



Capital Control

Project management applications can help ensure massive construction endeavors don't spin out of financial control.

Project management applications are one way to keep capital projects on track and on budget. "My advice is anything over \$5 million should have software to hold various stakeholders accountable," says Jeffery Daigrepoint, a principal with the Atlanta-based Coker Group. And when it comes to capital projects in hospitals, \$5 million is easy to reach.



Pat Skarulis

Pat Skarulis, CIO of MSKCC, says she firmly believes project management is an extremely important discipline; MSKCC has a project management office that's used for all MSKCC's IT projects. "What makes this different," she says, "is that with the facilities department, they do so much work with outside people that they needed a project management system to meet all those additional needs."

"In the last 10 years, approximately \$1.4 billion passed through this department — and you have to track every penny," says George Mejias, director of New York-based Memorial Sloan Kettering Cancer Center's (MSKCC) design and construction department. "In a particular year, I could have \$200 million worth of work going on for allocated capital."

"We wanted something that if we had to rewrite and modify, it didn't require 19 software writers spending six months on it."

To her point, missing one material delivery date can throw a whole project off track. "It's very different criteria from deciding that we won't go live on a certain unit with a new piece of software," says

Skarulis. "We own those changes, but missing one contractor obligation could cause havoc throughout a project."

One of the most prestigious hospitals in the country, MSKCC went live on a new project management system for capital projects — Unifier from Menlo Park, Calif. -based Skire — to improve project budgeting, contract and invoice tracking, and to integrate project finance and delivery.

According to Mejias, a principal driver for project management in a hospital's construction department is the Department of Health, which grants hospitals Certificates of Need.

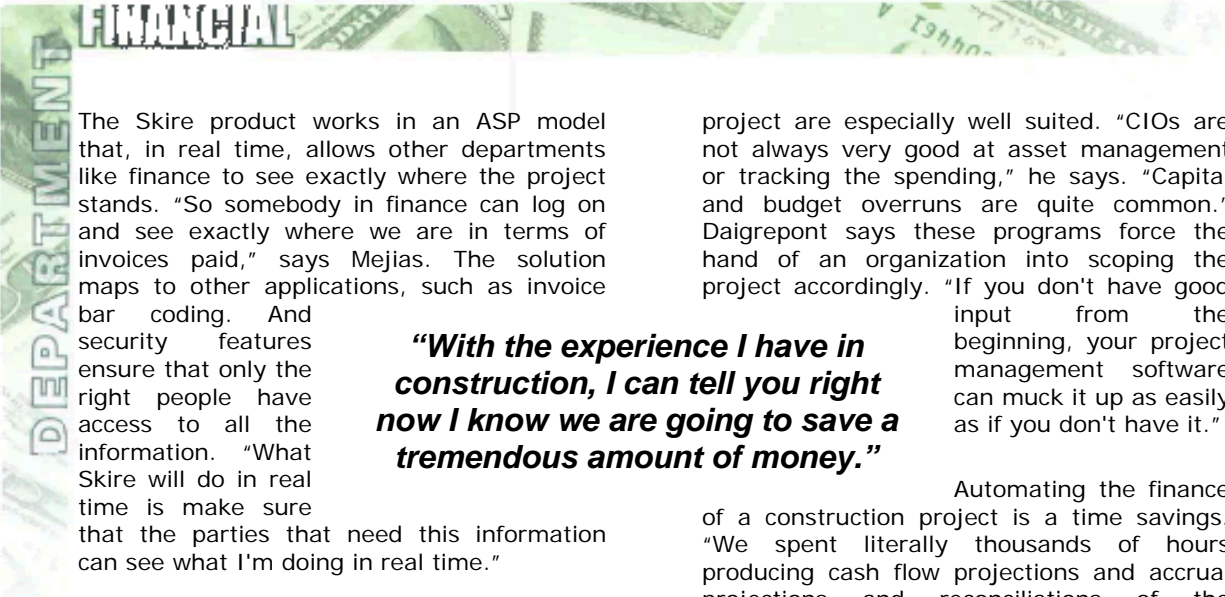
"I have to certify these costs, and I also have to justify and prove that we have received the fixed asset" says Mejias. (See sidebar on page 18.)

