

## Improving a Vendor Contracting Department



**A leading health care system was unable to properly oversee and manage its more than 1,100 vendor contracts, compromising the quality of its services. The health care system needed to immediately address several short-term issues, such as a backlog of contract requests and unpaid vendor invoices, as well as develop a longer-term plan for a more efficient and effective contracting department.**

### **Problem to Solve**

Vendor contracts, the operational foundation of health care organizations, can rapidly go awry if not properly overseen and managed.

That was the dilemma faced by a leading California health care system operating several inpatient and outpatient facilities and relying on more than 1,100 vendor contracts to help fulfill everything from dialysis and imaging to information technology and facility management. Unfortunately, the health care system was financially compromised, with a significant level of unrealized cash collections, and vendors not being paid on a timely basis and terminating services.

The health care system's new leadership team initiated an aggressive financial improvement plan, including reorganizing revenue cycle workflows, significantly revising finance policy and procedures, and overhauling the contracting department. Freed Associates (Freed) was engaged to support assessing and reorganizing the client's vendor contracting (non-physician, non-payer) functions, in addition to providing interim director leadership for the contracting department.

## Strategy

Historically, the health care system's vendor contracting department was minimally staffed, despite the fact that the organization had added two acute care facilities over the prior 18 months. At the start of this engagement, the department had been without a leader for several months.

The assessment of the contracting department revealed several pervasive issues:

- A significant backlog of contract requests and unpaid vendor invoices
- Insufficient staffing (type and volume) to manage the daily workload
- Inconsistent department policies and procedures
- Minimal negotiation of contract terms and rates
- Inadequate internal processes for reviewing contracts and acquiring executive signatures
- Inadequate organizational understanding of the need for contracting processes

The health care system needed to immediately address short-term issues, as well as develop a longer-term plan for a more efficient and effective contracting department. Collaboratively, the client and Freed developed the following plans:

- **Develop a staffing plan and budget** – to adequately manage the volume of contracting work
- **Update the department's policies and procedures, tracking tools, and contracts** – to reduce business risk by implementing appropriate contract language and documents, and reduce the cost of doing business by negotiating more favorable terms and fee schedules
- **Develop and implement a communication and education plan** – to support efficient department operations and provide continuous education to internal client stakeholders regarding contracting processes

## Results

After several months of collaborative effort, the client and Freed accomplished the following results:

- **Developed a new staffing plan** – Created a new department staffing plan and budget, including new job positions for analyzing and executing vendor contracts.
- **Reduced initial triage and contract assignment turnaround time** – Reduced department’s turnaround time for initial review and assignment of contracting request from seven to eight weeks down to one week.
- **Reduced business risk and cost of doing business** – Updated or developed department policies and procedures, contract templates, and tracking tools.
- **Implemented electronic contract review and approval processes** – Added electronic management of the internal review and approval process for contracts, which reduced the process by an average of 3.5 weeks.
- **Streamlined purchase order requisition processes** – In collaboration with the purchasing and finance departments, streamlined requisition processes and distributed this information to internal and external stakeholders.
- **Developed and implemented a communication and education plan** – Created a department intranet page and a dedicated department e-mail address, as well as provided information on revised contract processes to all department leaders.

## **Conclusion**

The value of having an effective contracting department may not be readily apparent to a health care organization’s leaders. Therefore, it is important to educate these decision-makers about the organizational benefits of having a high-functioning contracting department, including meeting regulatory requirements and reducing business risk and the cost of doing business.

By revamping its contracting department and processes, the health care system gained a far more effective contracting operation, much-improved vendor and employee satisfaction, and a better system-wide understanding of the importance of a well-functioning contracting operation.