SPEND MEND

YOU REALLY CAN'T AFFORD TO WAIT!

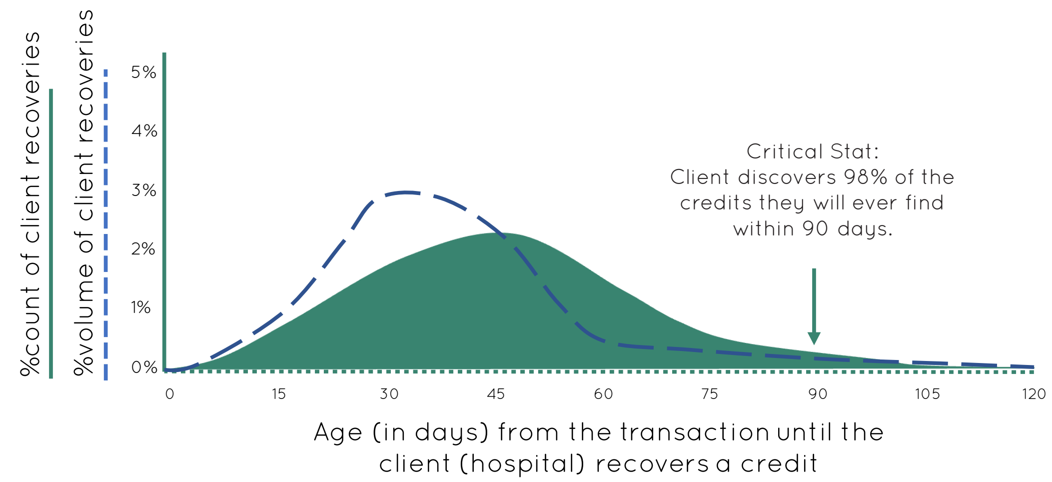
HOW DELAYING YOUR RECOVERY AUDIT FOR EVEN ONE MONTH WILL COST YOU MORE THAN YOU EVER REALIZED

EXECUTIVE SUMMARY

Timing really does make ALL the difference when it comes to recovering lost profits and credits in the healthcare industry. Observing the traditional practice of waiting 12-36 months to perform a profit recovery audit is costly and wasteful for hospitals and healthcare systems. Steep costs come from both the time-value of money and the high frequency of open credits disappearing and likely being used to resolve unapproved accounting issues.

SpendMend has developed this opinion over years of careful research and review. We present in this paper actual results from four specific clients as well as the aggregate results of 25 current clients to demonstrate how crucial it is for healthcare organizations to start closely inspecting the timing implications of profit recovery efforts. Healthcare providers need to consider what is the best timing strategy in terms of how closely an audit review should trail behind transactions while also considering the true cost of delaying an audit.

The resulting data from 25 years of client AP records is shown below and proves hospitals find 98% of all the credits they are ever going to find within 90 days of a transaction. Therefore, according to our research, every healthcare organization should initiate a recovery audit rolling 90 days behind transactions.



The data you see in the chart above is based on millions of data points from hundreds of hospitals. By inspecting this report, we can see clients waiting over 90 days to engage a profit recovery firm are not gaining any advantage. In fact, every day that passes after the 90-day cut off is costing your hospital some volume of money with no opportunity to recapture those dollars at a later date.

Our research quantifies every quarter a hospital delays the start of their recovery audit is, in fact, costing them approximately $303,000 per every $1 billion dollars of annual spend.

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Does It Really Matter When I Start My Recovery Audit?

The short answer: Yes.

The evidence is quite clear, any professional auditor will tell you, credits (i.e. your profits) have a way of disappearing over time if you are not taking the necessary strategies to identify and collect them. SpendMend has worked with over 250 large healthcare systems comprised of over 3000 individual locations in the past 25 years. Our reviews have spanned billions of transactions and, in the process, we have developed expertise about all things regarding profit recovery.

This paper will review the results from four of our healthcare system clients as well as the aggregate results from our 25 current clients. We aim to present raw data while providing key insights from our findings. We believe the evidence is obvious, consistent, and quite compelling about the value of getting started right away, but of course, we invite the reader to evaluate the results and draw their own conclusions.

The four specific samples we will be highlighting were selected because they share a couple common attributes which will aid us in this analysis. In each instance, the audit has been active for over a year meaning SpendMend has been performing a 90-day Mending Audit for our client for over 12 months. In our sample set on the next page we are only using the results from the first 12 months of our review with the client so we have a uniform view across all the reports.

This comparison will help us determine the impact the first year of SpendMend's services have had on our client's Financial Leakage.

Additionally, these four accounts were selected in part because they did not have any recovery audit activity for at least two years prior to engaging with SpendMend. That is to say, the client neither engaged an outside audit firm nor performed any significant internal review to discover credits or lost profits. However, through the typical course of business manage and collect some credits, but this activity was not considered, by the client, to be part of a recovery audit.

This level setting is useful because in our analysis we observed that aged items are disappearing from financial records and are not due to any internal or external recovery efforts.

