

Heritage Health Resources

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Introduction

Ann Igbo's dream was turning into a nightmare: Heritage Health Resources was strapped for cash, and things would get worse if she did not act. Her company had plenty of work, but its costs were increasing and it relied on payments from insurance companies for nearly all its income—payments based on claims that were labor-intensive to prepare and frequently delayed or lost altogether. Ann was in charge of her own destiny, and that was part of the problem. She made all the decisions for her company, paid the bills, and made payroll. Should she hire another employee, consider outsourcing, or automate the insurance claims process which could further burden her already-stretched employees? She was on the verge of starting a major project without being fully aware of its magnitude or implications. Automating her claims process with a new software package could be a wise investment or sheer folly. Ann did not have a strategic plan; she used trial and error, like most new entrepreneurs. Was there a better way?

Background

Ann Igbo always dreamed of being a social entrepreneur, but it took a while to get there. The second oldest of nine children, she grew up in poverty. She viewed education as her ticket out. She first earned a bachelor's degree in mental health, and later obtained a master's degree in social work. While managing a program to assist people who were homeless and mentally ill, she started a part-time business selling books and African art and jewelry. Although profitable for 10 years, she was unable to find partners willing to put in the physical and emotional capital needed to expand. Then her entrepreneurial spirit and passion for helping others came together in a brilliant idea for a business where she could finally use her education in social work to promote well-being. She started Heritage Health Resources, a private practice providing much-needed mental health services to the community, which was Ann's ultimate goal.

As a licensed therapist, Ann offered therapy to individuals, couples, and families. She also consulted and conducted workshops and training sessions throughout the metropolitan area's mental health community. Ann's business took off and grew steadily. After about two years, she hired a full-time office manager, part-time office support staff, and several part-time therapists. Heritage even added other services to its offerings, such as group therapy and off-site counseling.

A prominent local organization provided links into the community for mental health services, which generated a steady stream of referrals to Heritage. Ann was thrilled—the front end of her business was thriving!

Most Heritage clients used medical insurance to pay for their sessions. There were some self-pay clients, but 90 percent of the clientele relied on insurance to cover their therapy costs. Heritage submitted insurance claims to each client's provider after each visit. The process to complete each HCFA 1500 (Health Care Financing Administration) claim form was a manual one and quite cumbersome. Kim, the office manager, manually prepared claims for all clients, and then mailed them to their respective insurance providers. It could take up to an hour to complete claim forms for just five clients. This became a major burden to Heritage. There had to be a more efficient way for these claims to be prepared. Automation seemed like a way to improve cash flow, but Ann needed more information on the costs and benefits of making the investment.

The Case for Automation

Once the claims were submitted to the various insurance providers, it could take several weeks—even months—to receive payment for services rendered. Some companies were painfully slow to pay. Ann was obligated to accept whatever reduced rate each insurance company was willing to pay based on her agreement with them. Ann depended heavily on insurance payments arriving in a timely manner. So far, such payments had covered Heritage's expenses for overhead (\$1,000/month), salaries (\$40/hour for therapists and \$7-15/hour for staff), and taxes (15%). However, sometimes insurance providers made errors and did not pay all of the submitted claims, or claims were lost in the mail. Once such claims were resubmitted, the waiting process would start over. Kim sometimes spent hours on the phone with insurers trying to resolve issues. Receiving timely, steady payments was essential to the success and longevity of Ann's business. As a small company, it was extremely important for claims to be processed quickly to ensure a sustained, positive cash flow for continued operations (see Table 1).

