

Attachment A

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ANNUAL REPORT
Fourth Quarter / Annual Fiscal Year 2007

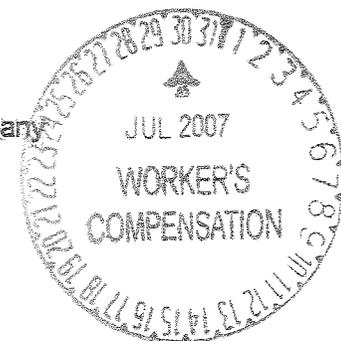
I. EXECUTIVE SUMMARY FISCAL YEAR 2007

The Department of Human Resource Management, Office of Workers' Compensation (OWC) Program completed the fourth year of the contract with MANAGED CARE INNOVATIONS (MCI).

MCI serves as the Program's General Contractor (GC) providing single point contract administration for the service components provided by the Team Partners.

The MCI Team Partners for Fiscal Year 2007 included:

<u>SERVICES</u>	<u>MCI PARTNERS</u>
1. Claim Service Provider(CSP)	Frank Gates Service Company
2. Bill Review and Payment (MBA)	Corvel Corporation
3. Clinical Case Review (CCR)	CareWorks, Ltd.
4. PPO Network	Corvel Corporation
5. Medical Vocational Services (MVS)	M Hayes & Associates
6. Loss Control Services	Loss Control Innovations
7. Surveillance	Advantage Surveillance
8. Pharmacy Network	First Script
9. Durable Medical Equipment	PMSI
10. Job Club	MHayes (as of 1/10/07)
11. Toll-free Telephonic Reporting	First Notice Systems
12. Field Investigations	Crawford & Company
13. Diagnostic Services	Med Focus
14. Payroll and Classification Audits	Central Virginia Audit Service



Fiscal Year 2007 was another year of significant success and change. Modifications were made to the services provided to improve claim management services, enhance operating efficiency, provide improved return to work opportunities to the injured workers, and reduce claims cost to the program.

January 1, 2007 the claims previously administered by Gates McDonald for fiscal claim years 1986, 1987, and 1989 were transitioned to the MCI program. This change is expected to provide a significant improvement in general claims management and communication with the injured workers, the medical community and the Office of The Attorney General.

MCI also successfully coordinated the introduction of two new service models for July 1, 2007 implementation. A contract addendum was signed, procedures developed and training provided for the introduction of new MHayes services. The telephonic case management services offered by Careworks were terminated June 30, 2007. This

created a shift in the model, targeting earlier field case management in pursuit of earlier return to work. The services of Dr. David Cifu were retained as the Medical Director of the program. His contract had previously been with CareWorks and MCI assumed the contractual responsibility for the position. Also created was a contract addendum for the introduction of a new service offering by CorVel Corporation in the form of IME/FCE referral services. A procedure was developed and training provided for a July 1, 2007 implementation. A contract addendum for the reduction of Med Check Select fees was also completed and signed by MCI.

Additionally, MCI successfully negotiated a change from Concentra to MHayes for ongoing Job Club services after Concentra made the decision to no longer offer Job Club in Virginia. The new program has been a solid success with injured workers finding employment through Job Club, a feat not accomplished by the prior vendor. MHayes Job Club has also documented instances of non-compliance for assistance in the overall management of the claim files.

Also of significance, a measurable jump in the overall Customer Satisfaction FY06 rating. MCI achieved a 8.2 overall score as a result of the survey commissioned by OWC in 1Q07. Additionally, the Commonwealth's actuary identified the Program savings at \$21,014,935 for FY 06. This creates total savings of over \$113, 000,000 since the program's inception in 1998.

The MCI Account Manager coordinated and managed the implementation of the new program offerings in addition to analyzing and resolving the many service issues inherent to a program of this size. Opportunities for improvement were identified by both MCI and COV and the Account Manager worked closely with both OWC management and partner management to resolve problematic service issues. In addition to individual problem solving, the MCI Account Manager conducted QA reviews on all partners to include Corvel product improvement and workflow management; TCM performance; MHayes closed and open case reviews; MHayes consultant quality; FGSC supervisory reviews and subrogation analysis, among others. Three FGSC systems offerings were tested by the MCI Account Manager. The Account Manager maintained project status for all partners via multiple spreadsheets and monthly QA meetings. The Account Manager worked closely with Corvel for ongoing management of their services and resolution of the MCS invoices.