MSKCC put out an RFP for a product. According to Mejias, the RFP had specific criteria, principally ease of use, price and flexibility — a product that would be very simple for a project manager to use, not an

IT expert. "We wanted something that if we had to rewrite and modify, it didn't require 19 software writers spending six months on it," says Mejias. "And because every time that I spend a dime, finance has to know."



MSKCC had been using a proprietary product in the construction department, but it had been developed years earlier by someone who basically was the only person who knew the ins and outs of the program. MSKCC had another good reason to change it: "We got audited!" says Mejias. Though it was an internal audit, it pointed out the obvious flaw in the proprietary system. "The auditors asked, 'What if the developer of the system gets hit by a bus?'" says Mejias. "We were lucky to have some push behind this project, but it's really what we should be doing."



The Skire product works in an ASP model that, in real time, allows other departments like finance to see exactly where the project stands. "So somebody in finance can log on and see exactly where we are in terms of invoices paid," says Mejias. The solution maps to other applications, such as invoice bar coding. And security features ensure that only the right people have access to all the information. "What Skire will do in real time is make sure that the parties that need this information can see what I'm doing in real time."

"With the experience I have in construction, I can tell you right now I know we are going to save a tremendous amount of money."

In terms of keeping the software up to date, Skarulis says the application's ASP configuration makes that easy. "Because it's an ASP model, we run it as it comes out of the box," she adds. "If there is any modification, it's done by the vendor because the hardware is on their premises."

Daigrepoint agrees that projects which involve multiple departments can benefit from project management software — and says capital

project are especially well suited. "CIOs are not always very good at asset management or tracking the spending," he says. "Capital and budget overruns are quite common." Daigrepoint says these programs force the hand of an organization into scoping the project accordingly. "If you don't have good input from the beginning, your project management software can muck it up as easily as if you don't have it."

Automating the finance of a construction project is a time savings. "We spent literally thousands of hours producing cash flow projections and accrual projections and reconciliations of the purchase orders," says Mejias.

The improvements in cash flow projection will have an impact on the bottom line, he says, because the construction department can tell the finance department exactly how much it needs for bills. "I'm going to be more accurate in my cash flow projection, which will lessen the burden on the float that has to occur every month," Mejias says. "If I'm off by three to four points, that's not a small piece of change, especially if I'm off by \$10 million."

Certificate of Need

The Certificate of Need (CON) program is a regulatory process that requires healthcare providers to obtain state approval before offering certain new or expanded services. The CON was first started in the mid-1970s in response to a federal government mandate to control hospital costs and prevent unnecessary duplication of services by selecting the best proposal among competing applicants in a state or community. Many say the CON process restricted the free market system in healthcare, and after a decade the federal government abandoned its CON mandates on states. However, most states still have CON laws embedded in their healthcare economy; 15 states have abolished it.

In 2004, the Federal Trade Commission and Department of Justice compiled an extensive report and reached the following conclusion:

"States should decrease barriers to entry into provider markets. States with Certificate of Need programs should reconsider whether these programs best serve their citizens' healthcare needs. The Agencies believe that, on balance, CON programs are not successful in containing healthcare costs, and that they pose serious anticompetitive risks that usually outweigh their purported economic benefits."

MSKCC did not have a projected return on investment for the project management software. "If someone wants to hire Deloitte (to figure that out), fine," says Mejias. "With the experience I have in construction, I can tell you right now I know we are going to save a tremendous amount of money." He adds that the software is also going to yield MSKCC better pricing as it gains a reputation for being a good payer.

Any new MSKCC projects are being put on the Skire system immediately. "We don't plan on migrating old projects," says Mejias. "Most of our projects are year to year, but if I have a project that has a life of three years, I am going to migrate that one."

Mejias says the system will enhance the way he does business. He adds that it's also changing processes because MSKCC plans to move to entirely paperless invoicing and contracting. "Unifier will provide us with critical data. I'll be able to go back to historical data and see exactly how much a project cost and how long it took, and who was involved. We can use that information to make better decisions. Eventually we're going to have good data that's worthwhile."