A CIO’s Guide to Healthcare IT Compliance Without Overspending

Overview

In an effort to be compliant with HIPAA 5010, ICD-10, Meaningful Use and other regulations, healthcare organizations are making substantial IT investments in new technologies and infrastructure upgrades. However, with deadlines looming, many of these organizations risk gross overspending across the next 18 months. This white paper takes a close look at compliance challenges, likely areas of vendor overpayment and ways that healthcare organizations can prevent IT overspending on the path to compliance.
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Mitigating the cost risks of HITECH, HIPAA 5010, ICD-10 and Meaningful Use

Executive Summary

IT professionals in the healthcare industry are under extraordinary pressure to achieve compliance with federal mandates, including HITECH, HIPAA 5010, ICD-10 and Meaningful Use (MU). Timely compliance with these new regulations will be a monumental task for even the most sophisticated IT departments, especially as most lack budget and staffing resources to beat the deadlines ahead.

For many healthcare organizations, the biggest challenge may not be the implementation of a new electronic health record (EHR) system but rather the readying of an outdated IT infrastructure to support that system (updating servers, end user devices, security bandwidth, network, applications, middleware and high-availability SLAs); and ultimately support the vision of a clinical hub. Other roadblocks to compliance include weaknesses in the alignment between procurement and IT, and in the way that vendors (and vendor spending) will be managed.

Yet, as unnerving as these challenges may be, they represent an opportunity to positively and fundamentally change the way IT works within the healthcare organization. In short, HITECH, HIPAA 5010, ICD-10 and Meaningful Use will prompt more than just a technology overhaul; they will create an opportunity for process overhauls, including much-needed change in the way that technology is procured, and the way that costs are managed throughout its lifecycle.

Categorically, the trends in healthcare IT spending reflect the dire need for core infrastructure improvements, with network, server and storage technologies leading the way. Virtualization and cloud computing, and the financial benefits that these services can bring to increasingly complex and distributed healthcare organizations are also continue reshaping healthcare IT.

Unfortunately, with federal regulations driving a large increase in healthcare IT spending, hospitals are at risk for making major IT investment decisions hastily, which will inevitably lead to gross IT overspending. However, with the proper insight and best practices, healthcare IT professionals can engineer their technology initiatives, implementations and strategies for long-term savings. This exercise will not only ensure compliance, but more sound IT spend and vendor management in the years to come.

Spend management disciplines can make strained budgets go much farther, accelerating compliance and innovation.
Introduction
The IT departments of today’s healthcare organizations are beginning to resemble the emergency room. At every turn, IT professionals are performing triage; deciding which IT initiatives are highest priority, and which can wait. The combination of federal mandates, aggressive deadlines, an increasingly complex healthcare ecosystem and integration across the payer-provider landscape has left many hospital CIOs wondering how they can avoid a train wreck in the months ahead.

CIO’s are quickly realizing that these mandates aren’t just an IT problem. If hospitals want to achieve compliance, various departments have to work together (including financial, IT, procurement, clinical and others) to map out what processes need to change and how technology will drive or support those changes. This collaborative approach will be extremely critical to the long-term success of compliance-driven IT initiatives.

It’s important to note that, even with the best cross-functional teams assembled, conditions aren’t exactly favorable. Demands for new solutions and upgrades are high, while the IT buyer’s time is short. As a result, vendors are poised to charge exorbitant fees, even though IT budget and staff resources are nowhere near their pre-recession levels. Furthermore, there are fundamental changes that must happen to infrastructure, procurement and vendor management in order to protect buyers from overspending.

Amidst the complexities of compliance, CIOs also have an unprecedented opportunity. As they undertake these behemoth IT initiatives, they have an opportunity to engineer their investments for long-term savings, improved IT productivity and enhanced business performance. In creating a clinical hub that transmits information quickly, reliably and securely among relevant individual, payer and provider entities, IT will have an enormous impact on profitability and service.

Beyond EHR: Compliance Concerns & Challenges
Smart investment, implementation and management of new technologies require an understanding of the fundamental challenges at hand in healthcare IT. Some healthcare organizations have rushed into compliance-driven IT initiatives without thinking through the many procedural and technological flaws that can hinder success. The challenges below can make or break compliance initiatives:

- **Organizational Readiness:** Today’s healthcare CIOs are bearing the brunt of a very complicated and far-reaching series of changes that must be made to become compliant. But, those changes aren’t limited to IT. They include significant
process changes that reach throughout the organization – ranging from how clinical staffs enter information into a system to how payment is received and processed.

