

# Healthsouth case study assignment



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The old system was rife with possibilities for fraud and errors. During 2004, the company went through significant restructuring activities. These included forming a new executive management team, building a new finance/accounting staff, and financial restatement activities in order to avoid a potential inerrancy. The new executive management team at Healthiest knew that a financial systems upgrade was critical to the continued rebuilding of the company and supported efforts to upgrade from Peoples 6. . In 2007, the new Healthiest team used innovative leadership, teamwork, and project management skills to upgrade the ERP system to Peoples version 9.0. The information technology group and business owners at Healthiest were given a mandate to implement the system within one year and to use the system with minimal modifications. In January 2007, during the project kick-off, the Chief Financial Officer relayed the high-level objectives: Replace the current highly customized Peoples Financial 6. Applications Deploy General Ledger, Asset Management, Accounts Payable modules by January 1, 2008 Implement vanilla with minimal customization Implement on schedule and within budget During the project, any modification or customization requests were vetted through a rigorous change management process that had to be approved by a steering committee composed of members from functional and information technology (IT) areas of the company. The implementation team included various experts from national areas such as Asset Management, Accounts Payable, and General Ledger who worked with the IT technical experts.

Healthiest captured thousands of documents related to the implementation process over the course of the project. The project manager developed

a[[email protected](#)]website and it became the centralized collaboration tool for the project. One of the most useful applications[[email protected](#)]was that it served as a repository of all documents pertaining to the project. Because the nature of the project involved Financial systems, Healthiest knew that internal and external auditors would need evidence that proper controls were in place and good project management techniques were utilized throughout the project.

The project management team reported their progress to the executives regularly. Although there were many ways to report the status of the assignments within a project, the Healthiest team required the use of the Red, Yellow, and Green Status Bar Chart. The processes that were established for the project continue to be used in the organization today and have been very effective. Health o n case study - Page Innovation:

Throughout the project implementation, Healthiest leaders at all levels exercised reiterative, patience, and tenacity to achieve results, given a very aggressive timeline.

Using an external implementation partner and internal resources and project management staff, Healthiest developed a cohesive and effective team. With the introduction of the new ERP system and new security control procedures, the team eliminated the problems caused by using an obsolete, inefficient, fault-ridden Peoples 6. 0 system. The Healthiest project team faced a major decision at the very beginning of the project. Should they implement Peoples 8. 9 or Peoples 9. 0? Version 8. Was the current release out on the market, Peoples 9. Was Just coming out in 2007 and Healthiest would have been facing the issue of being one of the first Oracle customers to go with that

version. Frequently, when a new version of an application comes out, there are some bugs that have to be worked out. Companies using the newest version accept greater risk over a tried and true older version and are sometimes referred to as being on the “ bleeding edge,” a play on words for “ leading edge. However, based on information given to Healthiest from Oracle and the external implementation partner, the decision was made to implement the 9. 0 version. The steering committee formed for the project grew into a Financial Systems IT Governance committee that continues to meet monthly. The governance processes now in place provides a streamlined and controlled path for new IT implementations and changes to current systems. Users are more knowledgeable about how information technology permeates the corporation.

Both the ITS team members and the other employees have a greater appreciation and understanding of each others’ roles in the information management process; the functional business employees understand how the team members of ITS support the company and the ITS team as gained a greater understanding of the corporate business processes and practices.

Impact: The impact of the implementation of Peoples Financial 9. 0 spanned several departmental boundaries and managerial levels.

The Accounts Payable, Asset Management, and Accounting/Finance departments reaped the advantages of using standardized applications, thereby meeting current standard accounting practices and public law requirements. At the conclusion of the process, Healthiest had accumulated the following: 1 . A CEO and COOP who were advocates of the new system 2. Pride of implementing an on-time, on-budget implementation resulting in a

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maintainable system and service contract 3. System users who had “ buy-in” of the new system and ownership/accountability 4.

