



Executive Summary
Guam Memorial Hospital Authority
Revenue Cycle Management
OPA Report No. 24-01, January 2024

Our review of the procurement, agreement, billings, and payments relative to the performance of revenue cycle management (RCM) services for the Guam Memorial Hospital Authority (GMHA) found:

- (1) Deficiencies in GMHA’s procurement process in complying with Guam procurement law and/or its procurement regulations;
- (2) Factors indicative of preferential treatment towards hiring the Contractor for RCM services;
- (3) Unreasonable bases included in the Contractor’s 12% compensation, resulting in questioned costs of \$4.9 million (M); and
- (4) Ineffectiveness of the RCM consultancy due to continuing cash flow and patient receivable issues.

GMHA was engaged in the procurement of an RCM contractor from January 2020 to April 2021, in which GMHA utilized two types of solicitations: one sole source and two requests for proposals (RFP). After the completion of RFP No. 003-2020, an Agreement for RCM Services (the contract) was signed and approved “as to legality and form” by the Office of the Attorney General (OAG) and the Governor in May 2021. The awarded contractor (the Contractor) was to be compensated 12% of accounts receivable (A/R) collections above \$7.2M for performance of RCM services for GMHA. The contract was renewed for an additional year in May 2022; however, GMHA officially terminated the contract in November 2022 via a written notice issued by GMHA’s Legal Counsel.

We questioned \$4.9M paid and/or recognized as payable by GMHA for Contractor invoices issued for July 2021 to October 2022 due to the Contractor’s non-performance of collection functions for self-pay patients and third-party insurers; non-involvement in the Medicare Cost Reporting; and the apparent lack of effort in collecting from regulated payors included in the billable A/R mix.

Deficiencies in Procurement Process

Prior to the Contractor’s service as GMHA’s RCM consultant, the Contractor, through the extension of an unsolicited offer, performed a no-cost assessment of the Hospital’s RCM in 2019 and provided recommendations to address its findings. GMHA subsequently made three attempts – one sole source procurement and two RFPs – to formally procure a contractor for RCM services. We noted several compliance deficiencies in GMHA’s processing of the Contractor’s unsolicited offer and the three subsequent procurement attempts for RCM services.

Unsolicited Offer

In November 2019, GMHA signed a memorandum of understanding (MOU) with the Contractor after receiving an **unsolicited offer, as stated therein**, for a no-cost assessment of the Hospital’s

RCM. Guam procurement law¹ and GMHA's procurement regulations² provide guidelines on the definition and processing of an unsolicited offer; however, there was no evidence that the GMHA adhered to these regulations in that GMHA stated that the offer was evaluated through the RFP process, and thus provided copies of evaluation documents for RFP No. 003-2020. Despite GMHA's deficiencies in following its own procurement rules and procedures for an unsolicited offer – evident by the absence of the required documents – GMHA signed the MOU with the Contractor in November 2019.

Sole Source Procurement

In December 2019, GMHA attempted to use sole source procurement to hire the Contractor following the completion of the no-cost assessment. GMHA's procurement regulations allow for sole source procurement to arise from an unsolicited offer following an evaluation of the offer (26 GAR 2-§16304(a)(4)); however, according to Guam procurement law, notwithstanding any other provision of law, **sole source procurement shall not be permissible in any procurement arising from an unsolicited offer** (5 GCA §5219(e)). A version of the contract was signed by both the Contractor and GMHA's Hospital Administrator/Chief Executive Officer (CEO) as of January 17, 2020; however, the OAG did not approve the sole source procurement of RCM services and instructed that GMHA must go through the RFP process.

GMHA RFP No. 002-2020

We found that GMHA did not involve the OAG throughout the RFP process pursuant to Guam procurement law, which is required for procurements over \$500 thousand (K) (5 GCA §5150). GMHA's estimations for the total contract value ranged from \$1.5M to \$5M for 12 months, which more than exceeded the \$500K procurement value requiring the OAG's involvement; however, GMHA drafted a contract for \$450K in total compensation for a six-month term, which would no longer require the Attorney General's (AG) review and approval. The Hospital Administrator/CEO stated that the AG was not involved at the beginning of the procurement, but was notified of the RFP's cancellation/rejection. Additionally, GMHA did not maintain a complete procurement record for this RFP, with notable documents missing such as the results of the pre-evaluation and the final evaluation of the Contractor's proposal. These omissions exhibited a lack of transparency and accountability which are essential to the procurement process. This RFP was canceled/rejected in June 2020 by GMHA, but the deficiencies were corrected by GMHA seeking the AG's review and maintaining a complete procurement record for RFP No. 003-2020 issued in July 2020.

