Spend visibility and shared services
Strategies to address growing pains for long-term care organizations

Prepared by:

**Gerry Hodson**, Director, Financial Advisory Practice, McGladrey LLP
816.751.4031, gerry.hodson@mcgladrey.com

**Georgina Anderson**, Director, Technology Consulting Practice Lead, McGladrey LLP
847.413.6268, georgina.anderson@mcgladrey.com

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The demand for senior and long-term care continues to rise as our senior population grows. According to the Department of Health and Human Services’ Administration on Aging, as of 2009, the number of people aged 65 years or older was 39.6 million. They represented 12.9 percent of the U.S. population then, about one in every eight Americans. And, by 2030, this group will be approximately 72.1 million, more than twice the reported number in 2000.

Senior and long-term care facility leaders are well aware of these urgent statistics, and many have planned to strategically grow their organizations by expanding facilities, merging with other care centers and becoming multisite complexes to address current and expected demands. However, for many long-term care organizations this growth brings challenges such as streamlining operational and patient-facing functions across a multisite environment and updating inefficient, antiquated processes. These challenges can be a catalyst to skyrocketing costs, unrealized revenue and degradation of resident or patient services.

One key to avoid escalating costs in a complex, multisite organization is by more strategically managing your organization’s spending. This starts with a spend analysis to help an organization pinpoint their spend, revealing inconsistent practices and illuminating ways to drive supplier spend lower. The following explores how this approach can make a big difference in an ever-evolving industry.
Getting started

There are three essential elements required to conduct a successful spend analysis. They include a spend category analysis, leadership buy-in and a willingness to incorporate a multipronged approach to address spend needs. Without these foundational elements your spend strategy could be doomed from the start.

All organizations want to do more with less. Yet so many cost reduction efforts fail to have a tangible profit and loss impact. Why? Because they don’t dig deep enough to understand the true categories of spend within the organization; what the organization is buying and why it is needed. Typical spend categories in a long-term care facility, for example, could include medical supplies, pharmaceuticals, food service, support services, administrative expenses, salaries and training costs, property management and fees. A complete assessment of costs across the organization and future spending expectations is needed as the first step in an effective spend visibility strategy.

The categorization process typically includes working with staff, and sometimes an outside consultant to drill down through current spend categories. Actions might include:

- Spend data identification and collection
- Data cleansing and classification
- Savings road map development and prioritization
- Savings road map implementation
- Savings tracking and financial impact

While understanding categorized spend is important, equally important is establishing a visible and vocal sponsorship from senior executives and organizational leadership surrounding a spend management strategy and savings road map. It’s imperative that senior leaders focus on prudent spending decisions and embrace supplier or process changes that drive down costs. This endorses the approach and establishes spend management as part of the organization’s culture. Leadership must sell the program internally to staff and to outside vendors. All involved must embrace this philosophy for the strategy to be effective.

While spend visibility and management often identify and support savings initiatives, the best programs utilize many different strategies and tactics to implement the changes. It’s important that organizations include multiple approaches, like strategic sourcing, supplier consolidation, demand and specification management, contract or supplier audits and technology assessments and improvements to implement an overall spend visibility strategy.

Every organization is different and each has specific needs. Some long-term care organizations have the internal resources to help with spend analysis; however, in many cases, leveraging an outside consultant can provide the objectivity and category expertise to meet needs, as well. Do your homework and choose the team that collaborates with your employees, knows your industry and its unique issues and understands your organization’s current and future needs.
Consider shared services

Just as supplier spending is often too large within a multisite organization, there are also redundancies and inconsistencies uncovered in resident-facing or back-office functions. Frequently, moving these functions to a centralized or shared services approach can increase efficiency and quality, while reducing overall costs. An assessment of process effectiveness can be performed to determine what parts of the business would most benefit. Some of the most common functions that are consolidated into a shared services group include:

- Accounting
- Admissions
- Business office
- Collections
- Human resources
- Information technology
- Medical data management
- Procurement
- Records management
- Reporting
- Resident services

Following that assessment, a centralized approach can be put in place to improve overall functionality. This tactic is called shared services, an operating model where back-office or administrative functions performed in multiple locations are centralized to a single group.

Performed in concert with a spend visibility strategy, this approach complements a resident-centric culture by freeing up resident-facing personnel and staff from performing manual administrative tasks, and allowing them to devote more time to the care of and interaction with residents.

Case in point

To illustrate how implementing spend visibility and shared services initiatives can reduce redundancies and costs across an organization, we offer two real-world examples below.

