Decision

Matter of: TrailBlazer Health Enterprises, LLC

File: B-402751; B-402751.2

Date: July 20, 2010

DIGEST

Protest alleging that agency’s evaluation of awardee’s proposal was inconsistent with terms of request for proposals (RFP) is denied. While RFP required offerors to submit proposals using specific workload assumptions set forth in the RFP, and awardee in fact submitted its proposal based on the mandated assumptions, the RFP also provided that the agency would evaluate offerors’ proposed innovations in performing the work. Thus, the agency properly considered the innovations proposed by the awardee, their impact on the workload assumptions, and reasonably concluded that the awardee would be able to perform with lower staffing levels than would otherwise be required.

DECISION

TrailBlazer Health Enterprises, LLC, of Dallas, Texas, protests the award of a contract to Highmark Medical Services, Inc., of Camp Hill, Pennsylvania, under request for proposals (RFP) No. RFP-CMS-2009-0022, issued by the Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS), for administration services under Section 1011 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Pub. L. No. 108-173), Federal Reimbursement of Emergency Health Services Furnished to Undocument Aliens, which requires CMS to pay hospitals and other healthcare providers for costs associated with furnishing emergency healthcare services to undocumented or other specified aliens. TrailBlazer, the incumbent contractor, argues that the agency’s
evaluation of Highmark's proposal was inconsistent with the terms of the RFP and therefore improper.

We deny the protest.

BACKGROUND

On September 9, 2009, CMS issued the RFP for the award of a cost-plus-fixed-fee contract, with a 1-year base period, and four 1-year options, for services as the administrative contractor for the Section 1011 program. Among other duties, the contractor is required to enroll health care provider applicants and process subsequent claim submissions. The RFP provided that award would be made to the offeror whose proposal represented the best value to the government based on a consideration of four factors: experience, past performance, technical approach, and cost. Offerors were advised that the non-cost factors were each of equal importance, and, when combined, they were “significantly more important” than cost. RFP at 87. The RFP further indicated, however, that in making the tradeoff decision, “slightly superior technical or management features” would not be sufficient to justify an award at a “significantly” higher total cost to the government. RFP at 86.

As it relates to the protest, section L of the RFP included information regarding estimated volumes of work that the Section 1011 contractor could encounter. In this regard, the RFP provided “estimated workload assumptions” and specified that offerors “shall use the workload assumptions provided” in preparing their proposals. RFP at 84. The workload information included, among other assumptions, estimates for the total numbers of claim submissions, claim audits, and customer service calls. Of particular relevance, the workload assumptions included estimated “suspense rates” of 25 percent. RFP amend. 1, at 4. As explained by the parties, a suspense rate reflects the percentage of claims “suspended” from automated processing and requiring manual review and consideration before the claims are paid. Supp. Protest at 4 n.1; Agency Supp. Report at 3. The suspense rate is significant because it

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1 As explained by the agency, under the Section 1011 program, CMS is responsible for paying specific types of healthcare providers for their otherwise unreimbursed costs of furnishing emergency health and related services to undocumented and other specified aliens. Payments are limited to services required by Section 1867 of the Social Security Act, commonly referred to as “the Emergency Medical Treatment and Labor Act” (EMTALA), and related hospital inpatient, outpatient and ambulance services. Payments are further limited to care that is not otherwise paid or reimbursed through insurance or other means. Contracting Officer’s (CO) Statement, at 1.

2 The record reflects that much of the claims process is automated.
can affect staffing levels—the higher the suspense rate, the greater the number of claims requiring manual intervention and the need for more staff to perform the manual reviews.

The RFP also advised that CMS would evaluate “efficiencies” and “innovations” proposed by offerors, as they related to processing claims under Section 1011. Specifically, section M.5(b) provided as follows:

The Government will evaluate the extent [to which] the offeror understands the unique population, Section 1011 Statue and Final Policy Notice and demonstrates a viable approach(es) to achieving cost, production, accuracy, etc. by means of proposed efficiencies, solutions or innovations, as it relates to

- Documentation, procedures and/or processing of provider application and enrollment,
- Submission, calculation processing and/or payment of payment requests, and
- Accounting solutions for provider payment adjustment, auditing and/or collections.

