

# Additional Revenue Opportunities in the Accounts Payable Disbursement Cycle



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## - THE CHALLENGE -

Healthcare executives are faced with the continuous challenge between financial responsibilities associated with operational costs and providing the highest level of quality care in a very competitive marketplace. With constant regulatory changes, budget cuts, and financial resources being exhausted, every dollar counts.

One area of opportunity to identify and recover lost revenues that's not always thoroughly examined is through the purchasing and accounts payable disbursement cycles. Even with the most knowledgeable staff and efficient software systems in place, money can and will slip through the cracks. Lost money through the procurement cycle can go unnoticed for months, quarters, or even years and has an immediate and direct impact to the bottom line.

## - HOW LOST PROFITS OCCUR IN THE DISBURSEMENT CYCLE -

Typically lost profits in the accounts payable disbursement cycle can represent anywhere between 0.10% and 0.50% of all non-payroll annual disbursements. Less than half of one percent may not seem like a material amount to get excited about, however, when this fraction of a percent is compared to an organization's annual disbursements, the numbers add up quickly.

ANNUAL PURCHASES (NON-PAYROLL)	\$ 50,000,000.00	\$ 75,000,000.00	\$ 100,000,000.00
RECOVERY RATIO			
0.500%	\$ 250,000.00	\$ 375,000.00	\$ 500,000.00
0.250%	\$ 125,000.00	\$ 187,500.00	\$ 250,000.00
0.100%	\$ 50,000.00	\$ 75,000.00	\$ 100,000.00

(Example of annual disbursements ranging between \$50 to \$100 Million and relative potential recovery ratio)

## - HOW ERRORS OCCUR IN THE DISBURSEMENT CYCLE -

When there are multiple people and departments involved in the procurement process such as physicians, purchasing, vendors, receiving, and accounts payable, unfortunately a breakdown in communication or processes can and will happen.

Possible contributing factors how money can slip through the cracks in the procurement and disbursement cycles could be:

- Software changes or upgrades
- Personnel turnover
- Contracted pricing discrepancies
- Vendor mergers
- Health system acquisitions
- Cancelled services or product returns
- Invoice approval processes
- Delayed payments causing vendors to send duplicate invoices
- Vendor master supply files
- Simple data entry processing errors
- Multiple payment methods (AP Checks, P-Cards, ETF, etc.)

The reasons money can slip through the cracks undetected is extensive, however, the key factor is the ability to identify and recover that lost money.

## - TYPES OF ERRORS THAT OCCUR -

Just as the number of contributing factors that could lead to financial leakage in the disbursement cycle, the types of errors or identifiable

money to be recovered is just as extensive. Some common examples of potential errors that can have an immediate impact to the bottom line are:

- Duplicate Payments
- Volume Purchase Incentives
- Lease & Contract Terms
- Deposits
- Contract Price Discrepancies
- Erroneous Payments
- Sales & Use Tax
- Invalid Liabilities Recorded
- Product Returns
- Vendor Billing Adjustments
- Overpayments
- Freight Charges

Internal controls and strong fundamental processes in place can certainly minimize the potential for financial leakage and lost profits. With the number of potential areas in conjunction with the hundreds of vendors that are utilized, the possibilities for lost profits going unnoticed is immense. Unfortunately money will be lost during the procurement and accounts payable disbursement cycle.

Ultimately, the main objective is to minimize potential errors before any money is lost. However, unrealized monetary losses that can be identified and recovered back to you is just as important. Limited time and resources has a direct impact on an organization's ability to conduct a complete reconciliation of all possible areas of recoverable money.

## - SOLUTIONS AND OPPORTUNITIES -

All procurement and accounts payable systems have features designed to prevent duplicate and error payments from occurring. While knowledgeable and loyal staff members do all they can to identify and record money that belongs to your organization, focusing on this task alone within their daily responsibilities can be extremely challenging.

One practical solution to identify and maximize the recovery of lost money is to partner with an independent third party cost recovery firm that specializes in the health care industry. In nearly all cases, these types of reviews are conducted on a contingency basis, which means, there are no upfront fees or additional costs that impact your budget. The fees come from a percentage of the recoveries, and only happens when the identified financial gain takes place.

Supplementing your team with an additional unbiased resource that has little to no impact on your daily operation, works independently and confidentially, all while respecting your employees and vendor relationships in place, will have an immediate positive financial impact. Not only can your organization gain with recovering lost money but will also benefit with measurable knowledge to identify opportunities and minimize future potential losses from recurring.

## - IN SUMMARY -

There is no secret formula to predict how, when, where, or even the amount of money that can and will slip through the cracks of the purchasing process. When the human element is involved in multiple facets of these cycles, communication and processes can breakdown allowing errors to occur.

When time and resources are limited, a thorough independent review can not only benchmark the overall performance of your systematic processes in place, but most importantly return lost revenues back to your bottom line.