

# Avoiding the Common Mistakes that Cost Hospitals Millions of Dollars Annually

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**Organizations could realize savings that equal to 2% of total annual costs by eliminating inaccuracies and noncompliance through contract management automation. - Pricewaterhouse Coopers**

**Therefore, a hospital spending \$30 million could save \$600,000 annually with an effective contract management system.**

**On a 2% operating margin, a hospital would have to generate \$30 million in new revenues in order to achieve these same cost savings.**

**B**asic contract management can be defined as the execution and monitoring of a contract for the purpose of maximizing financial and operational performance and minimizing risks. This involves tracking purchases against contracts to insure pricing which was negotiated is honored, preferred vendors are used, specific terms and conditions are adhered to, and discounts and rebates received and in a timely manner.

## How are you maintaining control of all your contracts?

Managing contracts effectively can save your hospital substantial money each and every year. One problem that becomes a consistent issue is that buyers may not remember that their contracts or leases automatically renew if they do not renegotiate or follow the end of lease terms detailed in the written contract. However, with a contract management system, automatic reminder alerts are sent to buyers and CFO's several months in advance so that the buyer can take the necessary action and have the ability to negotiate with enough time to insure best terms and pricing for their hospital. This aspect in itself can save a hospital tens to hundreds of thousands of dollars annually.

## Minimize Contractual Nonperformance

When a hospital enters into a contract with a vendor, there's a risk that the vendor could inadvertently fail to comply with all the terms of that contract. If this risk isn't managed effectively, especially quickly, and the hospital does not have a contract management system and process in place to identify this contract pricing error then the unfortunate result to the hospital is unnecessary higher costs. If the vendor isn't meeting its contractual obligations, the hospital can quickly take action and prevent the same issue from occurring again. With this information, the CFO can take corrective action when necessary and minimize the risks stemming from a vendor not honoring its contract.

## Improve Audit Preparation

A key aspect of being prepared for an audit is the CFO's knowledge of exactly how well their hospital is performing against its contracts and how its vendors are performing to their agreements. Effective contract management will help insure that a hospital meets or exceeds the expectations of its vendors through consistent compliance with their contracts. This will lead to strong relationships with value added services, reduced expenses and increased revenues. Further, by knowing what its vendors have committed

to, a hospital can effectively work with them in a collaborative way to insure that the contract is satisfied. This will help a hospital maintain a reputation as a preferred business partner to its vendors and encourage the vendors to reward the hospital with better pricing and terms.

### **Spend Visibility**

Probably the most valuable benefit of a contract management system – is it provides spend visibility and will let you know if your hospital is buying from the vendors you have committed to and purchasing at the correct quantities and prices. Spend Visibility can also help a hospital standardize on products and services used through-out the organization.

### **Improved Compliance**

According to Aberdeen *“operational and fiscal management is improved 55% with a contract management system.”*

### **Solid Foundation for Spend and Performance Analytics**

With all of the contract conditions and negotiated prices, rebates and fees in a contract management system, this becomes the basis for an effective way to compare actual purchases against contracted buys. This allows pricing, and terms and conditions violations to be caught and dealt with immediately and insures that all spend is known and available to be appropriately leveraged in on-going sourcing projects for maximum cost savings to the organization.

### **Rebate Management**

A Contract Management System will make it easy to track rebates and insure that all of the savings negotiated in a sourcing cycle are captured. In addition, by having a tool which tracks, reports and manages all of the hospitals rebates in every department, you will insure compliance with the OIG and the Medicare Cost Report.

### **Reduced Maverick Spending**

With a contract management system, a buyer can immediately determine if a contract exists, who the contracted vendors are, and what the contracted prices are. Many hospital employees don't always know they have a contract in place with a particular vendor and may duplicate services, such as with a service and maintenance contract on a piece of medical equipment. This is a common error that can be avoided with a contract management system

### **Evergreen Contract Elimination**

Without a contract management system to automatically alert purchasing or a CFO of contracts coming up for automatic renewal, many auto-renewing contracts are likely to go unnoticed and cause the hospital to substantially overpay because the wording of the contract locks the organization in for another buying cycle. With a system in place, the hospital can be alerted months in advance and take appropriate actions for renegotiation, RFP or end the terms of the contract.

### **Improved Financial Management for CFO's:**

- Reduce "off-contract" spending
- Eliminate renewal of contracts for unwanted goods, services and leases
- Integrate with your supply chain management strategy
- Improve financial tracking of contract-based transactions
- Identify and prevent over charges
- Provides a realistic picture of forecasts and budgets relating to vendor contract pricing escalators

### **A Quick look at a Hospital's Contract Management Policy:**

1. All contracts are required to be stored in our contract management database – No Exceptions. The contract management system which will be utilized by all within the hospital.
2. Accounts Payable will not process an invoice without a purchase order number or a contract on file.
3. Please forward all contracts from your department to purchasing for processing.
4. If you would like access to this system, you can contact purchasing, and they will provide you this information.
5. Any contract that is being executed must be reviewed by purchasing to determine if it should be on a PO or the Contract Approval Form.

### **More About The Author...**

Lisa's approach is comprehensive, from in-depth analysis of new technology costs and physician preference items, to extensive purchase service contract reviews, capital acquisitions, departmental analysis of costs in the O.R., Cath, Pharmacy, Laboratory, Radiology and non clinical areas such as energy cost reduction projects. One area of specialty is conducting clinical expense analytics with a focus on how the supply chain directly impacts the revenue cycle.

Lisa's success is built upon exceptional interpersonal skills, which allow her to establish partnerships with her clients and foster organization-wide teamwork to achieve financial and operational goals. One way she does this is through VIE's EXCITE! Program – an innovative workshop that captures employee ideas and translates them into money-saving initiatives.

Lisa graduated from Seton Hall University with a Masters in Healthcare Administration in May 2006. She was also nominated to Upsilon Phi Delta; the National Honor Society for Healthcare Administration and in July 2006 was elected as the President of the Seton Hall University Chapter of Upsilon Phi Delta.