

# Regional Medical Center at Memphis

November 17, 2009



Dear Mid-South Community:

As Chairman of The MED's Board of Directors, I care a great deal about The MED, its financial viability and its sustainability. I also care a great deal about the people we serve. The MED's ability to provide quality health care to our community both now and in the future is of the utmost importance to me.

Recent reports in the media and community conversations have portrayed The MED and our partnership with FTI Cambio in a negative light. Some reports have been inaccurate. As a public entity, we strive for transparency in providing accurate information to the media and other interested parties. **We take our responsibility as stewards of the taxpayers' resources seriously.**

Recently, we received an Open Records Request for a copy of the contract between The MED and FTI Cambio as well as the total fees and expenses paid to FTI Cambio for the last six months. We provided the requestor with a copy of the contract and the total fees and expenses paid for the period May 2009 to October 2009. The story that followed the release of information included information from an "anonymous source." I cannot verify where that source got their information or the period the figures shared represent, however, I would like to share the facts with you.

First, the news story crossed two fiscal years and two separate engagements with FTI Cambio. The story reported losses totaling \$19.4 million. In fiscal year 2008, The MED's loss was \$2.4 million. In fiscal year 2009, The MED's loss was \$20.2 million, partly attributable to a reduction of \$5.4 million in subsidy and an insurance adjustment of approximately \$3.1 million.

The MED has engaged FTI Cambio for two different contracts July 2007 to September 2008 and September 2008 to February 2010. During the course of these two engagements, **more than 50 FTI Cambio employees have worked closely with The MED** to fulfill the scope of services defined in each agreement.

For the period July 2007 through September 2008, the Board of Directors engaged FTI Cambio to provide interim executive management and select consulting services. Employees of FTI Cambio filled the interim positions of Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. The initial costs of the interim executive management services were \$170,500 per month. In October 2007, this initial agreement was amended to include nursing and medical advisors. In addition to the monthly fees for the interim executive management services and clinical advisors, by contract, The MED paid related travel expenses for all FTI Cambio employees. The total cost of the interim management engagement for the period July 2007 through September, 2008 was approximately \$3.8 million.

In September 2008, in response to The MED's Request for Proposal for Interim Management and Transformational Services, and after a competitive bidding process, FTI Cambio was selected. The scope of the interim management service is to provide qualified individuals to fill the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Medical Officer and Chief Nursing Officer positions. For transformational services, FTI Cambio leads the development and execution of initiatives to improve quality and financial operations. Key areas of focus include clinical operations, revenue enhancements and expense control. Reductions in the workforce were necessary to achieve improved efficiencies.

The recent news report stated that FTI Cambio expenses and fees totaled approximately \$13.6 million plus a bonus of \$3.5 million already earned. For the services under the interim management and transformational services agreement, FTI Cambio is paid on average \$395,389 per month. Over an 18-month period, this totals \$7.1 million. FTI Cambio is also reimbursed for the related travel expenses of its employees. In addition to the monthly management fees and expense reimbursements, FTI Cambio is eligible for an incentive up to \$3.2 million for meeting agreed upon quality, expense control and revenue enhancement indicators. **The total value of the FTI Cambio interim management and transformational services agreement, including the eligible incentive is \$10.4 million plus expenses.** To date, management fees and expenses paid to FTI Cambio for interim management and transformational services total approximately \$6.7 million.

The report also named allowable expenses and implied these expenditures were outside what would be deemed “reasonable.” In the news report, there was an \$85 dinner expense. This \$85 dinner expense was for three individuals. There was also a reported trip to Florida; this trip was in lieu of travel home which is acceptable as long as it is equal to or less than the cost of the trip home. The grocery expenses were in lieu of dining out nightly. **The MED has not paid for expenditures not allowed by the agreement with FTI Cambio and its travel policy.**

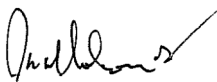
The MED reimburses FTI Cambio for the cost of its employees’ travel, temporary housing, meals or other incidentals incurred during the course of providing services to The MED. FTI Cambio employees working at The MED are assigned to Memphis on a temporary basis. FTI Cambio’s reimbursement policy is much like that of any other consulting firm. The management fees are competitive for the services provided. Throughout our engagement with FTI Cambio, we have consistently negotiated competitive rates on extended stay inns, apartments and rental cars. The Board of Directors has oversight, through the Internal Auditor, to ensure that this happens.

FTI Cambio began working with The MED at a time when our hospital faced a period of uncertainty and many opportunities for improvement. **I can say with certainty that the relationship between The MED and FTI Cambio has been a strong and fruitful one.** Over the course of the interim management and transformational services contract, FTI Cambio has helped The MED achieve greater efficiencies and improve its operations. Specifically, we have succeeded in renegotiating several supply and managed care contracts, developing a flexible staffing model, reducing excess costs and improving our billing and collections processes. **The projection is that annualized improvements will total at least \$25 million, which significantly exceeds the minimum contract requirements.** These projections include:

- Labor Productivity - \$11.2 million
- Supply Chain - \$1.5 million
- Revenue Cycle - \$7.1 million
- Human Resources - \$3.1 million
- Health Loop Clinics - \$2 million
- Quality Improvement - \$80,000

Again, as Chairman of the Board, I take seriously my responsibility for stewardship of the taxpayers’ money and protecting The MED as a valuable asset to the community.

Sincerely,



Gene Holcomb  
Chairman, Board of Directors