72 POINTS					
	#3	#1	#2	RANGE 2 RANK					
	#3	#2	#1	RANGE 3 RANK					

MANUAL PROCESSING COSTS

Vendor C's cost of *Manual Processing* are the lowest in both Range 2 and Range 3 (see below). However, note that the

cost of *Manual Processing* increases from Range 2 to Range 3 as a per cent of total unit price:

- Absolute costs go down, however, except in two cases:

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Drug Claims	\$0.087489	\$0.085835	\$0.088900

- This case is worth \$32.029 (the value of \$0.003065 per case over Range 2).

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Hospital Outpatient Claims	\$0.335439	\$0.331234	\$0.331460

- This case is not significant.

Question: Is the Range 3 *Manual Processing* cost as low as it should be? It is difficult to understand why the vendor should not pass on a somewhat lower labor cost with increasing volume.

The *Manual Processing* cost of B compared to C, is shown on the following page.

- There is some agreement (\pm about 10% in four claims areas):
 - Other Professional Claims
 - Hospital Inpatient Claims
 - Hospital Outpatient Claims
 - Nursing Home Claims
- There is less agreement in these two categories (\pm 20% to 25%):
 - Medical Claims
 - Other Institutional Claims
- But there is no explaining the difference in these two categories:
 - Drug Claims (781% to 890%) (B is low, C is high)
 - Crossover Claims (660%) (B is high, C is low)
- Note that A is close to B in Drug Claims (\$0.14 vs \$0.11), is about midway of B and C in Crossover Claims.

MANUAL PROCESSING COST OF OFFERORS B AND C

	RANGE 1		RANGE 2		RANGE 3		REDUCTION			
							1 TO 2		2 TO 3	
	B	C	B	C	B	C	B	C	B	C
Medical Claims	.34	.42	.34	.41	.34	.41	.00	.006	.00	.002
Drug Claims	.11	.09	.11	.09	.10	.09	.00	.001	.01	(-.003)
Other Professional Claims	.34	.38	.34	.37	.34	.37	.00	.009	.00	.002
Hospital Inpatient Claims	.53	.46	.50	.45	.50	.45	.03	.005	.00	.007
Hospital Outpatient Claims	.33	.34	.33	.33	.33	.33	.00	.004	.00	.000
Nursing Home Claims	.27	.31	.26	.31	.26	.31	.01	.004	.00	.001
Other Institutional Claims	.49	.65	.49	.64	.49	.60	.00	.007	.00	.045
Crossover Claims	.33	.05	.33	.05	.33	.05	.00	.001	.00	.000

- If the work content (as Department of Health knows it) of the following categories of claims are "about the same," it would further point to a certain internal consistency in B, but not as much consistency in C:

	RANGE 1			RANGE 2			RANGE 3		
	B	C	A	B	C	A	B	C	A
Medical Claims	.34	.42	.56	.34	.41	.54	.34	.41	.52
Other Professional Claims	.34	.38	.14	.34	.37	.14	.34	.37	.13
Hospital Out-patient Claims	.34	.33	.48	.33	.33	.46	.33	.33	.44
Nursing Home Claims	.27	.31	.64	.26	.31	.62	.26	.31	.59
Crossover Claims	.33	.05	.19	.33	.05	.18	.33	.05	.17

- When the unit costs for *Manual Processing* are multiplied by the transaction volumes, the results are as shown on the following page.

The difference in the case of Vendor A may be roughly accounted in this way:

Total Clerk Personnel Costs	\$7,042,020
Cost of Clerk Personnel Benefits (19.9%)	1,401,362
Supervisor Personnel Costs	1,112,252
Cost of Supervisor Personnel Benefits (19.9%)	<u>221,338</u>
TOTAL BEFORE OVERTIME ALLOCATION	\$9,776,972

The difference in the case of Vendor B cannot be accounted because:

- Vendor has used rate ranges for job titles and does not show numbers of proposed personnel by job title;
- Job titles cannot be directly allocated to Claims Processing except in a few isolated cases ("Claims Entry Specialist," "Claims Examiner Specialist," etc.);

MANUAL PROCESSING COSTS EXPANDED BY TRANSACTION VOLUMES

	<u>RANGE 2 VOLUME</u>	<u>UNIT COST</u>			<u>TOTAL COST</u>		
		<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>
Medical Claims	7,200,000	\$.34	\$.414224	\$.5388	\$ 2,448,000	\$ 2,982,413	\$ 3,879,360
Drug Claims	10,450,000	.11	.085835	.1384	1,149,500	896,976	1,446,280
Other Professional Claims	1,800,000	.34	.368386	.4170	612,000	663,095	750,600
Hospital Inpatient Claims	640,000	.50	.453383	2.4170	320,000	290,165	1,546,880
Hospital Outpatient Claims	1,900,000	.33	.331234	.4621	627,000	629,345	877,990
Nursing Home Claims	700,000	.26	.310175	.6151	182,000	217,123	430,570
Other Institutional Claims	140,000	.49	.640394	1.4491	68,600	89,655	202,874
Crossover Claims	4,100,000	.33	.054291	.1781	<u>1,353,000</u>	<u>222,298</u>	<u>730,210</u>
TOTAL					\$ 6,760,100	\$ 5,991,070	\$ 9,864,764
TOTAL PERSONNEL SERVICES FROM PROPOSAL FORM B1					\$13,078,748	\$14,418,298	\$14,938,348
TOTAL DIFFERENCE					\$ 6,318,648	\$ 8,427,228	\$ 5,073,584