Reported savings for the entire program decreased \$3.3 million to a total savings of \$12.9 million. It is important to realize that medical bill volume for this period decreased \$5.8 million in FY 07, continuing the decline in billed volume of \$3 million in FY 06. The decline in PCR and PPO savings are a result primarily of the lower billed volume. Other program components' savings components did not change materially.

While the reported savings are declining, the reality is the MCI program is performing effectively. The changes made in the program beginning FY 08 will likely improve performance in the program in areas where savings are not accurately measures. Specifically, return to work results are likely to improve materially as a result of the

enhanced medical field case management. The direct intervention of field case managers is expected to improve the return to work results. The manner in which savings are reported for this service will cause a lower reported savings as the early referral generates the expectation of a more prompt return to work and therefore reduced savings as savings are measured based on deviation from the expectation.

Managed Care Innovations has continued to expend a great deal of management effort to assisting the team partners in improving the quality of their service. This is done through required reporting and monthly quality assurance meetings to identify problems in their infancy and correcting the problems before they become major issues. This is reflected in the most recent SAS70 audit which contained no major findings.

A review of the number of claims submitted for FY 06 and FY07 show a decrease of 4.3% from 10,035 to 9603. The incurred cost associated with these claims declined minimally from \$18,013,626 to \$17,883,137.

II. MEASURED SAVINGS

Savings as measured by the program components were \$ 12.9 million, down from \$16.2 million for FY06. While it is important to know the performance of each individual component, the ultimate savings to the Commonwealth must be measured in opportunity cost, or cost foregone by reduced total charges. Adherence to best practices in managing a worker's compensation claim can prevent the delivery of unnecessary services and perhaps prevent the injured worker from being placed on disability and out of work. The Commonwealth's initiatives with Executive Order 94 have enhanced the MCI's staff in reducing the payment for workers' compensation claims. Among the key factors in EO 94 are the requirements for each Agency to develop strategies to reduce lost time and to evaluate cases where an injured worker could not return to full or modified duty. This in conjunction with several key changes in the MCI office may have reduced the visible reported savings but in fact has improved the real savings to the Commonwealth.

The Billed Amounts Chart shows a continued decline in medical billed volume for FY07 of 19.4%, from \$29.9 million to \$24.1 million in FY07. This continues the downward trend of \$3 million in FY 06 and \$5.8 million in FY 07. The four quarters for FY 07 portrays remarkable stability for the PCR and PPO savings rate, indicating the transition to the MBA may be stabilizing. All data used in this report received from the MBA is unaudited by MCI.

BILLED AMOUNT BY TOTAL AND PPO

	1Q 07	2Q 07	3Q 07	4Q 07	FY 07	FY 06	FY 05	FY 04
TOTAL	\$ 6,208,598	\$ 5,404,557	\$ 6,233,080	\$ 6,264,553	\$ 24,110,788	\$29,910,292	\$32,925,246	\$26,495,014
PPO	\$ 2,896,181	\$2,590,827	\$ 2,924,654	\$ 2,786,467	\$ 11,198,129	\$15,646,924	\$15,046,512	\$ 9,997,551
% PPO	46.65%	47.94%	46.92%	44.48%	46.44%	52.3%	45.70%	37.73%

The PPO network penetration declines to 46.65% from 47.94% in FY 06. This change does not appear to reflect any material adverse change in network use. The most dramatic change is the volume of medical billings which declined 19.4% from FY 06. Total claims submitted decreased by 4.3% from FY06 to FY07. Refinement of the panel of physicians was designed to improve the Quality of medical care. The results observed may be a result of this initiative

The Savings Rate for PCR and PPO indicate a decline from 25.34% to 19.95 for FY06 to FY07 respectively. A review of the quarterly savings performance indicates an ia high level of stability for the four quarters of FY 07. Overall performance remains as expected.

SAVINGS RATES PCR AND PPO

	1Q 07	2Q 07	3Q 07	4Q 07	FY 07	FY 06	FY 05
PCR	12.84%	12.6%	12.94%	11.46%	12.45%	17.03%	20.54%
PPO	27.53%	26.27%	27.58%	25.77%	26.81%	15.89%	19.02%
TOTAL	19.83%	20.3%	20.68%	19.03%	19.95%	25.34%	29.23%

The following provides the program performance in terms of the source of savings.

