Minimizing – and Recovering from – the Financial Impact of a Poor IT Implementation

Bruce Fairbanks
Director and Sr. CFO Consultant
P: 214-681-6476
E: bfairbanks@warbirdcp.com

P.J. deRijke
Healthcare Director
P: 404-895-8756
E: pderijke@warbirdcp.com

It is critically important for health systems to implement new IT systems properly, since poor implementations can have a significant negative financial impact. By conducting implementations the right way, health systems position themselves to gain the most benefits from the technology and achieve the best possible financial performance.

Of course, implementations are often challenging, as evidenced by recent congressional inquiries into the difficulties encountered during some health systems' implementations. But implementations need not be an exceptional burden. Lessons learned from previous implementations can help health system leaders ensure that future implementations proceed more smoothly and at lower cost.

This white paper looks at one health system's poor implementation and the effect on its finances. Highlighting the lessons drawn from this experience, we offer healthcare leaders guidance on how to prepare for and undertake a successful IT implementation in their own health system.

The importance of getting implementations right: One health system's story

A regional, 300-bed Health System moved quickly to implement an EHR system in order to improve efficiencies and lower costs while complying with federal Meaningful Use requirements. At the same time, a new financial billing system was also implemented. However, the Health System installed the new systems without first putting in place the operational policies and organizational structures and procedures necessary to support the implementations. Not surprisingly, the technology failed to meet expectations, and the financial impact was severe.

The Health System made a number of missteps during its implementation process, as follows:

Leaders neglected to ensure that the organization was ready for the implementation. As this Health System discovered, implementing a new financial and clinical system requires that health systems have policies and procedures in place to support the implementation.

Staff were poorly allocated and trained. The Health System lacked both an effective organizational structure and knowledgeable, well-trained personnel. Without trained staff assigned to the task the implementation was hampered from the beginning.

A "big bang" implementation overwhelmed the available resources. Implementing both clinical and financial systems at the same time—the so-called "big bang" approach—is extremely labor intensive. Health systems run the risk of being unable to manage either implementation successfully, which is precisely what occurred in the case of the Health System in our example.

The Health System received only minimal assistance from the software vendor. Health systems must ensure that vendor support is guaranteed. Moreover, a follow-up system must be established to hold the vendor accountable for resolving deficiencies in a timely manner. Having the vendor fully engaged greatly reduces the number of implementation issues and can shorten the implementation period as well.

The vendor promised that future versions would solve the problems, but this didn't happen. During the implementation the software vendor frequently made promises that the next version would solve many of the issues, but either it didn't or the version never appeared.

Other factors that led to a poor implementation

Prior to the implementation the Health System was experiencing deficiencies across the organization. These problems meant that the Health System was poorly prepared for the implementation. Moreover, they limited the success of the installation once it was underway.

Having minimized disruptions, health systems can expect to see a faster return on its technology investments.

The deficiencies included the following:

Patient financial services (PFS)

- Ineffective and inefficient work queue process.
- Lack of productivity measures and performance accountability.
- Lack of coordinated customer service.
- Lack of financial counselors.
- The Health System was paying above-market rates for outsourced revenue cycle services. Moreover, no reports were being received and the Health System's financial performance remained poor.

Medical records and coding

- 35,000 duplicate medical records.
- No audits of the medical record had been performed.
- The medical record delinquency report was ineffective.
- There were no productivity reports and standards for coding personnel had not been established.
- Remote coding was not implemented or supported by the Health System.

Organizational issues

- Several different billing systems were being used by the various divisions within the Health System.
- No single revenue cycle executive was in place to manage and supervise all of the revenue cycle operations.
- There was no centralization and standardization of workflow throughout the Health System.

Personnel issues

- No HIM director, with the position having been vacant for over a year.
- Many vacancies within the billing and collecting functions.
- Many vacancies on the medical records and coding teams.
- Interim personnel were filling many of the managerial positions.

Clinical systems issues

Serious deficiencies in its clinical systems also contributed to the Health System's implementation woes. For example, there were frequent shutdowns and slowdowns, and information was often lost or inconsistent. This resulted in severe strain on the revenue cycle, preventing the billing department from creating timely and accurate patient invoices.