RFP at 93.

Regarding cost, the RFP required offerors to submit business proposals with detailed cost information. The RFP specified that CMS would evaluate the offerors’ cost information for reasonableness and realism. In performing the realism assessment, the RFP indicated that CMS would determine the most probable cost of performance and assess the offeror’s understanding of the work as well as the offeror’s ability to perform the contract. RFP at 97. In their business proposals, offerors were required, among other things, to describe any “assumptions” underlying their costs, and, pursuant to Federal Acquisition Regulation (FAR) § 15.404-3, to establish the reasonableness of their proposed subcontractor costs through cost or price analysis. RFP at 94-96.

In response to the RFP, CMS received four proposals, including those from TrailBlazer and Highmark. After an initial evaluation, CMS established a competitive range of three offerors, to include TrailBlazer and Highmark. CMS then held discussions, obtained revised proposals, and conducted final evaluations. The record reflects that during discussions, CMS questioned Highmark about what it believed to be Highmark’s low staffing for claims processing (identified as Task 5 in the RFP).³ Specifically, in its discussions letter to Highmark, CMS advised Highmark that its proposed [DELETED] Full Time Equivalents (FTE) for claims processing

³ Offeror’s staffing numbers were included as part of their business proposals.
appeared to be “low” and asked Highmark to validate the hours it proposed for Task 5. AR, Tab 23, Highmark Discussion Letter, at 1. CMS also asked Highmark to provide more detail regarding its proposed use of greater automation, specifically, [DELETED], which could reduce the claims processing suspense rates and perhaps justify Highmark’s lower staffing levels. Id.

In its response, Highmark reaffirmed its belief that the number of FTEs it proposed was sufficient to perform the workload at the assumed 25 percent suspense rate set forth in the RFP. Highmark explained that it validated the FTE numbers using its experience as a Medicare Part A Medicare Administrative Contractor; based on this experience, Highmark assumed that [DELETED] percent of the suspended claims could be quickly resolved and that only [DELETED] percent would be time-consuming. AR, Tab 25, Highmark Discussion Response, at 1.

After explaining why it believed its staffing was adequate for the workload assumptions given in the RFP, Highmark proceeded to explain how its use of [DELETED] would reduce the suspense rate and thereby independently reduce cost. As explained by Highmark:

[Highmark] included in its Section 1011 technical proposal the use of automation technology [DELETED] to target opportunities to improve/reduce the payment suspension rate. Based on our experience in reducing suspension rates in the [Medicare Administrative Contractor (MAC)] environment, we believe an opportunity exists within Section 1011 to reduce the 25 percent suspension rate. . . . [DELETED].

Id.

Although explaining why it believed the suspense rate could be reduced through the use of [DELETED], Highmark disclaimed any notion that its proposed staffing was based on a suspense rate different from the RFP’s workload assumptions. In this regard, Highmark expressly stated that, “consistent with the CMS RFP given assumptions, [it] used the 25 percent payment suspense rate as the basis for estimating staffing requirements over the terms of the Section 1011 contract.” Id. at 1-2.

After reviewing Highmark’s discussion responses, the CMS evaluation team concluded that Highmark’s proposed claims processing staffing levels were sufficient to support the agency’s requirements. While noting that Highmark’s staffing appeared to be low for Task 5, CMS concluded that the hours proposed were appropriate based on Highmark’s innovative use of [DELETED] automation technology, which CMS believed to be an effective tool for reducing staffing needs. AR, Tab 20, Addendum to Technical Evaluation Report, at 1. In this regard, the evaluation team explained as follows:
The [technical evaluation panel] verified through [agency] staff that the [DELETED]. It has the ability to reduce an average contractor’s claim adjudication staff by at least 1/2. [DELETED].

Id.

Although not raised during discussions, the record reflects that CMS also had concerns regarding Highmark’s proposed staffing for Task 10, Program Oversight, which includes data collection, processing and management, and reporting. While CMS noted that the number of FTEs proposed by Highmark [DELETED] was lower than anticipated, CMS ultimately concluded that the staffing level was appropriate due to the same use of automation technology, which justified the staffing level for Task 5. See Supp. AR, at 13; AR, Tab 22, Addendum to TEP Report for Business Proposals, at 1-2.

