# Send Out Test Optimization

Sharon Scott, Process Owner,

Referral Testing & Special Contracts Manager

Poster Presenter:

Virginia Blake, Quality & Education Coordinator



Baystate Reference Laboratories

## Define: Project Charter

- Business Case: In order to fund BHS ongoing operations and the Master Facility Plan, all departments are expected to incorporate at minimum, a 3% cost reduction into their 2009 budgets. Within the Department of Pathology, send out testing accounts for over 5% of the entire non-salary budget.
- **Problem Statement:** An average cost of send out testing for a 500+ bed hospital is \$2,925,617. In 2007, BRL spent over \$5,200,000. In March of 2008, due to a change in contract pricing with major reference laboratories, the total expense is estimated to be \$4,800,000.
- **Goal:** Reduce send out testing operating expense margin by 10% or \$440,000
- **In Scope:** All send-out tests/procedures not performed within a Baystate Health facility and low volume in-house testing.
- Out of Scope: Tests that are mandated by regulatory bodies to be performed at a specific testing facility; physician consult specimens.



## Define: Project Team

#### **Team Members:**

**Sponsor:** Jonathan Pine, VP

**Champion:** Anne Daley, Acting Director **Process Owner:** Sharon Scott, Manager

**Subject Matter Experts:** 

Cheryl Ingalls, Compliance & CDM
JoAnn Blanchette, Special Functions Labs

Kris Lindberg, BMLH / BFMC Liaison

Jill Mazzaferro, Microbiology,

Bill Lareau, IT

Karen Murley-Kells, Micro, CDM, Compliance, BMLH/BFMC

Sharon Perry, BRL/LCRI Registration & Accessioning

Ginny Blake, Quality, BFMC

Ad Hoc:

James Nichols, PhD, Test Utilization

Carol Jaciow, Purchasing

Kelly Baker, Financial Analysis

Peter Gazda, Senior Contract Administrator

#### **Estimated Timeline:**

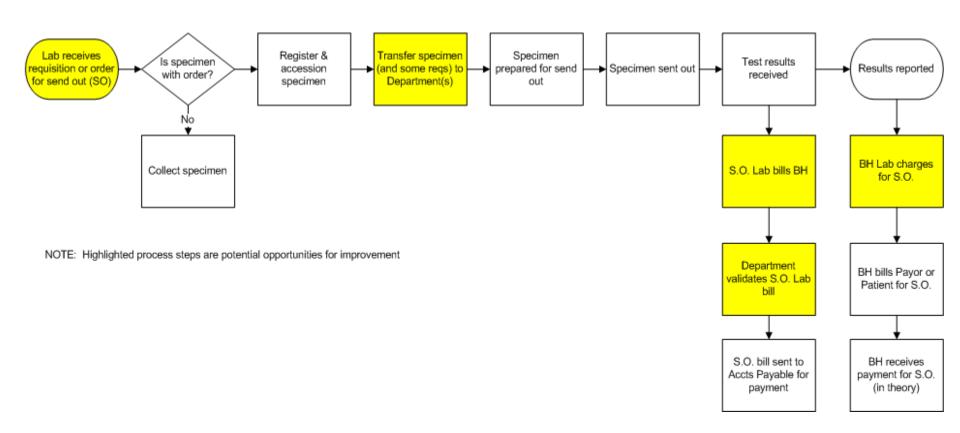
Project Start Date: April, 2008

Initial Kaizen Event: June 26, 2008

Target End Date: September 30, 2008



## Define: Send Out Process Map



Impressions: Primary opportunities for improvement are within handling of Send Out Lab contracts and bill verification process steps

#### Measure:

## Calculating the Gap between Expense & Reimbursement

#### **Top 20 "Loser" Send Outs by Volume:**

Baseline loss of \$544,289, as of 9/16/08, implemented solutions have reduced to \$462,937

#### **Top 20 Send Outs by Reference Lab Charge:**

Baseline loss of \$194,639, as of 9/16/08 implemented solutions have reduced to \$193,111

