Partnersing Compliance and Internal Audit for Successful Regulatory Audits and Ongoing Monitoring

Health Care Compliance Association
2012 Compliance Institute
April/May 2012

Agenda

We will discuss the benefits of Compliance and Internal Audit joining forces to improve a health plan’s compliance with Medicare Advantage and Prescription Drug Plan requirements. Our discussion today will target attention on the following three areas:

- Company Background, Departmental Structures and Reporting Lines
- Planning and Auditing with True Enterprise Risk Management in Mind
- Audit Frameworks and Knowledge Tools Utilized
Background Information

Arcadian Management Services

- Arcadian Management Services is parent company for:
  - Arcadian Health Plan and other locally branded health plans
  - Medicare Advantage with Part D plans
  - Focus on rural and underserved markets
  - High Percentage of Beneficiaries at risk
    - Limited educational experience
    - Complex medical needs
    - Providers not focused on prevention
  - Dual Eligible Special Needs plans
    - Dual Eligible SNP membership is approximately 10,000
    - Nine Dual Eligible type SNP contracts
  - Located in 15 states, primarily rural markets
  - Total Membership is approximately 62,000 members
Arcadian Corporate Governance, 2012

Highlights:
There is a formalized reporting structure for the Chief Performance Officer and Chief Compliance Officer to report directly to the CEO and also report directly to the Audit Committee of the AMS Board no less than quarterly on Compliance related activities, and provide a report to the AMS Board on Compliance related activities no less than quarterly.

Additionally, Internal Audit reports directly to the Audit Committee and administratively to the CEO/CFO.

Arcadian Compliance – Why the Changes

- Arcadian fully outsourced Internal Audit to Protiviti in Q4 2009, which focuses holistically on operations, finance, IT and compliance risks
- Three Independent Compliance Program Assessments completed in 2010, including a Compliance Program Effectiveness Review from Internal Audit
  - All prior to CMS Intermediate Sanctions
  - Common theme was lack of focus on Compliance & Compliance Program
    - Outdated program documents (e.g. Work-Plan) and Policies and Procedures
    - Lack of current documentation to demonstrate effective auditing and monitoring
    - Lack/Absence of needed skill sets to perform Compliance activities
- CMS Intermediate Sanctions, November 2010
  - Compliance Program failure: Five of the seven elements were cited as deficient
    - Approach was to address and remediate all seven elements
    - Involvement of consultants from five firms
    - Testing and validation by Internal Audit prior to submission to CMS
  - Full Remediation of Compliance Program, including staff functions and roles
  - Intermediate Sanctions lifted, early July 2011
    - No qualifications from CMS
Arcadian Compliance – What was Fixed (1/3)

- **Element One: Effective Compliance Program and written Procedures**
  - Development of and then annual review of Compliance Program Document and Standards of Business Conduct by Arcadian Senior Management and/or Board of Directors

- **Element Two: Designation of Compliance Officer and Compliance Committee that are accountable to Senior Management**
  - Creation of a Chief Performance and Compliance Officer who reports to the Chairman and CEO
  - Creation of a Compliance Committee consisting of the Chairman and CEO, Chief General Counsel and Chief Performance and Compliance Officer (Chair)
  - Increase budget of Compliance department by 60%

- **Element Three: Effective Training and Education**
  - Partnership with Human Capital that has expertise in Adult education to develop and provide training
  - Company-wide training programs on Compliance and Ethics, FWA and Special Needs Plans
  - Departmental training on Member Services, Enrollment, Appeals and Grievances, Provider Network and Adequacy, Delegation Oversight and Part D

- **Element Four: Effective Lines of Communications**
  - Reporting relation of Chief Performance and Compliance Officer
  - Imbedding Compliance Staff into key business units
  - Creation of a third party hotline service
  - Not cited as a deficiency by CMS

Arcadian Compliance – What was Fixed (2/3)