As it relates to the protest, the record also reflects that in evaluating Highmark’s proposal, CMS identified Highmark’s use of Companion Data Services, LLC (CDS) to host the section 1011 Undocumented Aliens Reimbursement System (UARS) as one of many strengths in its proposal. As explained by the parties, UARS is an automated software tool used for processing and paying section 1011 claims. In its oral presentation regarding its technical approach, Highmark indicated that it would utilize CDS to host UARS “to minimize costs and impact on current Section 1011 providers”—CDS had served as the UARS host in connection with TrailBlazer’s incumbent contract. AR, Tab 28, Highmark Oral Presentation Slide, at 37.

In its cost proposal, Highmark identified as one of its business assumptions its use of CDS to maintain and operate UARS. AR, Tab 34, Highmark Final Proposal, Vol. II, Business Proposal, Tab A.1.5, at 6. Highmark, however, estimated the cost for maintaining UARS based on its own labor rates. Specifically, Highmark used the historical hours incurred by CDS in hosting UARS, which were provided in the RFP, see RFP amend. 1, attach. 4, Solicitation Questions & Answers, at 20, and multiplied those hours by Highmark’s own “Application Support and Development” labor rates. AR, Tab 34, Highmark Final Proposal, Vol. II, Business Proposal, Tab A.1.5, at 2. Highmark’s estimated cost for maintaining UARS was [DELETED]. By way of comparison, the record reflects that Trailblazer’s total estimated cost for maintaining

4 According to CMS, UARS is essentially identical to FISS (the Fiscal Intermediary Standard System), which is used by Medicare Administrative Contractors, like Highmark, to process Medicare Part A and Part B claims. Supp. AR, at 2-3.

5 As provided by the RFP, offerors’ technical approaches were set forth in oral presentations to the agency. CMS evaluated these presentations in evaluating offers under the technical approach factor.
UARS, which it developed based on an actual cost proposal it received from CDS, was [DELETED]. AR, Tab 11, TrailBlazer Business Evaluation Report, at 16.

In the final analysis, TrailBlazer and Highmark received “outstanding” adjectival ratings for each of the three non-cost evaluation factors (experience, past performance, and technical approach) based on numerous evaluated strengths in their proposals. Highmark’s total cost of $23,651,093, however, was significantly less than TrailBlazer’s cost of $38,031,422. While the CO determined that TrailBlazer maintained a slight advantage over Highmark with respect to the non-cost factors due to its experience and performance as the incumbent contractor, the CO found that this advantage did not justify selection of TrailBlazer given its significantly higher cost. The CO therefore selected Highmark for award. AR, Tab 36, Source Selection Decision, at 8-12. After learning of the agency’s decision, and receiving a post-award debriefing, TrailBlazer filed this protest with our Office.

DISCUSSION

Trailblazer challenges the agency’s technical and cost evaluations in two principal respects. First, TrailBlazer argues that CMS improperly credited Highmark with staffing reductions based on the agency’s belief that Highmark would be able to reduce the suspense rate through its use of [DELETED]. This was improper, according to TrailBlazer, because the RFP established the suspense rate as a mandatory workload assumption and CMS was therefore required to evaluate Highmark’s technical and cost proposals based on its ability to perform at the RFP’s 25 percent suspense rate, not some lower value. Second, TrailBlazer argues that CMS also unreasonably gave Highmark credit for proposing CDS to host UARS since Highmark’s proposal failed to demonstrate that CDS had agreed to perform the UARS work on behalf of Highmark.