Table 1: Heritage Health Resources Cash Flow

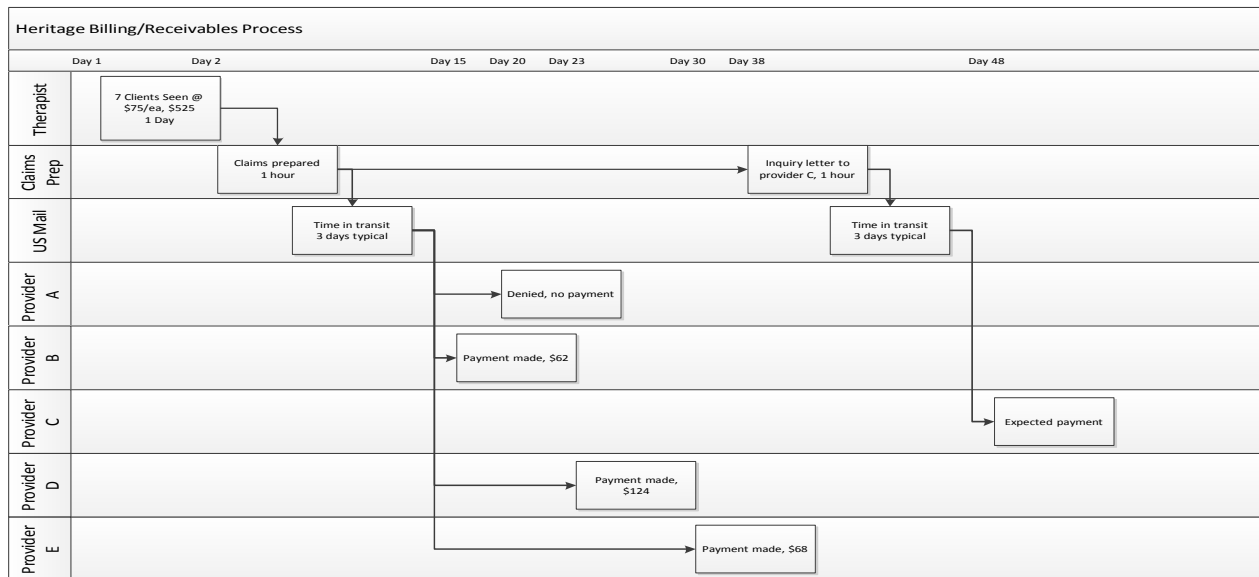
Expenses	Daily	Weekly	Monthly	Annually
Rent			\$ 700	\$ 8,400
Utilities			\$ 200	\$ 2,400
Phone			\$ 100	\$ 1,200
Salaries				
Therapists	\$ 400	\$ 2,000	\$ 8,000	\$ 96,000
FT Staff	\$ 120	\$ 600	\$ 2,400	\$ 28,800
PT Staff	\$ 28	\$ 140	\$ 560	\$ 6,720
Totals	\$ 548	\$ 2,740	\$ 10,960	\$ 131,520
Taxes	\$ 82	\$ 411	\$ 1,644	\$ 19,728
Supplies/Other Expenses		\$ 50	\$ 200	\$ 2,400
Total Expenses		\$ 3,201	\$ 13,804	\$ 165,648
Receivables				
Client Receivables	\$ 750	\$ 3,750	\$ 15,000	\$ 180,000
Other Sources of Income			\$ 250	\$ 3,000
Total Income			\$ 15,250	\$ 183,000

Cash flow deteriorated when payments from insurers were delayed. Ann suspected that the cumbersome claims preparation and submissions process was the culprit after she discovered that only half of the amount billed was received within five weeks. Ann met with Kim to ascertain

whether there was a way to expedite claims submissions. She knew that Kim was performing many duties in her role as office manager, as was often the case in small businesses. They needed to strategize and figure out what could be done to ensure quick, accurate claims preparation and submission in order to minimize insurance company turnaround time.

Ann wanted to identify bottlenecks and delays, so she asked Kim to create a process map (see Figure 1) to illuminate the receivables process from therapy sessions to payments received. Ann and Kim concluded that automation might help. They examined a variety of software packages that could significantly reduce the time required to process insurance claims. Furthermore, a good software package might simplify many office tasks, allowing Heritage to integrate the entire client process.

Figure 1: Heritage Health Resources Process Chart Showing Delays



After looking at many options, Ann and Kim selected *Therapist Helper* because it also served as a client database that could be used for scheduling and capturing the therapist's notes. *Therapist Helper* promised not only to automate the claims preparation process, but could also electronically submit claims to some insurance companies. It seemed ideal. With the new program, Kim could prepare and submit claims in a fraction of the time she had been using. Unfortunately, the software was expensive; it cost \$3,000, which was a lot of money for Ann's fledgling company. Ann was not certain the software would resolve the company's cash flow issues, and wondered if the benefits would exceed the risks. She also knew she needed to figure out some reasonable payback period to aid the decision process.

Ann had several serious concerns. She lacked technical knowledge and knew nothing about software licensing and maintenance fees, training time and costs, and compatibility of *Therapist Helper* with her existing computer hardware and operating system. What if the software did not solve the problem? Would the learning curve be too much for her staff? Would the project be completed on time? What about software bugs and downtime? Had she estimated the costs correctly? Would the project go over budget? In the end, should Heritage Health Resources undertake a significant implementation project to automate its insurance claims process in an effort to improve cash flow?