Functional users who were integral members of the implementation project, which resulted in few complaints about the new system Reach rolls Owe to ten procedural controls standalone In conjunction Walt implementation of the new system. The efficiencies gained from the implementation played a part in helping Healthiest to re-establish itself financially as a company. Much efficiency was gained from a reporting and controls perspective. The Accounting and Finance staff as also able to shorten their month-end close process by about half the time due to efficiencies within the new system.

This is very important in reporting financial results each month for public companies. Healthiest Case Study - Page 4 Re-applicability: A set of best business practices that were used by Healthiest for project management, leadership, top management oversight, and IT practices were derived based on this case study. Others can apply these best practices to their organizations, both in and out of healthcare, particularly to improve ERP implementation processes and to reduce possibility of accounting fraud.

The case study also provides an analysis of the implementation using the following theories: Task-Technology Fit (OTF) Theory (Godhood, 1995; Godhood & Thompson, 1995) Change management (Ramekins, Harris, & Mushroomed, 1993) Project Management Body of Knowledge (Irishman, 2006) Transformational leadership Judge & Piccolo, 2004; Rubin, Muzzy, & Boomer, 2005) Technology Acceptance Model (Davis, Baggage, & Warsaw,

1989) These connections showcase the applicability of theoretical research to real-world implementations to other CICS and MIS faculty members.

Case Overview Date Event This case describes the incidents Healthiest and CEO Richard Crush charged with regarding Healthiest Corporation from March 2003 SOX violation and fraud March 2003 through January 2008 (Figure 1 Figure 1; Exhibit A). The period May 2004 Jay Grinner appointed as CEO began with the FBI raid on corporate Contract signed with Peoples for version 8. Headquarters and subsequent Securities December 2004 software and training and Exchange commission changes Tale Oracle officially takes over Peoples against Healthiest and then Chief January 2005 Executive Officer, Richard Crush Management endorses Peoples residuary 2006 excerpt in Figure figure 2; full citation, implementation initiative (to version 9. 0) Exhibit B). The period ended with the October 2006 Re-listed with NYSE successful implementation of Peoples Begin upgrade process from version 6. 0 to 9. 0 Financial 9. 0 dung 2007 - 2008.

The January 2007 previous system (Peoples 6. 0) was January 2008 Upgrade process complete highly customized by Healthiest and Figure 1: Healthiest Timeline ten years old. The manufacturer was unable to support the system due to its age and the many customizations made internally at Healthiest. There was little to reverent or prohibit changes to the system coming from many different areas in the company, and there was no governance in place to evaluate the effect of changes on other systems or departments.

Healthiest Case Study - Page 5 Background Corporation.

The following day, the Securities and Exchange Commission (SEC) filed charges against Healthiest and its Chief Executive Officer, Richard Crush (Figure figure 2; Exhibit B). The Commission's complaint alleges that since 1999, at the insistence of Crush, HER [HER is the previous stock ticker for Healthiest Corporation based its previous name, Healthiest Rehabilitation Corporation] systematically overstated Its earnings Dye at least \$1. 4 billion in order to meet Figure 2: SEC Charges or exceed Wall Street earnings expectations. The false increases in earnings were matched by false increases in Hare's assets.

By the third quarter of 2002, Hare's assets were overstated by at least \$800 million, or approximately 10 percent. The complaint further alleges that, following the Commission's order last year requiring executive officers of major public companies to certify the accuracy and completeness of their companies' financial statements [a requirement of the Sarbanes-Oxley Act], Crush certified Hare's financial statements when he knew or was reckless in not knowing they were materially false and misleading. From the period of 1999 - 2003, Healthiest executives during that time had resisted upgrading to a newer version of the ERP system.