- Job titles have been roughly allocated to "Classes" (I, II, III, IV) with some jobs spanning two categories (II-III, III-IV),

- Classes have been costed out at average annual rates:

Class I \$25,909 + 18% Benefits = \$30,573

Class II 19,000 + 18% Benefits = 22,420

Class III 13,265 + 18% Benefits = 15,653

Class IV 7,200 + 18% Benefits = 8,496

- From the unit costs, the amount derived should be increased by 18% Benefits cost: $\$6,760,100 \times 1.18 = \$7,976,918$, reducing the unaccountable amount to $\$5,101,830$ ($\$13,078,748 - \$7,976,918$).

The difference in the cost of Vendor C (like B) cannot be accounted because:

- Job classifications included in the claims function cannot be identified except in a few instances ("Supervisor Claims Review," "Senior Claims Review Clerk," "Claims Review Clerk");
- From the unit costs, the amount derived should be increased by 15% Benefits cost: $\$5,991,070 \times 1.15 = \$6,889,731$, reducing the unaccountable amount to $\$7,528,567$ ($\$14,418,298 - \$6,889,731$).

From the foregoing, it is possible to draw only a few conclusions:

- From the standpoint of Claims Processing alone, the vendors rank, as follows in Range 2:

• #1 - C: \$6,889,731

• #2 - B: \$7,976,918

• #3 - A: \$8,443,382

- If transaction volume should exceed Range 2, the change in costs and the respective totals in Range 3 would be as shown on the following page. If the Claims Processing volume increases 50 per cent, the total cost and ranking would be as shown on Page Nineteen.

CHANGES IN COSTS AND RANK IN RANGE 3

	CHANGE FROM RANGE 2 TO 3			TRANSACTION VOLUME	MARGINAL CHANGE		
	B	C	A		B	C	A
Medical Claims	NC	-.001535	-.0206	7,200,000	\$ NC	-\$ 11,052	-\$ 148,320
Drug Claims	-.01	+.003065	-.0045	10,450,000	- 104,500	+ 32,029	- 47,025
Other Professional Claims	NC	+.001488	-.0151	1,800,000	NC	- 2,678	- 27,180
Hospital Inpatient Claims	NC	-.006957	-.0897	640,000	NC	- 4,452	- 57,408
Hospital Outpatient Claims	NC	+.000226	-.0198	1,900,000	NC	+ 429	- 37,620
Nursing Home Claims	NC	-.000495	-.0267	700,000	NC	- 347	- 18,690
Other Institutional Claims	NC	-.044734	-.1421	140,000	NC	- 6,263	- 19,894
Crossover Claims	NC	-.000025	-.0069	4,100,000	NC	- 103	- 28,290
SUBTOTAL CHANGE					-\$ 104,500	+\$ 7,563	-\$ 384,067
ADD BENEFITS					-\$ 18,810	+\$ 1,134	-\$ 76,429
TOTAL CHANGE					-\$ 123,310	+\$ 8,697	-\$ 460,496
NEW CLAIMS PROCESSING COST					\$7,853,608	\$6,898,428	\$7,983,886
CLAIMS PROCESSING RANK IN RANGE 3					2	1	3

COSTS AND RANK INCREASING VOLUME 50 PER CENT

	TRANSACTION VOLUME: BASE PLUS 50%	UNIT COSTS OF MANUAL PROCESSING			TOTAL COSTS OF MANUAL PROCESSING		
		B	C	A	B	C	A
Medical Claims	10,800,000	\$0.34	\$0.412689	\$0.5182	\$ 3,672,000	\$ 4,457,041	\$ 5,596,560
Drug Claims	15,576,000	0.10	0.088900	0.1339	1,567,500	1,393,508	2,098,883
Other Professional Claims	2,700,000	0.34	0.366898	0.4019	918,000	990,625	1,085,130
Hospital Inpatient Claims	960,000	0.50	0.446426	2.3273	480,000	428,569	2,234,208
Hospital Outpatient Claims	2,850,000	0.33	0.331460	0.4423	940,500	944,661	1,260,555
Nursing Home Claims	1,050,000	0.26	0.309680	0.5884	273,000	325,164	617,820
Other Institutional Claims	210,000	0.49	0.595660	1.3070	102,900	125,089	274,470
Crossover Claims	6,150,000	0.33	0.054194	0.1712	<u>2,029,500</u>	<u>333,293</u>	<u>1,052,880</u>
SUBTOTAL					\$ 9,983,400	\$ 8,997,950	\$14,220,506
ADD BENEFITS					<u>1,797,012</u>	<u>1,349,693</u>	<u>2,829,881</u>
TOTAL CLAIMS PROCESSING COST					\$11,780,412	\$10,347,643	\$17,050,387
CLAIMS PROCESSING RANK					2	1	3

From these schedules, it is clear that Vendor C's lower benefits (15% versus 18% and 19.9%) adds to its lower direct claims processing cost. Note that B and C would be reversed in ranking in Range 3 were it not for C's relatively lower costs of processing Crossover Claims. Note also that A's benefits are better than twice that of C at this higher transaction volume.