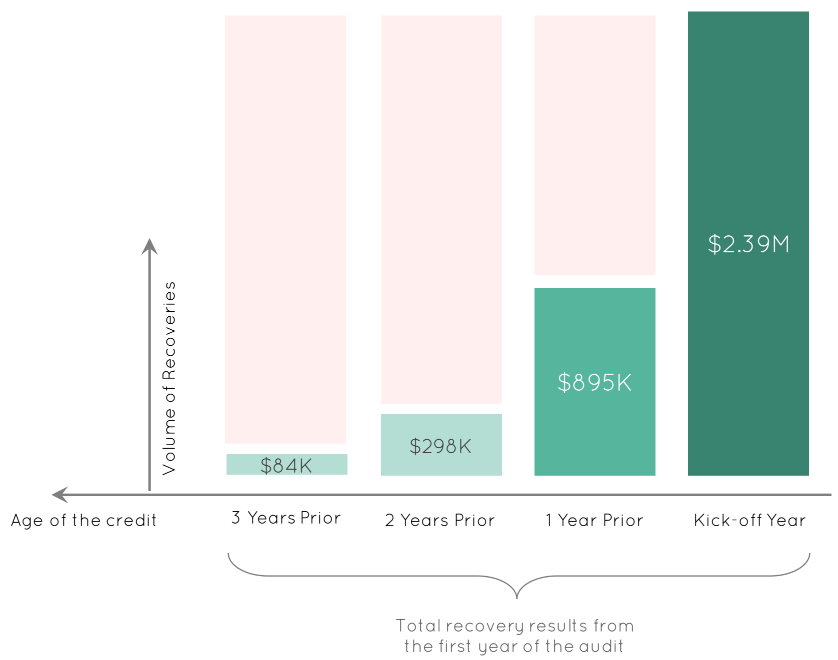
The Results Are Compelling, And You've Probably Never Thought Of It This Way.

In this first example we are reviewing the recovery results for a well-known West Coast hospital system with an annual operating expense of $4.3 billion.

For this specific audit, SpendMend reviewed an addressable annual spend of $2.1 billion. In only one year of performing a Mending Audit, SpendMend delivered over $3.7 million in recoveries.

If we assume that $2.39 million (the large teal bar of recoveries below) is the baseline of recoveries for annual AP activity, and if we consider that reviewing the prior year activity resulted in only $895K of recovery, we can see where a large amount of likely recoveries have effectively disappeared from the prior year's ledger.

We can assume all these savings disappeared because, in this specific case, the client did not engage in any significant (internal or external) recovery effort in the three years leading up to this audit. Think about it...If we didn't find it and the client didn't find it...where did it go? If we quantify all the lost savings in the past three years, we can conclude, due to factors outside of the client's controls, they lost an average of $1.96 million per year for the past three years.



FAST FACTS:

Annual Operating Expense: $4.3B
Addressable Spend: $2.1B
EHR: Meditech
ERP: Lawson
No. of Beds: 4577

Recoveries in first year of audit:
Total 4-year look-back: $3.7M
Dated in audit year: $2.39M

Lost Profits:

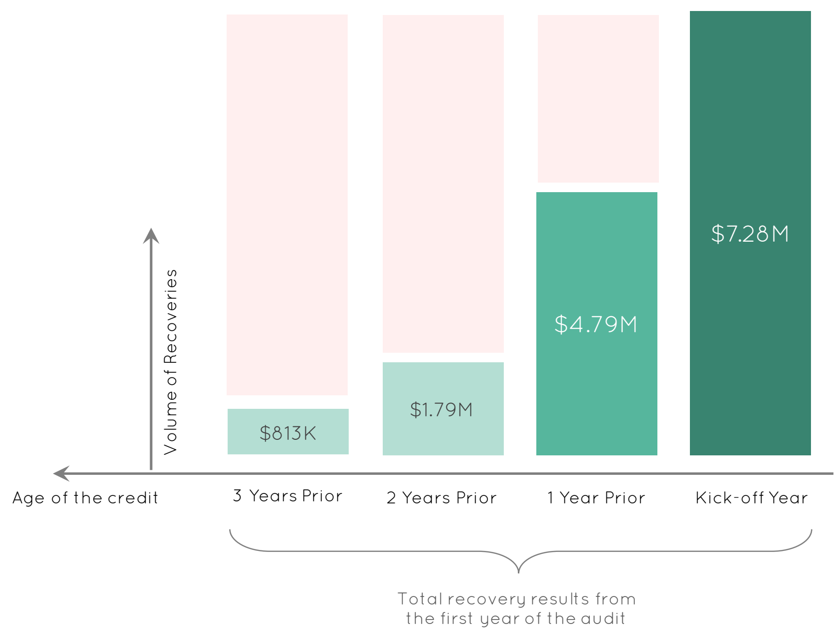
- Average loss per prior years: $1.96M
- Total 3-year loss: $5.89M

In this second example we are reviewing the recovery results for a well-known hospital system spread across the Western U.S with an annual operating expense of $8.9 billion.