- **Element Five: Enforcement of Standards through well-publicized Disciplinary Guidelines**
  - Adoption of Business Standards of Conduct by Senior Management and the Board of Directors
  - Development of applicable Policies and Procedures by Compliance, Human Capital and other Departments
  - Consistent and ongoing enforcement with all employees and other parties affiliated with Arcadian

- **Element Six: Effective Internal Monitoring and Auditing**
  - Compliance Staff was increased from 10 to 14 to support internal monitoring and auditing
  - Compliance Committee structure was restructured to require self-reporting on non-compliance by each business leader, including remediation
  - Establishment of Compliance Oversight Prevention and Detection Meetings (COPD) to monitor each department, report on open internal monitoring and remediation activities and address other open items
  - Development of a Fraud, Waste and Abuse program
  - Enterprise wide Compliance risk assessment in Q4 for development of annual Compliance Work Plan
    - Reviewed and approved by Senior Management and the Board of Directors
  - Partnership created with Internal Audit (Protiviti) to perform regulatory audits from Compliance Work Plan
    - Assessments in Q4, 2010 – Claims, Delegation Oversight and FWA
    - Planned 12 regulatory audits in 2011
    - Modified as a result of CMS Intermediate Sanctions-focused on Compliance and Compliance Program
    - Six Regulatory Audits for 2012 partnering with Internal Audit: Outcome of 2012 Work-Plan
Arcadian Compliance – What was Fixed (3/3)

• **Element Six: Effective Monitoring and Auditing (continued)**
  - Enrollment and Premium Billing
  - Sales, Sales Hierarchy and Commission Payments
  - Medical Management: Coverage Determinations and Models of Care (SNP)
  - Part D Administration and Delegation Oversight
  - Fraud, Waste and Abuse
  - Part C Claims

• **Element Seven: Prompt Responses to Detected Offenses**
  - Remediation of Elements:
    - Two, Four, Five and Six to demonstrate prompt responses to detected offenses
  - Creation of a Delegation Oversight Committee as a sub-Committee to the Compliance Committee
  - Not cited as deficiency by CMS

Enterprise Risk Management (ERM)
ERM – A Simple Definition

Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the entity’s risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Risk Assessments and IA/Compliance Audit Plans

- Arcadian’s Internal Audit and Compliance Programs are integral components of the organization’s ERM strategy, along with governance and oversight from the CEO, CFO and Board/Audit Committee.

- Annually, and more often as required due to changing environmental conditions or regulatory events, Internal Audit and Compliance conduct risk assessments to prepare annual audit plans to ensure the organization’s most important processes, controls and risks are audited, monitored and continuously improved.

- Internal Audit performs risk assessments, via survey and interview techniques, that evaluates operations, finance, IT, and compliance risks.

- Compliance performs risk assessments with primary focus on regulatory risk environment and considers CMS areas of audit focus, OIG reports and past regulatory performance.

- Internal Audit and Compliance bring together the results of each others’ risk assessments to ensure appropriate audit plans are prepared that minimize duplication but yet accomplish sufficient auditing and monitoring of the organization’s most important concerns.
Risk Assessment Approach

1. Identify Audit Universe
   - Identify and link organization’s structure, locations and processes
   - Inventory business initiatives, IT projects, applications and infrastructure components

2. Risk Rank Audit Units
   - Assess risks in auditable units
   - Prioritize and develop clear communication tools
   - Consider history of problems and issues

3. Map Risks and Determine Final Risk Assessment
   - Map business risks to related auditable units
   - Aggregate auditable unit risk with business risk
   - Involve appropriate stakeholders throughout the process
   - Understand entity-level control environment
   - Evaluate the risk of fraud
   - Prioritize risks on inherent and residual basis

4. Prioritize Business Risks
   - Understand business strategy, goals and objectives, and potential obstacles
   - Customize risk model to fit organization’s capability and culture
   - Update periodically throughout the year and consider emerging risks

Create Audit Plan

- Identify suggested audit plan with high-level audit scope
- Understand and coordinate activities with other risk management and control activities in the organization
- Estimate budget and timing

Risk Assessment Results

- Developing a precise risk map is a relatively subjective process. Measuring risks in terms of monetary value is an inexact science, as is predicting the probability of a risk’s occurrence.

