

# Accounts Payable In Healthcare



By Brian Rosenberg

Is healthcare really different?





## About RPI

- Specialists in Procure-to-Pay optimization
- Lawson's Procure-to-Pay Consulting Partner
  - Specialist partner for:
    - Smart Reconciliation
    - Mobile Supply Chain Management
    - Contract Management
    - Purchasing Card Management
    - Vendor File Management Services
- Expertise 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



## Is Healthcare Different?

- AP is AP?
  - Or is it?
- Why is healthcare unique?
- Can healthcare learn from other industries?



## 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
    - Certain markets have been especially difficult
- 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
    - They also simplify and encourage, if not require, standardization



## Healthcare systems face unique Challenges

- Hospitals are used to autonomy
  - Most have local senior staff (CEO/CFO) with their own philosophies
  - Hospitals have strong local relationships with their community, which identify with the individual hospital, not the system
  - Each has operated as an individual business, with its own AP, Purchasing, and Accounting Operation



## Challenges - The Patient Care Trump Card

- In healthcare, patient care is always the winning argument
  - Creates barriers to standardization
  - Increases need for rapid response
- Balancing the “business” of healthcare with patient care
  - Its not just about the numbers
- This produces many issues for the procure-to-pay process:
  - Purchases off contract
  - Purchases bypassing purchase orders
  - Rush check requests
  - Lack of product standardization
  - Resistance to change and to “bureaucracy”



## 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 - Volume of Vendors

- Healthcare usually has a larger volume of vendors compared to other industries
  - Many small local “mom and pops”
  - Local relationships are important to local leadership
  - Many “one-off” purchases
  - Many Non-PO purchases
- Healthcare has additional standards to consider in setting up vendors
  - OIG Compliance and other regulatory requirements
  - Creates a significant burden on the vendor creation process



## Challenges - Vendor Compliance

- Vendors ignore the “purity” of a Purchase Order
  - Duplicate ship
  - Over ship
  - Ignore pricing on PO
  - Ship without a PO
  - In other industries, vendors are not able to do this
- Complex pricing structure
  - Distributors/GPOs
  - Hard to know which contract applies
  - Freight/minimum orders complex
- Negotiations
  - Complex “DSO”
  - Unrealistic terms



## Did you know?

- To do business with Walmart, you must:
  - Accept electronic PO's and send electronic invoices electronically
  - Provide bar codes on all packages
  - Have a supplier agreement in place, or you don't get paid
- A purchase order is a legal document
  - By accepting it, you agree to only charge the price indicated on the PO



## Challenges - Authority

- AP often has no power to:
  - Decide when to pay something (but is responsible for cash management)
  - Get an invoice discrepancy resolved or an invoice approved (but is responsible for timely payment)
- AP is responsible for many things with limited control:
  - Taking discounts
  - Responding to vendor inquiries
- But has limited authority to make things happen



## Challenges - Doctors

- Doctors have special power in healthcare systems
  - High valued resources
  - High maintenance (demanding, urgent needs)
  - Play the patient care trump card
  - Have direct line to hospital executives when unhappy
- Which can complicate AP
  - Buying outside of the normal process/direct vendor purchases
  - Do not follow standardized processes
  - Skip normal channels for escalation of issues
  - Not the best at paperwork (i.e. Approving invoices timely)



## Challenges - Technology

- Healthcare is often behind in the adoption of back-office technologies
  - EDI rates of 10-15% are typical
  - Automation technologies such as P-cards, imaging, workflow, EDI all trail most industries
- Clinical systems get priority in budgeting and use of IT resources
- IT infrastructure at hospitals such as networks and wireless bandwidth is often stressed and in need of upgrading
  - Slow systems, less likely to be used consistently



## Challenges - Unique invoice issues

- Physician Payments
- Rentals
- Pharmacy
- After the Fact Purchase Orders
- Temporary Staffing



## The future of AP in Healthcare

- High rates of “electronic invoices”
- AP and Supply Chain under one roof
- AP as police and cash managers, not data entry
- Invoice Matching discrepancies less than 1%
- AP at the negotiating table
- The role of AP is changing
  - Focus shifting from data entry to payment management
  - Increased role in vendor management and cash flow management



## What is needed to make change

- Participation from supply chain
  - These are their problems too
- “Getting Tough” on vendors
- Strong executive sponsorship
  - There are savings to be gained
- AP Leading the charge