For this specific audit, SpendMend reviewed an addressable annual spend of $6.8 billion. In only one year of performing a Mending Audit, SpendMend delivered over $14.67 million in recoveries.

According to the graph below one year of AP activity shows a baseline of $7.28 million. We looked just one year in the past and found $4.79 million in recoveries therefore you can see almost $2.5 million likely claims and recoveries have disappeared from the prior year's ledger.

It can be assumed in this case the client did not engage in any internal or external recovery efforts in the two years leading up to this audit. Think about it...if the client didn't find it and we didn't find it...where did it go? The past three years lost opportunity due to factors outside the client's control can be quantified as an average loss of $4.82 million per year.



FAST FACTS:

Annual Operating Expense: $8.9B
Addressable Spend: $6.8B
EHR: Epic
ERP: Lawson
No. of Beds: 6315

Recoveries in first year of audit:
Total 4-year look-back: $14.67M
Dated in audit year: $7.28M

Lost Profits:

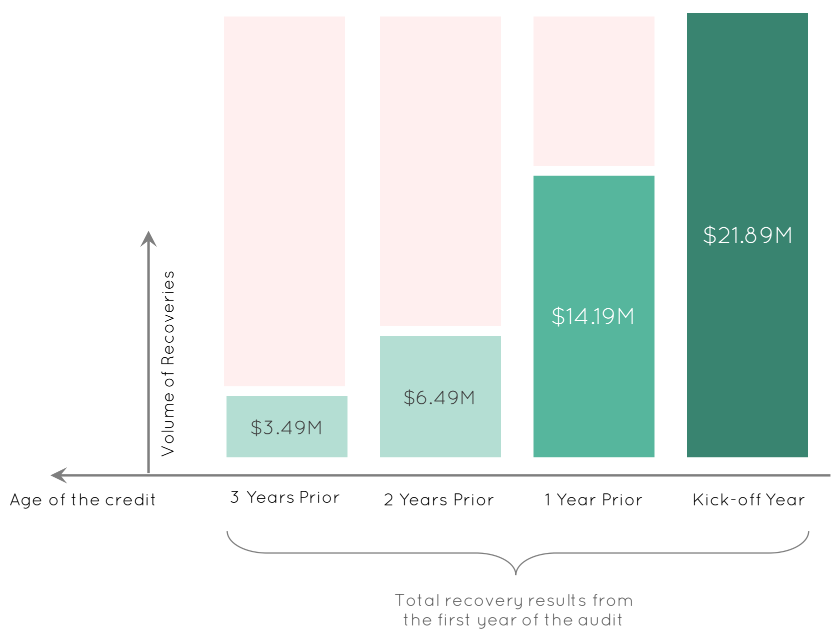
- Average loss per prior years: $4.82M
- Total 3-year loss: $14.45M

In a third example we reviewed the recovery results for a well-known West Coast-based hospital system with $29 billion in annual operating expense.

For this specific audit, SpendMend reviewed an addressable annual spend of $23.3 billion. In only one year of performing a Mending Audit, SpendMend delivered over $46.06 million in recoveries.

The graph below shows $21.89 million is the baseline of recoveries for just one year of AP activity. When looking one year in the past we found $14.19 million in recoveries. This graph shows over $7 million of likely claims and recoveries have effectively disappeared from the prior year's ledger.

We can assume all these opportunities disappeared because the client did not engage in any significant (internal or external) recovery effort in the two years leading up to this audit. Think about it...If we didn't find it and the client didn't find it...where did it go? Quantifying all the lost opportunity in the past three years this graph concludes, due to factors outside of the client's controls, they lost an average of $13.83 million per year for the past three years.



FAST FACTS:

Annual Operating Expense: $29B
Addressable Spend: $23.3B
EHR: Epic/Cerner
ERP: Quartex/Meditech/Lawson
No. of Beds: 23,269

Recoveries in first year of audit:
Total 4-year look-back: $46.06M
Dated in audit year: $21.89M

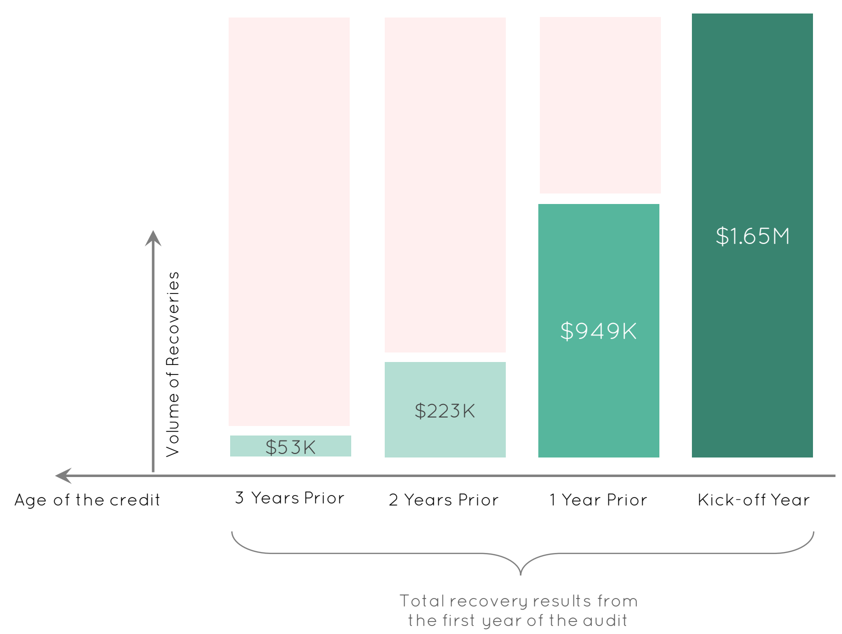
Lost Profits:
- Average loss per prior years: $13.83M
- Total 3-year loss: $41.5M