#### **Top 20 Send Outs by Reimbursement Loss:**

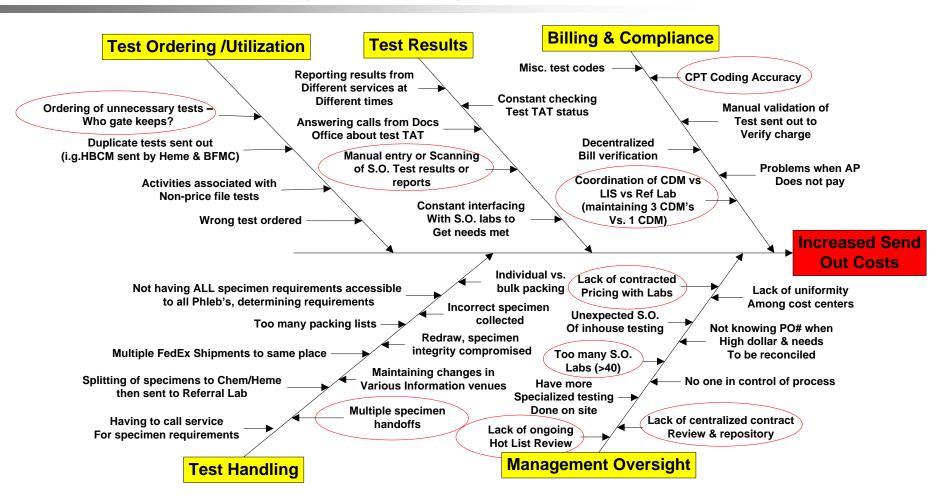
Baseline loss of \$956,103, as of 9/16/08 solutions implemented have reduced to \$747,098

Note: Reference Laboratory charges were compared to Medicare pricing to calculate the expense and reimbursement gaps.



## Analyze:

# Cause & Effect (Fishbone) Results



Impressions: Management oversight most significant issue identified

# Analyze: Top 6 "Cause" Areas for Further Review

- 1. Lack of centralized contract review & repository
- Coordination of Reference Lab CDM vs. LIS vs. CPT Codes (verify billing, etc.)
- 3. Lack of contracted pricing with Reference Labs
- 4. Lack of accurate CPT coding
- 5. Ordering of unnecessary tests / gatekeeper
- 6. Multiple specimen hand offs

Send Out Test Optimization Project to focus on the 'Top 5 Causes' Cause #6 to be placed in the Parking Lot for future follow up.

### Analyze: Review of Reference Laboratories Hot Lists

Hot list (specials): tests where BH should receive additional discounts, generally based on volume and selected by BH; reviewed list obtained from primary Reference Lab

#### 31 tests on list

- Only 2 are on our >500 volume list (based on FY 07 volume)
- 1 is not on our CDM (not a test we do or send out)
- 3 are in house tests
- For 7, what Ref Lab has as a charge is not what we have
- For 4 our CPT coding was wrong and has been modified/corrected
- 15 are "okay" (i.e., ref lab is charging us special price)
- One still is a mystery (oral fluid drug analysis)