Struggling with its financial and clinical systems shortcomings, the Health System was less able to cope with the challenges of the implementation or get the most out of the technology. For health leaders, the takeaway is that fundamental organizational and operational problems must be addressed before implementation even begins.

Paying the price of a poor implementation

By not establishing the proper foundation for a successful implementation, the Health System failed to benefit from the new technology and its financial situation deteriorated significantly. A year after the "go live" moment the Health System was experiencing an array of financial problems:

- Cash was down by 50%.
- Net accounts receivable (AR) had risen by 76%.
- Days in AR had risen dramatically to over 100.
- Discharged-not-final-billed (DNFB) amounts had grown to a staggering $50 million. This figure was 50% of gross AR and a significant percentage of this total was over 90 days old.
- 30% of AR was over 211 days old, requiring managers to send waivers for timely filing to the managed care payors, citing the delay due to the system conversion.
- As a result of the AR situation the hospital had to write down the net AR by 50%, or $45 million.
- Credit balances were 33% of gross AR.

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Furthermore, the financial deterioration caused the Health System to violate its bond covenants when the day's cash on hand and debt coverage fell below the minimum requirements. This in turn triggered a technical default which required the Health System to obtain a waiver from its lenders.

As required by the bond covenants, the Health System engaged an independent consultant to review its operations and suggest potential improvements.

Digging out: How the Health System began to recover

With its financial state still precarious, the Health System has initiated steps to improve its processes, as follows:

Financial

- Outsourcing AR which is over 90 days old so that the PFS department can concentrate on cleaning up the current accounts and handling future revenue.
- Reorganizing billing workflows along payor lines.
- Reprioritizing billing workflows.
- Reengineering the billing work queues.
- Cleaning up DNFB.
- Cleaning up credit balances.
- Issuing RFPs for early out, collections and transcription services.
- Evaluating personnel within the revenue cycle team and reassigning if necessary.
- Establishing a self-pay discount policy for the Health System.

Concentrate on steps that will speed up recovery.

Medical records and coding

- Recreating a medical record delinquency report.
- Establishing productivity reports and standards for coding personnel.
- Allowing coding from home.

The Health System has not yet emerged from its financial crisis, but by taking these and other steps it has put itself on track to recovery.

How to proceed with an IT implementation in a way that minimizes financial risk

As the struggles of this particular Health System have shown, an IT implementation without adequate preparation can lead to dire financial consequences. So what should health systems do to ensure an effective implementation, one that maximizes the technology's potential and delivers a positive financial outcome?

The key to a successful implementation is good planning. There are a number of steps that health systems should take before and during the transition to the new technology. For example:

Don't leave out the software vendor during the implementation process.

- Establish benchmarks and performance standards.
- Organize a committee to identify and resolve any deficiencies prior to implementing the new systems.
- Ensure that adequate resources are assigned to the implementation.
- Determine the health system's ability to implement both clinical and financial systems simultaneously—the "big bang" approach—before proceeding with this kind of implementation.
- Put in place new policies and procedures to support the implementation. Moreover, be ready to develop and customize them as needed, as well as offer the necessary training for staff.

- Ensure that the software vendor is actively participating in the implementation process. The vendor should be held accountable for meeting performance standards and resolving deficiencies in a timely manner.
- Be wary of the vendor's continual promises that the next version of the software will solve all the problems. The current version of the technology needs to work as well.
- Consider engaging outside support. A third party can provide an objective assessment of the health system's readiness for implementation and offer project management support during implementation.

With these guidelines in mind, health systems will be better positioned for a more seamless implementation. Moreover, having minimized disruptions, they can expect to see a faster return on their technology investment.

Conclusion

Implementing new financial and clinical systems has the potential to improve a health system's effectiveness and efficiency, resulting in better performance, higher revenue and improved patient outcomes. But a poor implementation can also make existing financial problems worse, as we've seen with the Health System discussed in this report. By proceeding with a smart, deliberate implementation, health systems can avoid these financial pitfalls and more quickly enjoy the benefits of their new technology.

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