In this final example we are reviewing the recovery results for a well-known West Coast-based hospital system with an annual operating expense of $2.98 billion.

For this specific audit, SpendMend reviewed an addressable annual spend of $1.99 billion. In only one year of performing a Mending Audit, SpendMend delivered $2.89 million in recoveries.

The baseline of recoveries for just one year of AP activity is $1.65 million. This leads to a one year audit recovery amount to $969K. We can see where a large amount of likely claims and recoveries have effectively disappeared from the prior year's ledger.

We can assume all opportunities in this case disappeared because the client did not engage in any significant internal or external recovery effort in the two years leading up to this audit. Think about it... If we didn't find it and the client didn't find it... where did it go? If we quantify all the lost opportunity in the past three years, we conclude, due to factors outside of the client's controls, they lost an average of $1.96 million per year for the past three years.



FAST FACTS:

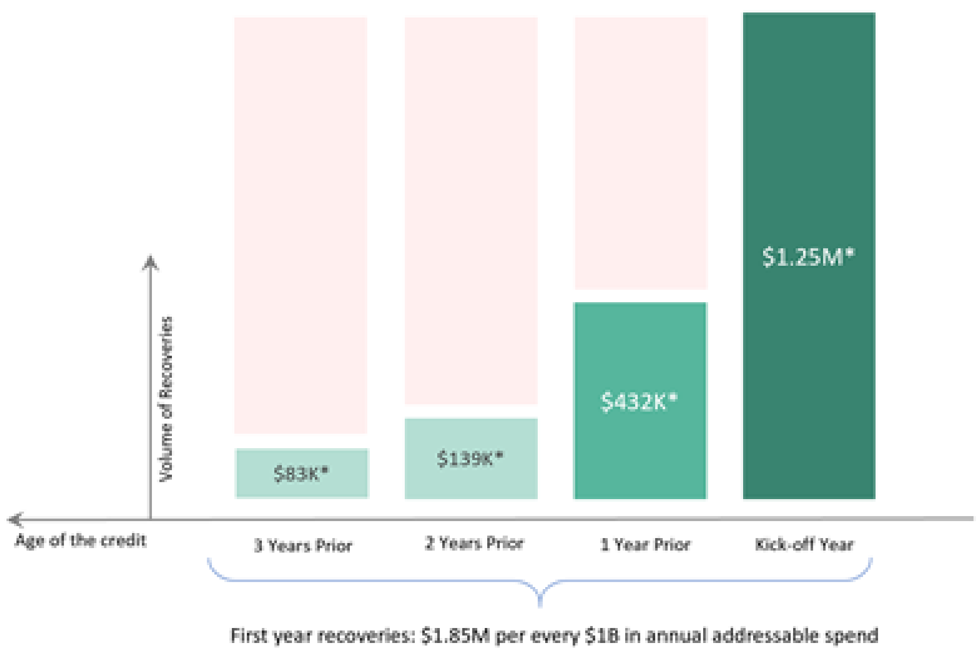
Annual Operating Expense: $2.9B
Addressable Spend: $1.99B
EHR: Epic
ERP: PeopleSoft
No. of Beds: 2114

Recoveries in first year of audit:
Total 4-year look-back: $2.89M
Dated in audit year: $1.65M