Suspense Rate

Where a protest challenges an agency’s evaluation, we will review the evaluation record to determine whether the agency’s judgments were reasonable and consistent with the stated evaluation criteria and applicable procurement statutes and regulations. W. Gohman Constr. Co., B-401877, Dec. 2, 2009, 2010 CPD ¶ 11 at 3. Further, when an agency evaluates a proposal for the award of a cost-reimbursement contract, as in this case, the agency must perform a cost realism analysis to determine the extent to which an offeror’s proposed costs are realistic for the work to be performed. FAR § 15.404-1(d)(1). An offeror’s proposed estimated costs are not dispositive because, regardless of the costs proposed, the government is bound to pay the contractor its actual and allowable costs. FAR §§ 15.305(a)(1); 15.404-1(d); Palmetto GBA, LLC, B-298962, B-298962.2, Jan. 16, 2007, 2007 CPD ¶ 25 at 7. We review an agency’s evaluation in this area only to see that the agency’s cost realism evaluation was reasonably based and not arbitrary. Hanford Envtl. Health Found., B-292858.2, B-292858.5, Apr. 7, 2004, 2004 CPD ¶ 164 at 9.
TrailBlazer asserts, and the record reflects that Highmark’s lower evaluated cost, as compared to the cost of TrailBlazer’s proposal, was driven, in part, by Highmark’s [DELETED] to introduce greater automation with respect to claims processing.\(^6\)

One aspect [DELETED], as explained by Highmark’s proposal, is its ability to reduce the rate at which claims are suspended—the suspense rate. In challenging CMS’s evaluation of Highmark’s proposal, TrailBlazer does not argue that the staffing reductions attributed to TrailBlazer’s use of increased automation are not possible. See Protester’s Comments on Supp. Report, at 14. Rather, TrailBlazer argues that accepting Highmark’s reduced staffing based on the ability [DELETED] to reduce the suspense rate was improper since the RFP clearly required offerors to assume a 25 percent suspense rate. Id.

TrailBlazer contends, and the record confirms, that Highmark used the 25 percent suspense rate workload assumption set forth in the RFP as the basis for its proposed staffing levels. As noted above, in responding to the concern raised by CMS during discussions that its claims processing staffing was too low, Highmark expressly reaffirmed its use of [DELETED] FTEs for the claims processing work and that its staffing was predicated on performing this function at the assumed 25 percent suspense rate set forth in the RFP. See AR, Tab 25, Highmark Discussion Response, at 1. TrailBlazer further argues—and the record appears to support its contention—that CMS did not believe [DELETED] FTEs would be adequate. See AR, Tab 21, TEP Report for Business Proposals, at 1. Rather, CMS appears to have only accepted Highmark’s staffing levels due to Highmark’s use of [DELETED], which, as explained by Highmark in its proposal, has the ability to reduce the suspense rate; and, as determined by CMS, has the ability to reduce staffing levels by approximately one half.\(^7\) Id.

\(^6\) Throughout its protest, TrailBlazer focuses its complaint on the agency’s consideration of Highmark’s staffing with respect to Task 5 (claims processing). TrailBlazer also challenges the agency’s evaluation of Highmark’s staffing for Task 10 (Program Oversight), raising the same concerns regarding the agency’s failure to assess Highmark’s staffing consistent with the terms of the RFP. While our decision, like TrailBlazer’s protest, focuses on Highmark’s Task 5 staffing, our analysis applies equally to Task 10 given that (as with Task 5) CMS determined that Highmark’s staffing for this task was appropriate due to the proposed use of [DELETED]. Supp. AR, at 13; AR, Tab 22, Addendum to TEP Report for Business Proposals, at 1-2.

\(^7\) By way of comparison, Highmark’s [DELETED] FTEs for claims processing were approximately [DELETED] the number proposed by TrailBlazer ([DELETED] FTEs), which did not propose [DELETED]. In addition, Highmark’s [DELETED] FTEs for Task 10 (Program Oversight) were also less than the [DELETED] FTEs proposed by TrailBlazer.
Thus, the record supports one aspect of TrailBlazer’s thesis, that CMS credited TrailBlazer with reduced staffing and cost resulting from its use of [DELETED], and its resulting ability to achieve a reduction in the suspense rate. What is not supported, however, is TrailBlazer’s premise that the agency’s evaluation considerations in this regard were contrary to the terms of the RFP. While TrailBlazer correctly notes that the RFP required all offerors to use the workload assumptions in preparing their proposals, there is nothing in the RFP which precluded CMS from considering each offeror’s unique technical approach or proposed innovations, and their impact on the workload assumptions (in this case the suspense rate), and then accounting for such impacts as part of its evaluation. To the contrary, as noted above, the RFP expressly provided that CMS would evaluate the extent to which offerors proposed “innovations” and “efficiencies” with respect to the various requirements to include claims processing. RFP at 93. Moreover, pursuant to FAR § 15.404-1(d)(1), a cost realism analysis, which CMS was required to perform, provides for independently reviewing whether specific cost elements proposed by an offeror are realistic for the work to be performed considering the unique methods of performance described in the offeror’s proposal. Thus, having identified Highmark’s use of [DELETED] as an innovative, and viable, technical approach, it was appropriate for CMS to consider the impact of this approach on Highmark’s staffing levels and thereby its overall cost to the government.