Impressions: Hot list needs to be reviewed at minimum biannually



# Implementation Plan

| Action Steps                                   | Task Leader(s)        | Comments   | Apr to<br>July | Wk of<br>8/3 | 8/10 | 8/17 | 8/24 | 8/31 | 9/7 | 9/17         | 9/21 | 9/28 | Later |
|--|-----------------------|--|----------------|--------------|------|------|------|------|-----|--------------|------|------|-------|
| Action Gtops                                   | rusk Leader(s)        | Planned Activity                                   | ouly           | 0,0          | 0,10 | 0/11 | 0/24 | 0,01 | 0/1 | <i>3,</i> 11 | 3/21 | 0/20 | Luter |
|  |                       | On Schedule / Activity Completed                   |                |              |      |      |      |      |     |              |      |      |       |
|  |                       | Off Schedule - Should Not Impact Timeline          |                |              |      |      |      |      |     |              |      |      |       |
| D'II' 0 O                                      |                       | Off Schedule, Will Impact Overall Project Timeline |                |              |      |      |      |      |     |              |      |      |       |
| Billing & Compliance                           |                       |  | 1              | 1            | 1    |      |      |      |     |              |      | -    |       |
| Standardize CDM to Sunquest billing set        |                       | Includes education for sunquest multiple bill      |                |              |      |      |      |      |     |              |      |      |       |
| up process across cost centers                 | Bill, Cheryl          | codes (Inservice from JoAnn)                       |                |              |      |      |      |      |     |              |      |      |       |
| Validate all CPT codes related to a test       |                       |  |                |              |      |      |      |      |     |              |      |      |       |
| are billed, and replicates if necessary        | Cheryl                |  |                |              |      |      |      |      |     |              |      |      |       |
| Reconcile Ref. Lab CPT billing with BH         |                       | Includes responsible person in each dept. to       |                |              |      |      |      |      |     |              |      |      |       |
| Send Out CPT codes                             | Cheryl                | question Ref. Lab CPT code                         |                |              |      |      |      |      |     |              |      |      |       |
| Process/procedure to validate link             |                       |  |                |              |      |      |      |      |     |              |      |      |       |
| between CDM & LIS is accurate                  | Bill, Cheryl          |  |                |              |      |      |      |      |     |              |      |      |       |
| Create policy/procedure to reconcile Ref       |                       |  |                |              |      |      |      |      |     |              |      |      |       |
| Lab Billing                                    | Sharon, JoAnn         |  |                |              |      |      |      |      |     |              |      |      |       |
| Create Send Out Testing Users Manual           | Sharon, Ginny         |  |                |              |      |      |      |      |     |              |      |      |       |
| Renegotiate Managed Care                       |                       |  |                |              |      |      |      |      |     |              |      |      |       |
| Reimbursements                                 | Kelly, Peter          |  |                |              |      |      |      |      |     |              |      |      |       |
| Management Oversight                           |                       |  |                |              |      |      |      |      |     |              |      |      |       |
|  |                       | Include small specialty labs, comparison           |                |              |      |      |      |      |     |              |      |      |       |
|  |                       | shop for better pricing, review need to use        |                |              |      |      |      |      |     |              |      |      |       |
| Develop & conduct a standardized               | Anne, Negotiation     | non-contracted Ref Labs (shift volume to           |                |              |      |      |      |      |     |              |      |      |       |
| negotiation process with all Ref Labs          | Team                  | consolidate labs)                                  |                |              |      |      |      |      |     |              |      |      |       |
|  |                       | Includes possible centralization of review,        |                |              |      |      |      |      |     |              |      |      |       |
| Consistent review of contracted pricing vs     |                       | validate GPO contract pricing is billed when       |                |              |      |      |      |      |     |              |      |      |       |
| billed pricing                                 | Sharon, Cheryl        | applicable   |                |              |      |      |      |      |     |              |      |      |       |
| ·  |                       |  |                |              |      |      |      |      |     |              |      |      |       |
|  |                       | Includes approach Vendor for                       |                |              |      |      |      |      |     |              |      |      |       |
| Develop process for handling unexpected        |                       | reimbursement, determination of when to            |                |              |      |      |      |      |     |              |      |      |       |
| Send Out testing due to instrument/vendor      |                       | put on price file as sendout (weeks vs.            |                |              |      |      |      |      |     |              |      |      |       |
| issues   | Sharon, Anne          | month), obtain special pricing from Ref Lab        |                |              |      |      |      |      |     |              |      |      |       |
| Monitor volume/reimbursement changes to        |                       | ,            |                |              |      |      |      |      |     |              |      |      |       |
| keep Hot List up to date                       | Sharon, Cheryl        |  |                |              |      |      |      | С    |     |              |      |      |       |
| ·  |                       | Practice considered '3rd Party Billing',           |                |              |      |      |      |      |     |              |      |      |       |
| Determine process for shifting payment of      |                       | primary Ref Labs are agreeable to do.              |                |              |      |      |      |      |     |              |      |      |       |
| reimbursement loss of specific tests from      |                       | Review process handling fee and reporting          |                |              |      |      |      |      |     |              |      |      |       |
| BH to direct charge by Ref Lab                 | Anne                  | results.   |                |              |      |      |      |      |     |              |      |      |       |
| Ţ ,  |                       |  |                |              |      |      |      |      |     |              |      |      |       |
| Establish periodic contract review process     | Sharon                |  |                |              |      |      |      |      |     |              |      |      |       |
| Test Handling                                  |                       |  |                | _            | -    |      |      |      |     | -            |      |      |       |
| Consolidate Fed Ex type Shipments              | Karen, Jill           | Investigate Referral Labs to pay freight           |                |              |      |      |      |      |     |              |      |      |       |
| Test Ordering/Utilization                      |                       |  |                | •            |      |      | •    |      |     |              |      |      |       |
| Standardize process by which a test can        |                       | I  |                | I            |      |      |      |      |     |              |      |      |       |
| get onour menu                                 | Dr. Nichols, JoAnn    |  |                |              |      |      |      |      |     |              |      |      |       |
| Create process to review high test             | 2                     |  |                | <b>-</b>     |      |      |      |      |     |              |      |      |       |
| requests with diagnostic value to patient      | Dr. Nichols, JoAnn    |  |                |              |      |      |      |      |     |              |      |      |       |
| roquests with diagnostic value to patient      | DI. INICIOIS, JUAIII  |  |                |              |      |      |      |      |     |              |      |      |       |
| Create algorithms for proper test utilization  | Dr Nichole InAnn      | Highest value usage by hospital inpatient          |                |              |      |      |      |      |     |              |      |      |       |
| ordate digentining for proper test utilization | DI. INICHOIS, JUAIIII | i nghost value usage by hospital inpatient         | <b>.</b>       |              |      |      |      |      |     |              |      |      |       |