An ERP system is a software/ hardware structure that provides a company-wide information system that integrates diverse business processes “ to enable information to flow seamlessly across the functional areas” (Rainier & Turban, 2009, p. 237) and that assist corporations to better manage their expenditures and business processes. Healthiest uses Peoples ERP for managing its Financial, Human Resources, and Payroll functions. Healthiest had been using the Peoples Financial version 6. 0, which was originally

created by the Peoples Corporation; Peoples was later acquired by the software and database company Oracle.

The Peoples system handled all aspects of Healthiness's financial management. It included modules for general ledger, asset management, and accounts payable (among other modules). It was an overarching system that was used by each department in the company and was supported by Healthiness's information technology support team, or Information Technology Group (ITS). Unfortunately, because of the high level of customizations made over the years and the fact that newer versions of the software were available, it reached a point where Peoples could no longer provide software support for the version that Healthiest was running.

Once a system has changed from its original design that much, the designers have little knowledge of how changes will affect the functionality of the system or the quality of information held by the system. They would have to relearn the program every time they tried to support it. In addition, the version of the Oracle database that Healthiest Case Study - Page 6 Peoples Financial version 6.0 was running on was also outdated and unsupported. The information technology group at Healthiest had a big job supporting both the software and database pieces until an upgrade could be performed.

Subsequent to the SEC charges and investigation in 2003, five chief financial officers were found guilty of fraud when the investigation showed that Healthiest had overstated its earnings by \$1.4 billion. Part of this was done by entering fraudulent or inaccurate information into the Peoples Financial version 6. System. Allegedly, tense entrees were attenuator Dye ten



executives at ten tale and, odometer, approval them a good reason to resist an upgrade (so these faults were not exposed). The Serbians Solely Act of 2002 (SOX) required far more stringent accounting practices for corporations (excerpt, Figure figure 3; Exhibit C).

The act was an attempt to prevent the unauthorized use of accounting systems just like Healthiness's from being high-jacked by those with ill-intentions in mind. Under these regulations, firms and executives would be held responsible for manipulating financial information or using systems that did not protect and preserve the quality of information going into these systems. Before the implementation of the Peoples 9.0 Financial system, minimal controls were in place. There were few checks and balances to protect the integrity of data in the system. Users from different business departments would request changes to the system.

The IT personnel would make the changes, without any real controls or governance around the changes. ITS assumed the business users requesting the change knew what changes needed to be made and trusted that they were being asked to do the right things for the company. Figure 3: Excerpt of SOX In May of 2004, a new chief executive officer provided a fresh start for Healthiest. An entirely new senior management team was formed and the company began restating its financial, with the help of many external consultants, Accounting/ Finance staff, and the ITS team.

Once the company had overcome the challenges related to its financial restatement efforts, in 2006 the new executive management gave the ITS team support it needed for the re-implementation or upgrade of the Peoples

Financial 6.0 system. As a requirement to have the stock re-listed on the New York Stock Exchange (NYSE), the new Healthiest Chief Executive Officer (CEO) agreed to have the corporate Financial systems comply with SOX and accounting standards and have a new ERP Financial system in place within one year.

At the January 30, 2007, “kickoff” meeting (Figure figure 4; Exhibit D), the Chief Financial Officer relayed the company’s high-level objectives for the project: Replace the current highly customized Peoples Financial 6.0 applications Deploy General Ledger, Asset Management, Accounts Payable by 01101/2008 Implement vanilla with no customizations Healthiest Case Study - Page 7 Eater ten executives gave Loretta anon placed tenet support Deanna ten effort, careful planning and control mechanisms were employed by Healthiest to prevent another financial crisis in the future.

The Figure 4: CEO Project Directives system implemented was an “out-of-the-box” system that each department had to use or make a case for why they needed certain customizations to the software. In other words, the system was implemented as-is from the manufacturer, with limited changes to the software. While Healthiest termed the UN-customized system, frequently this type of system is referred to as “commercial-off-the-shelf” or COTS” for short. By implementing vanilla with minimal customizations, Healthiest preserved the warranty and support of the product, as well as making it easier for Healthiness’s IT team to support.