Throughout its protest TrailBlazer points to various statements by CMS, either in answers to offerors’ questions regarding the solicitation, or during discussions, which reinforced the notion that offerors were required to submit proposals based on the workload assumptions set forth in the RFP. This line of argument is beside the point, however, since there is no dispute in this regard, and Highmark did in fact submit its proposal based on the RFP’s workload assumptions. Rather, the relevant question is whether CMS, in its evaluation, could consider Highmark’s unique technical approach, its potential impact on the workload, if any, and then incorporate those findings in its technical and cost evaluation. As discussed below, CMS’s actions in this regard were consistent with the RFP, and therefore proper.

In its supplemental protest, TrailBlazer suggests that the agency improperly found fault with its proposal for not deviating from the workload assumptions, specifically, the RFP’s estimated volume of claims, and thereby reducing its staffing, based on TrailBlazer’s actual knowledge of the Section 1011 program. See Supp. Protest, at 11-14. To the extent the record supports TrailBlazer’s concerns in this regard, see e.g., AR, Tab 22, Addendum to TEP Report for Business Proposals, at 3, there is nothing in the record to suggest that the agency based its evaluation of other offerors’ proposals on anything less than the estimated claims volume as set forth in the RFP’s workload assumptions, and there is no indication that TrailBlazer was prejudiced by such remarks given that it was the highest technically rated offeror and the matter is not mentioned at any point in the source selection decision.
TrailBlazer alternatively argues that even if it was appropriate for CMS to consider Highmark’s use of [DELETED] to reduce its staffing, CMS failed to perform any meaningful analysis of Highmark’s ability to achieve the staffing reductions with which it credited Highmark’s proposal. In support of its position, TrailBlazer relies on our decision in National City Bank of Indiana, B-287608.3, Aug. 7, 2002, 2002 CPD ¶ 190. The record, however, reflects that, unlike the agency’s cost realism evaluation in National City Bank, which consisted entirely of conclusory statements regarding the viability of proposed cost reductions, CMS expressly considered Highmark’s [DELETED], analyzed the degree to which it would reduce staffing, and provided a contemporaneous explanation for its conclusions in this regard. As noted above, the TEP determined that [DELETED] had the potential to reduce staffing by half [DELETED]. AR, Tab 20, Addendum to Technical Evaluation Report, at 1; AR, Tab 22, Addendum to TEB Report for Business Proposals, at 1. Since the Section 1011 program is essentially a replicate of the Medicare Part A and B processing system, CMS reasonably had little doubt that similar staffing reductions could be achieved. Moreover, the evaluation record identifies several of the specific features of [DELETED], which the agency believes would be useful in reducing staffing, including, [DELETED]. Id. Based on this record, we have no basis to conclude that the agency’s consideration of Highmark’s staffing, in conjunction with its use of [DELETED], was improper or otherwise unreasonable.

Highmark’s Proposed Use of CDS

TrailBlazer also contends that CMS’s technical and cost evaluations of Highmark’s proposal were based on the unreasonable assumption that Highmark would use CDS to host the UARS. As explained above, UARS is the automated system used in processing and administering reimbursement requests under the Section 1011 program. Currently, that system is hosted by CDS in connection with TrailBlazer’s incumbent contract. Highmark proposed continuing to use CDS to operate and maintain the UARS “in order to minimize costs and impact on current Section 1011 providers.” See AR, Tab 28, Highmark Oral Presentation Slides, at 37. CMS specifically credited Highmark’s technical proposal with a strength for this approach. AR, Tab 19, Final TEP Report, at 9. TrailBlazer argues that it was improper for CMS to credit Highmark with a strength in this regard since Highmark did not provide any information in its proposal to support the possibility that it would in fact be able to actually engage CDS to host the UARS, and the RFP provided that CMS would evaluate the extent to which offerors’ proposals “demonstrate[d] a viable approach” to performing the contract. RFP at 93. According to TrailBlazer there are a myriad of business reasons why CDS might decline to serve as Highmark’s UARS subcontractor, and this risk should have been considered in CMS’s evaluation of Highmark’s proposal.