Lost Profits:
- Average loss per prior years: $1.96M
- Total 3-year loss: $5.89M

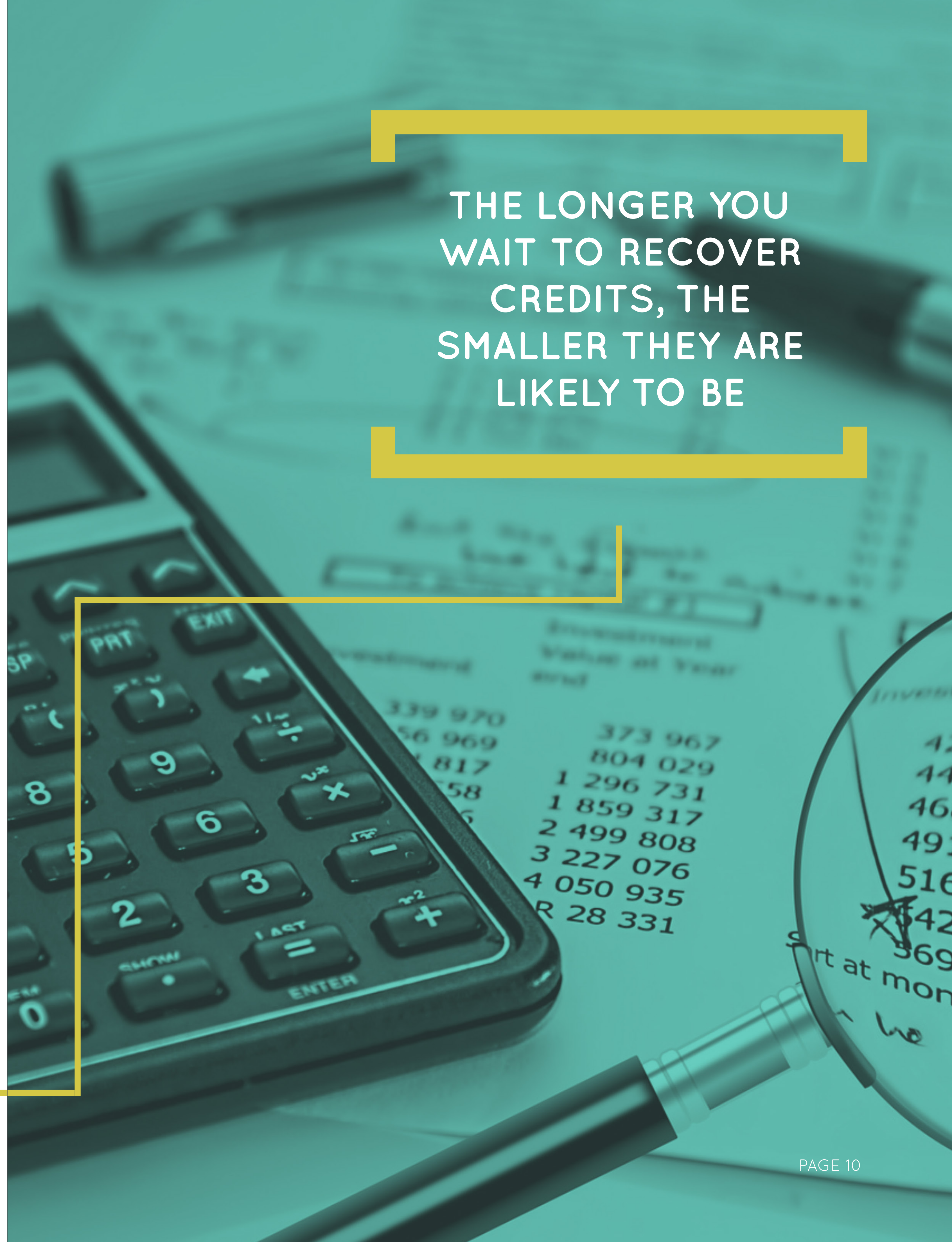
In addition to presenting our year-one results for the four audits, SpendMend has also aggregated year-one audit results of 25 current accounts to reveal how consistent our recovery trends are across all our audits. The inspection of this data has revealed SpendMend delivers an average of $1.85 million in recoveries per every $1 billion dollars in annual spend under review.

Aggregate (average) results from Top 25 SpendMend Account
*All results are per $1B in annual addressable spend



The SpendMend analysis presented in the chart above illustrates the severe cost of delaying your recovery audit. SpendMend has observed the inescapable trend that claim volumes decrease consistently and significantly as the claim's initial transaction gets older. It should be noted clients are not recovering these claims on their own. In the specific examples above we showed results from audits where clients insisted, they had recovery efforts for at least two years prior to our involvement. So what does this chart tell us? In short, it says claims vanish, disappear, go away, get swept of the books, and/or get removed from the ledger as they get older. And the conclusion is that, if you delay your audit you will undeniably lose out on the ability to collect some of your credits with no chance to recapture them in the future. Of course, this conclusion leads to a couple other very important and legitimate questions like "How much is this costing you?" and "Why is this happening?"

Read on to get these answers.



THE LONGER YOU WAIT TO RECOVER CREDITS, THE SMALLER THEY ARE LIKELY TO BE

How much will delaying an audit cost you?

The preceding results may be difficult to believe. There are no other calculations at play and the recovery volumes in the above charts represent the actual dollars that have been identified, approved, accepted by the client, and taken to their bottom-line.

