



AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Ian Appleyard
Director, HRM

SUBJECT: Worker's Compensation Third Party
Administrator Agreement Extension
(March 1, 2017 through February 28,
2018)

DATE: January 24, 2017

City Administrator Approval

Date:

1/12/17

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator To Extend The Professional Services Agreement With JT2 Integrated Resources To Continue Provision Of Worker's Compensation Administration Services For The Period March 1, 2017, Through February 28, 2018, In An Amount of \$2,511,538.40 For A Total Amount Over The Four Year Term Of The Contract Of \$9,943,374.86.

EXECUTIVE SUMMARY

This report and the accompanying resolution authorize the City Administrator to extend the Professional Services Agreement with JT2 Integrated Resources for an additional one-year term as originally authorized by the Oakland City Council in Resolution No. 84805 C.M.S. dated January 14, 2014.

Pursuant to the original legislation, extension of this agreement is permitted "upon acceptable performance as determined by an independent audit and with Council approval." The current term of the agreement expires February 28, 2017.

Staff is recommending authorization of this contract extension. The performance of the contract will be monitored by an annual audit and by comprehensive file reviews. The annual audit, which is recommended by CSAC-Excess Insurance Authority (CSAC-EIA), will be conducted by an independent audit firm in August 2017. The comprehensive file reviews will commence immediately and examine all open cases (inclusive of indemnity, medical only and future medical cases) by HRM – Risk Management, CSAC-EIA and JT2 representatives.

Item: _____
Finance & Management Committee
January 24, 2017

BACKGROUND / LEGISLATIVE HISTORY

Human Resources Management Department-Risk and Benefits Division is responsible for the administration of the City's Self Insured Workers' Compensation Program. To facilitate that administration, the City has engaged a Third Party Administration firm, JT2 Integrated Resources ("JT2") to provide administration services to ensure full compliance with the State of California workers' compensation laws and City negotiated Memorandum of Understandings.

JT2 was selected by the City following a formal Request for Proposal (RFP) process that took place in the spring of 2013. As a result of the RFP process, JT2 was selected to continue to provide Workers' Compensation Claims Administration Services, as they have provided since 2001.

The Council approved the awarding of the contract to JT2 on January 21, 2014, and authorized a two year contract with options to renew for three additional two year terms. (Resolution No. 84805 C.M.S.) The criteria adopted to justify the contract extensions stipulated that it would be granted upon "acceptable performance" as determined by an independent audit and with City Council approval. The original contract term was March 1, 2014, through February 29, 2016. The results of the independent audits for the initial contract term indicated performance scores of 90 and 73 percent respectively, below the 95 percent performance expectations of CSAC-EIA.

In January 2016, CSAC-EIA raised concerns regarding TPA performance identified through the audit process. The CSAC-EIA Claims Review Committee, after reviewing and discussing the audit findings of August 2015, directed EIA staff to conduct guidelines training with staff at JT2. The Committee also directed EIA staff to conduct two audits in March 2016 and September 2016. In addition, the Committee recommended that the City conduct quarterly audits of its own to monitor ongoing performance of its workers' compensation claims program.

Due to performance issues identified through the independent audit and the concerns expressed by CSAC-EIA and employee labor organizations, instead of extending the contract for two additional years, the City Council authorized the City Administrator to extend the agreement for one additional year with additional performance requirements. The term for the one-year extension of the contract was March 1, 2016 through February 28, 2017. (Resolution No. 86020 C.M.S.)

Resolution No. 86020 C.M.S. stipulated that two performance audits would be conducted by CSAC-EIA and an additional four audits would be conducted by an independent auditor, directed by the City. In 2016, CSAC-EIA completed two audits. For the period of August 2015 through March 2016, JT2 scored 82 percent. For the period of August 2015 through August 2016, JT2 scored 74 percent. Audits typically have a review period of 12 to 24 months and overlapping time periods are common.