## Improvements as of 9/16/08

- 1. Adjusted charges (not CPTs) on **26 tests**
- 2. Added 44 new tests; deactivated 152 test codes
- 3. Added 18 billback codes to BMLH and 10 to BFMC
- 4. Changed CPT coding on **37 tests**; positive impact on reimbursement: **\$37,990** (fy 07 volume x new reimbursement)
- **5.** \$60,000 Reference Laboratories billing discrepancies
- **6.** \$54,990 Revised Reference Laboratories hotlist savings
- 7. \$6,700 savings from consolidation of Reference Laboratories

## **Total Positive Financial Impact as of 9/16/08: \$159,680**

(36% of goal); another \$50,000 is pending current negotiations with vendors)

#### Improvements, continued as of 9/16/08

#### Consolidation of the number of Reference Laboratories utilized:

Determined potential tests from other S.O. labs to request Ref Lab provide comparative price quote (Cheryl, Jill)

Developed Primary Reference Lab Top 40 Tests (Cheryl, Jill)

Develop top 40 Tests of all send outs

#### 10. Formed a send-out lab contract negotiation team:

Purchasing (Carol)

Finance (Kelly)

Lab Director (Anne)

Referral Testing Manager (Sharon)

Lab Cost Center Manager (when applicable)

#### 11. Monitoring usage of Referral Testing Cost Center Charges

Non reference lab expenses bill to line item

Review mandated testing (i.e., Patient Safety committee, etc.)