Spend visibility initiative leads to cost reduction

Our client, a large Midwestern health system, including long-term care facilities, launched a strategically important overhead cost reduction initiative across many different functions. One of the major areas being targeted encompassed information technology (IT) service and maintenance costs, e.g. licensing, support agreements, hardware and software. The health system consisted of approximately one dozen different legacy affiliates merged over several years. Many legacy applications, tools and systems were in existence, and needed to be identified, analyzed and rationalized against the current IT strategy. In the previous year, the client completed an initial round of IT cost savings based on low-hanging fruit, e.g. items not used, contract consolidation and usage adjustments, to name a few.
The client was seeking an experienced firm to provide a focused and structured approach for analyzing and identifying specific quantifiable cost savings opportunities pertaining to IT service and maintenance spending, and to work with their IT governance council and operational leaders to realize the targeted savings goals of $2 million annually. The McGladrey team utilized a comprehensive assessment methodology to conduct a detailed analysis of IT service and maintenance spend and supplier relationships, identified a road map for realizing cost savings opportunities, collaboratively prioritized the opportunities with the IT stakeholders and developed implementation plans and cost savings impacts for high-priority opportunities. Following the assessment, McGladrey presented to the executive team our findings and recommended next actions, which included developing timelines, budget estimates and expected benefits for any high-priority opportunity, as identified by the IT leadership team.

Project work included:
- Assessing approximately $36.5 million in budgeted IT service spend
- Reviewing approximately 550 specific IT service budget line items
- Auditing approximately 165 unique supplier relationships

Realized results included:
- 51 unique cost savings opportunities
- Between $2.4 million and $4.7 million budgeted savings for year 1
- An additional estimated $3.1 million to $5 million budgeted savings for year 2
- Identified additional soft savings around application strategy, architecture configuration, telecom strategy and general process improvements

**Shared services structure reduces inefficiencies and saves money**

An operator of 28 long-term continuing and acute care facilities in 10 different states wanted to understand the implications and benefits of consolidating certain administrative functions into a centralized location. Each facility in the organization operated as a stand-alone business, with both patient care and administrative processes performed by local staff. Business office, admissions and Medicare and Medicaid functions were all performed without coordination with sister facilities. A corporate function did exist to provide certain clinical, strategic, financial and reporting functions.

Having grown largely through acquisition, there was limited process consistency across facilities despite the creation of standard operating procedures. Management believed that the consolidation of certain processes, unrelated to patient care, might be well-suited to a shared service environment. In their estimation, process inefficiencies created the need for more staff at the facilities than should be required. Also, systems implemented to allow the facilities to become more efficient and provide management with better reporting had not yielded the benefits management envisioned. The client’s objectives included:

- Focus the facilities on patient care
- Create uniformity and consistency across operations
- Improve referral response time
- Use existing technology more effectively
- Improve process productivity, efficiency, coordination and control
- Increase revenues
- Reduce cost of administrative operations
- Improve navigation of pending Medicaid claims
McGladrey was engaged to validate management’s hypothesis—there was limited process consistency across facilities—and evaluate which of the administrative functions should be consolidated, and which must remain in the local facility. An interdisciplinary team was deployed to assess key operations, determine if consolidation was warranted and develop an implementation plan to deliver the efficiency goals across the organization. The team was comprised of individuals with expertise in shared services development, long-term, continuing and acute health care, finance and accounting and operational improvement. With client priorities in mind, the McGladrey team visited a representative sample of the client’s facilities to hold interviews with key administrative personnel involved with in-scope functions.

The interviews were designed to allow the team to analyze each process for its shared services model potential, assess each function for redundancy and complexity, identify ad hoc processes conducted outside the chosen technology platform and identify internal best practices to leverage.

Careful analysis of each function and its process revealed many expected and several unexpected findings. The recommendation was to centralize all or part of several functions, and provided a detailed, phased implementation approach. The McGladrey team found that processes that were either infrequently performed by field personnel or were susceptible to frequent interruption were key candidates for centralization. The recommended functions to centralize included:

- Admissions paperwork
- Commercial insurance and personal billing and collections
- Initial MDS schedule
- Initial Medicaid application
- Medicare billing
- Month-end close
- Payer verification
- Unsolicited referrals

During the project, we identified a number of process improvement opportunities and key issues that had prevented the client from previously consolidating their operations. For instance, key business requirements were not completely understood when systems were implemented. Further, most key administrative personnel had never received formal training, or did not have ready access to technology required for their job function. Inadequately supported business requirements and limited training had led to inefficient, manual workarounds. As part of the implementation approach, certain foundational improvements were recommended to enable centralization. They included:

- Shifting the organization from a customization mindset to a standardization preference
- Ensuring consistent job roles and functions across the facilities
- Updating technology and software to enable facility staff to make efficient and informed decisions
- Increasing system knowledge and utilization at the facility level
- Improving employee-to-computer ratio
- Implementing software updates to decrease the number of workarounds being used in the facilities
- Building key strategic relationships with referring doctors, case workers and the Medicaid offices

Centralization of key administrative functions allowed the client to redeploy critical local resources to more patient-centered activity, generated quality referrals and eliminated redundant resources. The process and staff changes were estimated to provide the organization approximately $720,000 in net compensation savings annually.
A word about technology

In both case studies outlined above, technology played a vital part in addressing spend issues and redundant operations. Approaches integrating data, creating analytics, developing forecasting, consolidating systems, implementing knowledge management portals and collaboration systems or creating custom applications are all essential to improving organization functionality, particularly in the long-term care industry.