In order to meet the aggressive deadlines set forth by HITECH, HIPAA-5010, ICD-10 and MU, a cross-functional team needs to be in place to drive the effective evaluation, purchase and implementation of technology. This includes representatives from IT, business/financial, procurement and clinical areas. Before new IT buys and upgrades are made, healthcare organizations need to understand what processes need to change, how they need to be implemented, what systems will support those process changes, and what training needs to happen. These business requirements can drive terms and conditions for purchases.

- **IT Readiness:** For many hospitals, critical elements of the IT infrastructure are outdated and unable to support new technology implementations. A new EHR may require increased connectivity speeds, integration with new end-user devices, and more storage capacity. In this case, the purchase and implementation of a new EHR is just the tip of the iceberg. Typically, the bulk of effort and investment is upgrading the ecosystem around it.

- **Vendor & Spend Management Readiness:** The breadth of these mandates will require an unprecedented level of vendor/client collaboration and enforced spend management. As healthcare organizations take this opportunity to reevaluate their IT infrastructure and strategy, they will rely on vendors for more than simply implementing solutions. Some hospitals will increase outsourcing, more fully embrace managed services and expand professional services engagements – putting more IT responsibility into the hands of vendors.

This comes at a time when incumbent vendors are ready to pounce. They are betting that healthcare organizations that will buy and implement solutions with little time to spare, and even less time to do a thorough job evaluating contract pricing and terms. The fact that most vendors are just emerging from a recession and are struggling to jumpstart revenues is another strike against IT buyers. As vendors come out of the desert and into a relative Garden of Eden, IT departments will be exposed to more opportunity for overspending and mismanagement. The ability to be proactive in the effort to mitigate these risks is crucial.

**Where Healthcare Organizations Will Overspend in 2011**

Healthcare IT spending today reflects the direct and indirect impact of HITECH, HIPAA 5010, ICD-10 and MU. While EHR software is an obvious focus of investment in 2011, other notable spending categories reflect the widespread need for healthcare organizations to upgrade their technology infrastructure. Because demand in certain areas is so high and visibility into vendor pricing is so low, these categories also represent high potential for overspending. They include:
**Coding & Billing Systems:** HIPAA 5010 and ICD-10 require significant changes to existing billing and coding systems. With few organizations prepared for the January 2012 HIPAA deadline, chances are that IT departments will be pressured to hastily upgrade or replace their current billing solutions – and most will probably choose to stick with their current vendor for the sake of simplicity. Beware: Vendors will take advantage of this situation and may charge higher-than-average fees for licenses as well as inflate charges for fixed services.

The same is true for coding systems. Given the significant process changes and training required to begin using ICD-10, many organizations will overlook the need to lay out a thoughtful selection and implementation plan that clearly shows the business and clinical team how much time is required to complete the process properly.

**EHR Software:** Market research firm IDC estimates that EHR spending is expected to grow nearly $3.8 billion by 2015. This comes as no surprise as an estimated 90 percent of hospitals in the U.S. will have to install or upgrade EHR systems in order to qualify as meaningful users, according to business consultants at Accenture. Unfortunately, there are many variables that affect the costs to implement EHR, therefore making it hard to predict the costs. *Health Data Management* recently reported that “the full price of implementation can range from $25,000 to $100,000 per physician.” Adding another layer of complexity to the EHR purchase is the option to deploy a cloud-based solution versus on-premise.

**Storage & Archiving:** One aspect of HITECH and HIPAA compliance is the ability to store and retrieve patient data for certain periods of time. This requirement, in addition to a tremendous increase in patient data, communications and medical imaging, has made storage, archiving and data retention a top concern for healthcare IT. Investments include on-line storage (SAN), near-line storage (tape) and offline storage (archiving).

**Business Intelligence:** One of the major impacts that HITECH, HIPAA-5010, ICD-10 and MU compliance will have on healthcare IT will be an explosion in the volume of patient, clinical and business data. For that reason, healthcare IT spending on BI solutions is expected to skyrocket in 2011 as organizations seek to analyze this data to understand patient and delivery trends.

**Security:** The Achilles Heel of the clinical hub is information security, and healthcare IT professionals are taking notice. With a dramatic increase in the amount of sensitive patient health information being shared among providers, payers and business associates, security is an even greater concern.