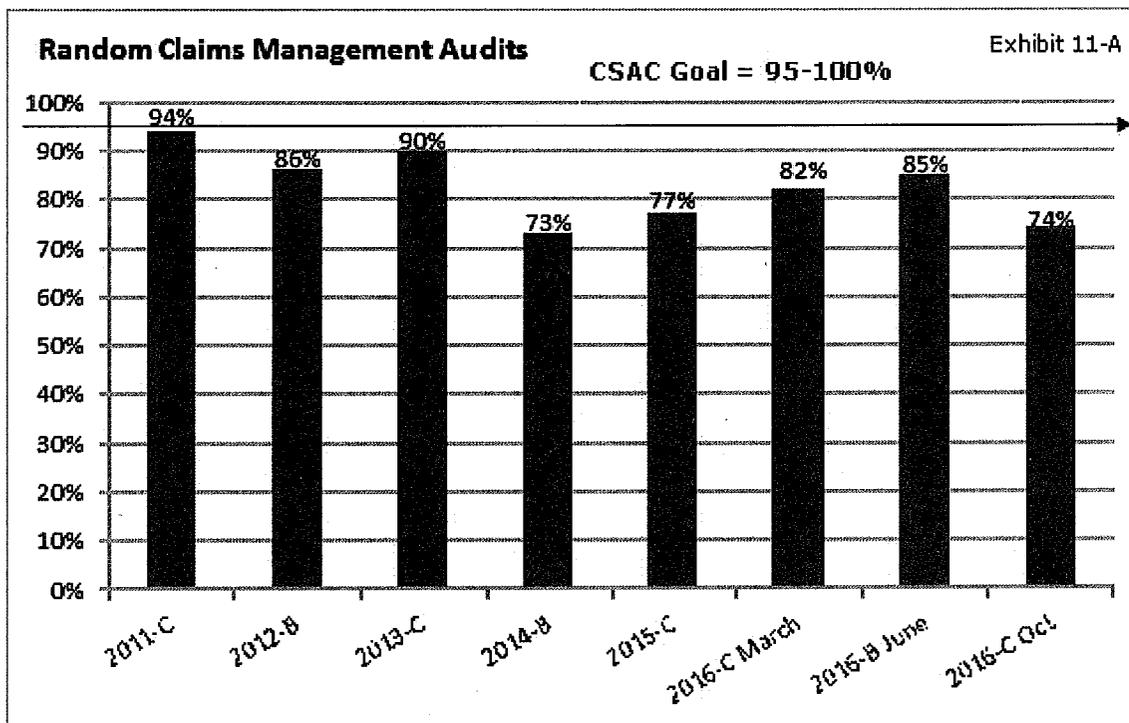
As for the quarterly performance audits performed by an independent auditor, the first covered the period of May to August 2016 and was conducted by Bickmore. The score was 85 percent and focused on cases with large liability. The next audit was scheduled to cover November to December 2016 with twice the audit volume, which would be considered the equivalent of two

audits. However, due to the two recent CSAC-EIA audits and JT2 concerns of the frequency of audits, the November 2016 audit was not conducted pending discussions with City staff.

Rather than continue the additional audits as contemplated at the time of the contract extension, JT2 requested that audits resume on an annual basis. Risk Management staff conferred with CSAC-EIA and determined that more frequent audits are unlikely to improve performance or provide new data for performance evaluation. Instead, CSAC-EIA recommended a process of comprehensive file review. This would be in addition to the current departmental claims review process and would offer more qualitative information as CSAC representatives would now be included in the process.

This approach was discussed with JT2 representatives and they agreed that it was an acceptable process that would provide an improved basis for program evaluation. JT2 representatives also agreed to resuming the quarterly financial review and fraud assessment meetings as well as instituting litigation updates with the City's workers' compensation counsel. All of these elements would be included as part of the next contract extension.

The following table illustrates the audit score trends over the past several years.



Auditors: (B) Bickmore (C) CSAC

ANALYSIS AND POLICY ALTERNATIVES

Since the awarding of the contract in 2014, JT2 has undergone five independent audits, two by the City (using Bickmore) and the three by CSAC-EIA (by Northbay Associates, and Livingston and Associates). Since that time, the audits have identified performance deficiencies in several

program areas. Staff recognizes that acceptable performance is critical for this service and will work closely with JT2 and CSAC-EIA to monitor and improve performance.

FISCAL IMPACT

This contract extension with JT2 would provide Workers' Compensation Third Party Administration (TPA) Services for the period March 1, 2017, through February 28, 2018, in the amount of \$2,511,538.40. The total amount incurred for the first four year term of the contract would be \$9,943,374.86.

The contract expenditures are as follows:

Contract Year	Yr 1	Yr2 (frozen)	Yr3 (frozen)	Yr4
	<i>March 1, 2014 to February 28, 2015</i>	<i>March 1, 2015 to February 29, 2016</i>	<i>March 1, 2016 to February 28, 2017</i>	<i>March 1, 2017 to February 28, 2018</i>
Administrative Fees	\$1,712,978.82	\$ 1,712,978.82	\$ 1,712,978.82	\$ 1,747,238.40
Bill Review Fees	\$ 513,000.00	\$ 513,000.00	\$ 513,000.00	\$ 513,000.00
Bill Review Overage (10%)	\$ 51,300.00	\$ 51,300.00	\$ 51,300.00	\$ 51,300.00
Loss Control/FEHA Svcs	\$ 200,000.00	\$ 200,000.00	\$ 200,000.00	\$ 200,000.00
Total Contract Amount	\$2,477,278.82	\$ 2,477,278.82	\$ 2,477,278.82	\$ 2,511,538.40

Inclusive in this amount are Administrative Services Fees of \$1,747,238.40, Bill Review Fees of \$513,000 plus 10 percent overage contingency of \$51,300 per year and \$200,000 for Loss Control and Disability Management Services per year. The funding for this contract is budgeted within Fund 1150 – Workers' Compensation Insurance Claims Fund, and no additional budgetary adjustment is necessary. The contract year for this contract runs from March 1 through February 28(29) each year.

The contract costs are inclusive of all specified workers' compensation program administrative services with the exception of Managed Care Services and Return to Work/Transitional Duty Coordination Services which are charged against individual claims as allocated services. Further, this amount also does not include Workers' Compensation benefits costs, as the costs of benefits are paid to employees on behalf of the City by the TPA, rather than to the TPA for their administration services.