PERCENT OF TOTAL SAVINGS

SERVICE	1Q 07	2Q 07	3Q 07	4Q 07	FY 07	FY 06	FY 05
PCR	30.69%	23.86%	23.76%	18.69%	23.67	31.52%	32.44%
PPO	16.70%	14.59%	13.74%	12.34%	14.11%	15.38%	13.73%
Case Mgmt	16.34%	10.94%	19.60%	9.28%	13.94%	11.23%	14.92%
Voc	28.82%	43.63%	37.13%	53.53	41.79	35.74%	33.40%
Rx	5.91%	5.45%	4.15%	4.41%	4.87%	3.42%	2.28%
DME	1.07%	1.21%	1.44%	1.31%	1.27%	0.90%	0.59%
Dx	.47%	.32%	.19%	.44%	.35%	0.28%	0.23%
Job Club	N/A	N/A	N/A	N/A	N/A	1.52%	2.42%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

*Job Club services were offered by MHayes beginning in January 2007. Note that savings are no longer tracked on a case by case and therefore, quarterly, basis.

In June 2007, MCI instructed CorVel to modify the prevailing community rate paid to non-PPO providers. The modification is based on the condition that MCI believes that where CorVel has data to defend its reimbursement to providers, the amount paid was above the statutory requirement. The reduction in the prevailing community rate is expected to add an additional 3 to 5 percent increase in the prevailing community rate savings.

The decline in PCR and PPO savings as a contributor is due primarily to the material drop in medical billed volume. The decline in savings rate is only a minor source of the decrease.

An analysis of data supported the decision for MCI to recommend a significant shift in the model to focus on an earlier referral to field case management to facilitate an earlier return to work. This was accomplished by discontinuing the use of Careworks as a

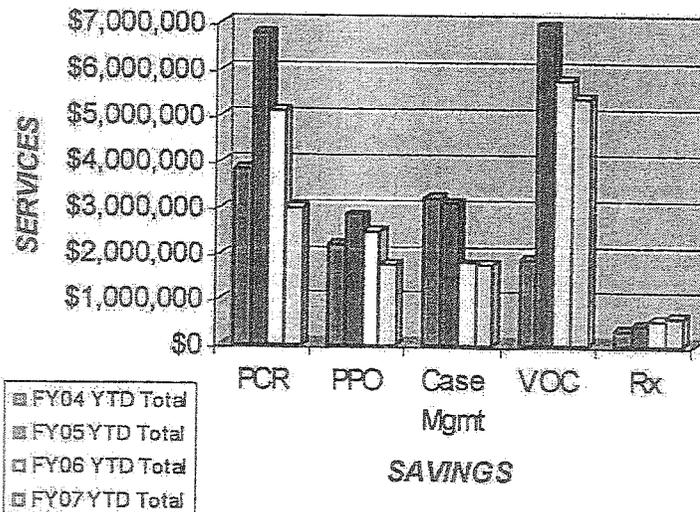
partner and moving to expanded services with MHayes. MCI, OWC and M Hayes believe greater overall savings in the form of an earlier return to work will be accomplished using this more aggressive model. This, in combination with the positive impact of EO 94, has allowed efforts to be directed to an injured worker to accelerate the return to work initiative before the injured worker adapts to the disability life style. MHayes savings has continued to increase throughout the year as is evident in the following chart.

In the area of the support services program components, the First Script Pharmacy Program continues to show strong performance and this is expected to increase with the expanded use of the mail order program.

SAVINGS COMPARISON FY07, FY05 and FY06

Fiscal Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	FY07 YTD Total	FY05 YTD Total	FY06 YTD Total
PCR	\$797,174	\$680,726	\$847,342	\$718,152	\$3,002,636	\$6,761,645	\$ 5,092,552
PPO	\$433,846	\$416,259	\$489,935	474,225	\$1,806,649	\$2,861,604	\$ 2,485,607
Case Mgmt	\$424,279	\$312,194	\$699,092	\$356,633	\$1,792,198	\$3,109,978	\$1,813,809
Voc	\$748,489	\$1,244,905	\$1,324,128	\$2,057,091	\$5,374,613	\$6,961,877	\$5,774,963
Rx	\$153,187	\$155,450	\$147,893	\$169,504	\$626,034	\$475,826	\$ 552,826
DME	\$27,912	\$34,451	\$51,312	\$50,215	\$163,890	\$122,695	\$145,988
Dx	\$12,264	\$9,063	\$6,968	\$16,737	\$45,032	\$47,839	\$ 45,263
Job Club	\$0	\$0	\$0	\$0	\$0	\$503,964	\$245,284
Total	\$2,597,151	\$2,853,048	\$3,566,670	\$3,842,557	\$12,811,052	\$20,845,449	\$16,156,292

