

PayStream's Healthcare Summit

Bridging the Procure to Pay Gap

Charlotte, NC
November 16 & 17

Accounts Payable Shared Services

Overcoming the Challenges



Agenda

- Why Healthcare companies centralize
- Centralization Challenges
- Aspects Successful Shared Services
- Questions/Discussion



About RPI

- Baltimore based consulting firm specializing in Procure-to-Pay optimization
- Lawson certified partner
- Experts in centralization, standardization, and optimization of Accounts Payable and Supply Chain departments
- Integration of AP automation technologies such as imaging, workflow, data capture, purchasing cards, and e-payables
- Process Redesign
- Data Improvement projects
 - Vendor and Item Files
 - Metrics and Reporting





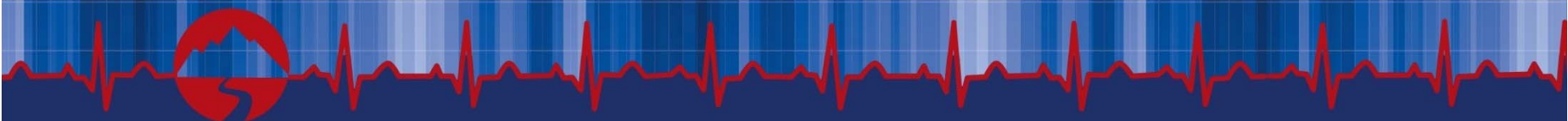
RPI Shared Services Customers

- Bon Secours
- Catholic Health West
- Catholic Health East
- Catholic Health of Long Island
- Sisters of Charity of Leavenworth
- Smith and Nephew
- Medstar Health
- Catholic Health Initiatives



Evolution of Healthcare “Systems”

- Large for profit and not-for-profit healthcare systems are a fairly new development
 - Hospitals that were once standalone have been challenged to maintain profitability
- They have provided many benefits
 - Hospitals benefit from combined buying power to get best possible pricing.
 - New technologies are expensive to purchase and maintain, and therefore benefit from combined buying power



Healthcare is rapidly accepting Shared Service models

- In addition to Accounts Payable, other functions are being centralized:
 - Payroll
 - Purchasing
 - Accounting
 - Patient Accounting
- But is struggling with the transition due to differences from other industries



Why Healthcare Companies Centralize

- Healthcare systems are looking for ways to *reduce costs* associated with “overhead” transaction processing
- *Modern ERP Systems* have made “where” processing is completed less significant
 - Systems are complex and costly to implement in decentralized environments
 - Modern Systems add visibility to difference in processes and results
- SOX compliance and audit concerns are increasing company desire to standardize and create the best possible *financial controls*
- Healthcare systems have consolidated rapidly and are trying to work more as a system



Benefits of Centralization

- Improved Vendor Relations
 - Consistency in vendor payment
 - Single point of contact
- Direct Financial Benefits
 - Staffing Savings – lower FTE count
 - Reduced costs associated with purchase, implementation and maintenance of technologies
 - Support ROI for ERP implementation
 - Take more discounts/avoid late fees
 - Increase control over system-wide cash
- Increased compliance to SOX, 1099, unclaimed property, sales tax and other “audit risks”
- Create consistency and true standardization in processes
- Ensure compliance to purchasing policies and supply chain contracts



Technology makes centralized processing a reality

- Many healthcare companies *centralize maintenance* of master files such as vendors, items and employees – a natural step towards transaction centralization
- *Document imaging and workflow* software remove the need to move physical paper to the hospitals and back.
- Healthcare systems attempt to use ERP implementations to *standardize processes*, but they struggle with achieving standardization without centralization



Challenges - Cultural

- Local staff reluctant to “let go”
 - Prior AP department may not want to lose their jobs
 - “Helpers” become “troublemakers”
 - Their new job is pointing out your mistakes
- Local executives want control
 - Rush check requests (used to going downstairs to get a check)
 - Cash/signature control
 - Desire to approve everything
- Lack of standardization
 - In de-centralized environments, usually less standardized than leadership thinks
 - Standardization sounds easier than it is – it involves changed local cultures



Challenges - Staffing

- Departments are often budgeted with *unrealistic staffing* numbers
- Staff Ramp-up more difficult than expected
 - Unable to find right skills and experience
 - Hard to find and train large amount of staff quickly
- *Legacy employees* not adjusting to new processes or new technologies
 - Keep falling back on the “old ways”
- AP is viewed as a “cost-center”, making it hard to justify staff increases



