

# SOURCE JUSTIFICATION FORM

## Bureau of Procurement

The objective of this form is to capture all relevant documentation an Agency may have to assist the Department of General Services ("DGS"), Bureau of Procurement, in expediting the source justification review process. This form must be completed electronically, signed, and submitted with all relevant documentation to DGS. If a question is neither mandatory nor applicable, please indicate "N/A". Please use standard terminology and define acronyms.

## SECTION A

### 1. Agency Name:

Department of Human Services "prior DPW"

### 2. Procurement Description:

This description will appear on the eMarketplace website for public viewing

This sole source arrangement will extend our current agreement with our vendor for Rate Setting, Financial Management, and Consulting Services for Medical Assistance through September of 2015. Within DPW, these services will be provided to the Office of Medical Assistance Programs, the Office of Mental Health & Substance Abuse Services, the Office of Developmental Programs, and the Office of Long-Term Living. This sole source agreement will allow more time to assure a competitive procurement process leading to a new vendor who will begin July 1, 2015, allowing for a 3-month transition period. The Department has utilized actuarial services in support of Medicaid Managed Care operations since 1995.

### Materials Description:

### Services Description:

- Development of actuarially sound rates for the capitated Physical Health and Behavioral Health Medicaid managed care programs
- Development of actuarially sound rates for the Long-Term Living Program
- Development of actuarially sound rates for Developmental Programs
- Provide critical support for policy initiatives as directed by the Secretary's Office including financial analysis, rate development, advice on program structure and cost control, Federal regulations, and best practices
- Development of risk-adjusted rates
- Development and review of rate-setting agreements for Commonwealth managed care programs
- Financial monitoring
- Develop fiscal and financial portions of Medicaid waivers
- Maintain encounter, diagnosis, and financial data pools to support the Commonwealth, and
- Provide program impact and financial analysis.

### 3. Materials Shopping Cart # or Services SPR#

manual

Estimated Cost:

\$5M +

Initial Contract Term:

10/1/2008 to 9/30/2011

Renewals:

Two one-year renewals.

### 4. Supplier - Name:

Mercer Health &amp; Benefits

Full Address:

2325 E. Camelback Road; Suite 600; Phoenix, AZ 85016

Contact Name:

Frederick Gibson

Telephone:

602-522-6526

FAX:

602-522-6499

E-mail:

fred.gibson@mercer.com

SRM Supplier #:

208903-003

### 5. Delivery or service location:

United States

# SOURCE JUSTIFICATION FORM

Bureau of Procurement

## SECTION B

- ☒ **1. Sole Source:** Only known source - Not available from another supplier.
- ☐ **2. Material/Repair/Maintenance:** Material or service MUST be compatible with existing equipment. Documentation must be provided from the manufacturer.
- ☐ **3. Used Equipment:** Value set by 2 independent 3rd party appraisals.
- ☐ **4. Professional Expert:** Describe in detail in Section C.
- ☐ **5. Exempt (Law):** A federal or state statute or regulation exempts the procurement from the competitive procedure. Any applicable information precluding the procurement from competitive procedures must be attached.
- ☒ **6. Feasibility:** Clearly not feasible to award the contract on a competitive basis.

## SECTION C

# SOURCE JUSTIFICATION FORM

## Bureau of Procurement

**1. Describe the unique features of this procurement that prohibit a competitive environment. If applicable, attach a Statement of Work ("SOW").**

DPW has re-issued RFP 09-13 - Rate Setting, Financial Management & Consulting Services. The selected offeror will provide services to the Office of Medical Assistance Programs (OMAP), the Office of Mental Health & Substance Abuse Services (OMHSAS), the Office of Developmental Programs (ODP), and the Office of Long-Term Living (OLTL). DPW is working to put the contract that results from the RFP in place on July 1, 2015. DPW is requesting a sole source arrangement to extend the agreement with our current vendor for Actuarial, Analytical and Financial Management Services in Support of Medical Assistance, Mercer Health and Benefits, through September 30, 2015. The first three months of the new contract will overlap to allow for the necessary completion of work by the current contractor, as well as provide for transition to the selected offeror, as explained below.