Healthiest successfully implemented their system within the required period and within budget. They have since continued to prosper and grow as an

organization. The project was a large undertaking for the entire organization. Executive Management's support emphasized to the organization the importance of the project and the fact that it was necessary. The COOP served as the project champion. A champion is someone who supports and makes a case for the project from within an organization. A champion is usually excited about and fights for a project or change from within.

Every project needs that support in order to fully come to fruition. Execution During January 2007, Healthiest began the Peoples Financial 9.0 upgrade project. As mentioned, the intent was to implement with as few customizations as possible. Healthiest had been dealing with a highly customized, unsupportable Peoples 6.0 for quite some time, and they wanted to preserve manufacturer support of the new product. Also, when performing future software upgrades, it is much easier to manage an upgrade if you do not have to "carve out" customizations and keep track of them.

The timeline for the project also necessitated that minimal customizations occur. The Healthiest team probably would not have implemented the solutions within the timeline (1 year), if they had to deal with a lot of customization requests. This one-year timeline was mandated by the CEO and Chief Financial Officer (COOP) because the success of the implementation was critical to the future success and stability of the company (Figure 4; Exhibit E). Implementing a system and incorporating user changes Healthiest Case Study - Page 8 would likely take much longer than the one year.

Each change would have to be tested and evaluated before it could be implemented. Although some changes were necessary, significant customizations (that were not critical) that had been previously incorporated were left out. The more stringent accounting practices created by SOX required a change in the way Healthiness (Ana toner companies) treated financial. Peoples 6. 0, the old system, was developed before SOX and, therefore, had fewer controls and checks and balances. Peoples 9. 0 provided greater controls around security and data integrity.

To preserve the integrity of the product, starting fresh was necessary. But, the decision of whether or not to customize the new system had to be made. It came down to two choices, " do we customize the new ERP system to fit our business processes," or " do we customize our business processes to fit the new ERP? " Both choices came with costs to Healthiest. One may wonder why the issue of customizations even came up for Healthiest. Because the previous system had been in place from 1997, some of the end users (people who seed the ERP) had become accustomed to the old system and were reluctant to change.

They wanted to keep the same system or modify the new system so that it functioned the way the old one had functioned. This illustrates an argument that frequently comes up in organizational change situations the argument to keep it the same, " because, that's the way we've always done it. " For the project team, this resistance had to be overcome with grace, confidence, and a spirit of teamwork. The ITS team knew they would continue to support these end users after the new system was in place. They knew it would be

easier to support the users if they were sitting side-by-side at the negotiation table than across from each other.

As Healthiest evaluated the plain “vanilla” (unchanged, UN-altered) approach to system implementation, several benefits were realized. If ITS were able to implement Peoples 9.0 as COTS (commercial-off-the-shelf) instead of customizing the software, implementation time would be much shorter. While no system can be implemented without challenges of varying degrees, a “vanilla” approach provides a greater probability of compatibility with future upgrades from Peoples/Oracle. Keeping the software as close to original specifications ensures the greatest probability for compatibility.

Although there were many advantages to the non-customized system, Healthiest had to consider the disadvantages, too. One of the drawbacks to upgrading to an UN-customized system was the cost of adjusting business processes to the new system. If departments were used to having a system that conformed to their specific way of doing things, changing that system and not allowing intensive customization would mean that something had to give. The processes would have to be different. Training in the new system would also be a significant cost.

As can happen during major organizational change, some employees were reluctant and resistant to the change. The Healthiest project team had to persuade and remediate to resolve the concerns. While most of the issues were resolved, obviously not all of them could be. Many departments had to adjust their “old way” of doing things to the new system. The same information was included and the functionality was the same, but data input,

for example, may be a little different on the new system. Healthiest Case Study - Page 9 Figure 5: Project Organization Chart Excerpt (edited for privacy)