## Solutions - Partnering 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
- Clarify roles and responsibilities



## Solutions - Partnering 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



## Solutions - Managing Vendor Relationships

- 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
- Understand “Days Sales Outstanding”



## Solutions - Managing Vendor Relationships

- Be Proactive - Control the collection process
  - Review statements monthly
  - Keep Received Not Invoiced clean
  - Call them before they call you - next time, they will be forgiving
- Set guidelines
  - When to contact for past due invoices (don't call on day 31)
  - Have clear vendor inquiry processes with a defined escalation process
- Require professional invoices
  - Kick back to vendors who do not provide invoice numbers or ask for payment by statement
  - Use the risk of duplicate payments to enlist audit and executive support



## Solutions - Managing Vendor Relationships

- 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 Walmart
  - Take the Offensive
  - Work with purchasing to put pressure on non-compliant vendors



## Solutions - Audit your Vendors

- Dollars are left on the table
  - Vendor Returns
  - Pricing Discrepancies
    - Just because a buyer approves a message, doesn't mean it was the right price
  - DSO Compliance
  - Tolerance Abuse
  - Duplicate and Over Payments
- Use Audits to make the case for change



## Solutions - Audit Yourself

- AP Should lead the way
  - Don't wait for someone else to audit you
- Duplicate Payments
  - Complete a duplicate payment review from AP *regularly*
  - Identify and address causes of duplicate payments
    - Check request forms submitted twice
    - Paying off statements
    - Rush check requests
    - Duplicate vendors (clean your vendor file)
    - Vendors not providing invoice numbers



## Solutions - Mode of Purchase Policy

- 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



## Solutions - Leverage Technology

- Document Imaging
- Workflow
- Data Capture
- E-Payables
- Purchasing Cards



## Healthcare is rapidly accepting Shared Service models

- Many major healthcare systems have transitioned
  - Catholic Health West (42 hospitals)
  - Catholic Health Initiatives (60 hospitals)
  - MedStar Health (11 hospitals)
- In addition to Accounts Payable, other functions are being centralized:
  - Payroll
  - Purchasing
  - Accounting
- But is struggling with the transition due to differences from other industries



## Benefits of Centralization

- Improved Vendor Relations
  - Consistency in vendor payment
  - Single point of contact
  - Benefit of “company-wide” view of relationship
- 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



## Healthcare Issues - Physician Payments

- Never the same
  - Negotiated differently
  - Time sensitive
  - High Profile
  - Standardization of terms complicated as top executives negotiate deals
- Role of AP varies - responsible to pay or also to verify accuracy
  - Communicate clear timelines
  - Single repository of contract information
    - Database/Software Solution
    - Contract copies



## Healthcare Issues - Patient Refunds

- Patient Refunds processed through AP result in:
  - Large numbers of one-time vendors
  - Significant additional transaction volume
  - Most hospitals interface in these transactions, but they still create vendors and require printing of checks
- Solution: Do not process patient refunds through AP
  - Outsource to third party provider
  - Send a file directly to your bank
  - Bypass AP through Cash Ledger (Lawson customers)
- Eliminate the need for attachments



## Other Healthcare Issues

- Pharmacy
  - Traditionally, hospitals pay pharmacy invoices off statements
  - Some are pre-paid or have a significant discount for immediate payment
  - Paying off statements creates complications
    - Risk of duplicate payment
    - Reconciliation issues
  - Options to consider: Online approval of pharmacy invoices
- Rentals
  - Period of time (quantity) is unknown
  - Purchasing wants to see the invoice to make payment
  - Consider alternate approval process and workflow



## Considerations

- Though healthcare is different, the industry can learn from other industries
  - The business model of healthcare will continue to evolve
- Critical factors to healthcare AP success:
  - Strong Vendor Management
  - Technologies to improve operational efficiency and visibility
  - Friendly and productive relationship with Supply Chain
  - Controls to protect your department from audits
  - Train your local leaders to consider alternatives and accept change
  - Consider alternative ways to address common invoice issues



## Learn from Others

- IAPP Healthcare Virtual User Group
- IAPP Annual Forum and Local Chapters
- BSI Healthcare Forum
- Software user groups
- RPI and other Webinars
- Networking



## Questions / Discussion

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