- We use an integrated approach of interviews, focus groups, surveys, analysis, and technology to perform this prioritization. An approach is selected that best meets the risk prioritization objectives and Arcadian’s culture.
Holistic View of Risk Management

- In addition to annual risk assessments performed to build Audit and Monitoring Plans, Arcadian developed a plan to set the foundation for building a formal Enterprise Risk Management program.

- An important part of foundation setting involved establishing or reinforcing a governance structure by outlining the roles played by the Board, executives, and management with respect to ERM.

- A primary initiative was to understand the Board’s vision of ERM for the organization to ensure proper risk oversight.

- The CEO’s primary role was to establish the vision for ERM and to encourage alignment of ERM to Strategic Planning.

Results of a Recent survey

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>95%</td>
<td>95% of a typical workforce does not understand its organization’s strategy</td>
</tr>
<tr>
<td>90%</td>
<td>90% of organizations fail to execute their strategies successfully</td>
</tr>
<tr>
<td>70%</td>
<td>70% of organizations do not link middle management incentives to strategy</td>
</tr>
<tr>
<td>60%</td>
<td>60% of organizations do not link strategy to budgeting</td>
</tr>
</tbody>
</table>

Source: Balanced Scorecard Collaborative

Being Proactive vs. Reactive

Top Ten Warning Signs Evidencing a Reactionary Approach to Compliance

1. Board Members, senior management, process owners, and compliance managers have different views as to the strength of the organization’s compliance culture and nature of its compliance risk appetite.

2. A lack of transparency as to who is responsible for the most critical compliance tasks.

3. A “silos mentality” to risk management and compliance, which leads to a high-cost structure, overlapping self-assessments, and other demands of process and risk owners.

4. Improvement projects rarely result in sustainable change in the processes and business.

5. Risk and control reports overwhelm recipients with data and provide very little insight.

6. No one knows how much the compliance spend is.

7. Periodic compliance risk assessments rarely impact business plans and decision-making.

8. A fragmented control structure and lack of automation leave management without an entity-level capability to oversee what really matters.

9. The same compliance issues resurface time after time for review and investigation.

10. No one can describe a holistic view of the end-to-end compliance infrastructure.

Source: Balanced Scorecard Collaborative
Recommendations for Improving Board Risk Oversight

- Implement a more structured process for monitoring and reporting critical enterprise risks and emerging risks.
- Look for opportunities to enhance the risk reporting process to make it more effective and efficient and increase the regularity of reporting.
- Come to an agreement with management on risk-related matters that need to be escalated to the board, addressing the what, when, and why.
- Encourage out-of-box, big-picture thinking focused on the critical assumptions underlying the corporate strategy to assess strategic risks.
- Focus on whether developments in the business environment result in changes in critical assumptions underlying the organization’s strategy.
- Implement a more defined and rigorous process supporting the risk appetite dialogue between the board and management.
- Incorporate appropriate questions relating to risk oversight in the board’s periodic evaluation of board performance effectiveness.

2011 IA Capabilities and Needs Survey Results

Risk Management and Governance Process Knowledge

Top 5 – Overall Results

<table>
<thead>
<tr>
<th>“Need to Improve” Rank</th>
<th>Areas Evaluated by Respondents</th>
<th>Competency (5-pt. scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Emerging Risks</td>
<td>3.2</td>
</tr>
<tr>
<td>2</td>
<td>Evaluating and Changing Risk Appetite Levels</td>
<td>3.0</td>
</tr>
<tr>
<td>3</td>
<td>Setting Risk Appetite</td>
<td>3.0</td>
</tr>
<tr>
<td>4</td>
<td>Defining Risk Appetite</td>
<td>3.2</td>
</tr>
<tr>
<td>5</td>
<td>Strategic Risk</td>
<td>3.3</td>
</tr>
</tbody>
</table>
Key Questions to Consider