While it is true that Highmark did not provide CMS with a firm commitment from CDS that it would continue to host the UARS on behalf of Highmark if it were
awarded the contract, the RFP did not require such a firm commitment. Rather, as TrailBlazer recognizes, the RFP merely provided that CMS would evaluate the extent to which offerors “demonstrate a viable approach” to performing the requirements. CMS clearly believed that having CDS continue to host the UARS was beneficial, and apparently had little concern that CDS would not host the UARS for a new contractor, such as Highmark, given CDS’s history of performing this work.

To the extent TrailBlazer has posed various hypothetical reasons why CDS might not be willing to contract with Highmark (e.g., CDS and Highmark might be unable to agree on a price or fee, CDS may be unwilling to accept the contract terms required by Highmark, etc.), an equal number of hypothetical arguments can be made to support the agency’s conclusion that CDS would be willing to continue to support UARS on behalf of Highmark; thus, TrailBlazer’s self-serving concerns do not provide a sufficient basis for our office to conclude that the agency’s technical evaluation was inherently unreasonable or improper.

TrailBlazer also takes issue with CMS’s cost realism evaluation of Highmark’s proposed costs for hosting the UARS. Specifically, TrailBlazer notes that the RFP required offerors to provide analyses of their subcontractors’ costs, yet Highmark did not submit any proposed subcontractor cost information in its business proposal, notwithstanding the fact that it proposed to have CDS host the UARS.

The record reflects, as described above, that Highmark estimated the cost associated with hosting the UARS by multiplying the historical hours associated with CDS’s maintenance and operation of the UARS (as set forth in the RFP) by Highmark’s own hourly rates. Thus, Highmark did not in fact provide any subcontractor cost information for CDS with its proposal, notwithstanding the fact that its business proposal, consistent with its technical proposal, referenced the business assumption that it would use CDS to host the UARS. In any event, Highmark’s total estimated cost for hosting the UARS was [DELETED]. As noted above, this amount was very close to TrailBlazer’s estimated cost of [DELETED], which was based on an actual cost proposal TrailBlazer received from CDS.

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10 The record reflects that CDS is a corporate affiliate of TrailBlazer (both are owned by the same parent company). The agency argues that there was no basis to assume that CDS would refuse to work with the ultimate Section 1011 contractor and that the protester’s argument only makes sense if CDS, as a corporate affiliate of TrailBlazer, would refuse to host UARS for anti-competitive reasons. Agency Report, at 4-5.

11 TrailBlazer argues that it is unreasonable to compare TrailBlazer’s cost with the cost estimated by Highmark. As explained by TrailBlazer, its cost does not include a fee for CDS’s work since the two firms are corporate affiliates. Highmark, on the other hand, which is not affiliated with CDS, would have to pay a fee to CDS if it were to use CDS as its subcontractor to host the UARS, yet Highmark’s proposal does not account for this additional cost. The agency notes that assuming a
Evaluation Report, at 16. Given the closeness of these estimated costs, Highmark’s overall cost advantage of more than $14 million as compared to the protester’s cost of performance, and the closeness of the two offerors’ technical ratings, there is no reasonably possibility that TrailBlazer suffered any prejudice as a consequence of the alleged errors CMS may have committed in its evaluation of Highmark’s estimated cost for hosting the UARS; thus there is no basis to sustain TrailBlazer’s protest in this regard. See, e.g., Alsalam Aircraft Co., B-401298.4, Jan. 8, 2010, 2010 CPD ¶ 23.

The protest is denied.

Lynn H. Gibson
Acting General Counsel

(...continued)
reasonable fee of [DELETED] percent, the additional cost would increase TrailBlazer’s cost by approximately [DELETED].