Since the HITECH breach notification rule went into effect in September 2009, more than 240 major health information security breaches have occurred, leading to high-profile legal actions and penalties. Yet, a survey of providers conducted by Ponemon Research, entitled *Health Data at Risk in Development: A Call for Data Masking*, revealed an alarming neglect of security best practices on behalf of healthcare IT organizations. Approximately 51 percent of those surveyed do not protect patient data used in software development and testing, and a staggering 78 percent did not know if they could even detect data theft during software testing.
- **Ethernet**: The demands on the hospital network have exploded over the last decade with more data, distributed networks, telemedicine and an increase in end-user devices contributing to the burden. As a result, a steady growth in metro Ethernet technology spending is predicted. Insight Research estimates that, by 2014, healthcare IT departments will be spending $11.6 billion to link staff and facilities.

- **High Availability**: Network availability is more critical than ever as an increasing volume of patient data and applications must be accessed through the hospital network. As a result, IT spending in the areas of network redundancy and high availability are increasing.

**How to Avoid Overspending on the Path to Compliance**

The categorical trends in healthcare IT spending may be a mix of old and new, but each is equally plagued by overspending pitfalls. This is exacerbated by the fact that IT and procurement are facing aggressive deadlines and are in a rush to make headway. In fact, according to HIMSS’ 5010 Industry Readiness Survey conducted in August 2010, only 15 percent of providers had contacted vendors to begin work towards compliance.

To avoid common overspending pitfalls in healthcare IT purchasing, NPI recommends the following steps:

- **Assemble the right purchasing team ahead of time.** The complex IT purchases associated with compliance will require a mix of expertise from different areas of your business. In other words, as a healthcare IT professional, you can’t do this alone. Create a cross-functional purchasing team that includes physician practices and managers, IT and sourcing. Your purchasing process should be comprehensive and address all aspects of the purchase, including pricing, terms, implementation and training. This is where a truly cross-functional team will shine.

  If you don’t think this first step will deliver major savings, think again. A study conducted by Accenture found that most healthcare CIOs underestimated by nearly 100 percent the time and costs associated with implementing advanced applications. The collective knowledge of IT, sourcing, business and delivery can play a defining role in preventing this overspending from happening in your organization.

- **Bring in more vendors.** More often than not, companies only bring in one or two preferred vendors during the IT buying process. You may have a stellar relationship with an incumbent, but don’t be naïve. With more deals than they can chase, vendors will absolutely charge top dollar if there is no real competition. Invite more vendors to the table up front and it will pay off in the end.

- **Understand what constitutes “fair” pricing and terms.** With a plethora of new and immature offerings (e.g. cloud-based EHR), vendor pricing and terms are all over the map. New charges like usage-based fees (e.g. SaaS, per claim, per visit, etc.) and code updates require careful negotiation and understanding of what your needs will be years from now. If you aren’t familiar with these complexities, look to a third party IT spend management expert to ensure pricing and terms are in-line with current market conditions.
The same goes for “traditional” purchases like servers and storage. Just because you’re a frequent shopper in these areas of spend doesn’t mean you’re getting the best deal possible. The competitive and pricing landscape changes constantly—and it’s up to you to stay abreast of how these changes impact your spending, discounts and terms.

**Preempt annual rate increases.** Companies overspend billions of dollars each year by paying too much for annual rate increases in areas like maintenance and support. Enterprise software vendors increase these rates by 18 percent annually on average, although some have been known to increase rates by as much as 40 percent. Lock in a rate over the term of your contract for maintenance and support. If you do have to pay any annual rate increases, demand justification from your vendor.

**Conclusion**

Federal mandates may have healthcare IT departments stuck between a rock and a hard place. But, these mandates have also created an opportunity for hospitals to make overdue upgrades to their infrastructure so they can support the next wave of healthcare business innovation.

Expanded technological capabilities, business service value and patient service value are just the beginning of the benefits of this transformation. Reengineering healthcare IT spend management and vendor management strategies will translate into substantial, measurable savings in the short and long term. These savings can be invested in other IT initiatives that will accelerate innovation in healthcare delivery.

**About NPI**

*NPI is a spend management consulting firm that protects companies from overspending in specific cost categories – information technology, telecommunications, transportation and energy. The savings we deliver are used to fund other investments and to increase profits. Using a combination of market experts, proprietary methodologies and extensive data, NPI ensures that prices and terms are in line with best-in-class benchmarks. Reviewing more than 14,000 purchases annually, we provide objective oversight for billions of dollars of strategic spend for our clients. NPI’s commitment to seeing recommendations through to execution is reflected in our results-based fee structure. Our services are self-funding, and we guarantee at least 100% ROI. This combination of expertise, savings and value is why NPI is an advisor to IT, finance, procurement and supply chain executives for some of the world’s most recognized brands. To learn more about how NPI can help your company start saving today, visit us at [www.npifinancial.com](http://www.npifinancial.com) or call 404-591-7500.*