- Have we identified and considered potential emerging risks in our organization that could affect the organization in the future?
- Has this been done organization-wide or broken down by division or operating unit?
- Do we have the necessary controls in place to ensure our risk appetite limits are not exceeded and that those controls are effective?
- Has the risk appetite been translated into appropriate risk tolerances that are cascaded down into the organization?
- Have we assessed potential risks related to the company’s long-term strategy and mission?
- Have we challenged assumptions regarding underlying risks inherent in that strategy?

Key Questions to Consider

- Are there any assumptions underlying the strategy that may be unrealistic or invalid in view of market conditions?
- Do we have a mechanism in place to capture and reflect emerging risks in our audit plan?
- Does the organization have a clear definition of its risk appetite? How was this determined? Do we know how much risk our organization is willing to accept?
- Have you considered whether any changes might be necessary in the organization’s risk appetite given changes in the business model, regulation, competition, the overall market or the operating environment?
- Is there an ongoing risk appetite dialogue between management and the board of directors?
- What steps have you taken to determine how the organization can begin to measure its risks on a quantitative basis?
Understand Infrastructure

The Business Analysis Framework (BAF) provides a common organizing framework for understanding the key elements affecting an organization’s success. The BAF supports the project team in:

- Understanding business conditions
- Identifying internal and external risk factors by considering changes or problems in business conditions

Capability Maturity Model

<table>
<thead>
<tr>
<th>Maturity Level</th>
<th>Capability Description</th>
<th>Example Criteria</th>
<th>Distinguishing Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optimizing</td>
<td>(Quantitative) Continuously improving controls enterprise wide.</td>
<td>Continuously Improving Process</td>
<td></td>
</tr>
<tr>
<td>Managed</td>
<td>(Quantitative) Risks managed quantitatively enterprise wide: &quot;Chain of Accountability.&quot;</td>
<td>Predictable Process</td>
<td></td>
</tr>
<tr>
<td>Defined</td>
<td>(Quantitative/Quantitative) Policies, process and standards defined and institutionalized: &quot;Chain of Certification.&quot;</td>
<td>Standard Consistent Process</td>
<td></td>
</tr>
<tr>
<td>Repeatable</td>
<td>(Intuitive) Process established and repeating; reliance on people continues; control documentation lacking.</td>
<td>Disciplined Process</td>
<td></td>
</tr>
<tr>
<td>Initial</td>
<td>(Ad Hoc/Chaotic) Control is not a priority; unstable environment leads to dependency on heroes.</td>
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Risk Model

As a foundation for a Risk Assessment, the Protiviti Risk Model represents the overall risk universe, which encompasses all risk categories to which a company may be exposed. A company encounters external risks inherent to the environment in which it operates, as well as internal operational process and decision making risks. By identifying and prioritizing these risks, we can assist in developing a focused audit plan.