Current Issue: DPW's current contract with Mercer expires September 30, 2014. After experiencing some delays, DPW issued RFP 09-13 to procure a new contract through a competitive process. OMAP, OMHSAS, ODP and OLTL all require ongoing support until a new contract is in place. We are required by Federal regulations to have an actuarial certification at the end of each rate setting cycle. Since the Actuary cannot attest to another's work, it makes it challenging to bring a new vendor in prior to the end of the rate setting cycle and puts DPW at risk of losing federal funding of approximately \$6 billion. (See chart of cycle rates)

Rate Setting Cycle Descriptions: OMAP's annual rate-setting process is complex and time-consuming and the established rate cycles make it difficult to transition to a new vendor and comply with Federal regulations. The goal of the rate setting cycle is to determine the lowest possible rates that will support a viable HealthChoices program. This requires many months of work. In addition, we have been required by CMS to convert from a fiscal year (FY) rate setting basis to a calendar year (CY) which will be effective January 2015. We began the development of the CY2015 rates late in October 2013 and have completed the rates for FY 2014 which was effective July 2014. In August the actuary provides their certification for DPW and the federal government. The actuary supports negotiations with each MCO held the first two weeks of September. The MCOs hire actuaries to contest our actuary's work so familiarity with the methodology is required to defend our current rates. Additionally, the CY2016 rate development process will start no later than January in order to be complete by September 30, 2015, as required by CMS.

OMHSAS' HealthChoices Behavioral Health (HC BH) has two rate cycles annually. The Calendar year rate setting cycle

# SOURCE JUSTIFICATION FORM

## Bureau of Procurement

runs from April through September. The State Fiscal Year rate setting cycle runs from October through April. In total, DPW spends approx. \$3 Billion a year on the HC BH program. The rate setting process requires large amounts of time to be spent on data validation, data analysis, and data adjustments, all performed by the current contractor. Mid to late cycle, the contractor assists the Department in rate negotiations, which are designed to control costs and maximize savings. Late in the cycle, the contractor must provide an actuarial rate certification package which is submitted to CMS and when approved, allows the Department to draw down Federal funds for the rates that are Federally matched.

ODP's Modeled Rate Workgroup begins in October and cycles through the end of February. The workgroup determines rates for three rate setting methodologies: Fee schedule and Department-established Fee Services, Cost-based services, and Outcome-based services. These three rate setting methodologies are used in support of ODP's Consolidated and P/FDS waivers, approved by CMS and Chapter 51 regulations. These waivers account for more than \$2 billion annual expenditures.

OLTL's LIFE (Living Independence for the Elderly) rate setting process cycles from March-May for rates effective 07/01/2015. Usually the work is completed in July or August to be submitted to CMS for approval since the rates can be retro-active.

Other Federal Initiatives Impacting this Contract: The Governor's Healthy PA proposal includes changes to the existing Medicaid program and will impact healthcare delivery in PA when approved by CMS. The implementation date is January 1, 2015 and it will require significant actuarial work in assessing these changes and providing for the development of new capitation rates. We are currently negotiating with CMS for final approval of this initiative.

Analysis of break-through drugs recently made available for Hepatitis C, HIV/AIDS, Hemophilia, and non-covered drugs is critical to contain costs for the Department. Two newer drugs, Sovaldi and Olysio, were recently released for the primary treatment of Hepatitis C at a staggering monthly cost of \$28,000 and \$22,000 respectively. While MCOs have suggested a separate payment for these high-cost drugs is necessary to cover the pent-up demand, our vendor has provided calculations and documentation so that the risk of increased utilization is contained within the rate development process. This type of continued actuarial support is necessary to assure efficient management and delivery of pharmaceuticals for the Medical Assistance capitation.

# SOURCE JUSTIFICATION FORM

## Bureau of Procurement

**2. Document and attach the research that has been conducted to date to verify the supplier is the only known source.**

DPW believes that there are more suppliers for this service. This Sole Source is an extension of the arrangement with the current supplier to extend from October 1, 2014 through September 30, 2015. This supplier is the only source able to cover this 12-month time period. This sole source justification will allow more time to assure an effective procurement process among competing suppliers with a contract to begin July 1, 2015. That contract will be in place for three to five years.

**3. Does the supplier utilize distributors, dealers, resellers, etc.? If "Yes," please identify.**

No, the supplier does not utilize distributors, dealers or resellers.

**4. Are there compatibility requirements or compliance requirements with a warranty or service agreement? If "Yes," please explain.**

The service provided by the supplier is very specialized and not easily replaceable. This requires the vendor have a combination of certified actuary services, federal Medicaid policy knowledge and Medicaid health care systems expertise. Another supplier will require a significant period of time of transition to be performing at the level of the current supplier. This 12-month extension will allow time to prepare for this transition and appropriate time period for rate-development as stated in question #1.