Temporary send outs and Manual (miscellaneous) charges

Baystate Reference Laboratories

# Improvement: Negotiate Temporary Send Out Pricing

| Tempor           | Temporary Test Send Out Worksheet  |                                |   |                   |                                |                |                                      |   |                            |                      |                      |   |  |                              |  |  |  |  |  |
|------------------|--|--------------------------------|---|-------------------|--------------------------------|----------------|--------------------------------------|---|----------------------------|----------------------|----------------------|---|--|------------------------------|--|--|--|--|--|
|                  | Department Submitting: Example Lab Dept  Contact Person: Example Lab Dept Supervisor |                                |   |                   |                                |                |                                      |   | Cost Center:<br>Extension: |                      |                      |   | Instructions: Cost Center Manager to complete left section and forward information to Referral & Special Contracts Manager for completion of information and negotiation of special pricing with Reference Laboratory. |                              |  |  |  |  |  |
|                  | Department Provided Information:   |                                |   |                   |                                |                |                                      |   |                            |                      |                      |   | Referral & Special Contracts Manager Section   |                              |  |  |  |  |  |
| BH Order<br>Code | Test Name  | Begin<br>Date Test<br>Referred | Estim. # of<br>Mos.<br>Referred<br>(1 = 1 mo,<br>.5 = 1/2 mo) | Estim.<br>Vol./Mo | Estim Vol<br>to be<br>Referred | CPT<br>Code(s) | In-House<br>\$/Test<br>(omit FTE \$) | Current<br>Ref Lab<br>\$/Test<br>Charge | Estim. Budget              | Refferal<br>Lab Used | Refferal Lab<br>Code | Reason for Temporary Referral (include if BH supply vendor will reimburse expense difference) | Ref Lab<br>Temp<br>\$/Test   | Adjusted<br>Budget<br>Impact | Comments   |  |  |  |  |
| Couc             | reservanie   | Herefreu                       | 15 - 1/2 1110/  | 1011/1110         | nererrea                       | coucis         | (OIIIICTTE 4)                        | Charge                                  | impace                     | Lub Oscu             | Couc                 | Vendor reagent issue, no  | 7/1030   |                              | Reduced overall expense by \$5,000 with new                  |  |  |  |  |
| 12345678         | Example Test A   | 9/1/08                         | 0.5   | 1,000             | 500                            | 12345          | \$ 10.00                             | \$ 25.00                                | \$ 7,500.00                | NewLab               | 123456               | reimbursement   | \$ 15.00   |                              | special pricing.   |  |  |  |  |
| 2222             | Example Test B   | 5/9/08                         | 0.25  | 1,300             | 325                            | 54321          | \$ 22.00                             | \$ 64.00                                | \$ 13,650.00               | OldLab               |                      | Flood in lab, instrument needs replacing  | \$ 50.00   |                              | Reduced overall expense by \$4,550 with new special pricing. |  |  |  |  |
| ABC22            | Example Test C   | 3/9/08                         | 5.00  | 1,050             | 5,250                          | 53215TC        | \$ 32.28                             | \$ 30.00                                | \$ (11,970.00)             | NewLab               | BCUNME               | Methodology & Quality improvement   | \$ 29.50   | \$ (14,595.00)               |  |  |  |  |  |
|                  |  |                                |   |                   | -                              |                |                                      |   | \$ -                       |                      |                      |   |  | Ş -                          |  |  |  |  |  |

Opportunity: Recent temporary send out Serology testing resulted in an estimated additional \$40,000 in operational expense – special pricing to be negotiated with Reference Laboratories within 48 hours.

Overall Estimated Budget Impact (after special price):

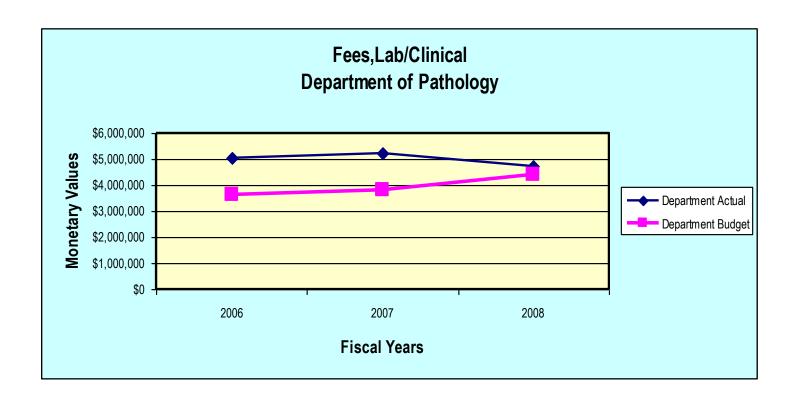
**Expense Reduction due to Special Pricing:** 

Estimated Total Budget Impact (before special price): \$ 9,180.00



\$ 12,175.00

## Improvement: Send Out Testing Expense Trending



Improvements: FY06 expense was \$1.4M over budget, FY07 expense was \$1.4M over budget, FY08 estimated to be \$300K over budget with an overall \$500K reduction in expense compared to FY07



## Project Team Lessons Learned

- When a large expense is divided among multiple cost centers without centralized oversight, we lose control of expenses
- Importance of comparison shopping
- Send out testing contracts and bill reconciliation will reduce overall cost per unit of service
- People from all areas of lab and health system work well together
- Cost Center Managers need education on price file management & billing processes

- Consensus on how to attack problem
- That 17% of our charges from our primary reference lab are discrepant (100 out of 585), whether it is the Ref Lab's mistake or ours, we CAN do something about this
- You can ask and get a discount
- Making a lot of little changes add up to one big change