EDP AND FORMS COSTS

In many instances, Vendor C *EDP* and *Forms* costs are slightly lower in absolute cost in Ranges 2 and 3, but in per cent to total they are higher. In only one case, Vendor C *Forms* cost is actually higher (may be an error):

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Crossover Claims	\$0.040853	\$0.041105	\$0.041176

I do not understand why the *EDP* costs are not uniformly less in Ranges 2 and 3 in per cent to total, as they are in two instances for Vendor C:

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Drug Claims	43.15%	42.41%	41.78%
Crossover Claims	47.80%	46.58%	45.61%

In other instances, Vendor C costs go up from Range 1 to Range 2, then down from Range 2 to Range 3. In all of these cases, the absolute dollars and cents are uniformly lower from Range 1 to Ranges 2 and 3. I can only assume, therefore:

- Range 1 values may be computed by backing off of Range 2;
- Ranges 2 and 3 should have been fractionally lower in some cases.

	<u>PER CENT RANGE 2 TO RANGE 1</u>	<u>PER CENT RANGE 3 TO RANGE 2</u>
Drug Claims	98.5168	98.5145
Crossover Claims	98.1045	97.9176

If Range 2 should have been uniformly lower than Range 1 by about 1.7 per cent (factor by 98.3107 = average of Range 3 to Range 2) the total EDP cost may be high in Range 2 by \$120,364, as shown on the following page.

Based on the hypothetical reduction in Range 2, the Vendor C Range 3 reduction may be \$176,935 considering the higher volumes of transactions and the approximately 38 to 54 per cent cost increase in amounts per transaction (used 47 per cent median).

The EDP cost seems generally more consistent for Vendor B:

.In per cent to total cost, it invariably declines except in one case:

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Nursing Home Claims	27.94%	28.03%	27.69%

.Had Vendor B priced Range 2 at \$0.36 (instead of \$0.37), another Range 3 cost at \$0.35 (instead of \$0.36), the per cent values would have been:

	<u>RANGE 1</u>	<u>RANGE 2</u>	<u>RANGE 3</u>
Nursing Home Claims	27.94%	27.48%	27.13%

.This may indicate that Vendor C EDP costs are not as reliable because they are both inconsistent and higher generally in Range 2 than Range 1, and Range 3 over Range 2.

Comparison of costs for EDP service further reveals the internal consistency of Vendor C data and, to some extent, Vendor B data:

	<u>RANGE 1</u>			<u>RANGE 2</u>			<u>RANGE 3</u>		
	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>
Medical Claims	.27	.47	.58	.25	.45	.48	.24	.43	.47
Drug Claims	.25	.27	.27	.24	.25	.23	.23	.24	.22
Other Professional Claims	.28	.45	.58	.27	.42	.48	.26	.40	.46
Hospital In-patient Claims	1.30	.48	1.24	1.22	.46	1.14	1.21	.43	1.11
Hospital Out-patient Claims	.39	.40	1.00	.37	.38	.92	.36	.36	.91
Nursing Home Claims	.38	.37	.93	.37	.35	.82	.36	.33	.80
Other Institutional Claims	.59	.58	1.00	.57	.55	.94	.55	.49	.91
Crossover Claims	.36	.22	.51	.35	.20	.45	.32	.19	.49

CALCULATIONS TO ESTIMATE COST IF RANGE 2
WERE LOWER THAN RANGE 1 BY 1.7 PER CENT

	<u>RANGE 2 VOLUME</u>	<u>UNIT COST</u>		<u>TOTAL COST</u>		<u>CHANGE RANGE 2 TO 3</u>
		<u>WAS</u>	<u>SHOULD BE</u>	<u>WAS</u>	<u>SHOULD BE</u>	
Medical Claims	7,200,000	\$1.596051	\$1.586251	\$11,491,567	\$11,421,007	54%
Other Professional Claims	1,800,000	1.467702	1.459498	2,641,864	2,627,096	38%
Hospital Inpatient Claims	640,000	2.638287	2.624340	1,688,504	1,679,578	48%
Hospital Outpatient Claims	1,900,000	1.549261	1.540171	2,943,596	2,926,32	43%
Nursing Home Claims	700,000	1.625885	1.616932	1,138,120	1,131,852	44%
Other Institutional Claims	140,000	3.678788	3.660425	<u>515,030</u>	<u>512,460</u>	43%
TOTAL				\$20,418,681	\$20,298,318	
TOTAL DIFFERENCE				\$ 120,364		