## Cost/Benefit to Outsourcing Your Back-Office

*What Can You and Can't You Outsource?*

Accounting
Human Resources
Credentialing

MedHQ

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## Introduction

Thank you for attending this presentation.

Our goal during this presentation is to provide you some insights and information that may help you recognize and avoid some potential risks, introduce you to some industry trends and share with you some case studies that may help your healthcare businesses bottom line as we enter into 2011.

Since 2002 MedHQ has been the healthcare industry's single source provider for financial and HR management services. Our goal is to provide healthcare business needed resources to thrive in today's economic and regulatory challenged environment.

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## The Outsourcing Decision

- Ditch Digging
  - (In the days before the backhoe)
  - When would it make sense to outsource?
    - Not able to dig a ditch yourself
    - Don't want to dig a ditch yourself
    - Decision may not be compelling
    - Instead it may be personal preference: do I want to dig a ditch or not??
    - Or, creative urge: If I don't have to dig ditches, then I can pursue other interests!

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## The Outsourcing Decision

- Along comes innovation: the backhoe
  - Faster
  - Better
  - Cheaper?
- Now the decision becomes compelling!
  - Frees up my time to do things I'd rather do
  - Makes a "better ditch"
  - Even if it costs the same, "outsourcing" is a compelling alternative

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## The Outsourcing Decision

- Why not just buy my own backhoe?
  - Need to learn how to operate it
  - Need to maintain it
  - Under utilization (unless I know a lot of other people who need a new ditch)
- Do I just rent a backhoe?
  - Who will operate it?
- Or, do I hire a contractor who owns a backhoe?
  - Outsource my ditch digging (to another firm) that owns a backhoe (who can "afford" the technology investment)

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## The Outsourcing Decision

The "General Theory"

- When is outsourcing a good option?
  - Game changing technology
  - Business model innovation
  - Strategic
- Game changing technology
  - Faster, better, (cheaper)
- Business model innovation
  - Virtual organization vs. Factory model
  - Personal Preference – Creativity – Innovation
- Strategic
  - Leverage core competency
  - High growth rate requires "scalability"

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## One more thing: Size Matters

- One Example: The Regulation "Tax"
  - SBA Office of Advocacy Report, September 2010
  - The Impact of Regulatory Costs on Businesses in 2008
- Total "Regulatory costs": $1.75 Trillion/year
- Small businesses: $10,585 per employee per year (PEPY)
- Medium sized firms: $7,454 PEPY
- Large firms: $7,755 PEPY

**Nicole V. Crain and W. Mark Crain Lafayette College Easton, PA,** under contract number SBAHQ-08-M-0466, Release Date: September 2010

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**Table A-1: List of Concepts Included in the Regulatory Quality Index**

- Export and Import Regulations
- Restrictions on ownership of business by non-residents
- Restrictions on ownership of equity by non-residents
- Unfair competitive practices
- Price controls
- Discriminatory tariffs
- Excessive protections
- Stock Exchange / Capital Markets Foreign investment restrictions
- Administrative regulations
- Tax system is distortionary
- Competition in local market is limited
- Anti-monopoly policy is lax and ineffective
- Complexity of tax system
- Easy to start a company
- Banking / finance restrictions
- Wage and prices controls
- Administrative business start-up formalities
- Ease of market entry for new firms Tax
- Effectiveness (How efficient the country's tax collection system is.)
- An assessment of whether the necessary business laws are in place.
- Labor Market Policies
- Enabling Environment for Private Sector Development
- How problematic are labor regulations for the growth of your business?
- How problematic are tax regulations for the growth of your business?
- How problematic are custom and trade regulations for the growth of your business?
- Trade & foreign exchange system
- Enabling conditions for rural financial services development Investment climate for rural businesses
- Access to agricultural input and produce markets
- Banking regulation does not hinder competitiveness
- Competition legislation in your country does not prevent unfair competition
- Customs' authorities do not facilitate the efficient transit of goods
- Financial institutions' transparency is not widely developed in your country
- Labor regulations hinder business activities
- Subsidies impair economic development

**Source for Table A-1: Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi (2009), Table B-4**

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## Tackling Back Office Pitfalls

- Demonstrate various "decision drivers":
  - Technology: "Faster, better, cheaper"
  - Strategic: High Growth Rate or Leverage core competency
  - Innovation: Organizational Learning

1. Healthcare Accounting
2. Healthcare Credentialing and Payor Contracting
3. Human Resources and Healthcare

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## Accounting

- Major HealthCare Issues / Inefficiencies
  - Declining reimbursement
  - Need to minimize administrative overhead
  - Fraud prevention / cash management
- Changing Model / Operational Efficiencies
  - IT/Automation of back office functions
  - Benchmarking to relevant industry data
  - Budgeting, planning and efficient capital utilization

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## Accounting –Case Study #1

- **Description**
  - Owners wanted to focus on growth of its network and growth of "same store sales", while maintaining excellent operational services
- **Solution**
  - Hired Accounting Firm to handle Controller duties, monthly accounting compilations, and back office administration

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## Accounting –Case Study #1 (continued)

- **Impact**
  - ASC Owners spend $0.00 on back office IT accounting, payroll and timekeeping systems, instead saving their capital for their high-return healthcare investments – new equipment, new projects, turnarounds.
  - 100% success rate for delivery of monthly board packet financial data with minimal management oversight.
  - Internet access to accounting data, enabling transparency.

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## Accounting – Case Study #1 (continued)

- Impact
  - Zero theft/fraud loss through effective accounting cash controls.
  - Accounting firm indemnifies its customers, carries Theft/fiduciary insurance coverage, thereby reducing risk exposure of our customers for transaction-intensive services.
  - Over 60,000 invoice and check transactions managed and processed annually (not counting payroll), each processed with a CPA-prepared cash position analysis.
  - Custom-built, integrated timekeeping, payroll and accounting/general ledger system saves each of their centers 1-4% of gross wages cost annually.