SUSTAINABLE OPPORTUNITIES

Economic: *There are no economic opportunities associated with this report.*

Environmental: *There are no environmental opportunities associated with this report.*

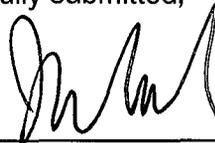
Social Equity: *There are no social equity opportunities associated with this report.*

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council adopt a resolution authorizing the City Administrator to extend the professional services agreement with JT2 Integrated Resources to continue provision of worker's compensation administration services for an additional one year term for March 1, 2017, through February 28, 2018, in the amount of \$ 2,511,538.40 for a total amount over the four year term of the contract of \$9,943,374.86.

For questions regarding this report, please contact DEBORAH GRANT, RISK MANAGER, at 510-238-7165.

Respectfully submitted,

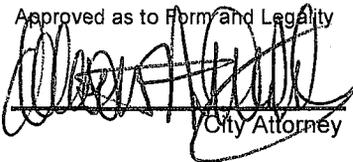


IAN APPLEYARD
Director, Human Resources Management

Prepared by:
Deborah Grant, Risk Manager
Risk and Benefits Division

2017 JAN 12 PM 7:01

OAKLAND CITY COUNCIL

Approved as to Form and Legality

City Attorney

RESOLUTION No. _____ C.M.S.

Introduced by Councilmember _____

RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO EXTEND THE PROFESSIONAL SERVICES AGREEMENT WITH JT2 INTEGRATED RESOURCES TO CONTINUE PROVISION OF WORKER'S COMPENSATION ADMINISTRATION SERVICES FOR THE PERIOD MARCH 1, 2017, THROUGH FEBRUARY 28, 2018, IN AN AMOUNT OF \$2,511,538.40 FOR A TOTAL AMOUNT OVER THE FOUR YEAR TERM OF THE CONTRACT OF \$9,943,374.86.

WHEREAS, the City Council desires workers' compensation third party claims administration services; and

WHEREAS, the City Council authorized the awarding of the third party claims administration services contract to JT2 Integrated Resources (JT2) in Resolution No. 84805 C. M. S., dated January 14, 2014; and

WHEREAS, the City Council authorized the extension of the third party claims administration services contract to JT2 for an additional twelve month period in Resolution No. 86020 C.M.S., dated March 1, 2016; and

WHEREAS, the City Council desired that the contract for services include performance measures for meeting goals specified in the contract in order to qualify for ongoing renewal of the contract within the specified terms of the contract; and

WHEREAS, the agreement provides that for the performance of the services JT2 Integrated Resources will be paid a contract fee and contract renewal is based on acceptable performance as determined by an independent audit; and

WHEREAS, the City Council resolved that during the term of extension agreement, quarterly and annual performance audits would be performed by an independent auditor; and

WHEREAS, the outcome of performance audits resulted in scores below the CSAC-EIA performance expectation; and

WHEREAS, further inter-year audits would not likely provide new or substantively different information regarding the TPA's performance; and

WHEREAS, pursuant to the City Council's motion authorizing the agreement with JT2 Integrated Resources, the agreement provides that the term thereof shall be two years plus one additional year with the term expiring on February 28, 2017; and

WHEREAS, with Council approval, the City may exercise up to three options to extend the term of the agreement; and

WHEREAS, most services will be charged under the claims administration fees, but the contract amount also includes other specialized professional services provided on an as-needed basis and may not be charged to the full extent of the allocation; and

WHEREAS, these specialized professional services include, but are not limited to, Bill Review Services, FEHA/Disability Management Services, and Loss Control Services; and

WHEREAS, the City Council finds that this contract is for services of a professional and temporary nature, and shall not result in the loss of employment or salary by any person having permanent status in the competitive service; now, therefore be it

RESOLVED: That a contract extension is awarded to JT2 Integrated Resources to provide Workers' Compensation Third Party Administration services for the period of March 1, 2017 through February 28, 2018 in an amount of \$ 2,511,538.40 for a total four year contract amount of \$9,943,374.86; and be it

FURTHER RESOLVED: That during the term of this agreement, a 2016-17 Fiscal Year-end performance audits will be performed by an independent auditor; and be it

FURTHER RESOLVED: That during the term of this agreement, comprehensive case reviews of all open claims will be conducted by representatives of CSAC-EIA, City and JT2, in a frequency to ensure each claim is reviewed at least two times; and be it

FURTHER RESOLVED: That during the term of this agreement, legal, fiscal and fraud reviews will be performed on a quarterly basis by City and JT2 representatives; and be it

FURTHER RESOLVED: That funding for these contract services is contained in the FY 2016-17 Adopted Budget and the FY17-18 Baseline Budget in the Workers' Compensation Insurance Claims Fund (1150); and be it

FURTHER RESOLVED: That the City Administrator is authorized to complete all negotiations and execute all contracts, amendments, modifications and extensions consistent with this resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID
and PRESIDENT GIBSON MCELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California