Challenges - Communication

- Lack of clarity over “Who does What”
- No channel to escalate issues in a productive manner
- AP often has no authority over local staff and lacks support from local leadership
 - Communication with supply chain for invoice matching
 - Complicated in a de-centralized Purchasing environment
 - Obtaining Approval for non-PO invoices
 - Movement of paper results in lost invoices
 - Approval time delays creates late payments



Challenges - Standardization

- Every hospital operates differently
 - Hard to get everyone to agree
 - Limited scope of centralized leadership
- Accounts Payable is impacted by lack of standards
 - Lack of Form standardization (check requests, vendors)
 - Mode of Purchase Policy
 - Approval limits
 - Supply chain department structure
- In other industries, standardization can be forced - harder than in healthcare



Challenges – No Forgiveness

- In any transition – mistakes will be made
 - Mistakes may be highlighted and advertised
 - Conclusions are drawn about operation from a few errors
- AP is a back-office function, taken for granted
 - No one pays attention to AP, unless an error occurs
- Perception of AP is based on anecdotal evidence based on a few experiences, not based on statistical realities
 - 99.9% accuracy may not be good enough



Challenges - Vendors

- Vendors not sending invoices to proper location
 - Directly to sites rather than AP department
 - Invoices do not get to AP timely, or not at all
- Vendors over-billing or over-shipping
 - Creates an increased number of matching discrepancies
 - Discounts are missed and late fees are accumulated
- Vendor billing fosters problems
 - Lack of invoice numbers
 - “Statement” Posting
 - Inconsistent processes with different facilities
 - Not providing information to determine approver
- High Maintenance
 - Constantly calling/wanting updates on payments



Successful Service Centers Aspects





Successful Shared Services

- Critical technologies integrated with operations
 - Improving Visibility
 - Increasing Productivity
- Strong Customer Service model
- Regular communication during and after transition
- Managers and Directors with good crisis management skills
 - Ability to defuse and then solve the problem
- Self auditing to catch errors before someone else does
- Creating and advertising value
- Goals, Measurements, and Continuous Improvement



Executive Support

- Sell the Change
 - Internal Presentations
 - Encourage challenges
 - “Get it on the table”
 - Show Benefits
 - Encourage them to talk to others in industry
- Be more professional than the other guy
 - Information is power



Customer Service

- Take this function very seriously
 - Perception is more important than reality
 - Rapid response times means happy vendors, and happy customers (department managers)
 - Over-staff, then scale it back if possible
- Establish a customer service desk
 - Dedicated Staff
 - Customer service is a responsibility, not an interruption
 - Encourage emails over phone calls – don't accept faxes
 - Use generic email address
 - Track calls, but keep it simple
 - Train all staff on basic customer service and email writing skills



The “Welcome Kit”

- A master document of “all you need to know about AP Shared Services”
- Welcome Kit contents
 - Easy to understand processes from the point of view of the local site
 - Checklists of what needs to be done during transition
 - Copies of all forms (check request, vendor request, etc)
 - Customer service processes – including contact information and escalation path
 - Rush check processes
- Value of this document
 - Demonstrates AP is organized and has thought things through
 - Gives one location to get all the answers
 - Gives the site the opportunity to review and challenge any areas of conflict



Playing the Politics

- Communicate often
- Have regular meetings during and after transition
 - Give them a forum to “vent”
 - Consider forming an “AP User Group”
- Share goals and metrics
- Advertise successes
- Don’t’ get caught up in finger pointing – be the most professional person in the room
- Find strong executive sponsors



Partnership with Purchasing

- Relationships between AP and Purchasing are naturally strained
 - However, AP and Purchasing can make life easier for both departments
 - Increasingly, organizations are having AP and Purchasing report to the same executive
- Regular communication is essential
 - Monthly meetings
 - Goal-oriented meetings, not complaint sessions
 - Focus on root causes, not on finger pointing



Partnership with Purchasing

- Mutual goal – stop invoice matching discrepancies
 - Remember, Purchasing hates them too
 - Agree upon metrics that will be used to measure success
- Analyze discrepancies by
 - Vendor (identify problem vendors)
 - Buyer (identify buyers burdened by messages)
 - Item (to identify contract price setup errors)
- Use % of PO Lines with discrepancies as a key metric
- Use Purchasing to help force vendors to take a role in reducing discrepancies