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## Accounting – Case Study # 1 (continued)

- Impact
  - Tax and audit-ready financial data reduces year-end audit and tax return expense by $6,000 to 14,000 per center.
  - Enhanced confidentiality, as a "third party" accounting firm, completely independent of any other partnership or physician practice.
  - Valuable ASC office space is freed up for critical staff; plus desk, computer, supplies, etc.: a $5,000/yr value.
  - Health care providers focus on what they do best (taking care of patients), while Accounting firm focuses on what it does best (back office business services).

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## Accounting – Case Study #1 (continued)

- Impact
  - Reduced overhead costs by reducing administrative labor.
  - Accounting firm has professional experts specific for healthcare resulting in more accurate financials, leading to better informed decisions.
  - Financials are compiled using accrual-based method of accounting, provided more accurate financials, leading to better informed decisions.
  - Accounting firm provides additional internal control thereby reducing risk.
  - Financials are prepared to agreed upon timelines providing for better planning between management and board.

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## Accounting – Case Study # 2

- Description
  - Three-provider physician practice were victimized by an office manager experiencing a "burn out" syndrome, resulting in financial disarray for the practice.
- Solution
  - Hired firm to place a revenue cycle recovery consultant and implement health care accounting, cash management and budgeting best practices.

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## Accounting – Case Study #2 (continued)

- Impact
  - Consultant recovered $409,490 of aged A/R.
  - Prepared new budget for last 6 months of fiscal year using relevant health care sector benchmarks and actual practice data.
  - Paid down aged A/P maintaining practice integrity.
  - Continued with annual budgeting and cash management best practices for subsequent fiscal years.

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## Credentialing

- Major HealthCare Issues / Inefficiencies
  - Cost cutting making it difficult to retain subspecialty staff, such as Credentialing experts
  - Automation / IT integration needed to reduce paper-intensive processes
  - Need tools to track and manage numerous contract / action dates
- Changing Model / Operational Efficiencies
  - Automate processes that distract business office staff from core competencies, and reduce paper
  - Utilize business alerts available in IT systems that eliminate missed deadlines and missed opportunities

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## Credentialing– Case Study #1

- Description
  - Facility/provider with medical staff of 144 providers
  - 900 procedures per month
  - accreditation survey coming soon
  - surprise inspection from the state department of health
    - identified missing data in credentialing files as "deficiency"
    - threatened operations ($50,000 to $100,000 per day in lost medical revenue) if not resolved in 45 days (by audit response follow-up date)

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## Credentialing – Case Study #1 (continued)

- Solution
  - Hired outsourcing firm to 100% audit credentialing files, identify documentation needs
  - Convert from paper files to online data storage with forms automation capability
  - Outsourcing firm worked with business office staff to indentify subset of "active" medical staff

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## Credentialing– Case study #1 (continued)

- Impact
  - Facility provider avoided cost/ineffectiveness/ distraction of trying to have inexperienced staff complete the credentialing files
  - 100% audit of active staff completed on time, data entered into credentialing database software, source documents scanned and attached to database within 45 days of surprise inspection
    - Facility passed inspection!

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## Credentialing – Case Study # (continued)

- Impact
  - Health care professionals credentialed with support of credentialing database software
  - Medical group has "one-stop-shop" for medical staff services
  - Medical group avoids overhead cost of hiring in-house staff
  - Contracting solution applied to
    - Negotiate with third-party payors
    - Establish a scoring protocol for each contract
    - Load business alerts system to leverage contract renewal dates

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## Human Resources

- Human Capital Management
  - Workforce diversity – the new workplace
  - Applicant Supply vs. Applicant Quality
  - Retention vs. Recruitment
- Risk Management
  - Effective front line managers
  - On-boarding and off-boarding
- Employee Benefit Management
  - Benefit ROI an impact on employee retention
- Operational Efficiencies

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## Human Resources

Case Study #1

- Description
  - Increased risk exposure to employment practices including the likes of hiring, coaching/discipline, and dismissal
- Solution
  - Use of an effective "three-legged stool" comprised of
    - Ongoing workplace/relationship awareness/assessment
    - Effective Management Training
    - Quality support to Management team

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## Human Resources

- Impact
  - Turnover rates for staff
    - Less than 15%?
  - Management training programs for health care managers
    - 75-$150 per person (3-7 people); compare to $1,250 per person or more for equivalent programs.
  - Use of Employment Practices HR Audit for identification of areas of management interest
  - Supervisor centered training in the art of working with people and direct management coaching…
  - Mitigate difficult employment cases, at an average incremental (outside) legal cost of less than
    - Measure success rate in EEO office, state UI office, Work Comp board reviews.

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## Human Resources

- Impact
  - Integrated, three-part human capital management solution.
  - The integrated timekeeping, HRIS and payroll system saves customers up to 4% of gross wages cost annually.
    - Custom-built for health care businesses including surgery centers and hospitals.
  - Health insurance program with national carrier
    - less than 5% increase from prior benefit plan year?
  - Measure defined contribution retirement plans for Total Plan Cost and Investment Menu Quality" according to BrightScope Inc.
  - According to a study by AON Consulting, "For annual open enrollment, [only] 20.3% [of PEO's] use online enrollment for their employee communications and/or for processing elections."

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## Open Time

- Q & A

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## Close and Thank You

Thank you for joining us!
We would welcome the opportunity to speak with you further, explore your needs and discover how we can help you.

Please feel free to contact us at any time.

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