You may also recognize the recovery percentages seem to trend a little higher than the typical recovery industry ranges which are often quoted on service provider websites. The traditional industry benchmark promises recoveries of $1 million for every $1B in annual spend. You may have noticed we average $1.85 million in recoveries for every $1 billion of addressable client spend. Our recovery results are higher for three major reasons:

one

We are auditing healthcare and that environment is much more complex than other industries. This complexity leads to more errors and more errors leads to more recoveries.

two

Healthcare is a unique industry and has produced a handful of outlier accounts that pull averages up (are you one of these?).

three

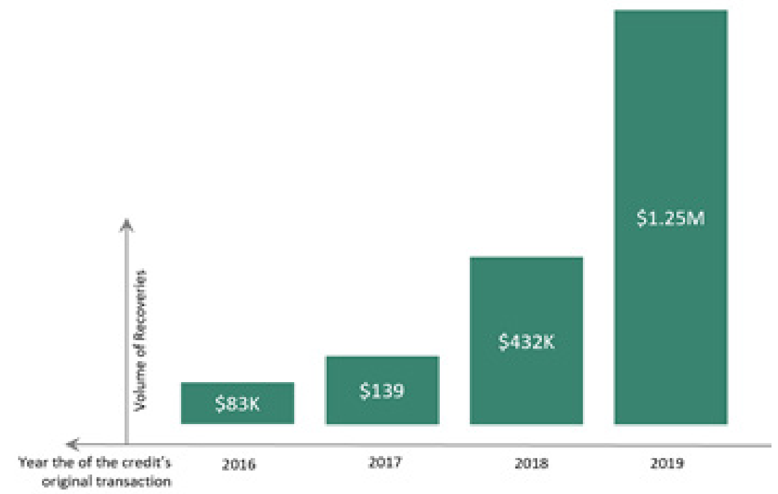
We have a proprietary methodology that allows us to review "dark datasets" that are otherwise unseen and inaccessible to competitive firms as well as our clients own auditors and staff.

As a result, our year one recoveries are typically much higher than competitors.

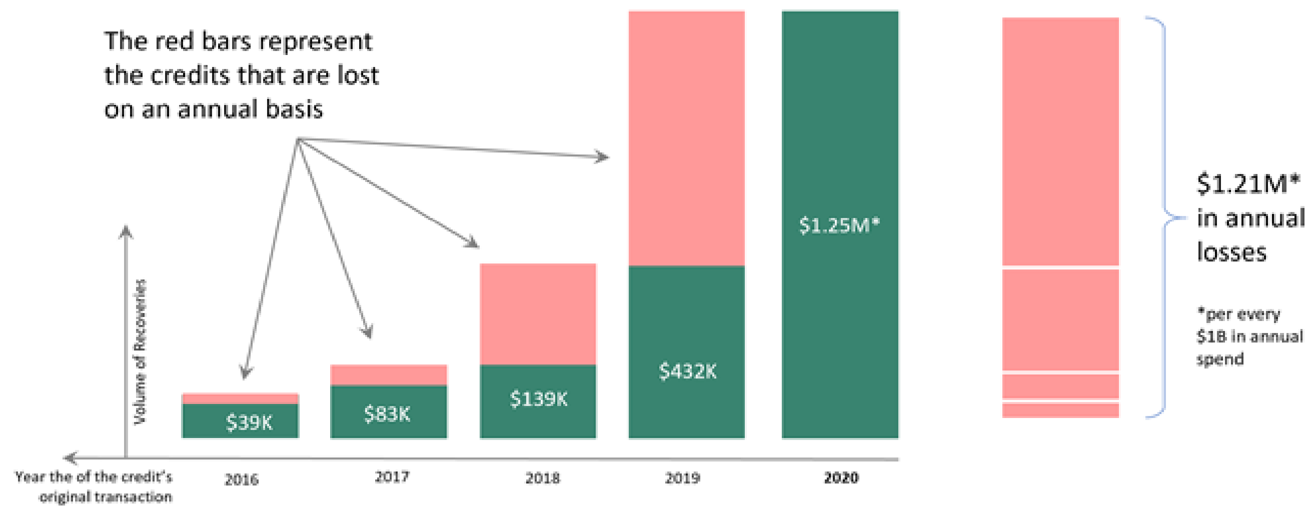
Fortunately, our methodology provides rare visibility and insights which leads to the second and third year results to be much lower due to the recommendations and corrections that we facilitate at the client organization.

The conclusion based on review of the above results is simple: the longer you wait to recover credits, the smaller they are likely to be, assuming they don't disappear completely. The traditional method of waiting 12-36 months before starting a recovery effort will cost your organization hundreds of thousands of dollars if not more. This is money that comes right out of your hospital's bottom-line.