COMPARISON FY04 - FY07



III. MCI 4th QUARTER OBJECTIVES FOLLOW-UP

- A. MCI successfully coordinated and managed significant changes in the program for a July 1, 2007 implementation. This included adding additional MHayes services and discontinuation of telephonic case management services and the RTW monitoring provided by Careworks. The Careworks contract was terminated effective June 30, 2007 and the program moved to a new model emphasizing an earlier referral to field case management. A contract addendum was required as were changes to numerous procedures. The contract addendum was signed and training was completed. The model is in place as of July 1, 2007.
- B. The second significant change during the 4th quarter was the addition of IME/FCE services offered by Corvel. The contract addendum was signed and a procedure for this was created and training took place to ensure a July 1, 2007 start.
- C. MCI continued to work with FGSC to identify the VRS offerings and coordinate which offerings would take priority over others. Visual Liquid Web, used for the web based reporting, was modified to allow second level entrees of first reports of injury to be entered and then forwarded to the Agency's worker's compensation contact person who adds and verifies information prior to sending to eh claims system. Final changes are being made to assure that administrative efficiencies are achieved from the use of this product. The Workflow Director has been approved and implemented. This product is designed to be used by the benefit coordinator to improve efficiency in accessing the claims system.
- D. MCI Account Manager conducted QAs as identified by MCI and OWC and managed the implementation of additional changes to the contract to include the change to MHayes Job Club from previous vendor and Corvel's MCS invoicing;
- E. An improved work process for copying medical records for supply to the VWCC was identified and implemented during 4Q07.
- F. The Universal Referral Form was implemented. The procedure manual was reviewed in it's entirety to make the necessary changes in order to implement the Universal Referral Form. Training was conducted with staff.
- G. MCI has worked closely with CorVel to implement the capability of an Agency to view its medical payment and medical notes. The system also offers a fax bar code cover page to eliminate human intervention in loading these faxes to the CareMC system. A series of problems have delayed the implementation of this program component but is expected to be introduced in the first quarter of FY 08.

IV. KEY ACTION ITEMS 4th QUARTER FY 07

A. During the 4th quarter, under the prevailing community rate (PCR), the program reported un-audited savings of \$718,152 with an 11.46% savings rate. Under the Corvel PPO, un-audited savings equaled \$474,225 with a 25.77% savings rate.

B. A total of fifty-five assignments were made to Advantage Surveillance. No assignments were made to Crawford & Company.

C. Loss Control Activity

Eight scheduled employee safety-training classes were conducted for a total of 26 hours of training with 54 employees in attendance. Training classes consisted of the following topics:

1. OSHA Program Development (Charlottesville)
2. Walking and Working Surfaces (Abingdon)
3. Laboratory Safety (Richmond)
4. OSHA Program Development (Hampton)
5. Laboratory Safety (Hampton)
6. Laboratory Safety (Roanoke)
7. Laboratory Safety (Fredericksburg)
8. Hazard Communication (Charlottesville)

Four Regional Safety Training meetings were also conducted and attended by twenty-nine employees.

A total of eighteen Snapshot Surveys were performed.

A 10 hour OSHA General Industry Outreach training session was conducted in Hampton with 11 employees in attendance.

Jack Sullivan was assigned several projects that included conducting a Benchmark Analysis for Virginia Department of Transportation and training program development (ANSI Z-10 and the Art and Science of Industrial Hygiene).

Three website articles were prepared and submitted on the following topics:

- Hand Safety
- Emergency Evacuation – Part 2
- Toolbox Meetings – Part 1

D. There were 8898 prescriptions billed through First Script during 4Q07. Savings off of the billed amount averaged 12.57% for the COV account and 13.78% for the COV Supportive Care.

- E. DME savings for 4Q07 were \$50, 215 which represents a small decrease over prior quarter savings of \$51,312.
- F. MHayes continued their strong performance with savings increasing for 4Q07 to \$2,057,091 up from \$1,324,128 during 3Q07.