Taking Control Over Vendors

- Create standard language for vendor contracts
 - Define billing processes
 - Responsibility of vendors to assist in resolving discrepancies
 - Policies regarding not paying for over ships or duplicate ships
 - Ability to get discounts when delays are caused by matching issues
 - Responsibility of the vendor to not ship anything that is not on the purchase order
 - Information to be provided when a substitution occurs
- Negotiate discounts – they are easy money when interest rates are low
 - Vendors don't offer them as often (companies cheat!)
 - Try for Net 15 instead of Net 10
 - Shows value of AP



Taking Control Over Vendors

- Re-Evaluate terms
 - Understand company cash goals
 - Eliminate the Net 1 vendors
 - Pay vendors slower when they are not compliant or do not offer discounts
- Don't be afraid to kick-back!
 - Start to think like retail
 - Work with purchasing to put pressure on non-compliant vendors



AP = Purchasing Police

- Work with Supply Chain to establish a clear, detailed mode of purchase policy
 - Clarify when to use a PO, Non-PO, P-card, or other procurement method
 - Don't put more on PO's just to get the PO % up – move to the optimal mode of purchase to balance control and level of effort
 - Do not process invoices as Non-PO that should be PO
 - Map out the requisition to check process for various purchase types
 - Use exception reporting to monitor violations of policies
 - Work with supply chain to increase compliance



Imaging and Workflow

- Document Imaging is a key technology for AP
 - Paperless department
 - Tool to manage resource workloads
 - Eliminate “lost” invoices
 - Create visibility of your data
 - AP has nothing to hide
 - Local staff can retrieve invoices without contacting AP
 - Simplifies customer service
 - No more pulling invoices at month end
 - Eliminate filing and retrieval time
- Workflow to automate invoice approval and notify buyer’s of discrepancies



Electronic Invoices

- Advanced Data Capture to increase accuracy and productivity
 - Extract data from scanned images
 - “Validate” rather than enter invoices
 - Upload validated invoices to your ERP application
 - Refocus resources on value-added activities
 - Increase accuracy and prevent costly typos
 - Reduce manual entry time by up to 60%
- Fully use EDI for 810s – not just for sending out Pos
 - Most hospitals use 810s with only a handful of vendors, if at all
 - Receiving invoices electronically makes you more efficient, sending purchase orders electronically makes your vendor more efficient



Purchasing Cards

- Provides a quick and easy way for small dollar goods to be purchased
 - Reduces transaction volume in AP and Purchasing
 - Eliminates need for “rush checks”
- Purchasing cards are essentially “free” and rebates can be earned
- Proper controls can be placed on cards
 - Limits to type of purchases and dollar amounts
 - Combination of random and pattern-based audits reduces risk
- P-Cards are being rapidly expanded in Healthcare organizations



Audit-Proof AP

- Vendor Considerations
 - Complete medical compliance audits before creating a new vendor
 - Educate staff of the additional time required to get new vendors added
 - Establish a documented standard vendor naming practice that is strictly followed
 - Limit access to your vendor file only to AP, and to as few people as possible within AP
 - Audit your vendor file at least twice per year
 - Watch out for Vendor Mergers – very common in healthcare



Audit-Proof AP

- Duplicate Payments
 - Complete a duplicate payment review monthly from AP
 - Identify and address causes of duplicate payments
 - Check request forms submitted twice
 - Paying off statements
 - Rush check requests
 - Duplicate vendors
 - Vendors not providing invoice numbers



Metrics that Matter

- Find Metrics that Matter
 - Actionable, Comparable
 - Red Light/Green Light
- Establish Goals and Improvement Plan
 - Monthly meetings to discuss numbers
- Share your successes and your failures
- Base metric of efficiency:
 - # of invoices/FTE



Good AP Metrics

- Invoices/FTE
 - Processors only/entire department
 - PO vs. Non-Po
- Electronic invoices
- Entered after Due Date (PO vs Non-PO)
- Cycle time
- % of available discounts taken/% of spend available for discounts
- Backlog
- Customer Service
 - # of inquiries by facility or vendor
 - Average response time/Avg close on first contact



Questions/Discussion

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