**5. How has the material or service been procured in the past? Please provide previous source justifications, contracts, & PO's for this material or service.**

A competitive bidding process has been used and will be used for the procurement for this service starting July 1, 2015. This sole source is a bridge to that 3 to 5 year contract.

**6. If procured through the IT ITQ process, please provide original \$ amount and contract period of order. Is this the final phase of the project?**

N/A. This service is procured through the RFP process. This sole source justification provides an extension with the current supplier while the RFP process is completed.

**7. If this is an upgrade, addition, alteration, etc., to an earlier procurement, please describe in detail.**

No, this is not an upgrade to an earlier procurement. The current contract number is SAP 4000012577. The Department has utilized actuarial services in support of Medicaid Managed Care operations since 1995. This is a continuation of services required by federal regulation. This sole source justification provides an extension with the current supplier while the RFP process is completed.

**8. What are the consequences of not approving this procurement?**

The Commonwealth is required by federal regulations to provide actuarially sound rate development and risk adjustment for managed care organizations under contract with DPW. If DPW would be out of compliance with federal regulations by not having a service provider under contract, we would be at-risk for losing a portion of billions of dollars of federal matching funds, more than half of the \$17 billion over a year.

This service provider is critical in helping control Medicaid costs and saves tens of millions of dollars each year.

# SOURCE JUSTIFICATION FORM

Bureau of Procurement

**9. If timing is a factor, what is the time factor and why?**

Yes, timing is a factor. OMAP's annual rate-setting process is complex and time-consuming and the established rate cycles make it difficult to transition to a new vendor and comply with Federal regulations. The goal of the rate setting cycle is to determine the lowest possible rates that will support a viable HealthChoices, Healthy PA and other capitation program. This requires many months of work. In addition, we have been required by CMS to convert from a fiscal year (FY) rate setting basis to a calendar year (CY) which will be effective January 2015. Therefore, we began development of the CY2015 rates late in October 2013. We are in the process of completing the rates for CY2015 and starting the process for the rates beginning January 1, 2016.

**10. List any other information relevant to the acquisition of this procurement here or as an attachment.**

Please see Excel "DPW Actuary Rate Setting Cycle" which documents the rate development process during the calendar year.

Any additional relevant information will be provided for this procurement as questions arise in the review process.

**11. For requests > \$100,000, has the supplier signed cost or pricing data certification and is the pricing breakdown attached?**

N/A

# SOURCE JUSTIFICATION FORM

Bureau of Procurement

## SECTION D

**IMPORTANT\*: The printed names on this form shall constitute the signatures of these individuals.** Agencies must insure that these individuals review the completed form and give their consent to apply their printed name on this form. No handwritten signatures shall be required in order for the form to be considered "signed" by those individuals whose names appear in the signature section of the form.

### Shopping Cart Contact Person (Person whom DGS will contact regarding the Shopping Cart):

<b>Name:</b>	Daniel R. Boyd	<b>P-Group:</b>	N/A	<b>Date:</b>	08/20/2014
<b>Title:</b>	Director of Procurement	<b>Telephone:</b>		<b>Fax:</b>	

### Agency Contact Person: Person in your agency that DGS can contact for additional information, etc.

<b>Name:</b>	Karl Hoffman	<b>Title:</b>	Program Analyst	<b>Date:</b>	08/20/2014
<b>Telephone:</b>		<b>Fax:</b>		<b>Email:</b>	karhoffman@pa.gov

### Approving Authority (Agency Head or Deputy reviewing and approving this request): Approving Authority connotes approval of the source justification and the cost or pricing data certification.

<b>Name:</b>	Jay Bausch	<b>Title:</b>	Acting Deputy Secretary for Admir	<b>Date:</b>	08-28-14
<b>Telephone:</b>		<b>Fax:</b>			

### Additional Approvals (if required by Agency):

<b>Name:</b>	Daniel R. Boyd	<b>Title:</b>	Director of Procurement	<b>Date:</b>	08-27-14
<b>Telephone:</b>		<b>Fax:</b>		<b>Email:</b>	dboyd@pa.gov
<b>Name:</b>	Daniel R. Boyd	<b>Title:</b>	Director of Procurement	<b>Date:</b>	08-27-14
<b>Telephone:</b>		<b>Fax:</b>		<b>Email:</b>	dboyd@pa.gov
<b>Name:</b>		<b>Title:</b>		<b>Date:</b>	
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