V. **FY07 ACCOMPLISHMENTS**

- A. The transition of the files previously administered by Gates McDonald to MCI.
- B. More than a dozen procedures were changed or created as part of the changes to the model from Careworks to MHayes, MHayes assumption of Job Club, introduction of new IME/FCE referral services, improvements to processes within TCM and MHayes, transitioning of the Gates McDonald claims to MCI, and the introduction of the Universal Referral Form.
- C. Significant improvements in MHayes internal management structure were implemented as a result of a QA conducted by the MCI Account Manager.
- D. MCI negotiated new subcontract agreements with Corvel and Frank Gates for the administration of the Gates McDonald claims. Additional a contract addendum with signed with OWC.
- E. MCI negotiated new Job Club services to be provided by MHayes after Concentra made the decision to discontinue Job Club. A contract addendum was signed with OWC.
- F. MCI negotiated new services for IME/FCE referral with Corvel Corporation. A contract addendum was signed with OWC.
- G. MCI negotiated a reduced fee amount for MCS services based on performance levels and contract standards. A contract addendum was signed with OWC.
- G. The Disaster Recovery Plan was successfully tested April 18.
- H. SAS 70 Audit – FGSC had a successful FY06 audit with no significant ongoing management by MCI required.
- I. Management meetings and Quality Assurance meetings:
 - Management meetings continued once a month.
 - QA meetings continued to take place on a monthly basis.
- J. The Employee Retreat was held off-site and included sessions on identifying personal goals and time management skills.

VI. FY 08 ANNUAL OBJECTIVES

The MCI Team partners have corporate goals and goals specific to the specialty services provided. The following have been identified by the key partners as objectives for FY 08 that will continue to enhance program performance:

A. MCI has defined the following objectives to accomplish in FY 08:

- Complete the testing and implementation of Visual Liquid Web with Virginia Tech and other selected agencies as approved by OWC.
- Complete the implementation of the Agency access to medical bill payment and related information as provided by the MBA.
- Assure contractual compliance for Field Case management services;
- Manage all MCI partners to assure the successful completion of the stated FY 2008 Objectives.
- Work with Central Virginia Audit Services to complete the classification project assigned by OWC.

B. Frank Gates Service Company identified eight goals for the new fiscal year:

- Maintain the focus on staff training and education in an effort to further develop the knowledge, skills, and abilities of staff;
- Implement the new FGSC internal QPO audit format, moving from a 1-5 scoring system to a system based on a 100 point scale, in a effort to deliver a more consistent, reliable audit result going forward;
- Improve QPO audit score for FY07.
- Maintain an average indemnity file closure ratio of 100% or better;
- Maintain staff turnover at 10% or less;
- Finalize the implementation of all VRS offerings currently in pending status;
- Maintain the focus on improving the overall quality of the file documentation;
- Continue to drive improvement in the delivery of quality customer service with a goal of improving upon the 2006 Customer Satisfaction Survey result.

C. Loss Control Innovations, Loss Control Services will continue to focus on:

- Development of monthly website articles associated with loss control issues;
- Identify opportunities that can most effectively reduce accidents and costs to the Commonwealth of Virginia's program through ongoing Snapshot surveys and Resurveys;
- Conduct Loss Control Training Classes and Regional Safety Meetings
- Development of new training classes that address safety issues, job hazards, and loss control efforts.

D. M Hayes has identified five goals for FY 08:

- Work closely with MCI Team Partners to ensure the success with the re-structure of MCI and M Hayes now increasing their files from TCM;
- Achieve the Frequency of Contact criteria in compliance with contractual obligations;
- Continue the success of Job Club and expand to additional regions of Virginia;
- Continue to assure only qualified files are being referred to the field for vocational services.

VII. FY 08 1ST QUARTER OBJECTIVES

- A. Resolve outstanding Corvel system related issues;
- B. Proceed with testing of agency access to CareMC as well as the fax bar coding feature;
- C. Complete the initial implementation of Visual Liquid Web to provide for electronic reporting of claims both within the Agency and between the Agency and MCI;
- D. Continue with the monthly QA meetings with MHayes, Corvel and FGSC;
- E. Monitor FGSC SAS-70 audit responses
- E. Identify QA opportunities to continue to measure partner performance and drive performance improvement.