

CLINICAL INVENTORY VALUATION

EXECUTIVE SUMMARY

This white paper explains the benefits of using Management Health Solutions, Inc. (MHS) to conduct a clinical inventory valuation within an individual hospital or throughout a hospital system. MHS is the leading provider of clinical inventory valuation services, data cleansing and data maintenance solutions to many of the largest health systems in North America. MHS combines 'best-in-class' professional services organization with leading edge technology, enabling hospitals to generate a measureable return on investment by reducing clinical inventory costs.

During a clinical inventory valuation, MHS team experts utilize industry best practices, a proven methodology and state of the art technology to correctly capture and report inventory levels and value on the shelves in clinical areas. The inventory is valued based on pricing from a client's item master file and purchase order history to provide the most accurate valuation in the industry.

The current unstable economic environment makes valuing official and unofficial inventories with a hospital an absolute necessity. At any given time, the average 350-bed hospital has roughly \$2 million in clinical supply inventory in its operating rooms alone. This unofficial inventory, if not already recorded on the balance sheet, needs to be reported accurately and may have an impact on bond ratings for many facilities. In addition to the financial impact there are many process related issues that are evident as a result of the clinical inventory valuation. While the majority of every day purchases are identified in the Item Master File, approximately 30% of the items – or \$450,000 in inventory – is not in the item master. These items were likely purchased without the benefit of

approved contract discounts which could have reduced the cost by 20% or more. At a time when hospitals are doing everything possible to contain costs – that is simply wasting money.

Supply costs are second only to labor costs in percent of total annual expenditures for the average hospital. The bottom line: even many of the best hospitals do not have accurate, up-to-date data about the supplies they're buying, using, and storing in operating rooms, emergency rooms, pharmacies, Cath labs and other clinical areas. Typical and costly inventory pitfalls for hospitals include:

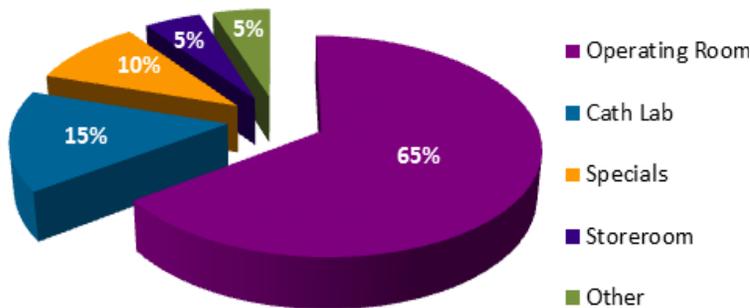
- Storing items in multiple locations, resulting in over-ordering;
- Using expired items, which increases patient risks;
- Having untracked vendor returns, leading to missed rebates and credits;
- Accommodating unmanaged and un-reconciled vendor consigned items, which increases liability;
- Inaccurate utilization reporting, which creates excess inventory;
- Burdening clinicians with inventory management, ultimately taking them away from their clinical duties.

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CLINICAL INVENTORIES REPRESENT THE MAJORITY OF INVENTORY DOLLARS

Percent of Inventory Value



Since up to 85% of a facility's inventory value resides in the clinical areas and goes largely unmanaged, unofficial inventory reductions represent a source of new money as either a one time or ongoing opportunity. MHS provides value-added decision support as part of their clinical inventory valuation service. In addition, outsourcing an inventory valuation to a third party provides benefits over conducting an in-house inventory. Advantages of conducting an MHS clinical inventory valuation include:

- Increased accuracy
- The leadership and experience of working with a trained staff
- Auditable standard reports
- Analytic reports
- Proven and consistent methodology

When skilled MHS specialists conduct inventory valuations in clinical areas, our clients get fast, auditable reports and insight into where they can reduce expenses. MHS brings state of the art tools, experienced personnel and industry best practices to deliver better organization and information with every inventory valuation. Whether it is a single department or an entire facility, MHS specializes in not only conducting an accurate physical inventory but providing actionable, value-add information that enables leaders to trim excess spending without compromising care or staff satisfaction. This is why some of the top names in healthcare have chosen MHS to handle their physical inventory service.