GMHA RFP No. 003-2020

GMHA's procurement regulations define a **responsive bidder** as a person who has submitted a proposal that conforms in all material respects to the RFP (26 GAR 2-§16309(n)(2)). Per Item #47 on the General Terms and Conditions for RFP No. 003-2020, **offerors shall not submit any cost or pricing data with their proposal**; however, we found that the Contractor was not responsive with the terms of the RFP because there were two instances in which the Contractor violated the provision by providing cost or pricing data in its proposal. The appointed evaluators – which were the same members retained from RFP No. 002-2020's evaluation committee – did not comment on the appearance of the Contractor's non-responsiveness in the opening pre-evaluation or in the

¹ Title 5, Chapter 5, of Guam Code Annotated (GCA) §5219(a)

² Title 26, Division 2, Chapter 16, Article 3 of Guam Administrative Rules and Regulations (GAR) §16304(a)(1), §16304(a)(3), and §16304(a)(4)

final evaluation. Since the Contractor submitted cost or pricing data with their proposal in violation of the General Terms and Conditions of the RFP, the Contractor should have been disqualified as a nonresponsive bidder.

Factors Indicative of Preferential Treatment

For both of GMHA's RFPs for RCM services, we found indications of preferential treatment towards hiring the Contractor through GMHA (1) allowing submissions of percentage-based model proposals for RFP No. 002-2020 after Contractor affiliate's request; (2) issuing RFP No. 003-2020 after discussions with the Contractor under RFP No. 002-2020; and (3) drafting a contract which includes the compensation terms included in the Contractor's proposal.

GMHA Permitted Submission of Percentage-Based Model Proposals After Contractor Affiliate's Request

Under RFP No. 002-2020, GMHA intended to enter into a contract with a fixed-price cap for the initial term; however, GMHA allowed the submission of percentage-based models in response to an organization where the Contractor's Managing Partner works as the CEO. This organization eventually served as the **subcontractor** in the fulfillment of RCM services for GMHA. The amendment stated the organization's "typical preference" for a risk-sharing negotiated percentage-based model that protects GMHA should the contractor not improve the financial performance of the facility. Although the amendment appeared to be beneficial to GMHA, accepting an amendment which noted a "typical preference" for such an arrangement creates the impression of preferential treatment.

GMHA Issued RFP No. 003-2020 After Discussions with Contractor Under RFP No. 002-2020

GMHA's determination notice for RFP No. 003-2020 stated that a **contingency-based contract** will best serve the interest of GMHA and the territory – most notably in that GMHA will not be required to compensate a contractor for its services until and unless GMHA receives an increase in its monthly revenue collections from reimbursements. In GMHA's Board of Trustees meeting minutes, GMHA management noted that the fixed-price contract with price adjustments contract type from the initial RFP (RFP No. 002-2020) "did not meet the bidder's needs" and that the scope of work for the new RFP (RFP No. 003-2020) would be redrafted to make it a contingency-based contract.

Final Agreement Incorporated Compensation Terms Included in Contractor's Proposal

Under RFP No. 003-2020, GMHA initiated two rounds of negotiations with the Contractor prior to reaching a final agreement. The Contractor filed two procurement protests with GMHA in response to GMHA's request for additional cost or pricing data and licenses and certifications, which were later withdrawn. In the protest letters, the Contractor emphasized that GMHA benefitted from the no-cost assessment and the information provided in their proposal and no-cost assessment. The AG and the Governor signed the final agreement for RCM services in May 2021; however, we found that the compensation terms in the final agreement were identical to those included in the Contractor's proposal.

Unreasonable Basis for Contractor Compensation Leads to Questioned Costs of \$4.9M

The Contractor provided RCM consultancy services for GMHA from June 2021 to November 3, 2022, in which the Contractor billed GMHA \$5M for services rendered during the period. We

observed that the contract's scope of services included the collection from self-pay patients and third-party insurers and involvement in the Medicare Cost Reporting, which GMHA stated was not performed by the Contractor and instead fulfilled through guidance in claim process improvements (to include coding) and GMHA seeking a secondary contractor for Medicare Cost Reporting. Furthermore, the billable A/R collection sources (3Ms (Medicare, Medicaid, and the Medically Indigent Program); insurance providers; and self-pay, which includes tax refund garnishments from the Department of Revenue and Taxation) comprise of payors whose payments are guided by local and/or federal regulations. As a result, we questioned \$4.9M paid and/or recognized as payable by GMHA for Contractor invoices issued for July 2021 to October 2022.

Ineffective Contract Performance

GMHA contracted an RCM consultant to address continuing cash flow issues and the independent auditors' repeat findings related to patient receivables; however, it appeared that, based on the findings highlighted in GMHA's fiscal year (FY) 2022 financial audit, the RCM consultancy did not provide immediate relief for GMHA's financial condition.

Based on GMHA's financial audits, there were increases in gross patient revenues during FYs 2021 and 2022; however, GMHA only collected around 47% to 48% of gross patient revenues during the contract period compared with the 58% to 59% collected during the years prior to the contract. GMHA's FY 2022 financial audit disclosed recurring issues relating to the Hospital's continued incurrence of losses from operations and negative cash flows; and increases in unbilled patient receivables. The long-term effect of the RCM consultancy following the contract termination in November 2022 remains to be seen through GMHA's in-house management of the revenue cycle process.

To address the findings, we recommend for the GMHA Hospital Administrator/CEO to:

1. Revise its procurement planning and pre-evaluation processes to include guidelines and criteria which considers compliance with applicable terms and laws relevant for the type of solicitation used; and
2. Utilize a consultancy contract which pays a fixed amount to the awarded contractor instead of a variable percentage, should similar services be needed in the future.



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