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Contract Lifecycle Management: What you don't do will cost you

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It may be surprising to learn that companies lose more than 9% of their revenue annually to poor contract management.[1] For larger organizations, the percentage quickly climbs to 15%. According to Definitive Healthcare data, the average net patient revenue at US hospitals is $334.5 million,[2] which means most hospital systems are, conservatively speaking, bleeding approximately $30–$50 million each year. Poor contract management also costs organizations in noncompliance. No organization can receive Medicare or Medicaid, or other federal healthcare program payments without a contract in place. Contracts are designed to specifically address adherence to regulations such as Stark Law, Anti-Kickback Statute, and the False Claims Act. Violations reflect nonadherence to both the law and the contractual agreement. Therefore, tighter organizational oversight and accountability of the contract prevents institutions from contributing to the annual billion-dollar fines—$2.2 in fiscal year 2020, as reported by the Department of Justice.[3]

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Headlines abound with health delivery organizations that, due to undermanaging or mismanaging contracts, find themselves in inadvertent violation of regulatory directives. A healthcare system in the Northwest recently faced allegations of crafting administrative services that were below fair market value (FMV).[4] Regulators argued that the hospital venture reduced expenses and increased profits to provider-investors as a means of inducing referrals. Well-built Contract Lifecycle Management (CLM) programs incorporate preventive measures that would manage FMV data and alert stakeholders proactively.

Financial

Equally detrimental are the financial implications of undermanaging contracts. There are several ways this can cost organizations. A few examples: Clinic A has a "sign it and forget it" approach to contracts for services. Charge or cost creep begins when no processes exist for routine review. When accountability gaps are created, clinics such as this one overpay, with the losses compounding over time.

Academic medical center (AMC) B has a relationship with many state and federal entities. Modified regulations go unmonitored and undetected, and the AMC undercharges the federal entity more than a quarter of a

million per year until it realizes a number of years later that it has been leaving money on the table. It is estimated that CLM programs assist in minimizing 80% of payment errors that occur annually in the US.[5] Hospital C performs a legal review of all FMV calculations but neglects to establish a policy around the use of FMV in the contracting process. What results from the lack of formal, centralized standard operating procedures are disparate, disconnected processes that ignore such elements as fringe rates, overhead allocations, and widely varying charging patterns.