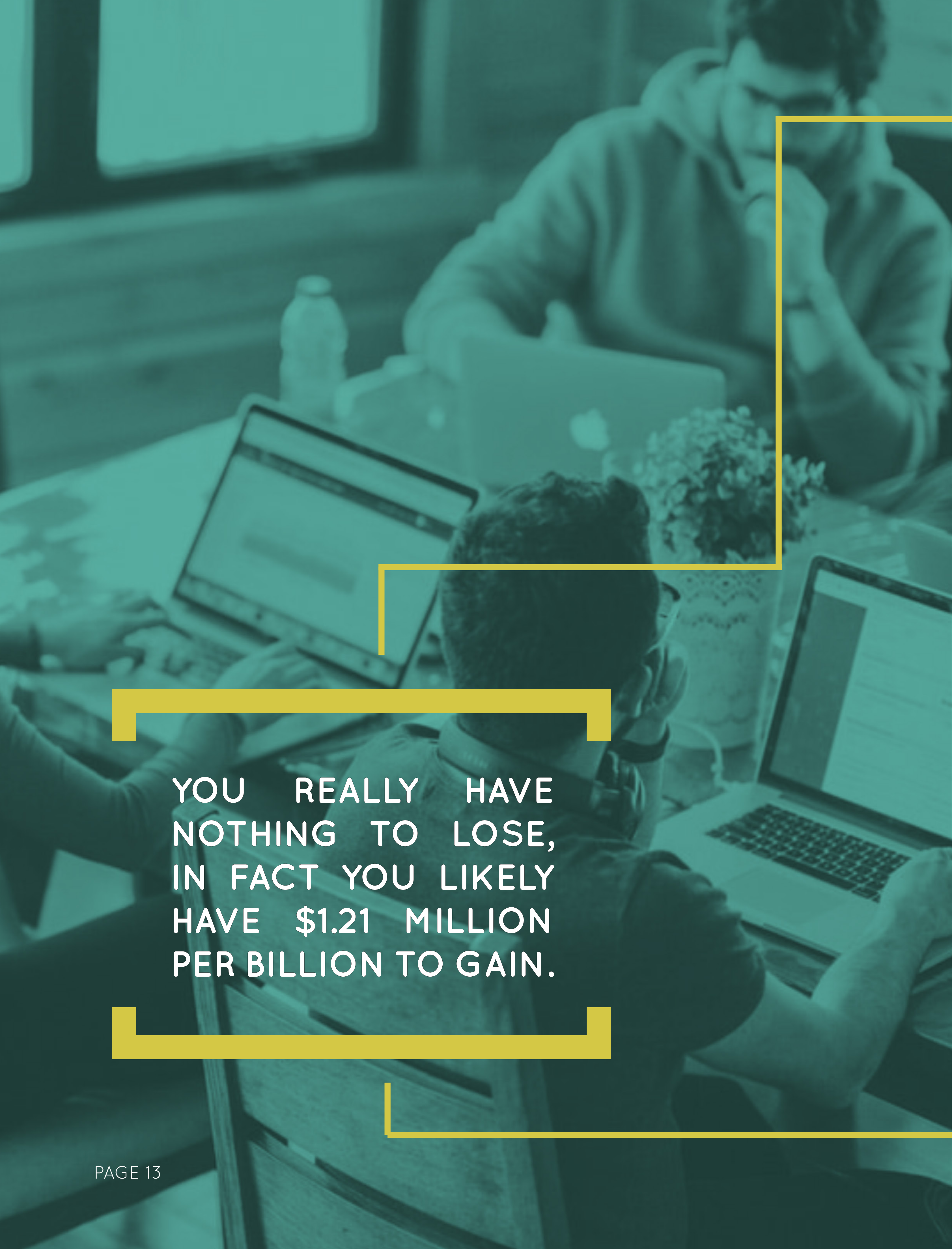
Think for a moment about how much your hospital could lose by delaying just one year to begin your audit. In the chart to the right, we look again at the distribution of claims we would expect if we started an audit in late 2019. The vertical axis indicates the volume of claims and the horizontal access the original year of the transaction that lead to the claim. This is our consistent distribution of recovery whenever we start an audit.



The chart above should look familiar as it is the same distribution that we gathered from the aggregate of year-one claims results from our top 25 clients. Now observe chart below which shows the same theoretical results if we were to delay the start of their audit by just one year. We demonstrate the shift by adding an additional stack of claims for 2020 and indicate the loss of potential credits in the red bars. We add an additional red stack to the right of the bar chart to tabulate all of the recoveries "lost" due to the delay.



This chart and our research indicate approximately $1.21 million, per every $1 billion in addressable spend is "disappearing" from the record every year you delay the start of your audit.



YOU REALLY HAVE NOTHING TO LOSE, IN FACT YOU LIKELY HAVE $1.21 MILLION PER BILLION TO GAIN.

How is it possible that these credits really disappear?

If you are willing to indulge the thesis that credits are disappearing, then where are they going? There is no one *single* answer to that question.

In our experience, any number of things can happen; to start, consider if you are truly *earning* all the early payment discounts you instruct your staff to take. Don't you *sometimes* pay a little past the appropriate date, but you still take the discount? Consider the likelihood that your suppliers are applying a similar instinct and using open credits to clean up unearned discounts or any other unresolved items.

Similarly, consider if you have suppliers who charges you late fees? Perhaps you have an internal policy which prevents your organization from paying late fees. That internal policy will not preclude your suppliers from accruing fees on their records. When it is time to close their books at the end of the quarter or end of the year - what do you think the supplier's AR staff will really do when they encounter an accrual for late fees? And how would your organization ever know? Refer again to the client bar charts on the last page. Note that those large red bars may be full of lost dollars based on decisions that your suppliers are making without your input.