<table>
<thead>
<tr>
<th>Environment Risk</th>
<th>Process Risk</th>
<th>Information for Decision Making Risk</th>
</tr>
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<tbody>
<tr>
<td>Competitor</td>
<td>FINANCIAL</td>
<td>GOVERNANCE</td>
</tr>
<tr>
<td>Customer Wants</td>
<td>Price</td>
<td>Leadership</td>
</tr>
<tr>
<td>Technological</td>
<td>Interest Rate</td>
<td>Authority/Limit</td>
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<tr>
<td>Innovation</td>
<td>Currency</td>
<td>Performance Incentives</td>
</tr>
<tr>
<td>Sensitivity</td>
<td>Equity</td>
<td>Communications</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Commodities</td>
<td>Compliance</td>
</tr>
<tr>
<td>Expectations</td>
<td>Financial</td>
<td>Business Interruption</td>
</tr>
<tr>
<td>Rating Agency</td>
<td>Instrument</td>
<td>Product Service</td>
</tr>
<tr>
<td>Capital Availability</td>
<td></td>
<td>Environmental Scan</td>
</tr>
<tr>
<td>Sovereign/Political</td>
<td></td>
<td>Business Model</td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td>Business Portfolio</td>
</tr>
<tr>
<td>Regulatory</td>
<td></td>
<td>Investment-Valuation/Evaluation</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td>Organizational Structure</td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td>Measurement (Strategy)</td>
</tr>
<tr>
<td>Markets</td>
<td></td>
<td>Resource Allocation</td>
</tr>
<tr>
<td>Catastrophic</td>
<td></td>
<td>Planning</td>
</tr>
<tr>
<td>Loss</td>
<td></td>
<td>Life Cycle</td>
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Six Elements of Infrastructure

Key elements of infrastructure must be linked by design:

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<tbody>
<tr>
<td>Risk if element is deficient:</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Process does not carry out established policies or achieve intended result</td>
<td>People lack the knowledge and experience to performance process</td>
<td>Reports do not provide information for effective management</td>
<td>Methodologies do not adequately analyze data and information</td>
<td>Information is not available for analysis and reporting</td>
<td></td>
</tr>
</tbody>
</table>
Process Level Activity Analysis

- The Process Classification Scheme (PCS) is a framework used to define business processes in two categories: operating processes, and management and support processes.
- The PCS helps to identify risk present in various processes that may be applicable to the organization and its industry.
- Performing a risk and control analysis and creating a Risk & Control Matrix (RCM) offers valuable insight into the design of internal control within a specific process.

Risk & Control Analysis

When examining each process component, the following questions should be addressed:
- What are the key business risks that impact the process? How and how well are those risks being controlled?
- What key measures are used to monitor the process and are they the right ones and reliable?
- How efficient is the process in operation? How can the process be improved to bring its performance closer to leading standards?

| Medicare Managed Care Manual Chapter 2 - Medicare Advantage Enrollment and disenrollment | Section # | Risk | Control Description (examples only) | Control Frequency | Primary/Secondary | Manual/System | Detective/Preventive |
|---|---|---|---|---|---|---|---|---|
| Completion of Enrollment Request 20.4 | The MA Organization accepts and enrolls an individual who did not properly complete the enrollment form/mechanism within required timeframes. | Daily, the Enrollment Specialist audits 100% of applications entered to ensure completeness. | Daily | Primary | Manual | Preventive |
| Completion of Enrollment Request 20.4 | The MA Organization accepts and enrolls an individual who did not properly complete the enrollment form/mechanism within required timeframes. | Monthly, the Operations Auditor reviews a sample of enrollment cases for the previous month to detect issues of non-compliance with CMS regulations and plan policies. | Monthly | Secondary | Manual | Detective |
| Entitlement to Medicare Parts A and B Eligibility for Part D 20.1 | MA organization enrolls individuals who do not meet all CMS eligibility requirements (entitled to Part A and enrolled in Part B) as of the effective date of coverage under the plan. | Daily, a BEQ is submitted and its response processed in an automated procedure which validates Parts A, B and D, sending any application which does not meet the CMS requirements for further manual review. | Daily | Primary | System | Preventive |
Arcadian Lessons Learned and Best Practices

**Evolutionary Process**
- Must have commitment from Compliance management and staff
- Must address resistance from Compliance management staff
  - Compliance is not accustomed to working with third parties
  - Compliance is not accustomed to third party oversight
- Must have open Communication with IA
  - Constant feedback approach
- Must have the right individuals and skill-sets to accomplish effective auditing
  - SMEs
  - Analytical and personable

**Rigor and High Standards**
- Candid self-assessments on what works/does not work
- Willingness to test new approaches
  - Keep what works
  - Discard what does not work
Powerful Insights.
Proven Delivery.