REASONS FOR CONDUCTING AN INVENTORY VALUATION AND THE BENEFITS THAT FOLLOW

Using the highest of standards and industry best practices, MHS's clinical inventory valuation will ultimately allow a hospital to:

- Gain understanding of where dollars are sitting within the hospital;
- Enable hospital administration staff to target departments and clinical areas identified with high inventory values for closer scrutiny. Year over year analysis can show where there are trends in valuation that allows for a focused reduction plan.
- Check for expired items, therefore reducing potential risk management issues. During an MHS inventory valuation, expired items are removed, greatly reducing the risk of using expired items in a patient care setting. In addition to checking the expiration date on products, we value those expired items in a separate report and pull them from the shelf, giving them to on-site hospital personnel.
- Identify the potential liability of consigned product stored within a department. By identifying and valuing consigned products, MHS can allow the organization to evaluate the effectiveness of a consignment program by vendor and highlight potential product mix issues.
- Request a data audit to be performed to identify data integrity issues relative to the item master file.
- Identify unmatched (non-item or PO file) items. All no-match items are flagged for correction.

MHS provides an unbiased and independent valuation of all inventories in ancillary areas. The "unmatched" report allows our customers to identify items that are left over from product conversions or have by-passed the procurement process. This prevents potential risk management issues with expired or obsolete products which ultimately leads to smarter purchasing.

WHAT IS THE METHODOLOGY FOR AN MHS INVENTORY?

MHS has developed a time tested, consistent and proven methodology that is constantly reviewed and modified to meet regulatory and client needs. Here is a typical step-by-step process for each MHS inventory valuation:

- Obtain a basic item file with item, vendor and manufacturer attributes. MHS provides an experienced account manager to coordinate all activities leading up to and following the actual inventory count.
- Review a two-year purchase history for each client. MHS obtains an item file and purchase order history to accurately price the inventory.
- Identify departments and areas to be counted and create area sheets that are used to verify with each department the locations to be counted.
- Prepare an inventory count file using the client's data and perform the physical inventory count using scanners or laptop computers. This data is loaded into the MHS inventory program on each counter's device. On site, a knowledgeable field manager works with count team to supervise the entire inventory count process and uncover any inconsistencies in the existing data. Identifying data gaps allows MHS to tailor reporting that focuses on improvement opportunities.
- Provide client with unmatched items report for resolution. After the physical inventory is complete, the production team reruns unmatched items against the client item file to verify the item is indeed unmatched.

- Provide support in researching and pricing of the unmatched items. MHS counters systematically search for each item in the hospital's files, by manufacturer catalog number, GTIN, or by description and manufacturer. If no match is located the item is recorded as unmatched.
- Value the inventory using item file pricing and incorporate unmatched items into the final inventory report. Reports are provided within 3-5 business days following the count and are accessed through our password-protected client portal.

ANALYTICAL REPORTING

After the inventory is complete, a hospital can elect to access analytics reports to accomplish the following:

- Identify slow moving or obsolete items for a clinical needs evaluation;
- Identify top-tier manufacturers and vendors for specific inventory items, and seek out or negotiate contracts to obtain the best possible pricing agreements;
- Identify inventory turns and year to year extended value comparisons;
- Attain a commodity analysis with the identification of consolidation and standardization opportunities;
- Receive duplicate data reports;
- Develop benchmark data such as purchase price changes, multiple stocking locations, etc.

CONCLUSION

After analyzing the information gathered during the inventory process, **MHS can provide a cost effective inventory valuation service that identifies items not purchased through your procurement process as well as minimize the use of expired product on your patients.** Our results are the baseline for many supply chain improvement activities. Call us today!