Even if you have neither of these issues, you are not in the clear. Every organization in operation today will find themselves, at some point, in a dispute with a supplier over a transaction. Those disputed items don't simply vanish into thin air. It is very common for suppliers to use open credits to offset those disputed items as shown in the red bars above

Here is another common example that will probably annoy many readers. How do you feel learning that suppliers are levying finance charges on payments that are unilaterally determined to be late? When this example comes up in conversation, most clients and prospects insist this would never happen in their environment. Time and time again, our clients are shocked when they discover how common that practice is and they are losing significant profits as a result.

If you're reading this and you still feel like, **"Well none of those examples apply to me…"** We understand completely and hear it time and time again. It's possible that your processes and controls would prevent any of these scenarios from occurring, but the numbers prove *something* is occurring. We have never run a review that did not find some significant financial leakage taking place somewhere throughout the hospital and/or healthcare system. In most cases the over-confidence of the hospital's finance team was a factor in why the oversight was occurring in the first place. With respect, we encourage you to just start the review and let us show you what's out there…

How much will delaying an audit cost you?

So maybe we've done our job successfully to this point and after reading through all our evidence and anecdotes you are willing to yield, "OK, fine these dollars really are disappearing outside of my line of sight." After everything we've shown it is a fair conclusion, but maybe you still aren't convinced that the total amount is material or significant. In short, you wonder if the recoveries would justify the effort. Obviously, your company is unique, but in our experience and analysis, the dollar amounts are always significant. Consider the following.

It's simple math...

It's simple math, but we see profit loss occurs fairly consistently over the course of the year. For the purpose of modeling we will say a company loses

1/12

or

8%

of its annual "lost profits" on a monthly basis.

Based on the average recovery totals from the aggregate analysis of our

Top 25

accounts that equates to loss of

$101,000

per month per $1 billion of addressable spend.

The money that disappears from the recovery pool on a monthly basis. That equates to

$303,000

per quarter and over $1.2 million per year - for every billion dollars in spend!

Isn't it easier to recover the credits than try and generate those additional sales?

These are average figures based on the activity of a large number of SpendMend clients. Your actual results could be less or they could be much greater. Remember, these funds come right off the bottom line.

Now if we put these figures in further perspective, consider the following. Your organization is operating on a robust net profit margin of 5%, to get that annual $1.2 million on your bottom line, your sales staff would have to generate another $24 million in sales. If your net profit margin is 2%, the sales staff would have to bring in another $60 million to offset the lost credits.

And remember that is per every $1 billion in spend! Isn't it just easier to recover the credits than try and generate those additional sales? Or maybe do both.

“OK, OK, OK... fine... this is a good idea.” But maybe you just don’t have the time...

So maybe you love this idea. Most people do. The real issue that may be causing you to delay or de-prioritize a recovery audit is your assumption this will require too many resources. This is particularly relevant when it comes to IT. Most prospects assume the IT and data requirements associated with starting a recovery review will be steep, but the truth is minimal IT involvement will be needed.

Of course, the definition of “minimal” varies across different companies and departments. We define “minimal” as compared to a standard, more traditional recovery audit process, SpendMend requires very few items to begin the recovery process: a historical transaction file, a data feed of transactions in real-time, and a list of all active and inactive suppliers.

For some clients, IT may be required to source and deliver these files, but typically, our AP contacts can generate these files with no IT involvement. By contrast, we accept that IT will certainly be involved for any data feeds. In most cases, SpendMend clients spend minimal time preparing the files and sending them via secure email to their SpendMend Audit Manager.

If you consider the value of this project to your bottom line as demonstrated in the sections above and the low investment of IT - then the project is truly a “no-brainer” to get started right away. As stated by the CFO of a major Mid-Western based hospital network. “There is no other project that I can think of that can deliver millions of dollars to my bottom line while only costing me a couple hours of IT involvement.”

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-CFO of Top 25 U.S. Hospital System & 4-year SpendMend Client

Concluding Thoughts

It’s probably very clear by now we, at SpendMend, are passionate about what we do and we believe strongly in our ability to produce important and impactful results for our clients. We have proven our ability to drive dollars to the bottom line more quickly than traditional methods. The reports, analysis, and insights provided for review in this document make a very strong case that we can drive more recovery in the first year of an audit. We will help you seal up the leaks and control gaps with our visibility and best practice recommendations.

A key component of recovery audit which is often overlooked is timing. We encourage our prospects to get started right away or risk losing hundreds of thousands of dollars with no reasonable opportunity to ever recover those dollars again. We also encourage our clients to leverage our Mending Audit which places our review 90 days behind the date of the transaction. Based on our research we have observed credits aged over 95 days experience a meager 5% likelihood of ever being discovered by the client or a traditional firm.

We hope this research has helped in your quest to find the right recovery partner and we look forward to serving you in some capacity with our unique suite of recovery tools.

EVERY QUARTER YOU DELAY IS COSTING YOU $303,000 PER BILLION IN SPEND.

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