Getting on top of the mountains of data residing in existing technology systems, converting it into refined, consistent information and implementing a centralized process are all critical to a senior and long-term care organization’s success, and more importantly, maximizes their ability to serve patients in the best possible way.

Health care organizations face a heavy burden in their efforts to comply with a growing number of regulatory mandates and standards today. A typical health care organization runs dozens of disconnected systems. To achieve compliance, health care organizations must be able to automate the flow of financial information, not only across internal systems, but also with the health plans that pay insurance claims, and with a wide range of governmental organizations, all while improving information security.

Security features are an essential first step in any compliance initiative. The comprehensive enterprise resource planning (ERP) approach provides the framework for adopting information audit processes so that organizations can ensure the highest levels of data integrity. In addition, technology systems can assist organizations in their efforts to implement and document standard operating procedures required by regulatory mandates, and then create the data control framework needed to enforce those required procedures. Health care organizations can begin the process of achieving compliance with regulatory mandates such as:

- Healthcare Information Portability and Accountability Act (HIPAA) – Focused on protecting patient’s privacy rights, HIPAA requires a strong security foundation.
- Joint Commission on Accreditation of Healthcare Organizations (JCAHO) – An independent, not-for-profit organization, the JCAHO serves as the accrediting body for health care organizations nationwide. A sound ERP framework can help health care organizations implement processes needed to achieve JCAHO accreditation.
- Sarbanes-Oxley Act – By leveraging technology, health care organizations can create processes for financial data validation and control that are essential to complying with Sarbanes-Oxley requirements.

Some of the benefits to implementing an ERP system include:

- Integrating disconnected systems including clinical solutions, patient records applications, and financial management tools, in order to eliminate manual data transfer processes
- Automating information flow, not only across internal systems, but also with health plans, government organizations and other health care providers
- Establishing foundation for achieving compliance by creating a complete archive of all compliance documents, and capturing a record of all changes to important information
- Implementing and documenting standard ERP operating procedures required by regulatory mandates
- Implementing and enforcing business controls with clear, consistent and enforceable business processes and financial practices, while automating ERP compliance procedures
- Enhancing higher levels of system security needed to control access to patient information and protect key financial data
In addition to complying with regulatory mandates and standards, delivering the right materials to the right place at the right time is essential to high-quality health care. Leveraging technology systems provides the tools and framework that health care organizations need to improve materials management efficiency. The results: lower costs and better patient care.

While efficient materials management is an important component for success in virtually every industry, in health care it not only affects the bottom line, it is key to delivering safe and effective patient care. A materials management system enables health care organizations to ensure that their workers have access to the right supplies when and where they are needed, by delivering the framework for efficiently managing the entire chain of supply.

To enable health care organizations to improve materials management and reduce costs, their systems should deliver a broad range of critical features and capabilities, including distributed requisitions management, control over purchasing, enhanced vendor management and comprehensive inventory tracking. Bar coded labels, hand-held data collection capabilities using mobile devices, such as tablet PCs, expiration dates, serial and lot management and multibin and multilocation management ensure that supplies are on hand where needed.

Benefits of materials management efforts include:

- Optimized inventory levels through complete item tracking and usage reports that improve forecasting and streamline supply replenishment
- Integrated entire supply chain, opening the door to automated inventory management processes that streamline requisitions and approvals, ensuring that inventory levels are accurate
- Minimized cost of purchasing through streamlined processes that integrate requisition and purchase order work flow
- Defined approval levels of item identification, item type, general ledger account, vendor, department, and more to ensure that supplies and patient-related items are purchased through defined approval processes and polices
- Improved management of the flow of supplies from receiving point to delivery using tools that streamline data entry and automate distribution tracking across the organization
- Improved operational results by managing and tracking purchasing and performance within appropriate budgets
- Automated tracking of patient consumption of hospital materials, along with automated billing processes for goods and services delivered to patients

A health care organization can use technology to automate purchasing and improve the efficiency and accuracy of transactions. Today’s systems are easily customizable, supporting a wide range of additional features, such as requests for quotes and unlimited catalog support. Together, spend management strategies and complementary technologies can drive down procurement costs, increase efficiency and enhance the overall quality of patient care.
Summary

Senior and long-term care organizations that are grounded in patient care and committed to continuous improvement will continue to look for ways to refine operations. Being mindful of spend drivers, process and operational redundancies and inconsistencies, as well as ensuring the mountains of data are leveraged and utilized to create a high-quality experience for the patient will help health care organizations succeed in their mission. Living a culture that’s steadfast in its dedication to resident and patient care is right for a growing organization and equally right for the current and future seniors who will be served.

For more information about spend management strategies and ERP solutions in long-term care, visit www.mcgladrey.com.